2016
REGISTRATION DOCUMENT

ANNUAL FINANCIAL REPORT

INTEGRATED REPORT

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

L'ORÉAL

REGISTRATION DOCUMENT

2016

Annual Financial Report – Integrated Report
Corporate and Social Responsability

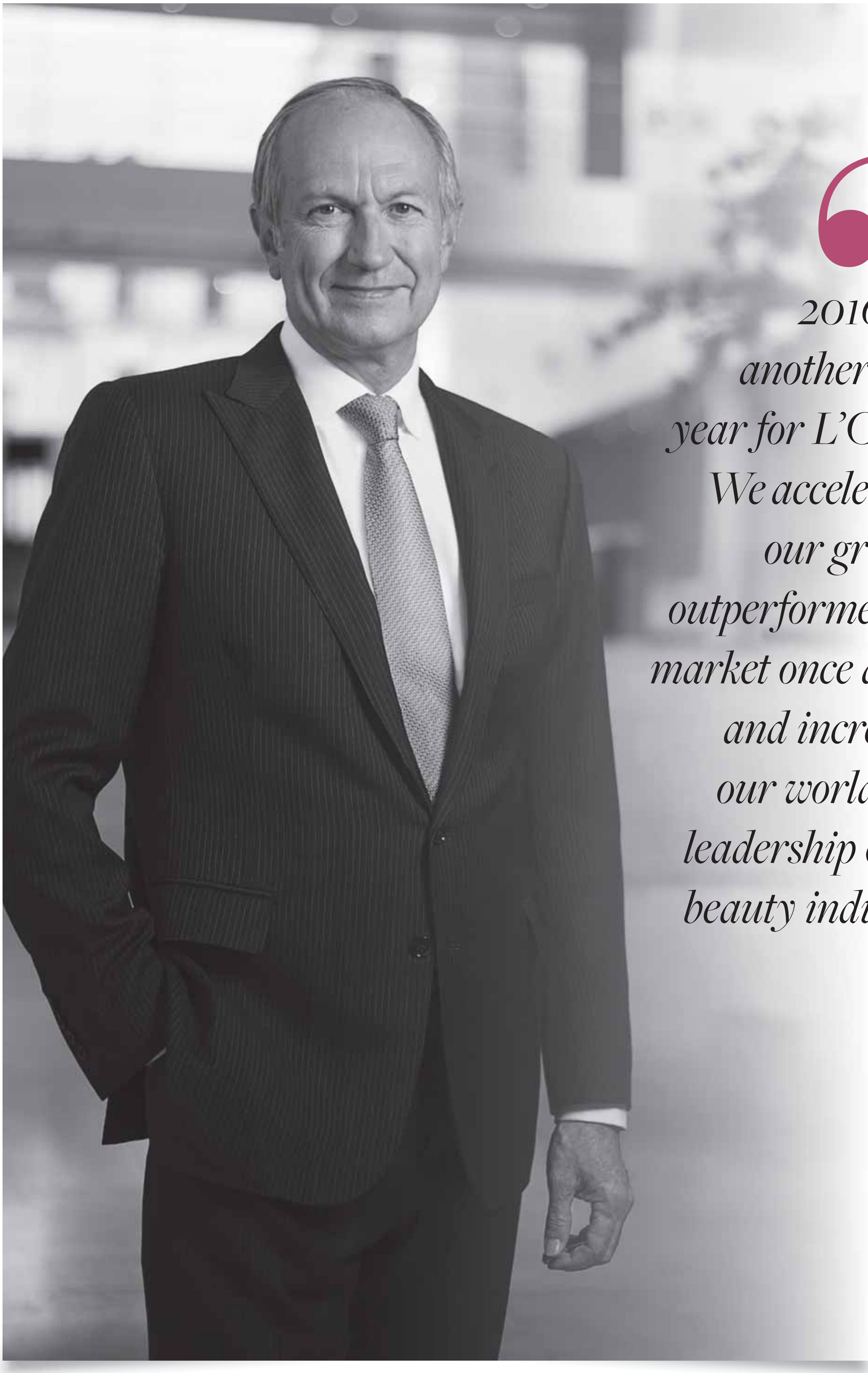
This Registration Document summarizes the activities and the results of the Group in 2016. It is part of an integrated communications approach and aims at presenting the well-balanced model of L'Oréal, its strategic orientations and its relationships with its stakeholders, particularly in the context of the *Sharing Beauty With All programme*.

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

In application of Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers* (AMF), this Registration Document was filed with the AMF on March 14th, 2017.
This Registration Document may be used in connection with a financial transaction if it is accompanied by an information memorandum approved by the AMF. The document has been prepared by the issuer and its signatories incur liability in this regard.

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



"2016 was another good year for L'Oréal. We accelerated our growth, outperformed the market once again and increased our worldwide leadership of the beauty industry."

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

"2016 was also a year of great progress in the transformation of our company, with the group becoming even more digital, efficient, agile and sustainable."

We increased our **digital lead**. Our e-commerce sales grew by +33%(1) and are now equivalent to the group's 4th largest country. More than 30% of our advertising is now digital, with even more targeted and efficient communications. We have recruited 1600 experts and trained almost ten times that amount in-house. Across all divisions, digital is amplifying the power of our brands and bringing them even closer to our consumers.

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

We also profoundly transformed ourselves to meet our sustainable development targets, set by our **Sharing Beauty With All** initiative. 2016 was a pivotal year for our 2020 objectives and a year of major achievements, particularly in sustainable innovation and sustainable production. We achieved and even went beyond our goal of reducing CO_2 emissions by 60%, four years ahead of schedule(2).

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

The world is changing around us at an amazing speed, the world of beauty is also changing radically. As digital and social media become omnipresent in our lives, we are entering into the era of **« social beauty »**.

An era where beauty is becoming even more essential. The way you look, the quality of your hair and skin, will be more important than ever in expressing your personality, crafting your image of yourself, and interacting positively with others.

"This Bright New World of Beauty is a unique opportunity for L'Oréal, since we are uniquely positioned to drive and lead this new era."

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

Furthermore, because we are able to **track emerging trends** and quickly offer products that meet these new aspirations, such as makeup, natural beauty, or personalization desires. Moreover, because of our proximity and the quality of our interactions with consumers. Digital, in particular, offers opportunities for an ongoing dialogue and personal advice. With over 1 billion viewers on our brand websites and social media pages, L'Oréal is clearly the champion of connected beauty. We are also currently exploring all the direct-to-consumer channels, from e-commerce to boutiques opened by some of our brands.

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

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

"We at L'Oréal plan to make the most of this new golden age of beauty."

More than any other company, since we are and will be the Beauty Company. The one that offers the best of beauty to all women and men living on this planet, thus fulfilling its mission: Beauty for all.

(1) *Sales achieved on the brands' own websites and estimated sales achieved by the brands corresponding to sales through retailers' websites (non-audited data). Like-for-like growth.*

(2) *In the plants and distribution centres. Period 2005-2015. In absolute value.*

1

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** 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.*

1.1. THE L'ORÉAL GROUP: FUNDAMENTALS

1.1.1. A CLEAR MISSION AND STRATEGY, SUPPORTED BY STABLE GOVERNANCE

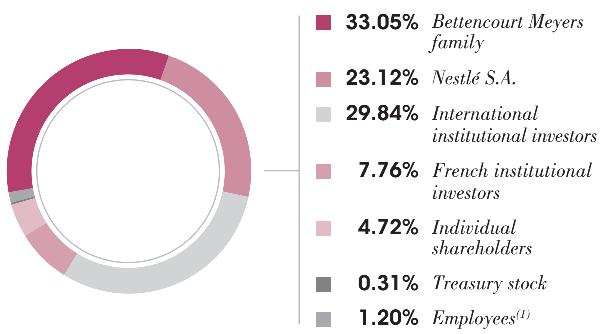
For over 100 years, L'Oréal has devoted itself to one business: beauty, in which it is the world's leading company. It is the Group's *raison d'être*, because, far from being futile and superficial, cosmetics are full of meaning. They give everyone self-confidence, enable them to blossom and open up to others and contribute to individual and collective well-being.

Boasting an international portfolio of 34 diverse and complementary brands, the Group responds to all beauty aspirations worldwide. Present in all distribution channels, L'Oréal generated sales of €25.84 billion in 2016 thanks to its 89,331 employees across the globe.

The Group's governance, the guarantee of stability in a changing world, makes it possible to work towards long-term objectives and to ensure regular growth.

Loyal shareholders, stable capital structure

THE SHAREHOLDERS AT DECEMBER 31ST, 2016



(1) *Concerns the employees and former employees of L'Oréal. Pursuant to the French law of 08/06/2015, the percentage of shares also includes, in 2016, the free shares granted in accordance with the system provided for under Article L. 225-197-1, of which 0.76% in the L'Oréal Company savings plan (PEE) as defined by Article L. 225-102 of the French Commercial Code.*

A balanced and committed Board of Directors, which plays its role of reflection and strategic impetus to the full

The Board of Directors determines L'Oréal's strategic orientations and ensures their implementation. It oversees the management of both the financial and extra-financial aspects, and ensures the quality of the information provided to the shareholders and to the market.

The structure of L'Oréal's Board makes it possible to take into account the specificities of its shareholding structure while guaranteeing the interests of all its stakeholders. It comprises 15 members, consisting of the Chairman and Chief Executive Officer, Mr. Jean-Paul Agon, five Directors from the Group's majority shareholders (the Bettencourt Meyers family with Mrs. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers and Mr. Jean-Victor Meyers, and Nestlé with Mr. Peter Brabeck-Letmathe and Mrs. Béatrice Guillaume-Grabisch), seven independent Directors (Mrs. Sophie Bellon, Mrs. Belén Garijo, Mrs. Virginie Morgon, Mrs. Eileen Naughton, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel) and two Directors representing the employees (Mrs. Ana Sofia Amaral, Mr. Georges Liarokapis). All of them make sure that the Board's work is carried out on a collective basis with the common objective of ensuring the Group's long-term development.

The Board takes steps to ensure that the Directors are from different backgrounds, and most of them have international experience acquired in groups with a global dimension and complementary skills: industrial, financial, digital and above all entrepreneurial competencies. The diversity of skills and expertise on the Board enables it to understand rapidly and in detail the development issues facing L'Oréal, the leader on a highly competitive globalised cosmetics market, in a fast-changing world.

L'Oréal is attentive to compliance with the principle of balanced gender representation on the Board: 46% of its members are women, and 2 Committees out of 4 are chaired by women, the Audit Committee and the Appointments and Governance Committee.

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)

Activities of the Board and its Committees in 2016

The Board of Directors fully assumes its role in defining the Group's strategic orientations.

Thanks to an open, constructive dialogue with the General Management and regular meetings with management, the Directors are completely up-to-date with L'Oréal's economic reality and fully informed of all the Company's activities, its performances and the challenges it faces. They examine the main areas and opportunities for long-term development and acquisitions in particular.

The Directors make sure that the decisions taken contribute to implementation of the strategy.

Wishing to continually enhance its role of reflecting on issues and providing support with regard to strategic decision-making, the Board carried out an evaluation of its *modus operandi* and organisation in 2016, as it has done every year since 1996.

BOARD OF DIRECTORS

6 meetings in 2016
98% attendance rate

Main work in 2016:
- Monitoring of business activities
- Financial issues
- Market and competitor analysis
- Development challenges (by zone and by business segment)
- Acquisitions and follow-up of business plans
- Digital development
- Monitoring Sustainable Development commitments
- Ethics and Human Resources Policies
- Strategic seminar in New York: visit to the main sales channels, analysis of the American market and review of the challenges and opportunities for L'Oréal USA

STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

4 meetings
100% attendance rate

Main activities in 2016
- 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

AUDIT COMMITTEE

4 meetings
96% attendance rate

Main activities in 2016
- Review of the accounts and financial situation
- Risk review and monitoring
- Review of Internal Control and Internal Audit
- Follow-up of business plans for acquisitions
- Examination of the procedure for the approval of non-audit services
- Information systems security
- Audit of CSR reporting
- Policy with regard to insurance

APPOINTMENTS AND GOVERNANCE COMMITTEE

4 meetings
95% attendance rate

Main activities in 2016
- Reflection on the composition of the Board and its Committees
- Review of the succession plans
- Review of the independence of Directors
- Methods of organisation of executive sessions (meetings held without the presence of the executive officers)
- Topical issues with regard to Governance (reports of the *Haut Comité de Gouvernement d'Entreprise* and of the AMF, etc.)
- Review of the voting policies of the main investors and proxy advisors

HR AND REMUNERATION COMMITTEE

5 meetings
97% attendance rate

Main activities in 2016
- Analysis of the performance of the Chairman & CEO and recommendations with regard to setting the remuneration for 2016
- Recommendations concerning the 2017 remuneration policy. Recommendations concerning the bonus structure and objectives for the Chairman & CEO for 2017
- Preparation of the *Say On Pay* resolutions (ex ante and ex post).
- Long-Term Incentive policy (proposed resolutions, 2016 Plan and proposed grant of performance shares to the Chairman & CEO)
- Attendance fees

1.1.2. KEY FIGURES

2016 Key figures

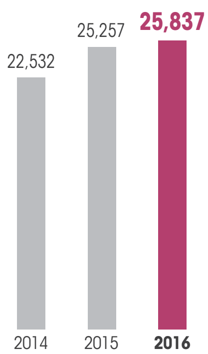
Present
in 140 countries

89,331
employees

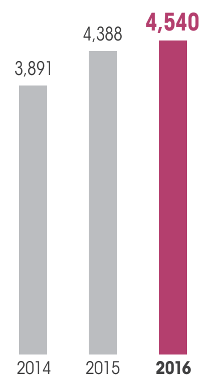
473
patents

Research & innovation
budget: €850 million

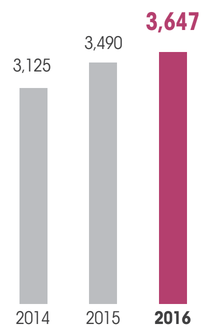
Consolidated sales
(€ million)



Operating profit
(€ million)



Net Profit from continuing operations excluding non-recurring [1] item
(€ million)



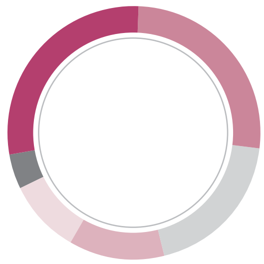
(1) *Non-recurring include mainly capital gains and losses and long-term asset diposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, no recurring and significant regarding the consolidated performance. See note 11.4 of the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

OPERATIONAL DIVISIONS SALES – 2016

BY DIVISION

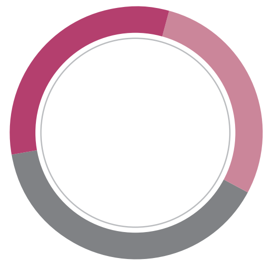
- **48.1%** *Consumer Products*
- **7.5%** *Active Cosmetics*
- **30.8%** *L'Oréal Luxe*
- **13.6%** *Professional Products*

BY BUSINESS SEGMENT



- **28.5%** *Skincare and suncare*
- **26.4%** *Make-up*
- **19.2%** *Haircare*
- **12.1%** *Hair colours*
- **9.5%** *Perfumes*
- **4.4%** *Other* (1)

BY GEOGRAPHIC ZONE



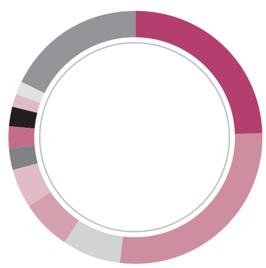
- **32.1%** *Western Europe*
- **28.5%** *North America*
- **39.4%** *New Markets*

Of which : **22.6%** *Asia, Pacific*
6.3% *Eastern Europe*
3.1% *Africa, Middle East*
7.4% *Latin America*

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

CONSOLIDATED SALES BY CURRENCY[1]

Other currencies **17.7%**
Mexican Peso **1.5%**
Japanese Yen **1.9%**
Russian Ruble **2.3%**
Canadian Dollar **2.8%**
Brazilian Real **2.9%**
Hong Kong Dollar **4.8%**
Pound Sterling **6.4%**
Chinese Yuan **7.7%**



24.7% *Euro*
27.3% *US dollar*

NET DEBT

	12.31.2014	12.31.2015	12.31.2016
Net Cash Position = Net cash flow or net financial debt (€ million) (1)	-671.3	+ 618.0	+ 481.4
Net gearing (Net financial situation/ equity)	3.3%	n/a	n/a

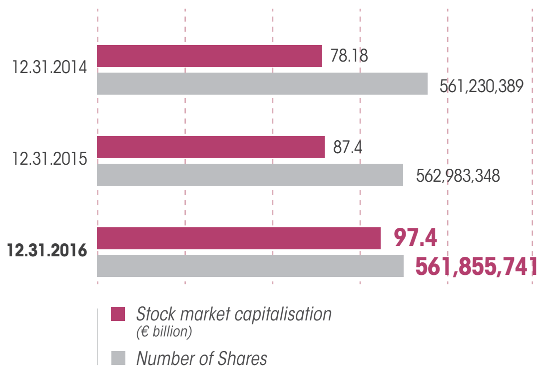
(1) Net cash (+) or net debt (-) = cash and cash equivalents – current and non-current debt.

SHORT-TERM RATINGS

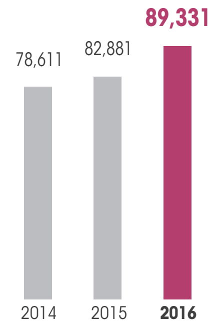
A1 +	Standard & Poor's	SEPTEMBER 2016
PRIME 1	Moody's	MAY 2016
F1 +	Fitch Ratings	SEPTEMBER 2016

(1) Breakdown of consolidated sales in the main currencies in 2016.

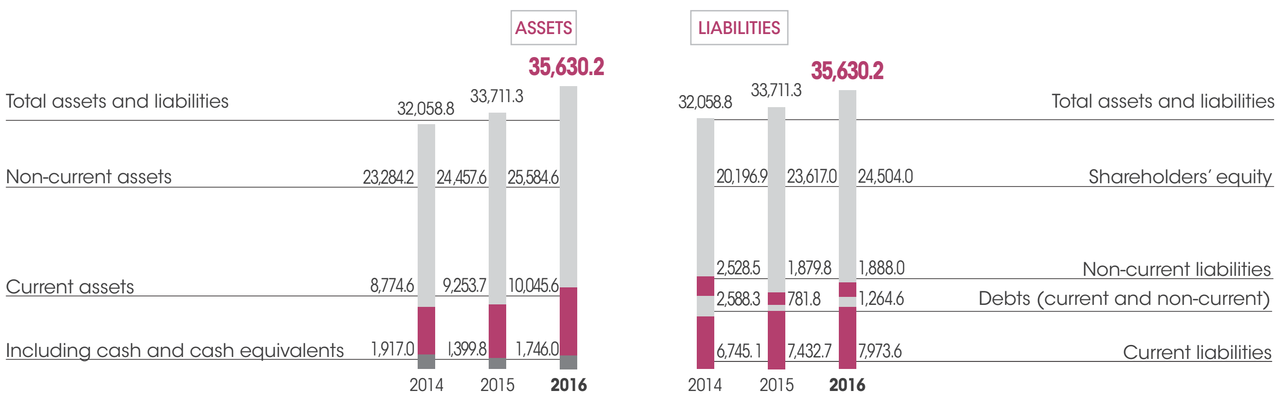
STOCK MARKET CAPITALISATION



WORKFORCE AT DECEMBER 31ST



A SOLID BALANCE SHEET (1) (€ MILLION)



(1) The balance sheet at December 31st, 2014 has been restated to reflect the change in accounting policies on recognition of levies resulting from the application of IFRIC 21.

1.2. A CLEAR STRATEGY: BEAUTY FOR ALL

Demand for beauty is universal. L'Oréal deploys a global strategy to satisfy this demand.

1.2.1. UNIVERSALISATION, TO MEET GLOBAL DEMAND FOR BEAUTY

L'Oréal relies on a single strategy – Universalisation – meaning globalisation that respects differences. This strategy aims at offering beauty attuned to the specific expectations of consumers in every region of the world. It is based on a keen ability to listen to consumers and a profound respect for their differences.

This is why the Group's Research and Marketing teams pay heed to all consumers and laboratories on all continents study their specificities. The innovation policy is based on affordability and on the adaptation of products to the beauty rituals and lifestyles of all men and women in their infinite diversity.

1.2.2. AN INTERNATIONAL PRESENCE

Founded in France in 1909, the Group developed rapidly in Western Europe. In 2016, it generated 32.1% of its cosmetics sales on this historical territory. To make Universalisation a really powerful strategy, the global market has been organised into 5 large homogeneous strategic regions, even more attentive to consumers and closer to their desires.

The Group's organisation is now resolutely multi-centric, with a strong "nerve centre" based in France. Each major region of the world now has its own centre of expertise which groups together Research and Marketing activities. Research therefore has 6 hubs across the globe, led by central teams and fuelled by the Group's core expertise and fundamental knowledge.

HISTORY: THE IMPORTANT DATES IN THE GROUP'S DEVELOPMENT

Acquisition of IT Cosmetics.	2016	
	2015	Acquisition of Niely Cosmeticos.
Strategic Transaction agreed between L'Oréal and Nestlé Acquisition of Magic Holdings in China and NYX Professional Makeup in the United States.	2014	
	2013	The Sharing Beauty With All programme is unveiled.
Acquisition of Urban Decay in the United States.	2012	
	2011	Acquisition of Clarisonic in the United States of America.
Acquisition of Essie Cosmetics in the United States.	2010	
	2009	L'Oréal celebrates its centenary and sets itself the goal of winning one billion new customers.
Acquisition of YSL Beauté.	2008	
	2007	Creation of L'Oréal Corporate Foundation.
Acquisition of The Body Shop.	2006	
	2004	Takeover of the Gesparal holding company.
L'Oréal becomes the majority shareholder of Shu Uemura in Japan.	2003	
	2000	Acquisition of Matrix and Kiehl's since 1851 in the United States.
Acquisition of Softsheen and Carson in the United States and in South Africa.	1998 2000	
	1996	Acquisition of Maybelline in the United States.
Acquisition of American agents Cosmair.	1994	
	1993	Acquisition of Redken 5 th Avenue in the United States.
Acquisition of La Roche-Posay.	1989	
	1981	Creation of Laboratoires dermatologiques Galderma.
The first model of a reconstructed epidermis from L'Oréal Research.	1979	
	1973	Acquisition of Gemey, an open door to the consumer make-up market.
Acquisition of Biotherm.	1970	
	1965	Acquisition of Laboratoires Garnier.
Acquisition of Lancôme.	1964	
	1963	L'Oréal enters the Paris stock market.
Launch of Elnett hair lacquer.	1957	
	1954	Cosmair is named as L'Oréal's agent in the United States.
Ambre solaire, the first sun protection oil with filtering.	1935	
	1929	Imédia, the first quick oxidation hair colour.
La Société Française de Teintures Inoffensives pour Cheveux is created by Eugène Schueller.	1909	

After anchoring itself in Western Europe, L'Oréal gained a foothold in North America in the first half of the 20th century. Initially, the Group entrusted distribution companies with commercializing its products, these companies being united in 1953 around an exclusive agent, Cosmair. Following Cosmair's takeover in 1994, the Group developed in North America with the status of a subsidiary. The acquisition of brands such as Maybelline (1996), Matrix and Kiehl's (2000), Urban Decay (2012), or more recently NYX Professional Makeup (2014) and IT Cosmetics (2016) have considerably reinforced its presence in North America. In 2016, its sales on that continent increased by 5.8% like-for-like, and represent 28.5% of world cosmetic sales.

Beginning in the 1970s, the Latin America Zone developed with a multi-divisional organisation that the Group has since adopted in the other major regions of the world.

Present in Japan for nearly 50 years, L'Oréal has expanded its presence in the country by choosing the brands to be given priority for this extremely specific market: Kérastase in hair salons, Lancôme in Luxury products and Maybelline and L'Oréal Paris in mass-market products.

The 1990s witnessed the opening up of New Markets with very strong development in Eastern Europe. At the same time, the Group extended its activities to more distant markets like India or China.

L'Oréal was among the first foreign groups to obtain an authorisation from the Indian government in 1994 to create a wholly-owned subsidiary with its registered office in Mumbai.

In 1997, the Group created a large multi-divisional zone in Asia and opened new subsidiaries, particularly in China where L'Oréal holds all of the capital of its entity.

Africa and the Middle East, where the Group lacked a strong presence, became a new frontier for development.

The mid 2000s were another turning point: a sharp acceleration in growth of the New Markets led to a shift in the economic world's centre of gravity.

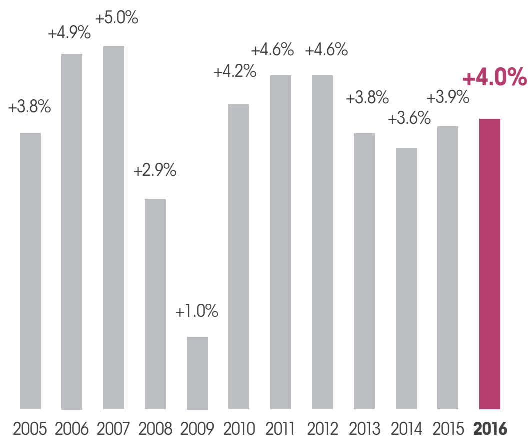
In total, the percentage of cosmetics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 39.4% in 2016. Sales in New Markets increased greatly as a proportion of the Group's total sales between 2006 and 2016. This trend is expected to continue.

The Group has a well-balanced geographical footprint across most of the world's main markets.

The New Markets show considerable growth potential: in many countries, the consumption of cosmetics products per inhabitant is 10 to 20 times lower than in mature countries. Every year across the globe, several tens of millions of people gain access to income levels that make them part of the "middle classes", enabling them to afford modern cosmetics products.

1.2.3. THE BEAUTY MARKET, HUGE DEVELOPMENT POTENTIAL

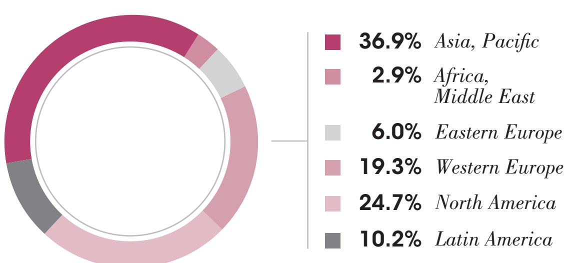
WORLDWIDE COSMETICS MARKET FROM 2005 TO 2016 (1)



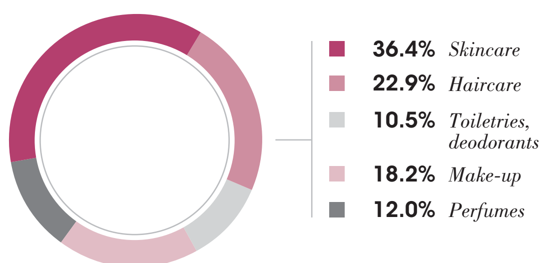
The worldwide cosmetics market is worth approximately €205 billion and grew by an estimated +4.0% (1) in 2016. It is a particularly robust market which is steadily expanding while proving very resilient during difficult economic times. The cosmetics consumer always looks for quality and novelty value, and puts a premium on leading-edge technology, trends and new ideas. The cosmetics market remains a supply-led market driven by innovation, where consumers are always on the look-out for quality, performance and perceived results.

BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2016

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



In 2016, the worldwide beauty market continued to post solid growth. It was boosted in particular by the strong development of e-commerce which generated one-third of global growth.

The selective market remained the most dynamic market with growth of 5.7%, powered, among other products, by make-up. Growth in the mass consumer market (+3.9%) also benefited from the strong momentum in make-up.

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

The dermocosmetics market continued to enjoy robust organic growth (+4.6%) as it responds to a consumer health problem. Growth nevertheless slowed as compared to 2015 due to a summer that was generally unfavourable to consumption in Western Europe.

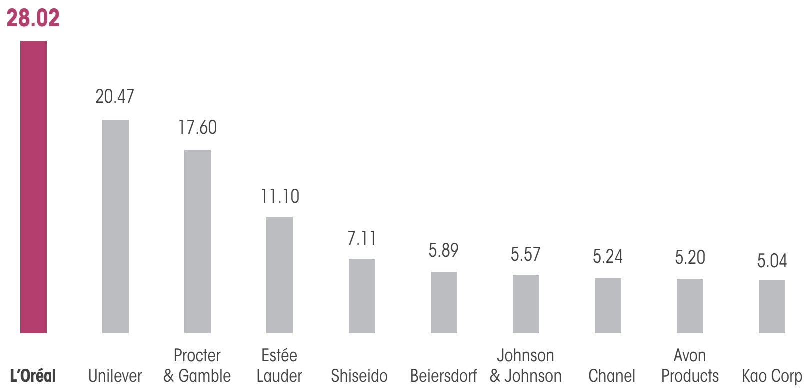
Growth in the professional market accelerated slightly, and was up +2.2%.

From a geographic viewpoint, the New Markets continued to spearhead growth in the beauty sector. Asia, Pacific, the world's biggest cosmetics market, remained as buoyant as ever, in particular on the back of acceleration in the countries of Southeast Asia which offset the slight slowdown in China.

The situation in the mature markets continued to be uneven with a dynamic market in North America while the climate in Western Europe remains downbeat, mainly due to the French market.

MAIN WORLDWIDE PLAYERS (1)

(2015 revenue in billions of US$)



1.2.4. A PORTFOLIO OF DIVERSE AND COMPLEMENTARY BRANDS

To meet the beauty expectations of consumers all over the world, the Group has the richest, most varied and most powerful brand portfolio in the cosmetics industry. Moreover, its brands are constantly being reinvented so that they are always a perfect match with consumer demand.

New acquisitions also regularly provide valuable additions to this unique portfolio.

Some of these acquisitions are of global brands such as the US make-up brands Urban Decay and IT Cosmetics, a tremendous contribution to L'Oréal Luxe; or NYX Professional Makeup, an affordable, make-up artist-inspired brand; or Decléor and Carita, which extend the growth potential of Professional Products to the field of professional skincare.

Other acquisitions are aimed at extending the Group's geographical footprint: in Colombia with the make-up brand Vogue, in Kenya with Interbeauty, and also in Brazil with Niely Cosmeticos, and in China with Magic Holdings.

These newly acquired companies are helping to accelerate the Group's penetration of their markets, and help to drive organic growth going forward.

(1) *Source: Beauty's top 100, WWD, April 2016.*

Competitive positions and market share held by the Group's Divisions and brands mentioned in this Document are based on studies, panels and polls obtained from specialised organisations and companies, or, in the absence of comprehensive studies, are the result of estimates made by L'Oréal on the basis of available statistical data.

1.2.5. RESEARCH AND INNOVATION ADAPTED TO THE WORLD'S MARKETS

The leading research force in the cosmetics industry

Eugène Schueller founded L'Oréal thanks to a major innovation: harmless hair dye. Research was therefore already written in the Group's genes and quickly became one of the keys to its success. To invent beauty and accommodate the aspirations of millions of men and women, L'Oréal continues to push back the boundaries of science. This commitment to innovation remains unwavering: to offer everyone, everywhere in the world, the best of cosmetics in terms of quality, efficacy and safety. The Group's CSR (Corporate Social Responsibility) focuses are a source of new innovation opportunities rather than a mere set of constraints.

Research adapted to the market

To respond as best as possible to the demands of consumers across the world, L'Oréal's research teams have a global presence through its 20 cosmetic research centres and its 16 evaluation centres. The research centres are grouped together in 3 global centres in France (Advanced Research, Hair *métiers* and Cosmetic *métiers*) and 6 regional hubs: in the United States, Japan, China, Brazil, India and South Africa. These regional hubs identify the needs of consumers and their cosmetic practices. The richness of their scientific ecosystem promotes cooperation and partnerships for excellence. All the data collected enables the researchers to develop new products that are perfectly in phase with local expectations and aspirations.

RESEARCH FACILITIES AROUND THE WORLD

Research and Innovation budget	
2014	761
2015	794
2016	**850**

Research and Innovation Headcount	
2014	3,782
2015	3,871
2016	**3,862**

Number of patents	
2014	501
2015	497
2016	**473**

A pertinent multi-hub organisation

Thanks to their close proximity to consumers, the hubs innovate with genuine local relevance and nourish the global flow of innovations. Through a co-operation with the China hub, Research and Innovation has successfully developed shampoos with a reduced environmental impact as well as masks and anti-hair loss treatments that prevent hair whitening. Together with the India hub, it focuses on progressive, oil-based hair colours and mineralite-based treatments for shiny skin. Research and Innovation and the Japan hub teams identify materials with optical effects to innovate in make-up. In the USA, they develop connected objects and have set themselves the challenge of putting on a chip the interactions between human organs, using a cross between cell engineering and microfluidics. Brazil puts the emphasis on airlicium-based bodycare products, deodorants and antiperspirants. Finally, a new hub has been set up in Johannesburg in South Africa to develop specific hair colours, nourishing hair care products, hair straighteners, and specially adapted make-up ranges.

Ethically respectful research

To respond to the essential requirements of product safety, in the 1980s the research team began to develop alternative methods which did not use animal testing in order to assess the safety of its products and ingredients. Major progress was made thanks to tissue engineering: the reconstruction of the first human epidermis in 1979 and the first complete skin (epidermis and dermis) in 1996.

The Group has acquired extensive expertise in this field owing to four decades of international scientific co-operation. A total of 12 reconstructed skin and corneal tissue models have now been developed, while five alternatives to animal testing have been approved.

These models are fabulous tools for predicting product safety and efficacy and for reducing time-to-market. Thanks to these models, L'Oréal was able to stop testing finished products on animals in 1989 and to develop predictive evaluation strategies to satisfy European regulations prohibiting the offering for sale of products containing any ingredient that has been tested on animals after March 11th, 2013. This quest to assess safety better without using animal testing led to the creation of a subsidiary in Lyon, Episkin, which produces and sells validated reconstructed skin models. This commitment spread across the world in response to international legal and regulatory changes such as those in Brazil, India, China, etc. *via* the creation of subsidiaries (*Shanghai Episkin Biotechnology Co. Ltd*) and the training sessions delivered by the Episkin Academy.

Furthermore, to protect its lead in skin engineering, L'Oréal implements the latest cutting-edge technologies: exploring the potential of microfluidic systems with organs-on-a-chip in partnership with the University of Central Florida which puts 4 of them on the same chip, reinnervating the reconstructed human epidermis in collaboration with the IDOR research institute in Brazil, and, together with biotechnology company Poietis, taking on the novel scientific challenge of bioprinting a hair follicle using a bioprinter.

Towards ever more sustainable innovation

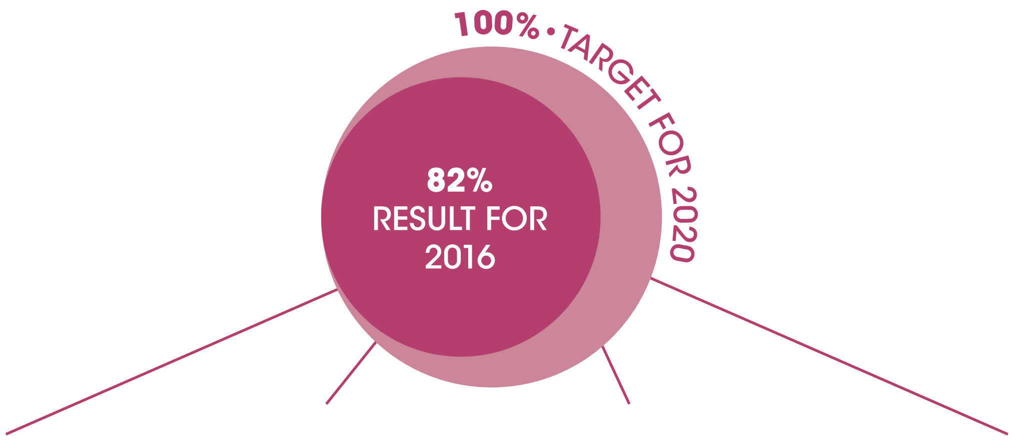
Within the framework of its *Sharing Beauty With All* programme launched in 2013 (see section 3.2.1), one of the main commitments made by L'Oréal with regard to Sustainable Development consists in improving the environmental or social profile of 100% of its products by 2020. This is a major paradigm shift: from now on, whenever the Group's teams invent or update a product, they take account not only of the product's performance and its profitability, but also its contribution to sustainability. To do this, they act on at least one of the following criteria:

- reduction of the environmental footprint, particularly its water footprint, or improvement in biodegradability;
- use of renewable raw materials, that are sustainability sourced or derived from green chemistry;
- positive social impact through the incorporation of raw materials from the *Solidarity sourcing* programmes (see section 3.2.4.3);
- improvement of the environmental profile of new or updated packaging.

In this way, 82% of L'Oréal products launched in 2016 have an improved environmental or social profile (as against 74% in 2015).

Some of the new products launched in 2016 have biodegradability levels of over 98% across the L'Oréal Group's various brands, such as, for example, Kérastase Aura Botanica *soin fondamental* or *concentré essentiel*, the shampoos and conditioners of the Matrix Biolage RAW range, the Roger&Gallet Aura Mirabilis ultra-thin clean mask or the Lancôme *Absolue Precious Oil.*

INNOVATING SUSTAINABLY: 2016 RESULTS



82% OF NEW PRODUCTS ANALYSED HAVE AN IMPROVED ENVIRONMENTAL OR SOCIAL PROFILE [1].

18% of new or updated products have an improved social/environmental **profile due to a new formula including sustainably sourced renewable raw materials or raw materials respecting the principles of green chemistry.**

27% of new or updated products have an improved environmental profile **due to a new formula with a reduced environmental footprint.**

57% of new or updated products have an improved environmental profile **due to improved packaging.**

10% of new or updated products have an improved social profile **thanks to a positive social impact.**

(1) These are new products, i.e. products for which new formulas have been developed and which are produced for the first time in the Group's plants or products for which packaging was changed/updated in 2016.

Research unveils the territories of tomorrow

Ageing beautifully by integrating exposome data

Exposome is defined as the measure of the cumulative effects of all environmental, internal and behavioural factors to which human beings are exposed throughout their lifetime. The skin, our protective barrier, is directly subject to environmental aggressions (UV rays, pollution) but also reflects internal stress factors such as fatigue, anxiety or unbalanced diets. L'Oréal's researchers have demonstrated that the effects of UV radiation are made worse by pollution, and that clinical signs of aging were reversible through products combining UVB and UVA filters with powerful antioxidants like baicalin.

With its 10th member, the Scientific Advisory Board is opening the way to regeneration

Created in 2013 to explore the future boundaries of beauty and chaired by Jacques Leclaire, the Group's Global Scientific Director, this year the Scientific Advisory Board focused its work on the rapidly growing field of regenerative medicine. In 2016, it also welcomed its tenth member, Clément Sanchez, the holder of the Chair in chemistry of hybrid materials at the Collège de France, who will provide original ideas in the search for new materials offering immediately visible effects on skin and hair.

1.2.6. OPERATIONS, EXPERTISE AND SERVICES CLOSE TO CONSUMERS

The Operations Division harnesses the most advanced, agile, effective and connected technological expertise, from packaging design and product development, sourcing and production through to distribution of all the Group's products, in order to enable the brands to offer consumers worldwide the very latest cosmetic solutions.

Assuming its fundamental responsibilities, the Operations Division guarantees consumers compliance with strict standards of quality, safety, security and societal and environmental responsibility all over the world.

1

At the centre of design and development, innovation of packaging

The packaging of a product is the first identifying link between a brand and its consumers. Beyond its technical performance and its function, packaging is a key differentiating factor for the product and therefore for the value perceived by the consumer. Every year, L'Oréal's teams of design and development specialists provide cutting-edge innovations with 3 centres of expertise: Europe, Asia and the Americas. In 2016, L'Oréal filed 88 patents for packaging and process.

L'Oréal increasingly uses digital technologies more and more in the design and development of its packaging, to offer consumers connected, smart beauty products and services that meet their specific needs.

A Purchasing programme combining economic and social value

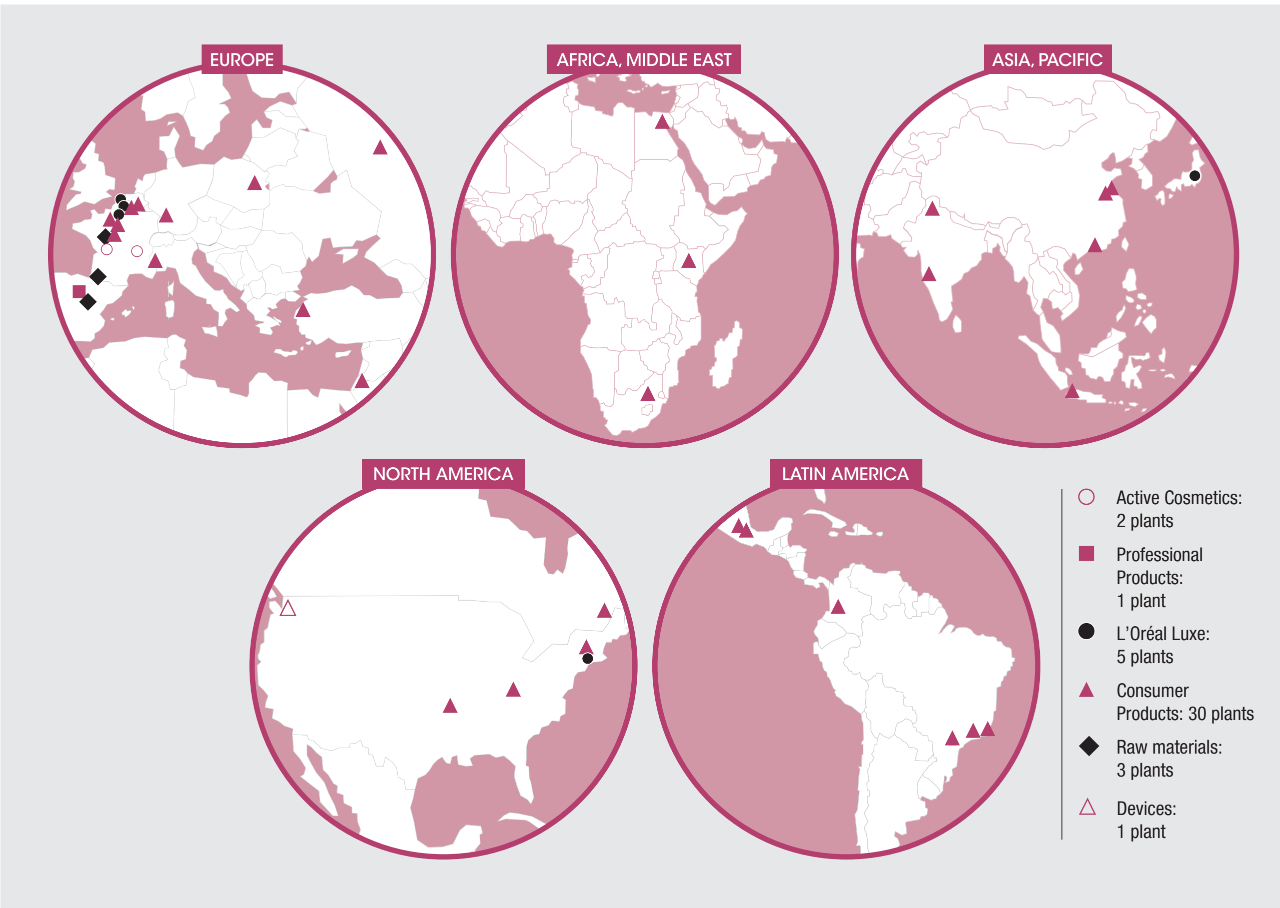
To accompany the Group's growth – both from a geographical and technological standpoint – the Purchasing teams select the suppliers in accordance with the L'Oréal *Buy and Care* responsible purchasing programme. They manage their performance by monitoring precise indicators relating to social, environmental and ethical criteria and through their ability to innovate and to meet the Group's requirements in terms of quality, service and competitiveness.

L'Oréal builds solid relationships with its suppliers and this makes it possible to work with them on their supply chains and thus ensure the reliability and traceability of sourcing (for raw materials and packaging). In 2016, the Group conducted 1,187 social audits, making a total of more than 8,200 since 2006.

Furthermore, by creating the responsible purchasing programme called *Solidarity Sourcing*, L'Oréal chose as from 2010 to commit to work with suppliers with a solidarity approach, for example those giving access to work for disabled workers, people from underprivileged backgrounds or fair trade suppliers (see the paragraph on Solidarity Sourcing 3.2.4.3.).

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

L'Oréal has 42 plants spread all over the world, in close proximity to the markets, that have the ability to adapt to local specificities and to support the drive to win over new consumers.



Product quality and safety: a priority

The Group has set up a single product quality and safety management programme on a worldwide basis, which uniformly guarantees compliance with the Group's commitments. It comprises production methods and effective Internal Control methods throughout the product manufacturing cycle. On average, 100 compliance checks are carried out on the same product.

This quality process led to a low rate of consumer claims in 2016: 52 complaints per million products.

Operational excellence

L'Oréal has high-tech industrial facilities – using robotisation, automation, cobotics (collaborative robotics) – that are flexible to operate according to market demands and consumer needs: from a high productivity plant engaged in large-scale production to an agile plant proposing limited quantities, and also a plant producing devices.

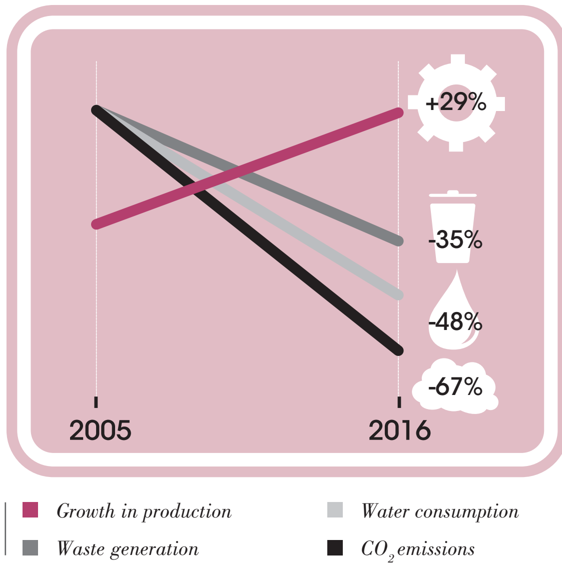
The Group is continuing to roll out its Operational Excellence System in all its plants to meet the challenges of a constantly changing world and go even further in adapting its industrial facilities to the needs of consumers. This process is based on the close involvement of all employees in technical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

In 2016, the areas for improvement of economic performance notably concerned an increase in productivity with investments in equipment for the plant of the future (industry 4.0).

At the heart of production: environmental protection

The Group's environmental policy looks to roll out best practices with regard to sustainable production in order to preserve resources: energy efficiency, use of renewable energy, optimisation of water consumption and its recycling, reduction of waste generation, etc. Results in 2016 once again show L'Oréal's ability to decouple growth in production (+29%) from its environmental impact with, since 2005, CO_2 emissions down -67% in absolute value, water consumption down -48% per finished product and waste generation down -35% per finished product. It should be noted that 98% of residual waste was recovered in 2016, meaning that it was reused, recycled or used for energy recovery.

RESPONSIBLE PRODUCTION



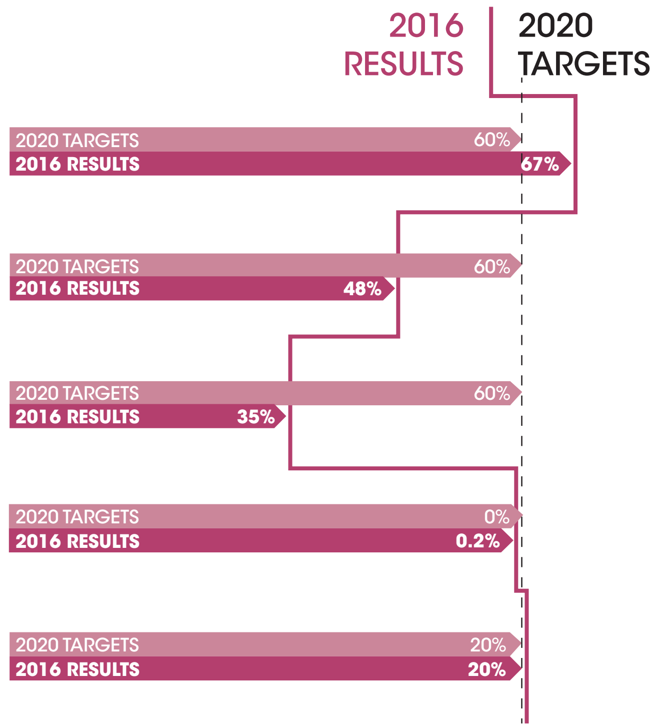
Through the commitments for 2020 made under the *Sharing Beauty With All* programme, the Group continues to pursue the process initiated in 2009 aimed at reducing its environmental footprint. 15 of L'Oréal's industrial sites were "carbon neutral" at the end of 2016, as against 9 sites at the end of 2015: 5 plants (Libramont in Belgium, Settimo in Italy, Burgos in Spain, Rambouillet in France and Yichang in China) and 10 distribution centres.

L'Oréal was given the best rating – a score of "A" - three times in 2016 by the CDP [(1)] in each of the essential fields of environmental protection: the fight against climate change, sustainable water management and the fight against deforestation. Only 2 companies (out of nearly 3,000) in the world received this distinction in 2016.

(1) *The CDP is an independent NGO which offers a global system for the measurement and publication of environmental information and which assesses the strategy, close involvement and results obtained by companies in the fight against climate change, sustainable water management and forest protection.*

1

THE *SHARING BEAUTY WITH ALL* COMMITMENTS



67% reduction in CO_2 emissions at our plants and distribution centres achieved from a 2005 baseline (out of the targeted 60%)

48% reduction in water consumption from a 2005 baseline (out of the targeted 60%)

35% reduction in waste generated from a 2005 baseline (out of the targeted 60%)

Sending zero waste to landfill. In December 2016, all the Group's plants and distribution centres achieved the target of zero waste to landfill (excluding regulatory obligations).

20% reduction in CO_2 emissions from transportation of products per sales unit per km from a 2011 baseline (310,441 tonnes of CO_2 emissions in 2016 from transportation of products, which represents 0.021 g CO_2/sales unit/km).

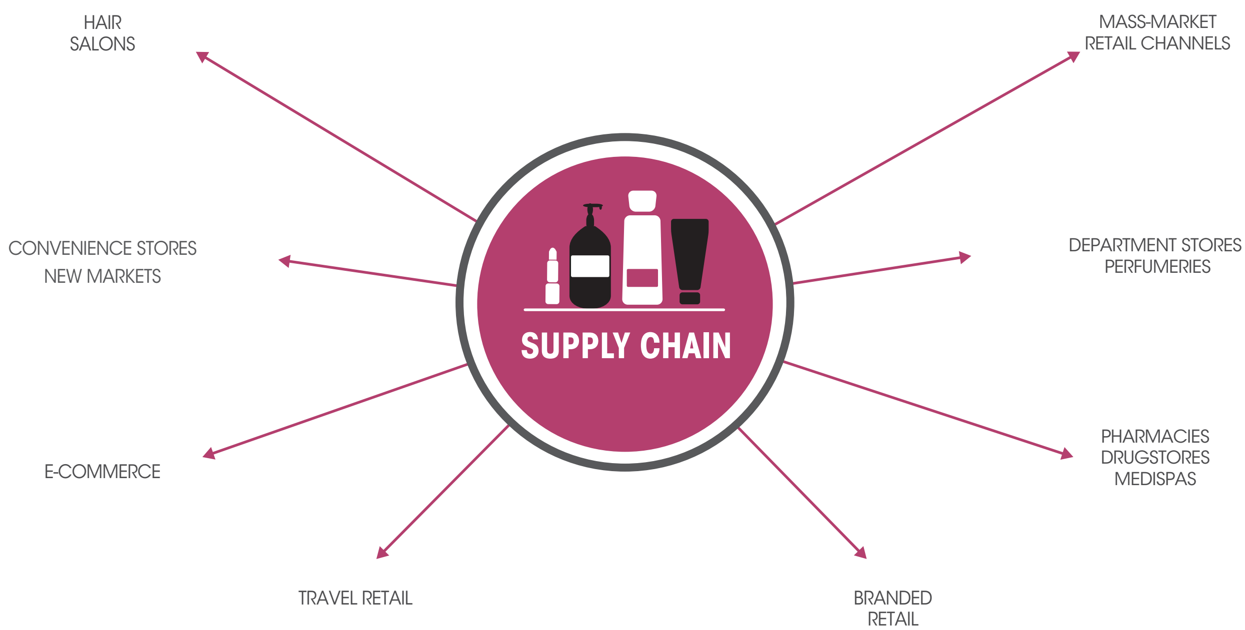
The Supply chain at the service of consumers

The L'Oréal Group's Supply Chain has the task of organising and optimising all information flows and physical flows of products from the point of sale to the supplier. It ensures that the right product is delivered at the right time, in accordance with the expectations of the consumer, while controlling costs.

An omnichannel supply chain

L'Oréal is characterised by a unique particularity on the cosmetics market: its ability to handle a wide variety of product categories and an omnichannel presence in all distribution channels (hair salons, mass-market retail channels, perfumeries, pharmacies, drugstores, medispas, branded retail, travel retail, e-commerce).

With the growing demands of its customers and consumers (personalisation, service, etc.) and the rising importance of e-commerce and L'Oréal's branded retail, the supply chain is at the heart of the products and services offered by its brands. It is becoming more agile to handle market variations on all distribution channels and to adapt to local consumer requirements.



A distribution network suited to the markets

The geographical location of the 153 distribution centres enables the Group to be as close as possible to its direct delivery points and its distributor customers. In 2016, several projects for the modernisation of the physical distribution network were conducted to enhance agility. After North America and Western Europe, automation of the centres is continuing in Australia and Germany.

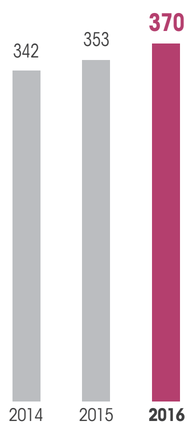
The Group is continuing to invest in the performance of its information systems in order to continually improve the ability to adjust the physical distribution network to market requirements.

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

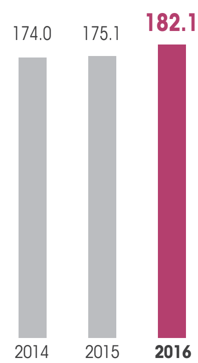
Operations have major economic responsibility for all the brands and markets and that impact total product costs.

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

COSMETICS INVESTMENT COMMITMENTS (PRODUCTION AND SUPPLY CHAIN COMMITMENTS IN € MILLION)

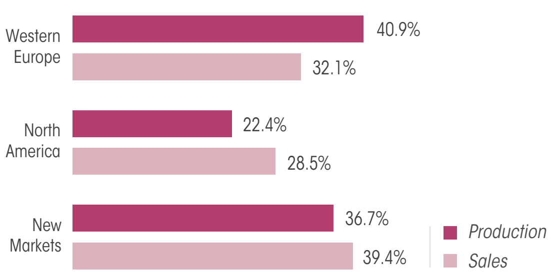


COSMETICS PLANTS WORKFORCE CUMULATIVE PRODUCTIVITY INDEX (1) (INDEX BASE: 100 IN 2002)



(1) *Ratio calculated for cosmetics plants, excluding the device plant.*

COSMETICS DIVISION PRODUCTION AND SALES BY GEOGRAPHIC ZONE IN 2016: PRODUCTION CLOSE TO ITS MARKETS



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1.3. GOOD GROWTH MOMENTUM FOR SHARED, LASTING DEVELOPMENT*

1.3.1. 2016 RESULTS*

L'Oréal achieved another good year, with a significant growth in sales and robust profits.

In a generally favourable cosmetics market, the Group has once again accentuated its worldwide beauty leadership thanks to market share gains in its three main geographic zones.

All the Divisions recorded sales growth, especially L'Oréal Luxe which is significantly strengthening its positions. The Active Cosmetics Division also performed well, winning market share around the world. As announced, the Consumer Products Division, driven by its successful strategic choices, saw a clear acceleration in sales and outperformed its market.

As for the geographic zones, L'Oréal has accelerated sales and increased its lead in North America. The Group has further accentuated its leadership in Europe, outperforming the market despite the difficult situation in France. Growth in the New Markets has remained solid.

In terms of results, operating margin and cash flows have set new records, confirming that L'Oréal business model is set to deliver robust performance and create significant value.

2016 was also another year that strengthened L'Oréal's leadership in connected beauty. The e-commerce (1) sales rose by +33%, and the digital dynamism of brands – in both communications and services – means they can develop increasingly strong and personalised interactions with consumers.

The strategic acquisition of IT Cosmetics, and the one in progress of CeraVe, strengthen the unique portfolio of brands and will more than ever enable to meet the consumers' beauty aspirations. As part of this brand portfolio optimisation, it has been decided to explore all strategic options regarding The Body Shop's ownership in order to give it the best opportunities and full ability to continue its development. No decision has been taken so far.

1.3.1.1. Overview of the results for 2016

- **2016 sales:** €25.84 billion (+2.3% based on reported figures, +4.7% like-for-like (2))
- **Operating profit:** €4.54 billion, representing 17.6% of sales (+3.5%)
- **Net profit after non-controlling interests:** €3.11 billion (-5.8%)
- **Earnings per share** (3)**:** €6.46
- **Dividend** (4)**:** €3.30 euros per share (+6.45%), increased by 10% to €3.63 for shares held in the registered form for more than 2 years

** 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.*

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

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

(3) Diluted earnings per share, based on net profit, excluding non-recurring items, after non-controlling interests.

(4) Proposed at the Annual General Meeting of April 20, 2017.

NORTH AMERICA

28.5% Share of Group cosmetics sales:
+5.8% Sales growth in 2016 (1)
+4.1% Market growth in 2016 (2)

€7,098.8M
SALES

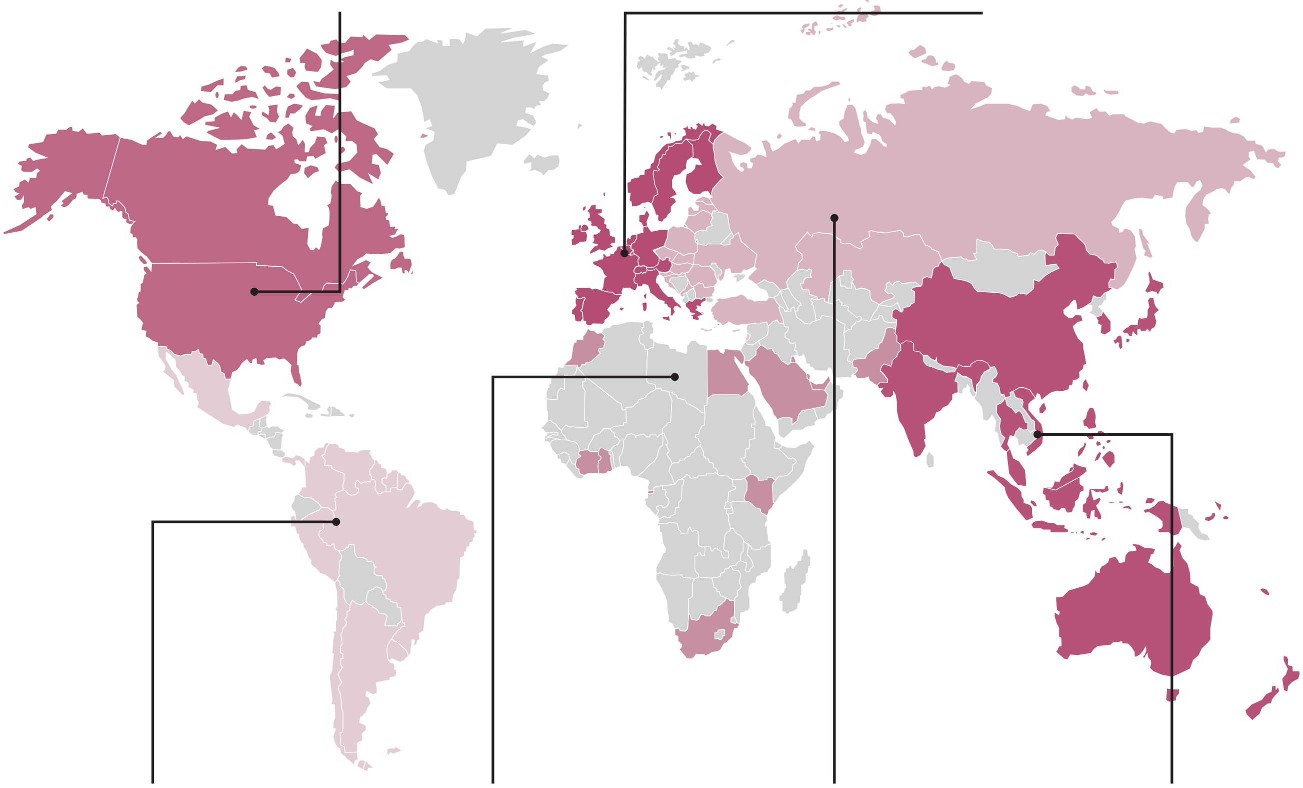
19.6% (3)
OPERATING PROFIT
(in % of sales)

WESTERN EUROPE

32.1% Share of Group cosmetics sales:
+2.4% Sales growth in 2016 (1)
+0.9% Market growth in 2016 (2)

€8,008.0M
SALES

22.9% (3)
OPERATING PROFIT
(in % of sales)



LATIN AMERICA

7.4% Share of Group cosmetics sales:
+11.1% Sales growth in 2016 (1)
+8.0% Market growth in 2016 (2)

€1,838.0M
SALES

AFRICA, MIDDLE EAST

3.1% Share of Group cosmetics sales:
+7.9% Sales growth in 2016 (1)
+1.7% Market growth in 2016 (2)

€764.5M
SALES

EASTERN EUROPE

6.3% Share of Group cosmetics sales:
+10.4% Sales growth in 2016 (1)
+7.0% Market growth in 2016 (2)

€1,571.5M
SALES

ASIA, PACIFIC

22.6% Share of Group cosmetics sales:
+3.6% Sales growth in 2016 (1)
+4.4% Market growth in 2016 (2)

€5,635.4M
SALES

NEW MARKETS

39.4% Share of Group cosmetics sales:
+6.3 % Sales growth in 2016 (1)
+5.2 % Market growth in 2016 (2)

€9,809.5M
Sales

19.7% (3)
OPERATING PROFIT
(in % of sales)

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

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

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

1.3.1.2. Consolidated sales

Like-for-like, *i.e.* based on a comparable structure and constant exchange rates, the sales trend of the L'Oréal Group was +4.7%. The net impact of changes in the scope of consolidation amounted to +0.4%. Currency fluctuations had a negative impact of -2.8%. Growth at constant exchange rates was +5.1%. Based on reported figures, the Group's sales, at December 31, 2016, amounted to 25.84 billion euros, an increase of +2.3%.

SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

€ million	2014	2015	**2016**	**% 2016 sales**	2015/2016 progression Like-for-like	2015/2016 progression Reported figures
By Operational Division						
Professional Products	3,032.4	3,399.7	3,399.7	13.6%	1.8%	0.0%
Consumer Products	10,767.5	11,844.2	11,993.4	48.1%	4.4%	1.3%
L'Oréal Luxe	6,197.9	7,230.0	7,662.4	30.8%	6.9%	6.0%
Active Cosmetics	1,660.4	1,816.3	1,860.7	7.5%	5.7%	2.4%
Cosmetics Total	**21,658.2**	**24,290.2**	**24,916.3**	**100.0%**	**4.9%**	**2.6%**
By geographical zone						
Western Europe [(1)]	7,647.2	7,968.4	8,008.0	32.1%	2.4%	0.5%
North America	5,389.4	6,654.4	7,098.8	28.5%	5.8%	6.7%
◆ New Markets, of which:	8,621.6	9,667.4	9,809.5	39.4%	6.3%	1.5%
◆ Asia, Pacific [(1)]	4,614.1	5,537.9	5,635.4	22.6%	3.6%	1.8%
◆ Latin America	1,853.7	1,871.3	1,838.0	7.4%	11.1%	-1.8%
◆ Eastern Europe	1,585.4	1,530.4	1,571.5	6.3%	10.4%	2.7%
◆ Africa, Middle-East	568.4	727.9	764.5	3.1%	7.9%	5.0%
Total Cosmetics	**21,658.2**	**24,290.2**	**24,916.3**	**100.0%**	**4.9%**	**2.6%**
◆ The Body Shop	873. 8	967.2	920.8	3.6%	0.6%	-4.8%
TOTAL GROUP	**22,532.0**	**25,257.4**	**25,837.1**	**100.0%**	**4.7%**	**2.3%**

(1) As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

Professional Products

The Professional Products Division recorded growth of +1.8% like-for-like. It is stable based on reported figures.

- In a market that is gradually improving, the Division posted a contrasted year, with good growth in Europe, Africa, Middle East and Latin America, but a mixed performance in North America. The top growth contributor countries are India, Russia and the United Kingdom.
- The Division's four major brands are all growing. Hair colour, the top growth contributor, is maintaining its momentum thanks to the core franchises Shades EQ by Redken, SoColor Beauty and Color Sync by Matrix, and Inoa and Dia by L'Oréal Professionnel. In skincare, the Decléor brand, which focuses on naturalness, has recorded double-digit growth.

Consumer Products

The Consumer Products Division is strengthening its growth at +4.4% like-for-like and +1.3% based on reported figures. It is outperforming the global market.

- As announced, the Division's growth accelerated sharply in 2016 thanks to the success of its two strategic choices. First in make-up, the Division achieved double-digit growth thanks to the outstanding success of NYX Professional Makeup, clearly becoming a new major global make-up brand, and to the continuing development of Maybelline, L'Oréal Paris and Essie. Secondly, in haircare, with the worldwide roll-out of *Ultra Doux* and the success of key *Elsève* launches.
- 2016 was also a fine vintage for innovations in other categories, with the worldwide success in skincare of Micellar Cleansing Waters by Garnier as well as Pure Clay Masks and *Magic Retouch* in hair colour for L'Oréal Paris.
- The Division has delivered an excellent performance in North America, where it is significantly strengthening its leadership. It is growing exceptionally strongly in the United Kingdom, and is also accelerating in Spain and Germany. The Division's expansion in the New Markets is continuing.

L'Oréal Luxe

L'Oréal Luxe posted growth of +6.9% like-for-like and +6.0% based on reported figures, with an excellent second half at +8.1% like-for-like. The Division is outperforming its market and has been further strengthened by the acquisition of two new brands: Atelier Cologne and IT Cosmetics.

- Yves Saint Laurent has achieved an exceptional year, with sales breaking the one billion euro mark, thanks to the strong dynamism of its make-up and success in fragrances, with *Black Opium* and the new women's perfume *Mon Paris*. Giorgio Armani had a very good year, driven by make-up and the success of the men's fragrance *Code Profumo*. Urban Decay, today in 45 countries, is growing strongly, and is launching *Vice Lipstick* worldwide. The rise of Kiehl's in skincare is continuing. Lancôme, the number one luxury brand for women, has posted another year of growth with notably *Absolu Rouge*, *Énergie de Vie* skincare for *Millennials* [1] and *La Vie Est Belle*, number one in Europe and already in the top 5 women's fragrances in the United States;

- North America has achieved a very good year. In the New Markets, the Division recorded double-digit growth in China, Japan, Russia and several countries in South-East Asia. Western Europe performed very well, especially Spain and the United Kingdom.

Active Cosmetics

With growth of +5.7% like-for-like and +2.4% based on reported figures, the Active Cosmetics Division ended the year on a very dynamic note. It is further increasing its share of the worldwide market.

- All the geographic zones have contributed to growth, with outstanding performances in North America and Latin America;
- La Roche-Posay is posting its seventh consecutive year of double-digit growth, with a strong contribution from its Effaclar, Cicaplast and Toleriane franchises. Vichy is rolling out *Slow Âge*, an innovative facial skincare line stemming from advances made by L'Oréal Research in the exposome field. SkinCeuticals is accelerating both in its home market and internationally, and its *Triple Lipid Restore 2:4:2* launch is very well received. Lastly, Roger&Gallet is growing in Asia, particularly in Japan, and more recently in China.

Multi-division summary by geographic zone

Western Europe

Despite the continuing difficult environment in France, Western Europe posted growth of +2.4% like-for-like, and +0.5% based on reported figures, and is further extending its leadership. The Consumer Products Division is strengthening its positions. The United Kingdom and Spain had a particularly dynamic year, while Germany and Italy delivered solid growth, outperforming their respective markets. Make-up is the number one growth driver, fuelled especially by the NYX Professional Makeup and Urban Decay brands.

North America

In a dynamic market, North America posted growth of +5.8% like-for-like and +6.7% based on reported figures. L'Oréal Luxe is growing faster than its market, driven by the strong growth of Urban Decay and Yves Saint Laurent, as well as good performances from Lancôme and IT Cosmetics. The Consumer Products Division is significantly strengthening its leadership: the continuing success of NYX Professional Makeup has been added to the momentum of Maybelline and Essie, and Garnier is accelerating thanks to its Whole Blends (*Ultra Doux*) and Micellar Cleansing Waters launches.

New Markets

- **Asia, Pacific**: this Zone recorded growth of +3.6% like-for-like and +1.8% based on reported figures. In Northern Asia, Taiwan and South Korea are posting good growth. In China, L'Oréal Luxe maintains its momentum, but the Consumer Products Division, in a transitional phase, has been slowed down by the difficulties of Magic and the progressive adjustment to the evolving distribution channels. In Southern Asia, growth remains sustained thanks, in particular, to dynamic trends in Australia and Indonesia, and the development of NYX Professional Makeup and Garnier;
- **Latin America**: the Zone posted growth of +11.1% like-for-like, and -1.8% based on reported figures. The acceleration is continuing in Mexico, Colombia and Peru, thanks to the strong growth of the make-up brands Vogue, Maybelline and L'Oréal Paris, and the good results of L'Oréal Professionnel and Kérastase. In Brazil, the Active Cosmetics Division is outperforming the market, and the Consumer Products Division is taking advantage of the successful integration of Niely;
- **Eastern Europe**: the Zone recorded growth of +10.4% like-for-like and +2.7% based on reported figures. Russia, Poland and Ukraine are driving growth in this Zone. The Professional Products Division, L'Oréal Luxe and Consumer Products are outperforming their markets;
- **Africa, Middle East**: sales growth amounted to +7.9% like-for-like and +5.0% based on reported figures. Activity in the Zone slowed down at the end of the year, particularly because of Saudi Arabia where the market decelerated. On the other hand, Egypt and Pakistan are maintaining very strong momentum. Against this background, the Divisions together have gained market shares.

The Body Shop

The Body Shop recorded growth of +0.6% like-for-like, and -4.8% based on reported figures. Momentum was good in Europe, especially in the United Kingdom, the brand's home market, and in Latin America where The Body Shop opened up recently in Chile. The brand has also benefited from sustained growth in e-commerce. Skincare growth is continuing, with a strong contribution from the range of five new facial skincare masks. The difficult context in Saudi Arabia and Hong Kong, however, is continuing to impact overall performance.

(1) Generation born between 1980 and 2000.

1.3.1.3. 2016 consolidated results

OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

	2014		2015		**2016**	
	€ millions	% 2014 sales	€ millions	% 2015 sales	**€ millions**	**% 2015 sales**
Sales	**22,532.0**	**100%**	**25,257.4**	**100%**	**25,837.1**	**100.0%**
Cost of sales	-6,500.7	28.9%	-7,277.4	28.8%	-7,341.7	28.4%
Gross profit	**16,031.3**	**71.1%**	**17,980.0**	**71.2%**	**18,495.4**	**71.6%**
Research and development expenses	-760.6	3.4%	-794.1	3.1%	-849.8	3.3%
Advertising and promotion expenses	-6,558.9	29.1%	-7,359.6	29.1%	-7,498.7	29.0%
Selling, general and administrative expenses	-4,821.1	21.4%	-5,438.6	21.5%	-5,607.0	21.7%
OPERATING PROFIT	**3,890.7**	**17.3%**	**4,387.7**	**17.4%**	**4,539.9**	**17.6%**

Gross profit, at 18,495 million euros, came out at 71.6% of sales, compared with 71.2% in 2015, that is an increase of 40 basis points. Research and Development expenses, at 3.3% of sales, have increased in relative value.

Advertising and promotion expenses came out at 29% of sales, close to the 2015 level.

Selling, general and administrative expenses, at 21.7% of sales, have come out at a slightly higher level compared to 2015.

Overall, operating profit, at 4,540 million euros, has grown by 3.5%, and amounts to 17.6% of sales.

NET PROFIT FROM CONTINUING OPERATIONS

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

€ millions	2014	2015	**2016**	Evolution
Operating profit	**3,890.7**	**4,387.7**	**4,539.9**	**3.5%**
Finance Costs excluding dividends received	-24.1	-13.8	-19.3	
Sanofi dividends	331.0	336.9	346.5	
Pre-tax profit excluding non-recurring items	**4,197.7**	**4,710.8**	**4,867.1**	**3.3%**
Income tax excluding non-recurring items	-1,069.5	-1,219.7	-1,216.8	
Net profit from equity affiliates excluding non-recurring items	-3.0	-	-0.1	
Non-controlling interests	0.1	-1.3	-3.0	
Net profit excluding non-recurring items attributable to owners of the company (1)	**3,125.3**	**3,489.8**	**3,647.2**	**4.5%**
EPS (2) (€)	**5.34**	**6.18**	**6.46**	**4.6%**
NET PROFIT AFTER NON-CONTROLLING INTERESTS	**4,910.2**	**3,297.4**	**3,105.8**	
Diluted EPS after non-controlling interests (€)	8.39	5.84	5.50	
Diluted average number of shares	**585,238,674**	**564,891,388**	**564,509,135**	

(1) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational income and expenses, non-recurring and significant regarding the consolidated performance.
(2) Diluted net earnings per share excluding non-recurring items after non-controlling interests.

Finance expenses came out at 19 million euros.

Sanofi dividends amounted to 346 million euros.

Income tax excluding non-recurring items amounted to 1,216 million euros. This represents a tax rate of 25.0%, slightly lower than that of 2015 which came out at 25.9%.

Net profit excluding non-recurring items after non-controlling interests amounted to 3,647 million euros.

Earnings per Share, at 6.46 euros, are up by 4.6%.

Non-recurring items after non-controlling interests amounted to 541 million euros net of tax, which corresponds mostly to the *Magic* and *Clarisonic* impairment impact operated during the first half of 2016, and to the French tax of 3% on dividends distributed.

Net profit came out at 3,105 million euros.

NET PROFIT AFTER ATTRIBUTABLE TO OWNERS OF THE COMPANY: €3 105 MILLION

€ millions	2014	2015	**2016**	Evolution 2015/2016
Net profit excluding non-recurring items after non-controlling interests	**3,125.3**	**3,489.8**	**3,647.2**	
Non-recurring items net of tax	-357.7	-192.4	-541.4	
Net profit from non-continuing operations	+2,142.7	-	-	
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**4,910.2**	**3,297.4**	**3,105.8**	**-5.8%**

Cash flow statement, Balance sheet and Cash position

Gross cash flow amounted to 4,717 million euros, an increase of 7.2%.

The working capital requirement increased very modestly by 12.7 million euros.

Investments amounted to 1,386 million euros, representing 5.4% of sales, higher than in 2015, when it represented 4.6% of sales.

The net cash is positive again and came out, at December 31, 2016, at 481 million euros.

The balance sheet remains particularly solid with shareholders' equity amounting to 24.5 billion euros.

Proposed dividend at the Annual General Meeting of April 20, 2017

The Board of Directors has decided to propose to the Shareholders' Annual General Meeting of April 20, 2017 a dividend of 3.30 euros per share, an increase of +6.45% compared with the dividend paid in 2016. The dividend will be paid on May 3, 2017 (ex-dividend date April 28, 2017 at 0:00 a.m., Paris time).

Share capital

As of December 31, 2016, the capital of the Company is formed by 561,855,741 shares, each with one voting right.

Operating profit, by operational division and geographic zone

GROUP

€ millions	2014	2015	**2016**	**2016 Weight**	Evolution based on reported sales	% of sales
Cosmetics	3,825	4,333	4,506	99.3%	4.0%	18.1%
The Body Shop	65	55	34	0.7%	-38.3%	3.7%
GROUP TOTAL	**3,890**	**4,388**	**4,540**	**100.0%**	**3.5%**	**17.6%**

BY OPERATIONAL DIVISION

	2014		2015		**2016**	
	€ millions	% sales	€ millions	% sales	**€ millions**	**% sales**
Professional Products	609	20.1%	678	20.0%	689	20.3%
Consumer Products	2,186	20.3%	2,386	20.1%	2,417	20.2%
L'Oréal Luxe	1,269	20.5%	1,497	20.7%	1,623	21.2%
Active Cosmetics	376	22.7%	415	22.8%	431	23.2%
COSMETICS DIVISIONS TOTAL	**4,440**	**20.5%**	**4,976**	**20.5%**	**5,160**	**20.7%**
Non-allocated (1)	-615	-2.8%	-643	-2.6%	-654	-2.6%
COSMETICS DIVISIONS TOTAL AFTER NON-ALLOCATED	**3,825**	**17.7%**	**4,333**	**17.8%**	**4,506**	**18.1%**

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

The profitability of the Professional Products Division, at 20.3%, is up by 30 basis points.

The profitability of the Consumer Products Division came out at 20.2%, representing an increase of 10 basis points compared with 2015.

The profitability of L'Oréal Luxe, at 21.2%, strongly increased in 2016, which is an increase of 50 basis points.

At Active Cosmetics Division, there was a further increase in profitability reaching 23.2%.

The profitability of The Body Shop in 2016 fell to 3.7%.

BY GEOGRAPHIC ZONE

	2014[1]		2015[1]		2016	
	€ millions	% sales	€ millions	% sales	**€ millions**	**% sales**
Western Europe [1]	1,727	22.6%	1,800	22.6%	1,832	22.9%
North America	1,010	18.7%	1,257	18.9%	1,392	19.6%
New Markets[1]	1,703	19.7%	1,919	19.9%	1,936	19.7%
COSMETICS ZONES TOTAL	**4,440**	**20.5%**	**4,976**	**20.5%**	**5,160**	**20.7%**
Non-allocated [2]	-615	-2.8%	-643	-2.6%	-654	-2.6%
COSMETICS DIVISIONS TOTAL AFTER NON-ALLOCATED	**3,825**	**17.7%**	**4,333**	**17.8%**	**4,506**	**18.1%**

(1) As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.
(2) Non-allocated items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non-core activities, such as insurance, reinsurance and banking.

Profitability improved significantly in Western Europe gaining 30 basis points to 22.9%.

In North America, profitability strongly increased to 19.6%, representing +70 basis points.

And in the New Markets, profitability fell slightly to 19.7% due to the negative impact of currency fluctuations in Latin America.

Sales of the cosmetics branch by business segment

CONSOLIDATED SALES

				2015/2016 progression	
€ millions	2014	2015	**2016**	Like-for-like	Reported figures
Skincare	6,489	7,190	7,089	1.2%	-1.4%
Make-up	4,751	5,784	6,576	14.9%	13.7%
Haircare	4,449	4,782	4,779	1.8%	-0.1%
Hair colourants	2,860	3,091	3,021	2.4%	-2.3%
Perfumes	2,123	2,376	2,367	1.6%	-0.4%
Other [1]	986	1,067	1,085	2.6%	1.7%
TOTAL COSMETICS SALES	**21,658**	**24,290**	**24,916**	**4.9%**	**2.6%**

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

The Body Shop

RETAIL SALES [1]

					2015/2016 progression	
€ millions	2014	2015	**2016**	2016 Weight	Like-for-like	Reported figures
Western Europe	562.0	595.2	562.0	37.9%	-0.1%	-5.6%
North America	179.1	178.7	167.6	11.3%	-5.0%	-6.2%
New Markets	734.3	785.7	753.1	50.8%	-3.6%	-4.1%
TOTAL	**1,475.3**	**1,559.6**	**1,482.8**	**100.0%**	**-2.5%**	**-4.9%**

(1) Total sales to consumers through all channels, including franchisees and e-commerce.

SALES

€ millions	2014	2015	**2016**	2015/2016 Evolution Like-for-like
Retail sales [1]	1,475.3	1,559.6	1,482.8	-2%.
Retail sales with a comparable store base [2]	1,319.8	1,402.7	1,327.2	-2.8%
CONSOLIDATED SALES	**873.8**	**967.2**	**920.8**	**0.6%**

(1) Total sales to consumers through all channels, including franchisees and e-commerce.
(2) Total consumer sales made by stores and e-commerce websites that were continuously present between January 1st and December 31st, 2016 and the same stores and websites present in 2014 and 2015, and for the same periods for 2014 and 2015, including franchisees.

NUMBER OF STORES

	At 12.31.2015	At 12.31.2016	Change in 2016
Company owned stores	1,134	1,132	-2
Franchisees	1,968	1,950	-18
TOTAL NUMBER OF STORES	**3,102**	**3,082**	**-20**

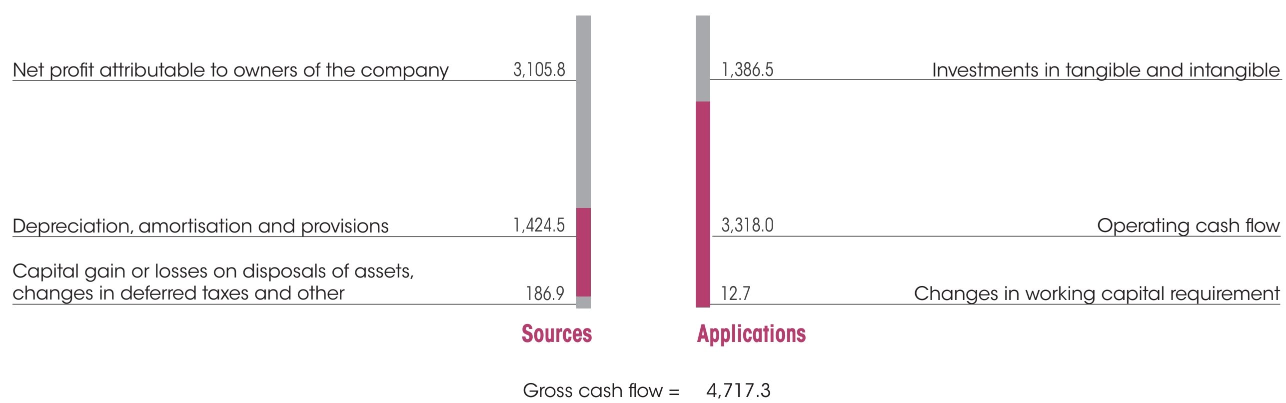
Simplified consolidated income statements

The announcement on February 11th, 2014, of the disposal of 50% of Galderma leads to account for this business in accordance with IFRS 5 accounting rule on discontinued operations. In accordance with IFRS 11 accounting rule, Innéov has been consolidated under the equity method as of January 1st, 2014.

€ millions	12.31.2014	12.31.2015	12.31.2016	% 2016 sales
Sales	**22,532.0**	**25,257.4**	**25,837.1**	**100.0%**
Gross profit	**16,031.3**	**17,980.0**	**18,495.4**	**71.6%**
Research and development	-760.6	-794.1	-849.8	3.3%
Advertising and promotion	-6,558.9	-7,359.6	-7,498.7	29.0%
Selling, general and administrative expenses	-4,821.1	-5,438.6	-5,607.0	21.7%
Operating profit	**3,890.7**	**4,387.7**	**4,539.9**	**17.6%**
Operational profit	**3,583.5**	**4,194.3**	**3,996.1**	
Finance costs excluding dividends received	-24.1	-13.8	-19.3	
Sanofi dividends	331.0	336.9	346.5	
Income tax	-1,111.0	-1,222.9	-1,214.6	
Non-controlling interests	-1.6	-1.1	-2.9	
Net profit attributable to owners of the company	**4,910.2**	**3,297.4**	**3,105.8**	**12.0%**
Non-recurring items (expense +/income -)	-348.7	-192.4	-541.5	
Net profit excluding non-recurring items after non-controlling interests*	**3,125.3**	**3,489.8**	**3,647.2**	**14.1%**
Diluted earnings per share attributable to owners of the company (euros)	8.39	5.84	5.50	
Diluted earnings per share attributable to owners of the company excluding non-recurring items (euros)	5.34	6.18	6.46	

* *Net profit excluding non-recurring items excludes asset depreciations, restructuring costs, tax effects and minority interests of continuing activities.*

Sources and application of funds



Financial ratios

	2014	2015	2016
(% of sales) Operating profit/Sales	17.3%	17.4%	17.6%
(% of shareholders' equity) Net profit excluding non-recurring items after non-controlling interests/Opening shareholders' equity	13.8%	17.3%	15.4%
(% of shareholders' equity) Net gearing (1)	3.3%	n/a	n/a
Gross cash flow/Investments	3.8x	3.8x	3.4x

(1) Net gearing: $\frac{\text{Current and non-current debt – Cash and cash equivalents}}{\text{Shareholders' equity after non-controlling interests}}$

L'Oréal 2010-2016

The announcement on February 11th, 2014, of the disposal of 50% of Galderma leads to account for this business in accordance with IFRS 5 accounting rule on discontinued operations. In accordance with IFRS 11 accounting rule, Innéov has been consolidated under the equity method as of January 1st, 2014. All figures for earlier periods have been restated accordingly.

€ millions	2010	2011 (1)	2012 (1)	2013 (8)	2014 (8)	2015	**2016**
Results							
Consolidated sales	19,496	20,343	21,638	22,124	22,532	25,257	25,837
Operating profit	3,057	3,293	3,558	3,760	3,891	4,388	4,540
As a percentage of consolidated sales	15.7%	16.2%	16.4%	17.0%	17.3%	17.4%	17.6%
Profit before tax excluding non-recurring items	3,305	3,563	3,874	4,056	4,198	4,711	4,867
Net profit excluding non-recurring items after non-controlling interest (2)	2,371	2,583	2,861	3,032	3,125	3,490	3,647
Net profit attributable to owners of the company	2,240	2,438	2,868	2,958	4,910	3,297	3,106
Total dividend	1,082	1,212	1,380	1,507	1,511	1,742	1,868
Balance sheet							
Non-current assets	17,048	19,141	20,903	21,485	23,284	24,458	25,585
Current assets excl. cash and cash equivalents	5,446	6,070	6,096	6,730	6,858	7,854	8,300
Cash and cash equivalents	1,550	1,652	2,235	2,659	1,917	1,400	1,746
Equity (3)	14,866	17,627	20,925	22,651	20,197	23,617	24,504
Net current and non-current debt (4)	41	-504	-1,948	-2,320	671	-618	-481
Gross cash flow	3,171	3,226	3,507	3,758	3,808	4,399	4,717
Per share data (euros)							
Diluted earnings per share attributable to owners of the company excluding non-recurring items (2)	4.01	4.32	4.73	4.99 (5)	5.34	6.18	6.46
Dividend	1.80	2.00	2.30	2.50	2.70	3.10 (6)	3.30 (6)
Share price at December 31st (7)	83.08	80.70	104.90	127.70	139.30	155.30	173.40
Highest share price during the year (7)	88.00	91.24	106.40	137.85	140.40	181.30	177.90
Lowest share price during the year (7)	70.90	68.83	79.22	103.65	114.55	133.40	142.65
Diluted weighted average number of shares outstanding (7)	591,392,449	597,633,103	605,305,458	608,001,407	585,238,674	564,891,388	564,509,135

(1) The 2011 and 2012 balance sheets have been restated to allow for the change in accounting method relating to revised IAS 19.
(2) For 2012, 2013, 2014 and 2015 it is the net profit from continuing operations.
(3) Plus non-controlling interests.
(4) The net cash surplus is €504 million in 2011, €1,948 million in 2012, €2,320 million in 2013, €618 million in 2015 and €481 million in 2016.
(5) Net profit to owners of the company per share, excluding non-recurring items, published on December 31st, 2013 was €5.13.
(6) Dividend proposed to the Annual General Meeting of April 20th, 2017.
(7) The L'Oréal share has been listed in euros on the Paris Stockexchange since January 4th, 1999, where it was first listed in 1963. The share capital is €112,371,148.20 at December 31st, 2016; the par value of one share is €0.2.
(8) The balance sheets at December 31st, 2013 and December 31st, 2014 have been restated to reflect the change in accounting policies on recognition of levies resulting from the application of IFRIC 21.

1.3.1.4. Significant, recent events and prospects

Significant events of 2016

- On January 4th, 2016, L'Oréal USA announced the acquisition de Raylon Corporation, a full-service wholesale distributor of salon professional products. The acquisition expands the SalonCentric distribution network and extends coverage of American hair salons.
- Between February 15th and March 18th, 2016, L'Oréal purchased 3,202,500 of its own shares for the purpose of their cancellation, in accordance with the authorisation approved by the Annual General Meeting of April 22nd, 2015, and with the decision of the Board of Directors of February 11th, 2016.
- On April 18th, 2016, L'Oréal announced the appointment of Mr Alexis Perakis-Valat as President Consumer Products Division, to replace Mr Marc Menesguen who retired at the start of 2017. Mr Jochen Zaumseil replaces Mr Perakis-Valat as Executive Vice-President Asia, Pacific Zone. Mr Vianney Derville replaces Mr Zaumseil as Executive Vice-President Western Europe Zone. The appointments were effective from September 1st, 2016.
- On April 20th, 2016, the Annual General Meeting of L'Oréal shareholders appointed two new Directors: Mrs Béatrice Guillaume-Grabisch and Mrs Eileen Naughton; and renewed the tenure as Director of Mr Jean-Pierre Meyers, Mr Jean-Victor Meyers and Mr Bernard Kasriel.
- On April 20th, 2016, the Board of Directors' meeting, held at the close of the Annual General Meeting, decided, pursuant to the authorisation voted by the Annual General Meeting on the same day, on the cancellation of 3,202,500 shares acquired within the scope of the share buyback programme decided by the Board of Directors on

February 11th, 2016. The shares were cancelled on June 30th, 2016. The share capital of L'Oréal as of June 30th, 2016, amounted to 112,182,708 euros, divided into 560,913,540 shares with a par value of 0.2 euro each.

- On June 30th, 2016, L'Oréal announced the signing of an agreement to acquire Atelier Cologne, which specialises in niche perfumery and is sold in selected retailers. This brand will complement the L'Oréal Luxe brand portfolio. This acquisition was completed on July 25th, 2016.
- On July 13th, 2016, L'Oréal made a firm offer to the Rivadis group for the acquisition of Société des Thermes de Saint-Gervais-les-Bains and the licence of the Saint-Gervais Mont Blanc brand. The municipality of Saint-Gervais-les-Bains granted its consent on August 3 rd. The acquisition was completed on 2 November 2016.
- On July 21st, L'Oréal inaugurated a new Research and Innovation Centre in Johannesburg, dedicated to the specific properties of African skin and hair, and to the beauty rituals and expectations of consumers in Sub-Saharan Africa.
- On July 22nd, L'Oréal announced the signing of a definitive agreement to acquire IT Cosmetics, one of the fastest growing prestige beauty brands in the United States, for a cash purchase price of 1.2 billion US dollars. The acquisition was finalised on August 31st, 2016.
- On October 25th, 2016, for the fourth consecutive year, L'Oréal has been recognised in the annual CDP rankings. This year, L'Oréal was awarded the best possible score, an A rating, in each field of environmental protection: combating climate change, sustainable water management and preventing deforestation.
- On December 27th, 2016, L'Oréal announced a strategic investment in the early stage fund Partech International Venture VII managed by Partech Ventures, a venture capitalist firm headquartered in Paris. This investment complements L'Oréal's comprehensive strategy to connect to the world's hottest startup scenes and to participate in the financing of the most promising early stage digital businesses.

Significants events that have occurred since the beginning of 2017

On January 10, 2017, L'Oréal announced the signing of a definitive agreement with Valeant to acquire the skincare brands *CeraVe*, *AcneFree* and *Ambi* for a cash purchase price of 1.3 billion US dollars. The three brands *CeraVe*, *AcneFree* and *Ambi* have annualised combined revenue of approximately 168 million US dollars.

2017 Prospects

The fundamentals of L'Oréal are unique advantages in the bright new world of beauty that is emerging: clearly defined mission and strategy, highly engaged expert teams, a global flotilla of emblematic brands, a long-haul investment in research and innovation, a critical engagement in digital, a unique, flexible and agile organisation, and a strong entrepreneurial culture.

In an economic context that is still volatile and uncertain, L'Oréal is confident that it will once again outperform the beauty market in 2017 and achieve another year of sales and profit growth.

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

L'Oréal is an industrial company which develops chiefly through two types of investment:

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see in particular section 1.2.5. and section 1.2.6.);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities in the cosmetics industry. To capture new market share, in-depth research must be conducted all over the world, and advertising and promotional expenses need to be attuned to the familiarity of the brands and their competitive position. Lastly, investments in point-of sale (POS) advertising materials ensure optimal presence for our brands in points of sale.

For reasons relating to strategy and competition, L'Oréal cannot therefore provide any systematic information on future investments.

In 2016, the Group's investments totalled €1,386 million, or 5.4% of its sales. This level reflects the Group's constant efforts in terms of improving industrial efficiency, research and digital development performance and enhancing brand value.

Investment commitments in 2016 can be broken down as follows:

- production and the supply chain represent approximately 26% of total investments;
- marketing investments, including moulds, POS advertising materials and stores account for 44%;
- IT investments spread over all these categories represent 18% of total investments.
- research and the head offices in different countries account for the remainder.

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

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

1.3.2. CONSTANT, SHARED GROWTH

Priority to human capital

L'Oréal has always been guided by humanist values that have led it to place the individual and talent at the very heart of its organisation. As its founder, Eugène Schueller affirmed with conviction "a company is not walls and machines but men, men and more men."

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

The Group's human and social project revolves around two priorities: the first is individual performance development of employees and future leaders and the second is social performance.

L'Oréal has always targeted constant, sustainable growth.

Since its very beginnings, the Group has been committed to developing its presence in all regions of the world by applying the fundamental rules of a good corporate citizen. The products offered to consumers meet the highest quality standards; the Group's social commitments are the same in all its subsidiaries; all production centres comply with the same rules aimed at reducing their environmental footprint. Social audits are carried out at the suppliers of plants and distribution centres.

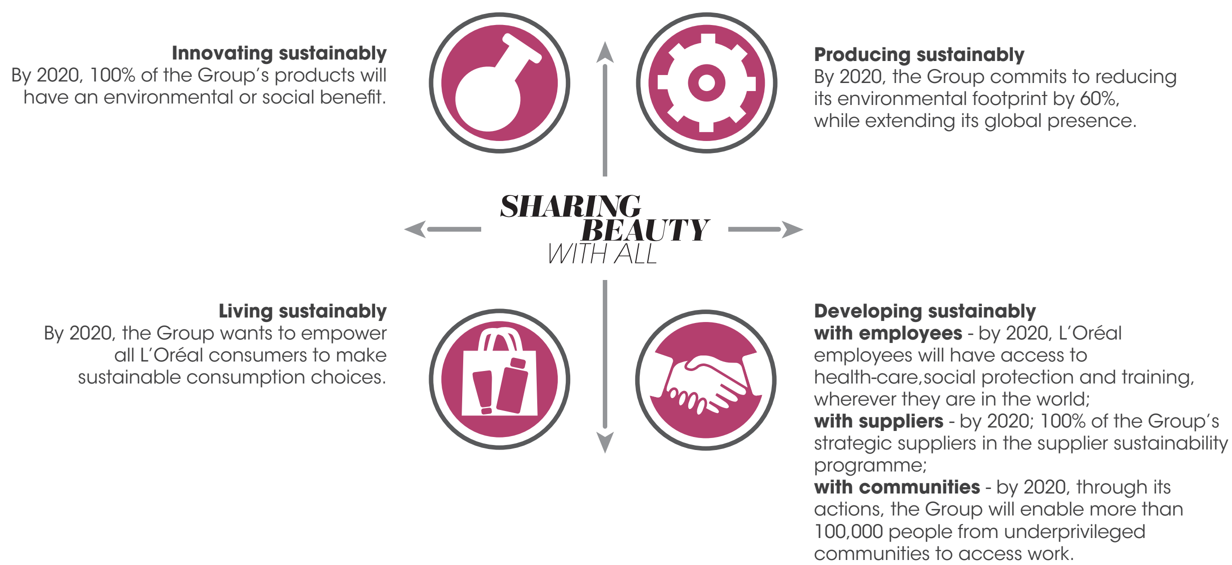
Each subsidiary participates, as far as its resources allow, in the major programmes of the L'Oréal Foundation, particularly *For Women in Science* and *Beauty for a Better Life* or the Group's corporate philanthropy projects like *Hairdressers against AIDS* (see chapter 3). Above and beyond its solid long-term economic performances, the Company seeks to be exemplary and sets itself demanding standards in order to limit its environmental footprint. In October 2013, all the L'Oréal Group's Sustainable Development commitments were formally provided for and structured at a strategic level within the scope of the *Sharing Beauty With All* programme.

Sharing Beauty With All

The *Sharing Beauty With All* programme presents the targets that the Group has set itself for 2020 with the aim of reducing its environmental impact and increasing its social commitments, while sharing its growth with the surrounding communities. Every year, L'Oréal reports on its strategy and its results transparently and giving figures *via* performance indicators. A panel of independent international experts called the *Panel of Critical Friends* meets once a year to review progress made and take a critical look at the actions taken and suggest improvements.

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

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



Sharing growth

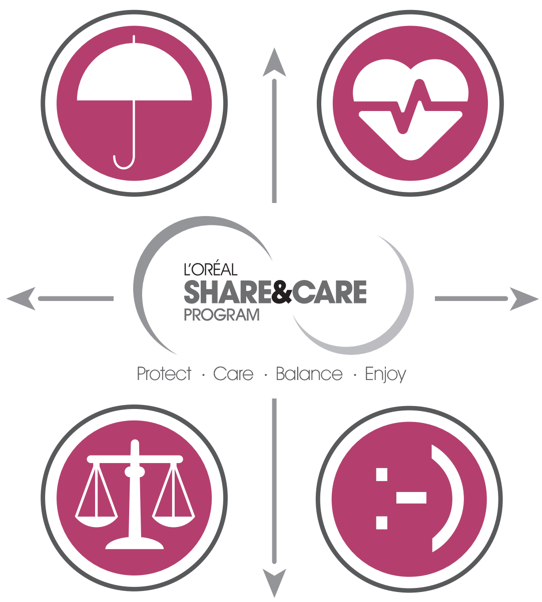
Sharing growth with its stakeholders is one of L'Oréal's priorities. In this spirit, the Group applies its vision of responsible corporate citizenship with its employees, its suppliers and the communities with which it interacts.

... with the employees

The L'Oréal *Share & Care* program is a large-scale social programme initiated at the end of 2013. It consists of commitments revolving around 4 pillars put in place in all countries: social protection, healthcare, parenthood and quality of life at work.

Protect
Providing employees with effective support particularly of a financial nature in the event of unexpected life events

Care
Providing employees and their families with access to a high-quality healthcare system which is one of the top performers on the local market



Balance
Enabling all employees to live important life moments to the full, such as maternity and paternity, while pursuing their careers

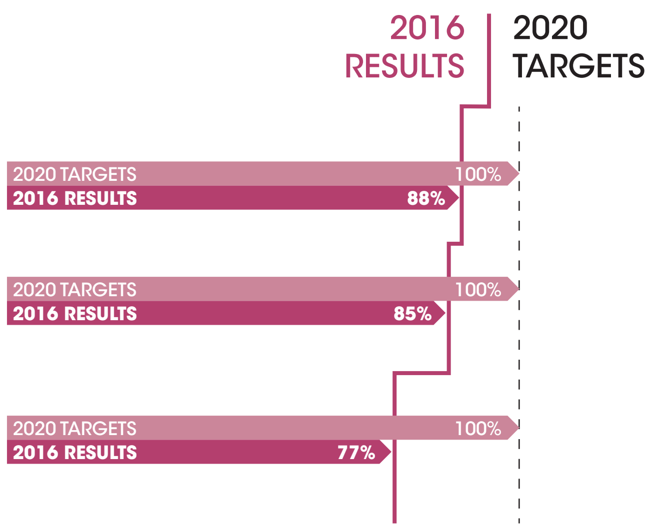
Enjoy
Offering high standards of quality of life at work to all the Company's employees.

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

88% of the Group's permanent employees have access to healthcare reflecting best practices in their country of residence (1).

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 (1).

77% of the Group's employees attended at least one training session in 2016 (2).



(1) *Calculated on a Total Group basis (Cosmetic Divisions and The Body Shop)*
(2) *All figures related to a global Group basis.*

... with suppliers

"By 2020, 100% of the Group's strategic suppliers will be participating in our supplier sustainability programme."

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

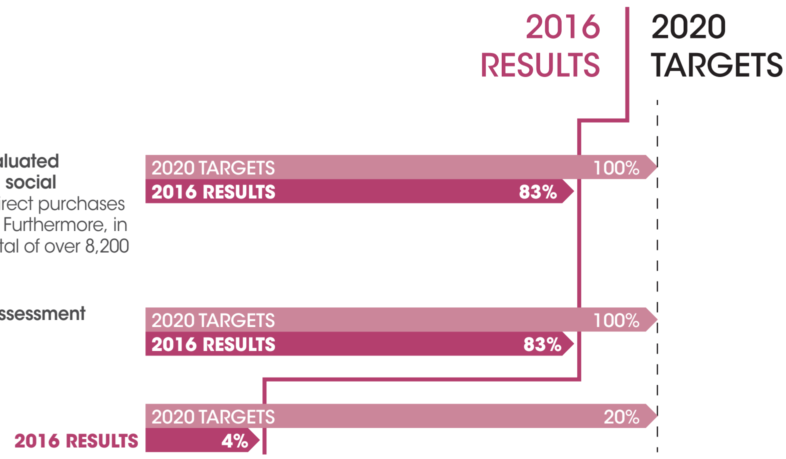
Following on from the responsible purchasing policy it has implemented since 2002 known as the L'Oréal *Buy & Care* programme, the *Sharing Beauty With All* programme has enabled the Group to associate its suppliers more with its CSR initiatives by developing a twofold approach:

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

83% of the Group's strategic suppliers have been evaluated and selected on the basis of their environmental and social performance. They represent more than 74% of total direct purchases (raw materials, packaging items and subcontracting). Furthermore, in 2016, 1,187 social audits were carried out, making a total of over 8,200 since 2006.

83% of strategic suppliers [1] have completed a self-assessment of their sustainability policy with the Group's support.

4% of strategic suppliers [1] are associated with the Group's Solidarity Sourcing programme.



[1] *Strategic suppliers are suppliers whose added value is significant for the Group by contributing sustainably to L'Oréal's strategy by their weight, their innovations, their strategic alignment and their geographical deployment. 80% of the amount of direct purchases will ultimately be covered by this approach. The portfolio of suppliers will therefore solely consist, in 2020, of suppliers with the best CSR results: new suppliers selected on their performances and longstanding suppliers whom the Group continues to use as they are some of the best.*

... with the communities

"By 2020, the Group will enable more than 100,000 people from socially or financially deprived communities to access work through its actions."

Due to its large number of purchasing programmes and its many industrial and administrative sites all over the world, L'Oréal makes a contribution to many local projects. As a general rule, the Group's establishments and its subsidiaries build good relationships with the communities in the areas in which they operate, and make every effort to share their growth.

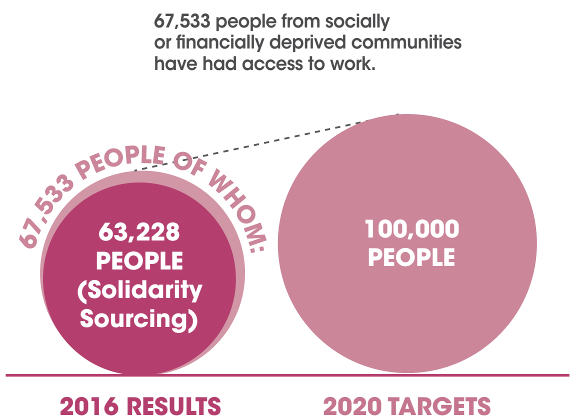
This ambition led to a commitment in the *Sharing Beauty With All* programme: enabling over 100,000 people from socially or financially deprived communities to access work by 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

To achieve this target, L'Oréal has implemented various programmes: professional training for people in highly vulnerable situations, the inclusion of persons with disabilities or the deployment of *Solidarity Sourcing* projects.

Solidarity Sourcing

In 2010, L'Oréal created *Solidarity Sourcing*, a global responsible purchasing programme which aims to open up the Group's calls for tenders to companies that employ people from economically vulnerable communities in order to enable them to have durable access to work and to income, as well as to companies that traditionally do not have access to the large calls for tenders of multinational companies.

Within this framework, the purchasers work in partnership with the representatives of the *Sharing Beauty With All* programme located in each country.



Towards more sustainable consumption behaviors

Finally, L'Oréal wants to offer its consumers the possibility to make sustainable consumption choices. To this end, L'Oréal mobilises all its brands, for all Divisions confined, around two main levers of action:

- **Assessment and improvement of their environmental and social footprint:** L'Oréal's laboratories, alongside the Development & Packaging teams and the RSE team, carry out analyses of the portfolio of formulas and packaging of each of the Group's brands. Target: defining a sustainable innovation plan, which identifies drivers for improvement with regard to every one of its ranges and every one of its products and sets out an action plan. In 2016, this work was carried out with 89.6% of the Group's brands.
- **Engagement alongside consumers:** conscious of the ability of its brands to mobilise their stakeholders – business partners, customers, consumers, the general public – around today's major environmental and social causes, the L'Oréal Group pledged that everyone would identify a cause that they personally want to defend and undertake campaigns to raise awareness. In 2016, 46.2% of the brands conducted this type of action. Furthermore, since 2013, L'Oréal conducts quantitative and qualitative studies to gain a better understanding of what its consumers want and to identify the most engaging manner to get them involved in Sustainable Development issues in the cosmetics sector. And, for the first time in 2016, the Group held a consumer sustainability panel to share with them its commitments and its results to date, and to get feedback and receive suggestions for improvements.

1.4. AN ORGANISATION THAT SERVES THE GROUP'S DEVELOPMENT

The Group's organisation responds to a dual challenge: pursuing the strategy which has enabled L'Oréal to be successful over the last century and at the same time inventing the new L'Oréal of the 21st century, perfectly matched to an ever-changing world.

1.4.1. L'ORÉAL S.A.

L'Oréal S.A. is a French company with its registered office in France, which carries out a commercial business activity specific to that country. In parallel with this, L'Oréal S.A. acts as a holding company and has a role firstly of strategic coordination and secondly of scientific, industrial and marketing coordination for the L'Oréal Group on a global basis.

The subsidiaries develop the Group's business activities in the country or region in which they are located. In this respect, they manufacture – or have manufactured – and commercialise the products that they decide to sell on their market.

Almost all of the subsidiaries are owned by L'Oréal S.A., which has a holding or control percentage equal or close to 100% (1). The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements.

1.4.2. OPERATIONAL DIVISIONS

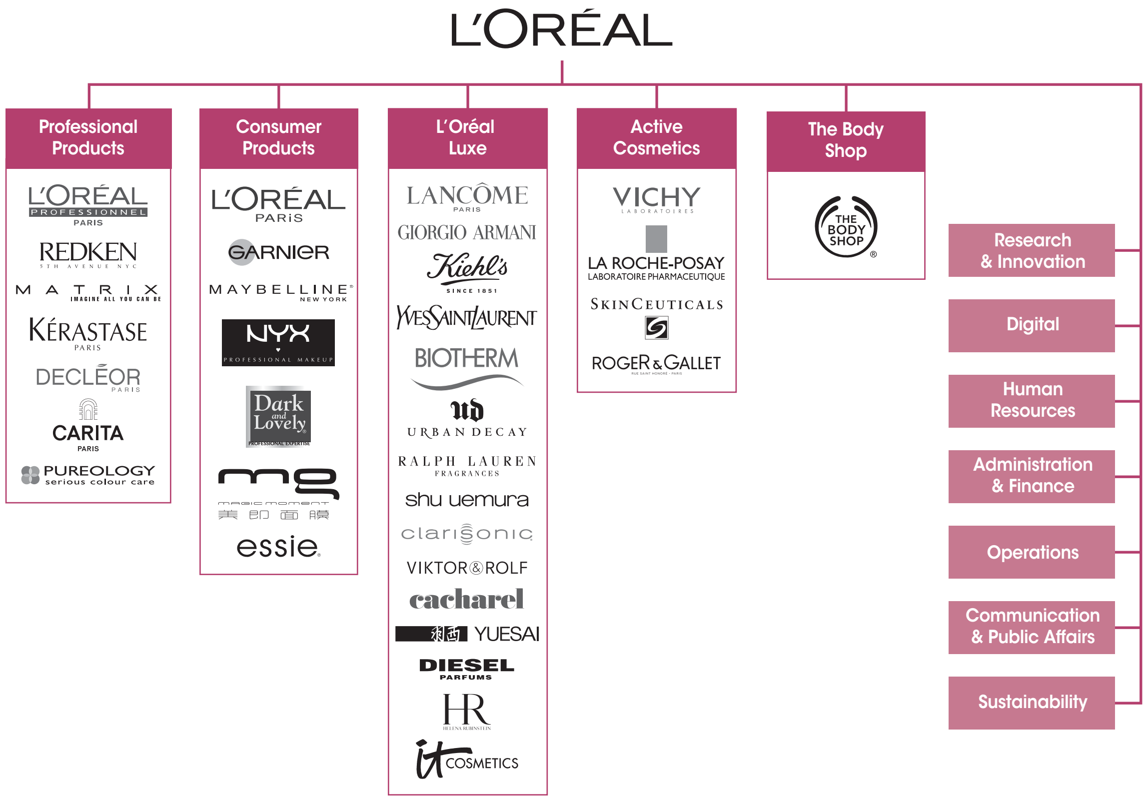
The Cosmetics Divisions represented over 96% of consolidated sales in 2016 and are organised into four operating Divisions present in every zone and in every country, each of which corresponds to a specific marketing channel.

- **The Professional Products Division**'s task is to offer the best of professional beauty. It has built up a unique brand portfolio (Kérastase, L'Oréal Professionnel, Redken, Matrix, Decléor, Carita and Pureology) in all its historical business categories (haircare, hair colours, styling and shaping).
- **The Consumer Products Division** has the ambition of providing innovative cosmetics that are affordable for all. It has built its development around the deployment of its main global brands (L'Oréal Paris, Garnier, Maybelline, NYX Professional Makeup), supported by several specialist or regional brands (Essie, Dark and Lovely, Niely Cosmeticos, Nice & Lovely, Vogue, Magic, LaSCAD brands: Dop, Narta, Mixa, etc.).
- **L'Oréal Luxe** creates exceptional experiences and products, for the most demanding consumers. It develops in a large number of countries a unique portfolio of prestigious brands, including iconic mainstream, aspirational or alternative or specialist brands (Lancôme, Yves Saint Laurent, Kiehl's, Giorgio Armani, Urban Decay, Ralph Lauren, Biotherm, IT Cosmetics, Cacharel, etc.).
- The aim of the **Active Cosmetics Division** is to help everyone in their quest for healthy and beautiful skin. With the help of a portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals, Roger&Gallet), strongly anchored in science and enjoying close links with healthcare professionals all over the world, the Active Cosmetics Division is a leader in dermocosmetics.

Founded in 1976 in Great Britain by Dame Anita Roddick, The Body Shop Branch represented 3.6% of consolidated sales in 2016. The mission of this strongly committed brand is to have a positive impact on the lives of men and women of all origins, by offering sensorial products combining efficacy with a natural inspiration.

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

SIMPLIFIED ORGANIZATION CHART



Travel retail is a fast-growing channel that conveys an image. Already the leader in travel retail, the Group created the Travel Retail Worldwide Division, including multi-division activities. This Division's ambition is to continue to develop travel retail supported by a "global shopper" strategy: a bespoke approach tailored according to language, culture and beauty rituals, enabling the Group to respond to the aspirations of this new generation of travellers.

1.4.3. SUPPORT DEPARTMENTS

Several specialist corporate departments provide their expertise and support to the Operational Divisions and to the other business activities:

L'ORÉAL

- **Research and Innovation** – **The Corporate Research and Innovation Department** is responsible for advanced and applied research;
- **Digital** – **The Corporate Digital Department** seeks to accelerate the Group's digital transformation by helping the brands to create enriched spaces for expression and helping the teams to build more interactive, personalised and closer relationships with consumers, while taking advantage of the business development opportunities offered by Digital as a distribution channel.
- **Operations** – The **Corporation Operations Department** contributes to the Group's growth, from the design of packaging, sourcing and production through to the distribution of the Group's products thanks to an integrated value chain, aimed at guaranteeing consumers all across the world compliance with strict quality, safety and societal and environmental responsibility standards.
- **Human Resources** – **The Corporate Human Resources Department** is in charge of recruitment, training and talent development policies and of coordinating social policy.
- **Administration et Finance** – **The Corporate Administration and Finance Department** takes responsibility for the Group's financial policy, management and consolidation, information systems and legal and tax co-ordination, as well as financial reporting, investor and shareholder relations and strategic planning.
- **Communication and Public Affairs** – The **Corporate Communication and Public Affairs Department** is responsible for coordinating corporate communication and coordinating communication by the Divisions and brands.
- **Sustainable Development** – The **Corporate Sustainability Department** is in charge of the Group's Sustainability policy through its Sharing Beauty With All programme.

The Group's international development has naturally meant that L'Oréal has had to adapt its organisation to the need to coordinate the establishment and development of its brands on every continent.

Various geographical zones have been created for this purpose, each with operational responsibility for the subsidiaries based in the countries of its region:

- Western Europe Zone;
- Americas Zone;
- Asia, Pacific Zone;
- Eastern Europe Zone;
- Africa, Middle East Zone.

1.4.4. MEMBERS OF L'ORÉAL'S EXECUTIVE COMMITTEE

The Executive Committee, L'Oréal's top executive management body, puts into practice the strategic orientations defined by the Board of Directors and directs L'Oréal's business activities all over the world. Its members head the Operational Divisions, the Corporate Functional Departments and the geographic zones, reflecting the complementarity of the Group's expertise.

First name/Last name	Position
Jean-Paul Agon	Chairman and Chief Executive Officer
Laurent Attal	Executive Vice-President Research & Innovation
Vianney Derville	Executive Vice-President Western Europe Zone
Nicolas Hieronimus	Vice President President, Selective Divisions
Barbara Lavernos	Executive Vice-President Operations
Brigitte Liberman	President Active Cosmetics Division
Isabelle Marey-Semper	Executive Vice-President Communication and Public Affairs
Christian Mulliez	Executive Vice-President Chief Financial Officer
Alexis Perakis-Valat	President Consumer Products Division
Alexandre Popoff	Executive Vice-President Eastern Europe and Africa, Middle East Zone
Lubomira Rochet	Chief Digital Officer
Nathalie Roos	President Professional Products Division
Frédéric Rozé	Executive Vice-President Americas Zone
Jérôme Tixier	Executive Vice-President Human Resources and Advisor to the Chairman
Jochen Zaumseil	Executive Vice-President Asia, Pacific Zone

1.5. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Group operates in a constantly changing environment and like any company, L'Oréal is necessarily exposed to risks which could have a negative impact for it if they were to materialise.

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity.

L'Oréal's risk management consists in identifying, 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.

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is to enable the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's businesses.

In L'Oréal, Internal Control is a system that applies to the Company and its consolidated subsidiaries ("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.

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. At L'Oréal, it forms part of a culture of rigour and commitment communicated by senior management and is also in line with the Group's strategic choices.

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

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

See also Chapter 2, 2.8. Risk factors and control environment.

2

Corporate governance*

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* *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.

2.1.2. 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.

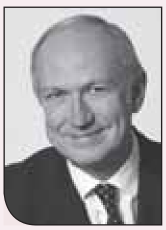
At December 31st, 2016, the Board of Directors comprises 15 members:

- 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

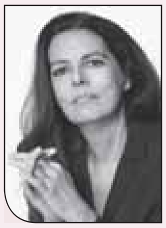
French
Age: 60
With the L'Oréal Group since 1978, after an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, President 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

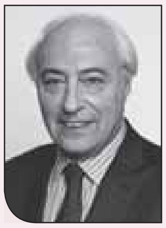
Austrian
Age: 72
Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal since 1997, and is Vice-Chairman of the Board of Directors. He is a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human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

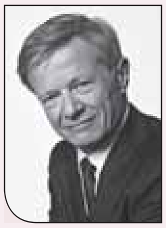
French
Age: 55
Chairwoman of the Board of Directors at Sodexo which she joined in 1994, after a career in the United States in finance, as a Mergers & Acquisitions advisor, then in the fashion sector as an agent for major international brands, Sophie Bellon has been a Director of L'Oréal since 2015 and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

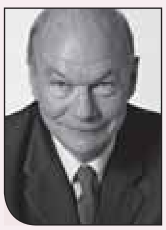
BÉATRICE GUILLAUME-GRABISCH

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.

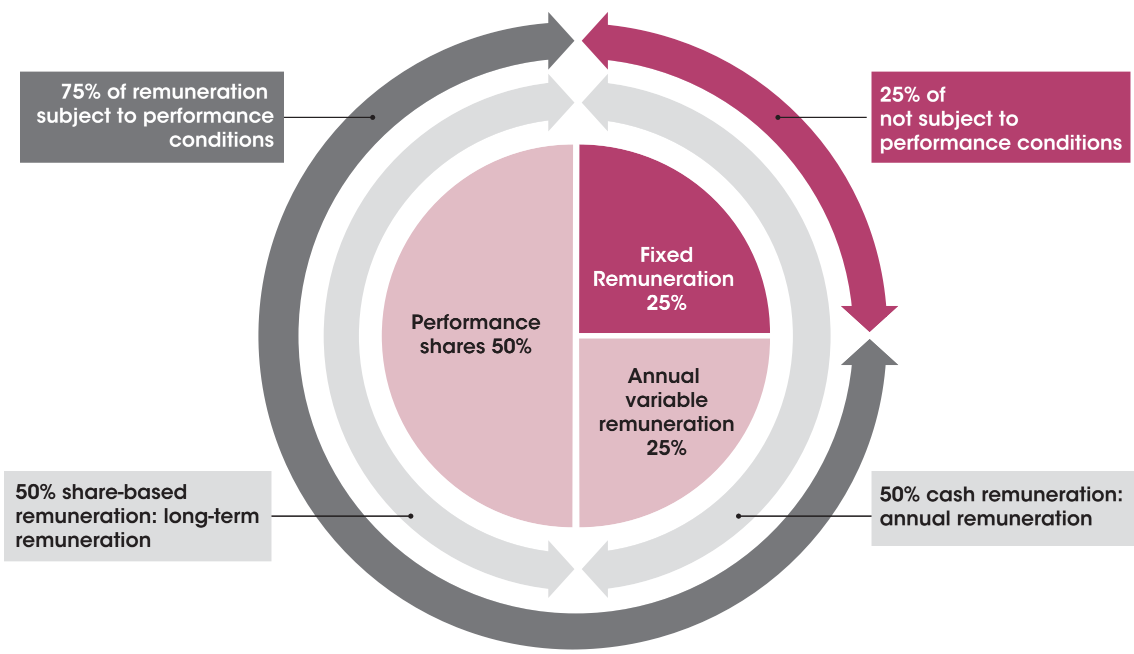
The Board of Directors adopts the various components of this remuneration, paying attention to the necessary balance between each of them.

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).

2

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

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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).

2

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.	The Group deals primarily with international banks and insurance companies which have the best ratings from the three main specialised rating agencies.
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.	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

3

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

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** 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.*

At the end of 2013, the Group presented its Sustainable Development commitments for 2020; through the *Sharing Beauty With All* programme. This public announcement testifies to L'Oréal's ambition and the strong commitment of its management and all its teams to build and ensure sustainable growth.
L'Oréal has a solid sustainable development legacy. This chapter describes the L'Oréal Group's corporate social, environmental and societal policies while also reporting on the progress made within the scope of the *Sharing Beauty With All* programme.

Introduction

L'Oréal's ambition is to win one billion new consumers by developing a universalisation strategy to respond to the specific beauty needs of men and women all over the world. The Group's growth strategy is partly based on its commitment to decouple its growth from its consumption of natural resources and its emissions, and to involve consumers, who are at the heart of its business activities, by offering them products which are both sustainable and aspirational, thus inciting them to make sustainable choices.

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. 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. Every year, L'Oréal reports on the progress made and its achievements in its Registration Document, in the *Sharing Beauty With All* Progress Report and through the Annual Reporting with regard to the United Nations Global Compact which L'Oréal has supported for over 10 years.

EFFORTS THAT HAVE BEEN RECOGNISED AND REWARDED

In 2016, like in previous years, L'Oréal was acclaimed by the most demanding organisations in this field, and in particular:

- the extra-financial rating agency Vigéo Eiris ranked the Group No. 1 in its business sector;
- for the fifth year running, the extra-financial rating agency Oekom Research AG gave L'Oréal *Prime* status, which is awarded to the top-performing companies;
- the CDP, an independent international NGO that assesses the efforts made by companies to measure, report and reduce their greenhouse gas emissions, gave L'Oréal a triple "A", representing the top score, for each of the ratings made on key topics: the fight against climate change, sustainable water management and the protection of forests. Only two companies in the world obtained this triple A score in 2016.

The Group's good performances mean that it is regularly included in the indices requiring the highest standards:

- extra-financial rating agency Ethibel's Sustainability Indices Excellence Europe and Excellence Global;
- the Euronext-Vigéo indices which highlight the top performing companies in the areas of the environment, corporate social responsibility and governance. These indices are revised twice a year.

3

3.1. THE L'ORÉAL GROUP'S CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL POLICIES

3.1.1. A GROUP WITH A LONGSTANDING COMMITMENT

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

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

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

1996
- Creation of the **Instance Européenne de Dialogue Social/European Works Council**

1998
- Launch of the **"L'Oréal – UNESCO For Women in Science"** international programme

2000
- Publication of the Group's **1st Code of Ethics**

2001
- Implementation of the **Worldwide Profit Sharing Program – WPS**
- L'Oréal joins the **World Business Council for Sustainable Development**

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

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

2004
- 1st **Diversity Leadership Award** presented to L'Oréal by Diversity Best Practices
- Publication of the first **diversity charter** and the Group's first **sustainable development report**

2005
- L'Oréal receives the **Anti-Defamation League's International Leadership Award**
- L'Oréal's Professional Products Division and UNESCO sign a **cooperation agreement for education in AIDS prevention**

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

2007
- Creation of Citizen day
- Creation of the **L'Oréal Corporate Foundation**

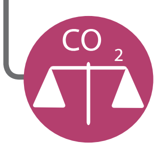
2009
- L'Oréal pledges to **reduce CO_2 emissions, waste generation and water consumption by 50%** at its factories and logistics centres by 2015
- First participation in the **CDP supply chain** for 2008

2010
- Creation of a global Solidarity Sourcing programme
- 1st European **gender equality label**, the Gender Equality European Standard (GEES) awarded to 8 of the Group's entities

2013
- Launch of the **Sharing Beauty With All** programme
- Launch of the **Share & Care** programme
- Listing on the **United Nations Global Compact 100** stock index

2014
- Signature of the **Women's Empowerment Principles**, a United Nations initiative to promote gender equality
- Launch of the **Carbon Balanced** programme

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



2016
- **Triple "A"** from the CDP
- 1st **Palm Oil Progress Report**

3.1.2. THE L'ORÉAL GROUP'S HUMAN RESOURCES POLICY

L'Oréal's Human Resources Departments have always had the mission of supporting the Group's growth. In order to be sustainable, this growth relies first and foremost on the men and women in the Company. Built on the strength of this conviction, the Group's social and human project is based on both individual development and collective strength.

A talent incubator

The conviction that everyone's talent makes a difference has always caused the Group to put the human dimension at the centre of its concerns and its development. L'Oréal finds, recruits and develops its employees in a long-term perspective in which training plays a core role throughout the employee's career.

A Human Resources Policy at the service of growth

The Human Resources Departments support L'Oréal's growth objectives, that consist of the following three main priorities: universalisation, digitalisation and corporate social responsibility commitments.

In support of universalisation, meaning globalisation that respects differences, the role of our Human Resources teams is to accelerate the recruitment and development of talents all over the world and to prepare tomorrow's leaders, fostering the emergence of the best local talents in support of the ambition to win one billion new consumers.

The Human Resources teams provide support during all the changes in the Company, its organisation and its businesses. The digital transformation, for example, relies on the recruitment of talented employees with leading-edge expertise and the dissemination of a digital culture at all levels. This transformation also concerns HR practices, in particular with regard to recruitment, which is now largely digital, and also employer communication.

A leader in social innovation

For L'Oréal, there can be no sustainable economic growth without social progress. Throughout its history, the Group has set itself the target of offering an environment in which everyone can reveal their talents, improve and thrive.

To this effect, as part of the targets for 2020 under the *Sharing Beauty With All* programme, L'Oréal has also made the commitment that every employee will have access to training wherever they are in the world.

Furthermore, the L'Oréal *Share & Care* program, launched in 2013 and now implemented at all the Group's subsidiaries, is yet another stage in a long tradition of social progress. L'Oréal's *Share & Care* program now offers employees in all the countries where the Group is present the same minimum set of social benefits in the areas of healthcare and social protection but also parenthood and the quality of life at work. It also encourages each subsidiary to launch its own initiatives to meet local expectations. This novel programme is yet another illustration of L'Oréal's pioneering role in the field of social innovation.

3.1.2.1. Recruiting and supporting talents

The Group constantly strives to enhance its pool of talents, in all countries.

It conducts a diversified recruitment policy, which is based on several recruitment channels, including partnerships with the best educational institutions in the world or its student competition (*Brandstorm*), which attract tens of thousands of students from all over the world every year.

L'Oréal also develops its own selection methods to recruit the best talents, those who best represent the diversity of cultures, capable of expressing the different aspirations of consumers all over the world, from among the million spontaneous applications received every year.

Finally, the proactive approach offered by social networks makes it possible to further diversify and enrich the sources of job applications for the Group.

In parallel with this approach, L'Oréal has developed digital employer communication aimed at sharing, daily and transparently, the rich variety of its professions and jobs and the diversity of its career paths, and making it possible, as an underlying objective, to understand the Group's culture.

L'Oréal is recognised as one of the most attractive companies in the world for young graduates and one of the companies that provide the most training with regard to leadership [1].

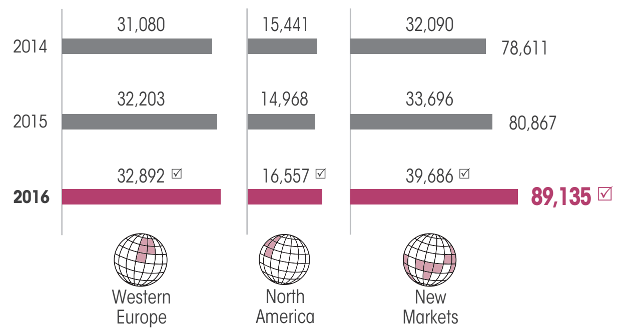
(1) Source: Universum 2016.

In all the countries in which L'Oréal is present, the objective pursued is to develop a lasting relationship with each new employee. Building a personalised induction process makes it possible to give everyone the keys to success within the Group, both from an operational standpoint and with the desire to share the corporate culture. Rapid, stimulating career paths allow everyone to develop their talent and make it possible to increase competitiveness and innovation and to pursue the Company's geographical expansion.

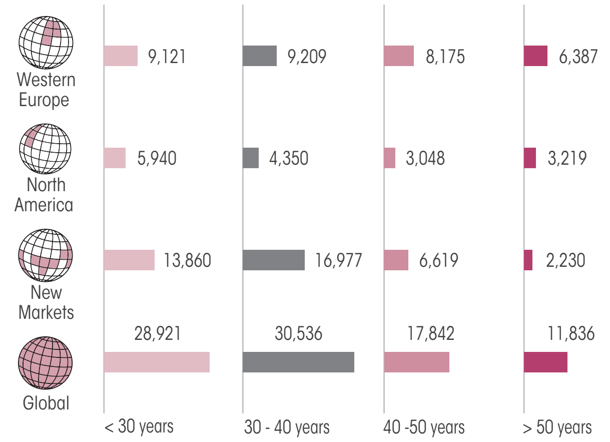
13,999 employees hired on permanent contracts in 2016
(excluding The Body Shop)

Distribution of workforce [(1)]

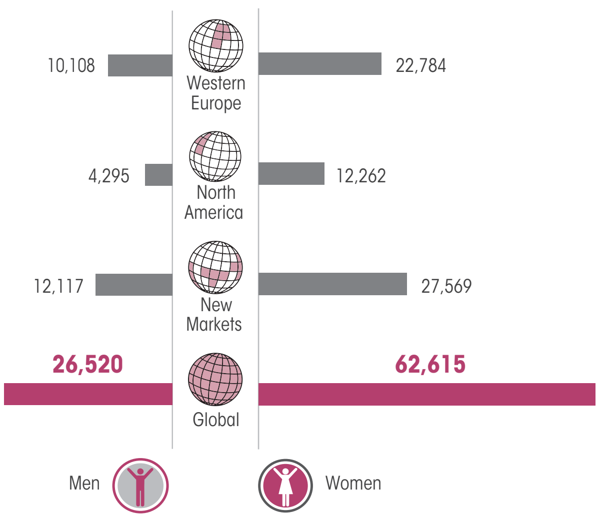
BY GEOGRAPHIC ZONE



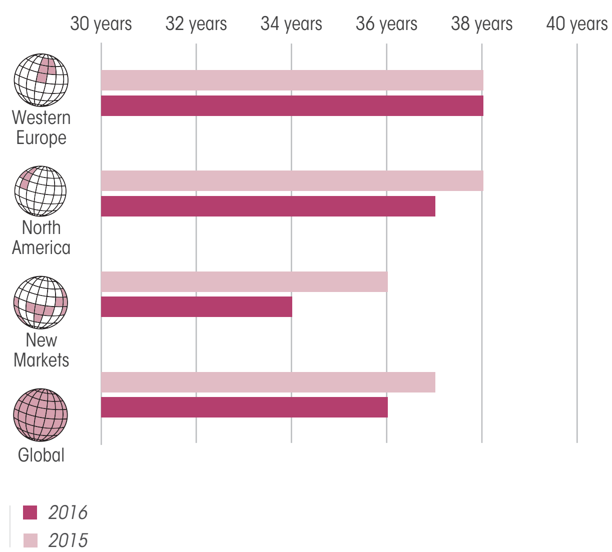
BY AGE GROUP



BY GENDER



AVERAGE AGE BY GEOGRAPHIC ZONE



(1) *Excluding recent acquisitions. See methodological note §3.3.3.1.*
☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.*

NUMBER OF DEPARTURES

	2014	2015	2016
Number of departures: (resignations, agreed terminations, dismissals) (permanent contracts) – excluding The Body Shop	9,611	10,068	10,498
Number of dismissals (permanent contracts) – excluding The Body Shop	2,314	2,386	2,589

To achieve the objective of sustainable growth which is the best guarantee it can offer its employees, L'Oréal has to continually adapt to its environment. This may lead to restructuring, particularly in light of the current difficult economic climate. Nevertheless, any decision that may affect the working life and jobs of employees is made after in-depth consideration and is the subject of clear, regular communication with regard to employees and an ongoing dialogue with the employees themselves and their representatives, in accordance with L'Oréal's values of integrity and transparency.

ABSENTEEISM RATES

Total absenteeism rate (%)	4.38%	B/(A+B)
Absenteeism rate related to diseases (% of total absenteeism)	2.15%	C/(A+B)

(A) Number of days actually worked by all statutory employees, including training days.
(B) Number of days of absence (sick leave, occupational diseases, maternity leave, accidents in the workplace and/or travel-to-work accidents or any other absence not provided for by contract).
(C) Number of days of sick leave (excluding occupational diseases, maternity leave, work-related accidents and/or travel-to-work accidents).

3.1.2.2. Priority given to employee training throughout their careers

Within the scope of the Group's universalisation strategy, the mission of the *Learning* teams is to contribute to L'Oréal's competitive advantage by developing talents, by anticipating the skills required to enable the Group to remain one step ahead, by accompanying the Company's transformations and by ensuring the cohesion of the teams all over the world through dissemination of the corporate culture.

L'Oréal has always considered the development of its employees as one of the main drivers of its performance and its transformation. This postulate has now acquired a universal dimension. To prepare tomorrow's leaders, the Group's ambition is to provide all its employees throughout the world with the best possible response in terms of training.

The vision of Learning for all

For L'Oréal, *Learning for all* is a question of social responsibility. Therefore, within the scope of the *Sharing Beauty With All* programme, L'Oréal made the commitment that by 2020, every employee will have access to training wherever they are in the world.

77% of the Group's employees
followed at least one training course in 2016

To achieve the ambition of *Learning for all* aimed at enabling the largest possible number of employees to develop, L'Oréal has set up a training system open to everyone without distinction as to employee professional level, jobs or countries. This system makes it possible to:

- promote the global dissemination of the corporate culture and the integration of new employees;
- help to develop each person's potential;
- accelerate the transmission of know-how and develop strategic professional skills.

MYLEARNING.COM: A PORTAL DEDICATED TO EMPLOYEE TRAINING

My Learning

The mylearning.com portal aims to offer a whole range of innovative development resources to the largest possible number of employees, for continuous interactive learning that is accessible at any time. The portal exists in 11 languages and is deployed in all the countries in which L'Oréal is present.

Whatever their job, their duties or their country, all employees are encouraged to be active agents of their own development. The mylearning.com portal offers a wealth of more than 7,000 pedagogical resources, organised around the following 3 objectives:

1. Communication of the knowledge related to L'Oréal's core business (marketing, sales, operations, research and innovation, etc.);
2. Managerial development (leadership, collaborative networking, agility, etc.);
3. Support for all the international programmes concerning responsible business conduct (ethics, *Sharing Beauty With All*, antitrust law, information security, etc.).

A new possibility offered in 2016: employees can now follow MOOCs (Massive Open Online Courses) thanks to the pioneering partnership signed with the leader Coursera. Through this arrangement, over 150 universities all over the world offer certificate courses. Students consider the possibilities offered by these courses as excellent, they appreciate the freedom of learning, accessibility on their mobile phones and above all the possibility to attach these certificates to their *Linkedin* profile. The subjects that attract the most students are management, digital developments with data science as well as coding, design thinking and learning how to learn.

Results in 2016: 41,633 active users, 350,000 training modules followed, 125,166 hours of online training, representing 3 hours on average per user.

Training at the service of the Group's performance

Training is at the centre of the major challenges related to the Company's development, such as, for example, acceleration of the Group's digital transformation.

To handle business challenges, several training solutions have been developed as, for example, the *Upskilling Digital* programme consisting of online training (*Essentials of Digital Marketing*), workshops dedicated to digital marketing issues, or the reverse mentoring programme, in which young employees contribute to the training of their older colleagues.

L'Oréal ensures the global consistency of its main programmes and their suitability for the needs of each geographic zone thanks to an international network of *Learning* managers. The local teams contribute to the preparation of new *Learning* offerings with a principle of co-development. These training programmes are essential to understanding the Group's strategy and building a feeling of belonging by developing both an internal and international network.

The training offering is structured into fields of expertise (marketing, commerce, research, operations, management, personal development, etc.).

Employees benefit from 2 individual interviews per year with their manager, one of them being dedicated to identifying development needs. Personal training paths are built on the basis of these discussions, with the help of the *Learning* managers.

Employees then have access to a whole set of development resources offering a mix of in-room training, training videos, digital and social experiences and coaching in the work situation. They can thus build their own training experience, while sharing their practices with colleagues all over the world. Finally, all the training actions include a system of assessment which makes it possible to measure the impact on performance and managerial skills.

L'Oréal's training policy rewarded

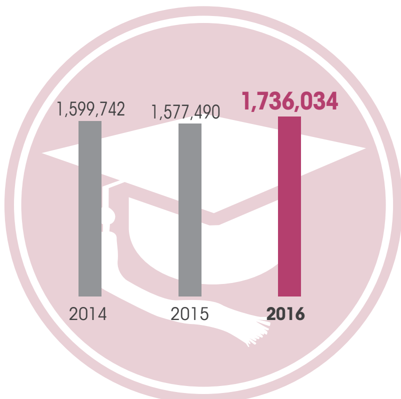
In 2016, L'Oréal received the technology excellence award from Brandon Hall Group for its technological innovation with the *Klaxoon box*, which makes it possible to create digital interactions during classroom training.

The Brandon Hall group HCM (*Human Capital Management*) excellence awards programme is the most prestigious in the industry. Often called "*Academy Awards*" by the professional, talented management executives being trained, this programme, launched in 1994, is the first of its kind in the learning industry

NUMBER OF EMPLOYEES TRAINED IN 2016

	Western Europe	North America	New Markets	Global
Number of employees trained	26,160	12,414	29,690	68,264
Training hours	695,015	226,618	814,401	1,736,034

NUMBER OF TRAINING HOURS



3.1.2.3. Remuneration policy

The principles

The L'Oréal's remuneration policy has the objective of contributing to the achievement of the Group's objectives and is an integral part of its development strategy. L'Oréal wants to attract and foster the loyalty of talented employees, propose motivating career paths and encourage its employees' performance and commitment, while accompanying the evolution of jobs and business. For L'Oréal, social performance and economic performance are indeed closely linked.

The Group wishes to offer each and every one of its employees a remuneration policy that combines external competitiveness with internal equity, and which rewards both individual and collective performances.

To do so, external surveys are conducted every year with specialist firms to ensure that L'Oréal's positioning is appropriate as compared to the local market. A "total remuneration" approach is also adopted, which proposes a very competitive system of remuneration for each employee, consisting of monetary and non-monetary components. The Group furthermore undertakes to associate its employees with the Company's results through profit sharing systems set up all over the world.

Finally, L'Oréal's ambition is for every employee to understand his/her remuneration and how it is determined. Accordingly, the Group makes sure that it communicates clearly and transparently on this subject to everyone. L'Oréal's remuneration policy is based on an annual performance assessment system (MAP) for employees applied in all the Group's subsidiaries. It makes it possible to communicate on the rules for determining remuneration, the process and the decisions made. Furthermore, the Group's subsidiaries are encouraged to give employees once a year a document showing the increases in their remuneration and its various components with the aim of clarity and transparency.

PERSONNEL COSTS (INCLUDING PAYROLL COSTS)

In millions of euros	2014	2015	2016
TOTAL	**4,623.4**	**5,223.0**	**5,437.9**

The comparison between the three years takes into account the foreign exchange impacts and is not representative of the real changes in personnel costs.

Plans for the conditional grant of shares to employees (ACAs)

L'Oréal sets up long-term incentive plans in favour of its employees and executive officers in an international context, based on the grant of performance shares.

The objective of these grants is twofold:

- motivating and associating those who make big contributions with future increases in the Group's results;
- increasing solidarity and helping to instil a group spirit among its managers by seeking to foster their loyalty over time, notably internationally, in a context of stronger competition for talents.

The acquisition of these shares is subject to the achievement of performance targets. In order to ensure consistency with the Group's strategic objectives, the choice of the tools, beneficiaries and performance criteria is the subject of a precise policy (see section 6.4 "*Long-term incentive plans*"). The Board of Directors decides, after receiving the opinion of the Human Resources and Remuneration Committee, on the opening of these plans and the applicable rules.

Over 3,200 employees representing 11% of the managers on a worldwide basis, including 62% in the international subsidiaries, are beneficiaries of at least one stock option or ACAs plan. 48% of the beneficiaries of the April 20th, 2016 plan are women.

Worldwide profit sharing, incentive and mandatory profit sharing schemes

For many years, L'Oréal's policy has been to associate employees with the results of the Company with the aim of strengthening the Group spirit and enhancing their motivation.

€268 million were redistributed to L'Oréal's employees in 2016, on the basis of the results for 2015.

In 1968, a mandatory employee profit sharing agreement ("*participation*") was signed in France, followed by an incentive profit sharing agreement ("*intéressement*") in 1988, and these agreements have been constantly renewed since then.

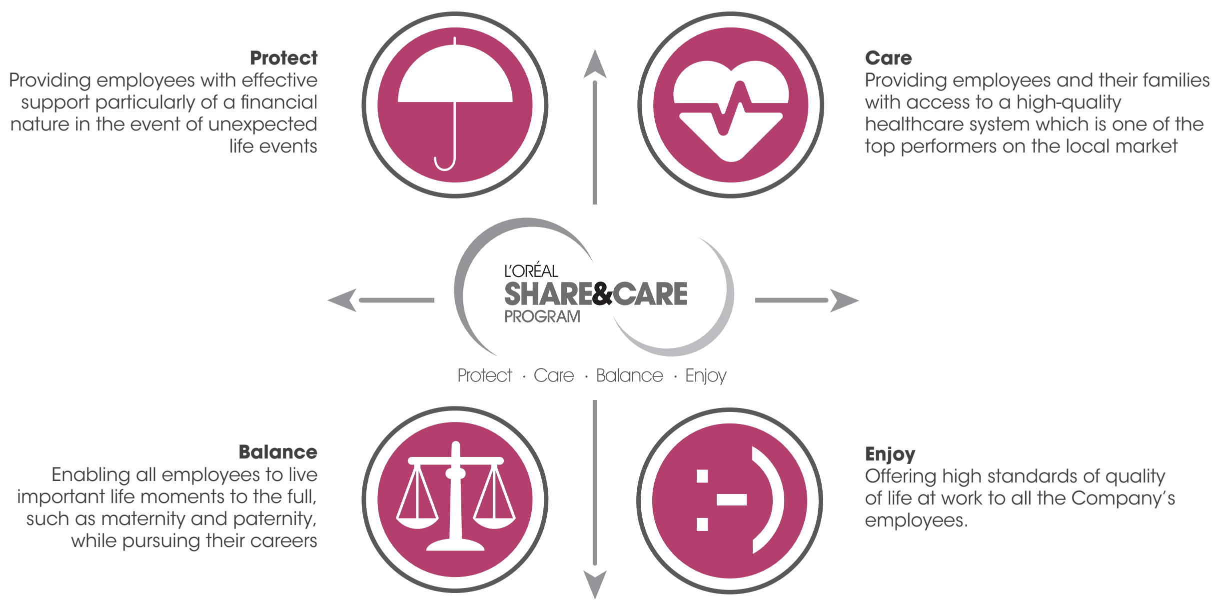
L'Oréal has implemented a Worldwide Profit Sharing programme – WPS since 2001 in all the Group's subsidiaries in which the employees do not benefit from profit sharing programmes provided for by law. The amounts paid within this framework are calculated locally on the basis of the sales and earnings of each subsidiary, as compared to the budgeted targets.

AMOUNTS PAID UNDER THESE PROGRAMMES

In millions of euros	2014	2015	**2016**
TOTAL *	**244**	**260**	**268**

* *Incentive Profit Sharing, Mandatory Profit Sharing, Additional Employer Contributions, Worldwide Profit Sharing.*

3.1.2.4. L'Oréal *Share & Care* program: an accelerator of social progress



Throughout its history, L'Oréal has set itself the target of offering its employees security and protection to enable them to work with peace of mind. L'Oréal's *Share & Care* program follows on from this long tradition of social progress and attention to the individual. L'Oréal relies on the conviction that the Company makes, and will continue to make a difference by putting people at the centre of its concerns, its organisation and therefore its development.

The Group has thus adopted the objective of creating a work environment in which all employees can thrive both at a professional and personal level.

With its *L'Oréal Share & Care* program, L'Oréal has universalised its social model, in a manner that is completely consistent with its global dimension: this is a strong commitment which reflects the Company's vision, whereby sustainable growth necessarily goes hand in hand with a global vision and a high level of social performance.

The programme was launched in 2013 and put in place in collaboration with all the countries, with an ambitious objective: implementing a common set of social benefits, *i.e.* minimum universal social protection measures in all countries, and becoming one of the top performers on each local market, by improving the common set whenever local best practices offer more.

The essential components of the L'Oréal *Share & Care* program have now been deployed in all the countries in which L'Oréal has subsidiaries.

The second stage of the programme, launched in January 2017 for the period 2017-2020, is aimed at completing or improving certain commitments, reinforcing the "*Enjoy*" and "*Balance*" aspects of the programme and encouraging the involvement of employees, particularly in the development of local initiatives.

The 4 pillars of L'Oréal's Share & Care program

This large-scale social programme consists of commitments revolving around 4 pillars put in place in all countries: social protection, health, parenthood and quality of life at work.

PILLARS OF THE L'ORÉAL *SHARE & CARE* PROGRAMME	OBJECTIVES	MAIN COMMITMENTS ACHIEVED IN ALL COUNTRIES (1)
Protect (social protection)	Providing employees and their families with effective support of a financial nature in the event of unexpected life events.	A capital sum, or a pension, equivalent to 24 months' salary in case of natural or accidental death. A capital sum, or a pension, equivalent to 24 months' salary in case of total permanent disability. A social protection scheme aligned with the best practices in each country.
Care (healthcare)	Providing employees and their families with access to a high-quality healthcare system.	In the event of major risks (hospital stays, surgery, drugs for chronic and serious conditions) at least 75% of the medical costs are reimbursed. Prevention and information actions with regard to individual health (medical check-up, online risk assessment, etc.) and also collective health (melanoma, HIV, diabetes, obesity, etc.) are implemented depending on local priorities.
Balance (parenthood)	Enabling all employees to live important life moments to the full, such as maternity and paternity, while pursuing their careers.	A minimum of 14 weeks' maternity leave with full pay. The Group ensures that women on maternity leave benefit from salary increases equivalent to those they would have received had they been present in the Company. A minimum of 3 days' paternity leave with full pay.
Enjoy (quality of life at work)	Offering high standards of quality of life at work and contributing to professional fulfilment of all the Company's employees.	Flexible working arrangements (telecommuting, flexible working hours). New premises are accessible, particularly *via* public transport and offer pleasant, collaborative working spaces. Training programmes in workstation ergonomics are provided to all employees. Training programmes for managers with regard to stress prevention have been put in place or are being developed.

(1) The Group's permanent employees (Cosmetics and The Body Shop) except, in certain countries, part-time contracts < 21 hours a week, occasional contracts, beauty advisors and store employees, noting that the integration of recent acquisitions and new subsidiaries takes place gradually.

In addition to the measures that are common to all the countries, the *L'Oréal Share & Care* programme aims at making each country a social innovation laboratory, by encouraging them to develop initiatives that correspond to the wishes of their employees.

FOCUS ON LATIN AMERICA

Share & Care has been a significant driver of social progress in Latin America, where the subsidiaries, in addition to the must-haves in the programme, have taken a number of local initiatives including the following:

L'Oréal Brazil has adhered to the voluntary programme known as *Impreza citadã*. Within the scope of this programme, the statutory maternity leave of 120 days has been extended to 180 days and the 5 days' statutory paternity leave to 20 days. In addition, the period during which mothers are reimbursed for child care has been extended from 12 to 30 months, within the limit of an amount of R$735.85 (Brazilian Reals) per month. Furthermore, an annual influenza vaccination campaign was launched at all the subsidiary's sites. Sports activities are also promoted, in particular *via* the *Running Group* programme which includes supervision by a professional sports instructor, individual physical assessments and the possibility to take part in 4 competitions a year.

Thanks to the *Share & Care* program, **L'Oréal Argentina** has extended maternity leave from the statutory 12 weeks to 14 weeks. In addition, when they return from maternity leave, the employees go back to work gradually while continuing to receive 100% of their salary: 4 hours a day the first month, and one hour more every month, to resume their initial working time 4 months after their return. Furthermore, the statutory paternity leave of 2 days was extended to 8 days. Healthcare is also at the heart of L'Oréal's social strategy. For this purpose, a "health week" is organised every year, which gives each employee the possibility, among other things, to consult specialists (vision, nutrition, etc.). A wellness test is also offered to all employees *via* the health insurance scheme and an influenza vaccination campaign is put in place. Furthermore, the employees benefit from financial advice and, in the field of healthcare, specialists available on-site once a week, and the presence of a doctor on-site twice a week.

The assessment tools with regard to deployment of L'Oréal's Share & Care program

In order to ensure transparency, the entire programme is regularly subject to a system of measurement and assessment, in order to verify that it has been implemented in accordance with the objectives:

- Self-assessment and definition of the action plan through a reporting tool: the *Follow-up-Tool*, completed by each country every year;
- Internal Audit: verification of implementation of the programme is included in the Internal Audit plans in the countries;
- External audit: certain key indicators are audited within the scope of the external audit pursuant to Article 225 of French law No. 2010-788 of July 12th, 2010.

The Advisory Board for the L'Oréal Share & Care program

In order to cast a critical eye over the programme, to provide an analysis of the main social trends and to study best practices in the major regions of the world, L'Oréal has set up an Advisory Board chaired by Jérôme Tixier, Executive Vice-President Human Resources, and composed of personalities from outside the Group representing different geographic zones, and consisting of academics, trade union officials or members of international organisations.

Since 2014, the Advisory Board has met every year with the aim of providing support for developments in the L'Oréal *Share & Care* program over the next few years, accordingly making a big contribution to the second stage of the programme, launched in January 2017.

The international labor organization associated with the L'Oréal Share & Care program

Preparation of the L'Oréal *Share & Care* program attracted the attention of the ILO (International Labor Organization) in the context of its study on the contribution by large companies to broader social protection all over the world.

Close collaboration was developed and enabled the ILO to launch the *Global Business Network for Social Protection Floor* in October 2015 which aims to act collectively and mobilise companies in order to create a basic set of social protection measures for everyone. L'Oréal is a founding member of this new business network created by the ILO to promote social protection all over the world.

Currently, nearly 73% of the world's population [(1)] do not have access to minimum social protection. However, some companies, like L'Oréal, have set up social protection systems for their employees world-wide. On the strength of these initiatives, the ILO has chosen to get major international companies together so that they can provide their contribution and support the creation and extension of a basic set of social protection measures all over the world.

3.1.2.5. Employee benefit and pension schemes

L'Oréal wants to make sure that its employees benefit from competitive pension and benefit schemes in all countries. In accordance with the legislation and practices in each country, the Group contributes to the funding of pension schemes, pre-retirement arrangements and employee benefit schemes offering a variety of additional coverage for its employees.

(1) ILO, World Social Protection Report 2014/2015.

Since 2002, a Supervisory Committee for Pension and Employee Benefit schemes ensures the implementation of these schemes in the subsidiaries and the monitoring of L'Oréal's Pension and Employee Benefits policy.

This policy provides for general principles in the following areas: definition and implementation of schemes, relations with employees, financing and cost of the schemes, and management of the schemes. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. The Supervisory Committee works closely with the operational management of the Divisions and zones.

L'Oréal's commitments with regard to benefit cover are part of the "*Protect*" pillar of the L'Oréal *Share & Care* program. In all countries, L'Oréal guarantees the payment of a capital sum, or equivalent pension, equal to a minimum of 24 months' salary in the event of death or total permanent disability, or more where local practice is better.

The characteristics of the pension schemes and other pre-retirement benefits offered by the subsidiaries vary depending on the applicable laws and regulations as well as the practices of the companies in each country.

In 81% of the countries in which L'Oréal is established, the Group participates in establishing additional retirement benefits that exceed the minimum benefits provided for by social security for its employees (*e.g.*: United States, the Netherlands, Belgium, Canada, South American countries). This policy is carried out through defined benefit and/or defined contribution schemes. In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Belgium, the Netherlands and the United Kingdom).

In defined contribution schemes, the Company's commitment mainly consists in paying a percentage of the employee's annual salary (into a pension plan) each year.

Defined benefit schemes are financed by payments into specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the managers of the main funds established, as well as the financial stability rating of the custodians, are regularly reviewed by the Supervisory Committee.

L'Oréal does not propose company pension schemes in countries which do not have an appropriate legal framework or a long-term investment instrument and in countries where there is satisfactory public social security coverage. The Supervisory Committee continues to be attentive to changes in local situations and, when required, additional Employee Benefit schemes are put in place.

Focus France

Overview of the Pension and Employee Benefit schemes in France

Pension schemes

In order to supplement the pensions provided for by the compulsory French social security pension scheme, the ARRCO or the AGIRC (mandatory French supplementary pension schemes), L'Oréal has implemented the following supplementary pension schemes:

Defined contribution scheme (RCD L'Oréal)

In September 2003, L'Oréal set up a "defined contribution pension scheme".

Since January 1st, 2015, all categories of employees are the beneficiaries of this scheme, which is financed jointly by L'Oréal and the employee, and which makes it possible for everyone to create pension savings, with a contribution on "Bracket A" as from 2015, it being specified that the remuneration subject to contributions is capped at 6 times the French annual social security ceiling. As of January 1st, 2016, the contributions have been increased on Brackets A, B and 1/2 of TC.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlements from the compulsory French social security pension scheme, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a Surviving Spouse Pension, if this option was chosen at the time of triggering of the annuity.

The Life Annuity is calculated on the basis of the capital formed by the contributions paid and the financial income on such contributions at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated.

SUMMARY TABLE FOR L'ORÉAL'S DEFINED CONTRIBUTION PENSION SCHEME (RCD L'ORÉAL)

€ millions	12.31.2014	12.31.2015	**12.31.2016**
Number of members	14,092	12,747	13,770
TOTAL NET CONTRIBUTIONS	**10.2**	**13.5**	**19.6**

Defined benefit pension schemes

L'Oréal has also set up several differential or additional defined benefit schemes with conditional entitlements, in order to take into account the important developments with an impact on these schemes and with the aim of arriving at a coherent system between the different pension schemes that exist in the Company.

The "Supplementary pension scheme for Former Senior Managers" ("*Retraite supplémentaire des Retraités Anciens Cadres Dirigeants*") concerns retirees who have held the responsibilities of senior managers (within the meaning of Article L. 212-15-1 of the French Labour Code) for a minimum of 10 years, hired or promoted to this position as from January 1st, 2016, and who end their career in the Company. This is an additional defined benefit pension scheme which grants entitlement to payment of a life annuity. The reference salary taken into account for calculation of the rights is the fraction of the salary which exceeds 6 times the French annual social security ceiling. The basis for calculation of the supplementary pension is the average of the revalued reference salaries for the best three full years of activity out of the seven calendar years prior to the end of their career. The supplementary pension would be 1.36% of the calculation base per year of service within the Group, up to a maximum of 25 years. Any retiree who so wishes will be able to choose an option of a surviving spouse pension.

Access to the "Retirement Income Guarantee for former Senior Managers" ("*Garantie de Ressources des Retraités Anciens Cadres Dirigeants*") was closed on December 31st, 2015. This scheme, created on January 1st, 2001, was open to former L'Oréal Senior Managers who, in addition to fulfilling the requirement of having ended their career with the Company, met the condition of having had the status of Senior Manager within the meaning of Article L. 3111-2 of the French Labour Code for at least ten years at the end of their career. This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, payment to the beneficiary's spouse and/or ex-spouse(s) of a Surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions.

The calculation base for the Income Guarantee is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Income Guarantee is calculated based on the beneficiary's number of years of professional activity in the Company, assessed at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years, each year leading to a steady, gradual increase of 1.8% in the level of the Guarantee. At that date, the gross Income Guarantee may not exceed 50% of the calculation base for the Income Guarantee, or exceed the average of the fixed part of the salaries for the three years used in the calculation base. A gross annuity and gross Lump Sum Equivalent are then calculated, taking into account the sum of the annual pensions accrued on the date when the beneficiary applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday, and less all salaries paid under any early retirement leave, if such Lump Sum Equivalent is the result of these operations. Around 340 Senior Managers are eligible for this scheme, subject to their fulfilment of all the conditions after having ended their career with the Company.

Access to the "Pension Cover for Members of the *Comité de Conjoncture*" ("*Garantie de Retraite des Membres du Comité de Conjoncture*") has been closed since December 31st, 2000. This former scheme granted entitlement to payment to the beneficiary retiree, after having ended his/her career with the Company, of a Life Annuity as well as, after his/her death, payment to the spouse and/or ex-spouse(s) of a Surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation base for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years, it being specified that at the date of closure of the scheme, on December 31st, 2000, the minimum length of service required was 10 years. The Pension Cover may not exceed 40% of the calculation base for the Pension Cover, plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the salaries for the three years used in the calculation base. Around 120 Senior Managers (active or retired) are eligible for this scheme subject to the proviso, for those in active employment, that they fulfil all the conditions after having ended their career with the Company.

Collective Retirement Savings Plan (PERCO)

Since 2003, L'Oréal has proposed to employees who so wish to create savings with a view to their retirement within the scope of the PERCO, through investment of the mandatory profit sharing amount, to which L'Oréal has added an additional employer contribution of +50% every year since 2004. Since 2016, the additional employer contribution for the mandatory profit sharing amount invested in the PERCO has been increased to +100% for the first gross amount of €1,000 invested, remaining at 50% over and above such amount. The investment of days of holiday from the time savings account (CET) in the PERCO gives rise to an additional employer contribution of +20%.

Once the employee has retired, it is possible to have access to the retirement savings from the PERCO in the form of a capital sum and/or a life annuity.

Pre-retirement arrangements

L'Oréal pays close attention to the retirement conditions of its employees and pre-retirement arrangements that have been in force for a number of years were confirmed and improved within the scope of the agreement on the employment of older workers, signed on December 3rd, 2009.

The existing arrangements are, in particular:

- the early retirement leave ("congé de fin de carrière", CFC): this pre-retirement arrangement consists of exempting employees from the requirement to perform their activities. However, during this period, they remain employees of L'Oréal and continue to receive their remuneration (within the limit of €9,910 gross/month) as well as mandatory profit sharing, incentive profit sharing payments and paid leave;
- retirement indemnities ("indemnité de départ à la retraite", IDR): a new scale of indemnities at L'Oréal was implemented by a company-level agreement as from 2011. It is more favourable than the French National Collective Bargaining Agreement for the Chemical Industries.

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from 2 months' salary for 5 years' service to 8 months' salary for 40 years of service.

Focus France

In order to increase the special leave prior to retirement, the employee may opt to convert his/her retirement indemnities into time, or he/she may choose to receive payment of the retirement indemnities which will be made at the time when he/she leaves the Company.

	12.31.2014			12.31.2015			**12.31.2016**		
	Men	Women	Total	Men	Women	Total	**Men**	**Women**	**Total**
Early retirement leave	78	191	269	81	165	246	87	171	258
Compulsory retirement on the Company's initiative	0	0	0	0	0	0	0	0	0
Voluntary retirement	94	188	282	75	160	235	80	135	215

Source: HR France statistics for 2014, 2015 and 2016.

These commitments are guaranteed partly by external financial cover aimed at gradually building up funds resulting from premiums paid to external organisations.

The commitments net of funds invested and the actuarial differences are booked as a provision in consolidated balance sheet liabilities.

The evaluation method used to calculate the retirement and pre-retirement benefit commitments is the retrospective method based on estimated calculations of the final salary.

These commitments take into account the employer's contribution to the healthcare schemes for retirees.

€ millions	12.31.2014	12.31.2015	**12.31.2016**
Provision for pension commitments in consolidated balance sheet liabilities	1,049.4	376.5	146.1

Employee Benefit schemes in France

In addition to the compulsory guarantees provided for by the collective bargaining agreements, L'Oréal has set up, in France, under an agreement, an Employee Benefit scheme providing additional collective guarantees to its employees.

All these guarantees are based on the gross income up to 8 times the French annual social security ceiling, except for the Education Annuity which is limited to up to 4 times the ceiling. They are generally financed on Brackets A, B and C of income as defined by the French social security, except for the Education Annuity which is based on Brackets A and B, and the Surviving Spouse Pension which is based on Brackets B and C.

This Employee Benefit scheme provides guarantees in the event of:

- temporary disability: for all employees, 90% of their gross income limited to 8 times the French annual social security ceiling, net of all deductions, after the first 90 days off work;
- permanent disability: for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to 8 times the French annual social security ceiling, net of all deductions;
- Death:
  - for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death;
  - for the employees affiliated with the AGIRC supplementary pension scheme, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Surviving Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65;
  - for all employees, the payment of an Education Annuity to each dependent child, according to an age-based schedule.

The total amount of the Lump Sum Equivalent for these guarantees may not exceed €2.3 million per event.

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

€ thousands	12.31.2014	12.31.2015	**12.31.2016**
Net Employee Benefit Contributions for the financial year	12,468	12,543	12,800 (1)

(1) *Estimate.*

Minimum guaranteed Lump Sum Death Benefits

Since December 1st, 2004, and January 1st, 2005 for sales representatives, L'Oréal has put in place an additional guaranteed Lump Sum Death Benefit that supplements, where applicable, for all employees, the Lump Sum Death Benefit to the extent of three years' average income. A maximum limit is set for this guarantee.

The total amount of the capital at risk needed to fund the Surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is also capped.

Healthcare expenses

The healthcare scheme is compulsory for all the employees of L'Oréal and its French subsidiaries. Employees have the option of including their family members in these schemes. Contributions are generally individual. The contribution by the employee is partly financed by the Company.

3.1.2.6. Work organisation

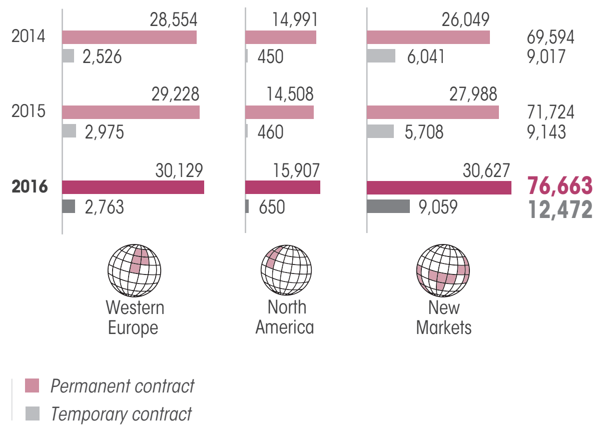
Work organisation is established, in each subsidiary, depending on the local context and activity, in accordance with the legal and contractual obligations. In several subsidiaries, both work organisation and working time are the subject of company-level agreements. In addition, the Group has made of flexible work organisation one of the key components of the *Enjoy* pillar of the L'Oréal's *Share & Care* program. Thus, each Group subsidiary has put in place at least one programme that provides for flexibility in one of the following areas: flexible working hours, adjustment to working hours at the time of specific events, implementation of systems of time-off in compensation of additional working hours (banking of hours), and telecommuting if the work organisation allows it (see below).

The second stage in L'Oréal's *Share & Care* program, which was launched in January 2017 for the period 2017-2020, is set to reinforce these aspects even further, particularly telecommuting and flexible working hours.

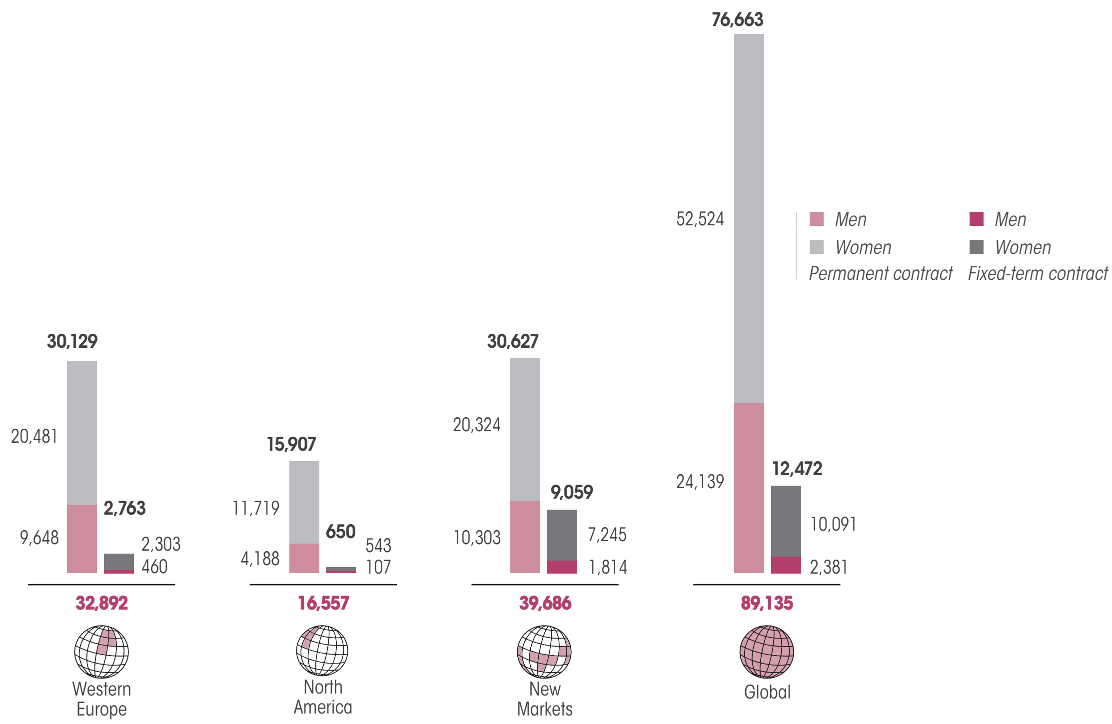
With regard to part-time work, the employees who have chosen this possibility come from all staff categories.

In 2016, there are 11,212 part-time employees, of whom 10,487 are women and 725 men.

BREAKDOWN BY TYPE OF CONTRACT BY GEOGRAPHIC ZONE OVER 3 YEARS



BREAKDOWN BY TYPE OF CONTRACT BY GEOGRAPHIC ZONE AND BY GENDER



Focus on telecommuting

Within the framework of L'Oréal's *Share & Care* program, the Group has made a commitment to promoting initiatives for flexible work arrangements everywhere in the world. This involves setting up flexible systems of work according to the different local and business requirements.

A Group Charter, which provides the framework for flexible work arrangements, has been distributed to all the subsidiaries, which are developing more and more innovative programmes, notably in the form of telecommuting, often associated with other forms of flexibility, with the aim of improving the quality of life at work to attract and retain the most talented employees.

In France, a system of telecommuting has existed since 2009. It now enables employees who are interested to work from home up to 2 days a week. In 2016, more than 1,000 employees telecommute, 57% of whom are executives.

Internationally, the United States launched in 2009 the *Work From Home* programme, which offers the possibility for employees to work from their home within the limit of 2 days a month.

In 2014, the United Kingdom, Italy and Germany also launched telecommuting programmes:

- in the United Kingdom, a highly innovative programme called *Work Smart* enables employees to adapt their working hours as they choose and to work remotely;
- in Italy, *Be Smart, Work Smart* has enabled employees to work from a location other than their normal place of work for up to 4 days a month from 2016 onwards;
- in Germany, the *Flexi work programme* includes the *Home office* programme, which enables employees to work from home 4 days a month.

Several countries have followed this movement and have put in place similar telecommuting programmes like in Austria, Canada, Belgium, Denmark, Spain, Finland, India, Norway, the Netherlands, the Czech Republic, Singapore, Sweden, Switzerland and Taiwan. Other countries have initiated studies on this subject and other programmes will be launched before 2020 in order to universalise these flexible organisations wherever this is authorised by law and permitted by local culture. In all, telecommuting programmes have been set up in 28 countries in which L'Oréal has subsidiaries.

Concerning flexible working hours, these are already in place in 37 of the countries in which L'Oréal has subsidiaries [(1)].

An active social dialogue with employees and their representatives

The social climate at L'Oréal is the fruit of an ongoing dialogue between management, employees and their representatives, in accordance with trade union rights in each country and with a neutral attitude with regard to the various trade union organisations.

Employee representative institutions are in place in most of the European subsidiaries, in several Asian subsidiaries (China, Indonesia, India, South Korea, etc.), in Africa (South Africa, Morocco, Kenya, etc.), in North and South America (the United States, Canada, Mexico, Brazil, Argentina, etc.), and also in Australia and New Zealand.

In total, 80.6% of the Group's employees work in subsidiaries where there are employee representative institutions. 42.1% of the Group's employees are covered by a collective agreement, and in almost all cases (92.8%), these are company-level agreements.

In the cases where there is no employee representative institution (often in subsidiaries with a small workforce), the dialogue is conducted directly with the employees, in complete compliance with the principles of transparency and trust that are applied uniformly throughout the Group.

THE INSTANCE EUROPÉENNE DE DIALOGUE SOCIAL/*EUROPEAN WORKS COUNCIL*

An agreement signed in 1996 between L'Oréal and French and European trade unions (FECCIA and EMCEF) led to the establishment of the Company's *Instance Européenne de Dialogue Social/European Works Council* (IEDS/EWC). The initial agreement has been regularly updated, in particular in 2009 to introduce a new information and consultation procedure which applies to transnational projects involving local consultation procedures. This procedure is implemented with the Liaison Secretariat extended to include members from the countries concerned or with the entire IEDS/EWC, depending on the geographic and strategic dimensions of the transnational project. This process allows for the possibility of an opinion from the IEDS/EWC. This revision of the agreement represented an important advance which aims to reinforce social dialogue at L'Oréal while remaining a step ahead of changes in legislation. The agreement has been renewed, without any major change, for the period 2017-2020.

The IEDS/EWC leads discussions and formal meetings with its members about the Group's current situation and future prospects, on the basis of an agenda prepared with the Liaison Secretariat following a one-day preparatory meeting with the members of this body.

It has 30 members, who receive regular training on economic and social issues.

Today, the IEDS/EWC covers approximately 34,500 employees in 27 countries which are part of the European Economic Area; among whom the 17 countries with more than 150 employees are directly represented.

(1) *Excluding TBS.*

Number of company-level agreements

The social policy at L'Oréal permits the signature of a certain number of company-level agreements in the subsidiaries every year. In 2016, 128 agreements were signed in France and 137 agreements were signed in the rest of the world. In total, the number of agreements in force at December 31st, 2016 was 876, of which 523 are in France.

These agreements, which mainly concern work organisation, remuneration and working conditions (working hours, quality of life at work, gender equality, telecommuting, etc.), contribute to the company's good functioning and to its performance, by reinforcing employees's participation as well as the dialogue with their representatives.

Information on company-level agreements in force with regard to health and safety

L'Oréal's health and safety standards are very strict and often exceed the statutory obligations in the various countries concerned. The Health and Safety Committees and their activities do not necessarily lead to the signature of specific agreements, but rather to shared monitoring on this subject (application of legal and L'Oréal standards, analysis of situations, etc.) in accordance with the principle of continuous improvement.

34 agreements in force at December 31st, 2016 which totally or partially relate to health and safety issues have nevertheless been identified outside France.

3.1.2.7. Diversity and equal opportunities

For L'Oréal, integrating Diversity and Inclusion in the ways of acting and working together is strategically important in order to succeed in reaching the target of gaining more than one billion new consumers through universalisation, meaning globalisation that respects differences.

By placing consumers at the centre of our strategy, L'Oréal has to explore and reflect on the infinite diversity of styles, habits and expressions of beauty all over the world in order to develop and market the most suitable products.

This naturally requires a rich diversity of teams and their ability to work together to innovate. L'Oréal pays particular attention to all its employees and to the place of each individual in its teams.

For L'Oréal, Diversity means taking on individuals and enhancing their complementarity whatever their gender, age, disability, origin, religion, sexual orientation, etc. The objective of Inclusion is to create an environment which enables all employees to express their potential by being themselves in a collective setting in compliance with equal opportunities.

To convert these convictions into concrete actions, L'Oréal has been engaged for over 10 years in an innovative, ambitious Diversity & Inclusion policy. The Group has set itself three global priorities:

1. arriving at gender equality;
2. including persons with disabilities;
3. reflecting the diversity of society.

A network of Diversity coordinators present in 65☑ of the Group's entities conducts initiatives in relation with the Group's policy, while adapting them to the local context in each country.

In 2004, L'Oréal was a founding member of the first Diversity Charter in France. The Group has now signed 14 charters in total (Germany, Austria, Belgium, Hungary, Italy, the Netherlands, Poland, Spain, Finland, France, Czech Republic, Sweden, Portugal and Morocco), certain of which were created on L'Oréal's initiative.

In 2016, L'Oréal was recognised by Thomson Reuters as one of the 20 best companies with regard to Diversity and Inclusion out of over 5,000 companies.

In France, the Chimex plant received a Diversity Award from Diversityconseil for its innovative and collaborative recruitment and integration actions.

Gender equality

Achieving real gender equality is a key challenge for the Company, both to promote a culture of Inclusion and to increase L'Oréal's ability to innovate now and in the future.

L'Oréal therefore ensures that all jobs are accessible to women and men both at the level of recruitment and with regard to career development possibilities up to top-level responsibilities. A significant amount of work is still being done to create a real ecosystem which is favourable to careers of all the Group's men and women, with particular attention to the pivotal periods of parenthood (see the *Share & Care – Balance* section).

L'ORÉAL AND EQUITY

At December 31st, 2016, women account for:

- 70% of the total workforce
- 62% of executives
- 42% of expatriates in place
- 43% of Group key positions (1)
- 58%☑ of the brands are managed by women
- 33% of the Executive Committee members
- 46% of the members of the Board of Directors

3

(1) *Group key positions: Positions that are identified as key for the Group and followed directly on an international level by the members of the HR Executive Committee (approximately 1,200 positions).*

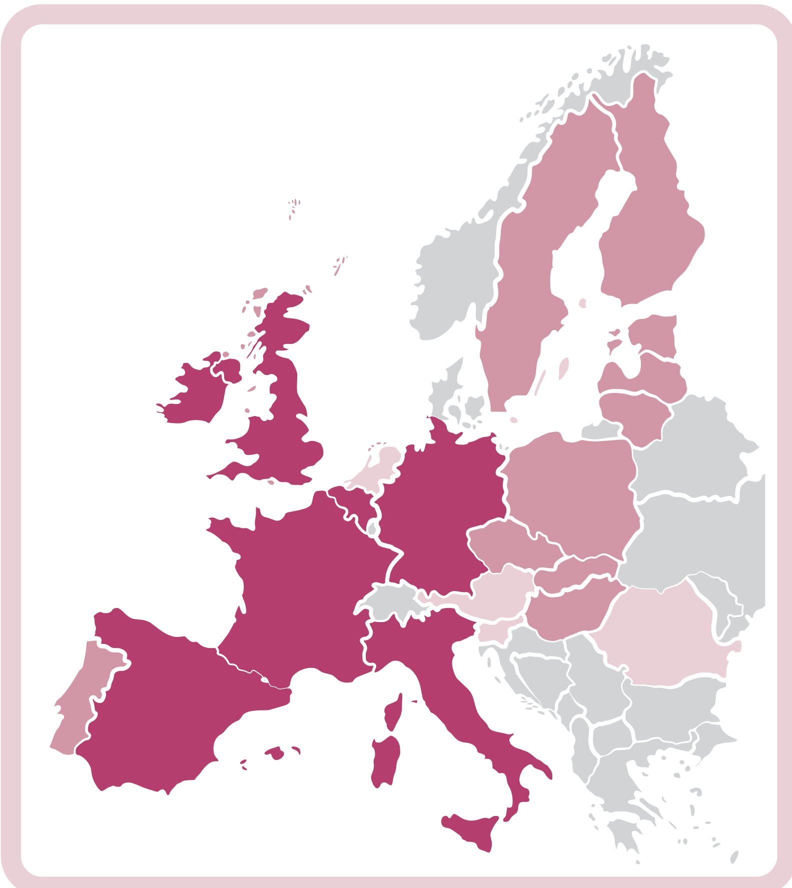
☑ *The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.*

Certifications in Europe

For its entities in Europe, L'Oréal has been awarded since 2010 the first European label, the *Gender Equality European & International Standard* (GEEIS). This label is awarded to companies which meet six key criteria on gender equality (action plan, social dialogue, management awareness training, gender balance, pay practices, work-life balance). In 2016, L'Oréal Corporate and the European subsidiaries in 23 countries have been awarded the GEEIS label and are audited regularly to measure their progress ☑.

These efforts have been recognised by the Arborus Fund, the founding organisation of the GEEIS certification. In November 2014, L'Oréal received a special mention for the most extensive certification network in Europe.

L'ORÉAL CORPORATE AND 23 EUROPEAN SUBSIDIARIES HAD OBTAINED THE GEEIS LABEL IN 2016



For the other entities outside Europe, L'Oréal relies on the *Economic Dividend for Gender Equality* (EDGE) certification process. To obtain this certification, the audited subsidiaries must provide three sources of information on gender equality (gender statistics, policies & practices questionnaire and an employee survey).

L'Oréal USA was the first subsidiary to obtain the label in 2014 and, in 2015, 6 others ☑ finalised the certification process (Australia, Brazil, Canada, India, The Philippines and Russia) which enabled countries from Asia and Latin America to be included for the first time. In 2016, L'Oréal USA renewed the audit and obtained the new EDGE label which will be valid for the next two years. In 2016, 30 subsidiaries continue to be certified (EDGE + GEEIS), representing 56% of the total workforce.

The other certifications

In 2016, the "CEO Leadership Award" has been awarded to L'Oréal France by the United Nations Organisation ("Women's Empowerment Principles" programme) for its achievements in favour of gender equality.

Furthermore, in 2016, L'Oréal renewed its Diversity certification (obtained since 2009) and its Professional equality certification (obtained since 2013).

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

Inclusion of people with disabilities

Since 2008, L'Oréal has developed a global policy to include people with disabilities within the Company (see also 3.2.4.3. *Developing sustainably with our surrounding communities*). In this manner, 1,010 disabled employees (with permanent or fixed-term contracts) worked for L'Oréal at December 31st, 2016 [(1)]. This policy focuses on five global priorities:

- Recruitment: L'Oréal promotes the recruitment of people with disabilities in all countries, whether or not there is a legal obligation;
- Job retention: One of the objectives of the Disability & Inclusion policy is to enable any employee with a documented disability to keep his/her position by making adjustments to the workplace if necessary, and to allow the employee to develop his/her skills and evolve in the Company;
- Physical accessibility to premises and digital accessibility to information: improving accessibility of workplace premises for employees with disabilities is one of L'Oréal's objectives. All new sites must therefore now meet this objective. Certain countries have retained an audit firm to evaluate the changes needed and the work to be carried out to improve the accessibility of their premises. L'Oréal is also working on improving the accessibility of digital tools;
- Raising the awareness of employees: internal communication and training are closely related to the success of the Disability & Inclusion policy conducted by L'Oréal with the main objective being to raise the awareness of employees about the integration of employees with disabilities;
- Partnerships with experts: L'Oréal's teams work in close collaboration with both international and local experts (associations and not-for-profit organisations, NGOs, etc.) in order to continuously learn and improve the Group's Disability & Inclusion policy.

International initiatives and awards obtained

To accelerate the mobilisation of its subsidiaries, L'Oréal has put in place, since 2008, the *Disability Initiatives Trophies* which reward the operational entities for their concrete actions to include people with disabilities. These trophies, which are awarded every two years, make it possible to showcase and share the best practices conducted by the various L'Oréal entities. In 2016, action plans concerning the inclusion of employees with disabilities were submitted for 65 ☑ Group entities, thus showing their commitment.

Since 2016, L'Oréal has been one of the companies that has signed the *Global Business and Disability Network Charter* of the ILO (International Labor Organization) aimed at promoting and including people with disabilities in companies.

For the International Day of persons with disabilities declared by the United Nations, a communication kit was sent to all the Group's subsidiaries at the end of 2016 in order to help them organise awareness-raising events on disability. In 2016, subsidiaries all over the world organised an event to increase the awareness of their employees for one day or a whole week (*Disability Awareness Day*).

Inclusion of persons from different social and ethnic origins

L'Oréal's ambition is to reflect the societies in which the Group operates, at all levels and in all functions. Particular attention is therefore paid to the diversification of recruitment sources, to ensuring equal opportunities for career development, and to raising the awareness of employees and management on this subject.

By increasingly diversifying the sources of the recruitments in its subsidiaries, L'Oréal wishes to enable all talented individuals to take on high-level responsibilities within the Company, whatever their origins. In 2016, 19 countries focused part of their diversity strategy on social and multicultural origins in line with the realities in their countries.

L'Oréal Germany put in place a specific programme designed to give young refugees the opportunity to carry out an internship in the local teams. 6 positions were created in various divisions and duties and recruitments are in progress for the internships to begin in 2017. The interns will be fully integrated into the normal internship programme (events, exchanges, networking, presentations), will have a mentor and will follow German courses.

L'Oréal USA received a score of 85 in the Corporate Equality Index 2017, consisting of an investigation and a report administered by the Human Rights Campaign Foundation. This score reflects the commitment by L'Oréal USA in favour of equality for persons who are part of the LGBT (lesbian, gay, bisexual and transgender) community within the Company.

At global level, L'Oréal has been a partner since its creation of the *Equal at work* network of ENAR (European Network Against Racism), which enables it to hold discussions with other companies on this subject.

(1) This indicator only takes into account employees who wanted to declare their disability and/or have it recognised, as all the employees concerned do not systematically wish to do so.

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

Training

In order to support these initiatives, L'Oréal trains its employees in diversity, by organising *Diversity Training Workshops*. During this one-day in-class training session, the awareness of participants is raised on this topic, in particular through discussions and role playing.

At the end of 2016, more than 25,000 employees have taken part in "Diversity Training Workshops" all over the world

DIVERSITY REPORT

Every 5 years, L'Oréal publishes a *Diversity Report* in order to share the achievements of its Diversity policy. In 2015, L'Oréal published its *Diversity Report* on a dedicated website (www.diversityreport.loreal.com). Since 2016, this website has been used as an ongoing communication tool with a view to transparency and sharing.

3.1.3. THE L'ORÉAL GROUP'S ENVIRONMENT, HEALTH AND SAFETY (EHS) POLICY

A pioneering, socially responsible company, L'Oréal applies an ambitious policy with regard to the Environment (E), Health (H) and Safety (S) in order to minimise its environmental impact and guarantee the health and safety of employees, customers and the communities in which L'Oréal performs its business activities.

This has been reflected, for a number of years, in the desire to systematically control the risks related to the safety of people and the environment, that are inherent in the Group's business activities. Any establishment or renovation of a site, any launch of new equipment or manufacturing processes, any changes in industrial processes give rise to a risk assessment and action plans that make it possible to reduce their potential impacts.

This commitment has led to deployment of the Group's EHS policy over the entire spectrum of its business activities, but also beyond it. Indeed, in the area of safety, the Group ensures compliance with the regulations and observance of its own standards on its sites (industrial or administrative sites, research laboratories, stores), and makes sure that its subcontractors and suppliers ensure the safety of persons and the environment through a specifically dedicated audit programme.

As for the environmental policy, it covers the entire value chain for products: from design (eco-design of packaging and formulas, reduction of the impact of formulas on ecosystems, etc.) and sourcing of raw materials (respect for biodiversity, fight against deforestation, etc.), to production, distribution and transportation. It also incorporates the Group's real estate assets.

3.1.3.1. An EHS system built over many years

AAA rating obtained within the scope of the CDP	2016	
	2015	Fulfilment of the "0 waste to landfill" target for the factories
Achievement of the target of -50% of CO2 emissions vs. 2005 baseline for factories and distribution centres Launch of ISO 50001 certification of the factories	2014	
	2013	Launch of the SBWA programme and new commitments for the reduction of the environmental footprint of Operations Launch of Waterscan Deployment of the EHS manual
Creation of the EHS function in the L'Oréal stores	2012	
	2011	Launch of the Ergonomic Attitude programme
Creation of EHS Culture Audits	2010	
	2009	1st response to the CDP The Group's first environmental commitments –50% in its CO_2 emissions, water consumption and waste generation between 2005 and 2015 Launch of MESUR and SIO tools for Safety
Group Carbon Assessment	2008	
	2007	Measurement and report of CO_2 emissions (Scope 1 & Scope 2)
1st environmental objective for the Group (reduction in energy consumption)	2004	
	2003	14001 certifications of the factories Creation of the EHS functions on the R&I and Administrative Sites Creation of the first procedures for R&I
Reinforcement of EHS Audits through the presence of external local experts	2001	
	2000	Organisation of global EHS governance: a Corporate team and an EHS Director by zone Launch of SHAP tools and root cause analysis
1st EHS Audits	1996	
	1993	Creation of the Internal EHS Awards
1st EHS seminar Launch of on-site fire prevention inspections	1992	
	1991	Creation of the "Industrial Risks" department in the Operations Division and the ETNEHS function on the sites Creation of the first EHS procedures and EHS reporting

SHAP: Safety Hazards Assessment Procedure.

CDP: Carbon Disclosure Project.

MESUR: Managing Effective Safety Using Recognition and Realignment.

SIO: Safety Improvement Opportunity.

Waterscan: A tool that makes it possible to quantify possible savings of water used in a plant.

ETNEHS : EHS& Facilities

3.1.3.2. The fundamentals of the Group's EHS policy

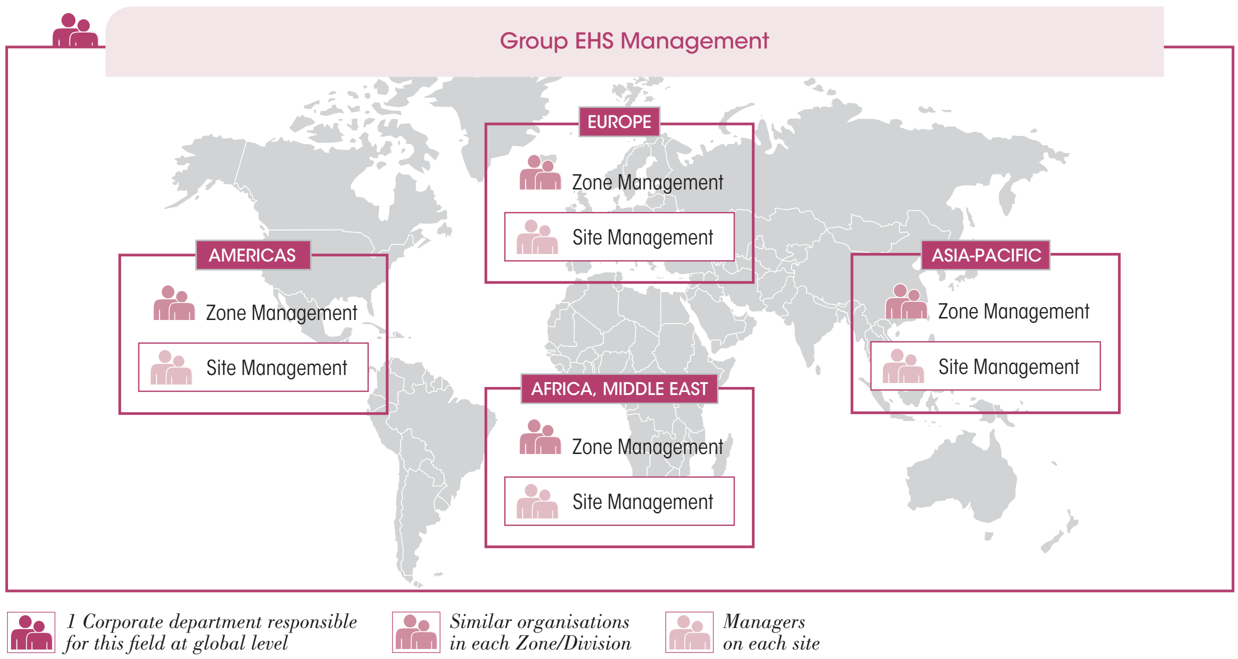
The Group's EHS policy is based on a set of stringent standards, compiled in an EHS manual which is a reference work for all the sites all over the world. If knowledge of, and compliance with, these procedures are fundamental, the lasting improvement of the safety results and environmental performance essentially requires the dissemination of a sustainable EHS culture to each and every one of the Group's employees. A dedicated training programme has been built for this purpose with the aim of passing on this EHS culture at every level of the organisation. In a manner consistent with this entire approach, an audit system, which combines both a "Risk" and a "Culture" evaluation, makes it possible to assess both compliance with the Group's standards and the residual risks, and the level of dissemination of the culture.

EHS On-SITE

EHS Organisation and reference manual

The Group's EHS organisation has been structured to match the global organisation of the Operations Division: it consists of a central corporate department, similar organisations in each geographic zone and managers on each site.

GLOBAL EHS ORGANISATION



In support of this organisation, the EHS manual is the reference tool for the Group's operational sites. It is essential to the improvement of their performances and the pursuit of the main EHS objectives: zero accident for the Group and 60% reduction in the environmental footprint of the Operations Division between 2005 and 2020. It defines the EHS management system and the responsibilities shared at all levels of the organisation, up to the operational responsibilities:

General Management	The Executive Vice-President Operations, who reports to the Group's Chairman & Chief Executive Officer, is responsible for the Environment, Health and Safety policy.
Plant managers and distribution centre managers	They are responsible for the deployment and effective implementation of the policies defined. Their remuneration is partly linked to their performances in the areas of the Environment, Health and Safety.
EHS managers	Managers dedicated to compliance with the EHS policy ensure the implementation of the rules, Group procedures and the associated performance objectives in all the Group's entities.

The EHS manual furthermore determines the measures to be applied to control the facilities and activities, in particular to reduce the risks of injury to persons and damage to property and the environment to a minimum. It covers the following areas in particular:

- the safety of persons and property;
- fire safety;
- maintenance and work;
- risks of accidental pollution;
- efficiency of the use of resources, water and energy consumption;
- greenhouse gas emissions, waste water discharges, waste generation and treatment.

This policy is accompanied by the monthly reporting of detailed indicators which make it possible to monitor changes in the results with regard to each of these areas and thus to identify anomalies and incidents.

This EHS manual is rolled out at all the industrial sites, the research centres and administrative sites. Deployment of the manual at the stores is in progress.

Training in EHS policy and practices

Training sessions devoted to L'Oréal's EHS policy and practices have been provided for at all levels and in particular for all managers. They constitute one of the cornerstones for implementation of the measures aimed at disseminating the EHS culture in all the Group's entities and at all levels.

Objectives of the training sessions

- defining and sharing EHS vision, challenges and values across the Group;
- enabling managers to implement EHS policy effectively within their entities;
- identifying the EHS risks inherent in a role, task, behaviour or the use of equipment and adopting appropriate preventive and corrective measures;
- enabling managers to identify, in their activities, the actions that could help to improve the EHS performance of their site.

3

Training courses provided

TRAINING	OBJECTIVE	PROFILES CONCERNED	2016 RESULTS
EHS expertise	Guaranteeing a high level of expertise for EHS managers in the Group	EHS teams	**20** persons trained worldwide
Leadership & Safety culture	Training managers in the EHS culture of their unit	Top managers	**75** persons trained worldwide
EHS Operations & Labs		Managers and operational supervisors	**127** persons trained worldwide
Ergonomic Attitude Programme	Training in the health and safety issues specific to the Operations Division sites	Experts, managers and employees	**173** experts and 1,402 employees trained (managers, technicians, etc.)

In addition to these specialist training sessions, all new L'Oréal employees receive general and specific training at their workstation including the Group's EHS rules before taking up their positions.

A worldwide audit programme

In order to ensure compliance with the Group's EHS policy, a system of worldwide audits has been set up since 1996, and was reinforced in 2001 with the presence of external auditors, who are experts in the local context and regulations. These audits take place regularly at all L'Oréal sites: every 3 years for production sites and every 4 years for the distribution centres, administrative sites and research centres. If the result of the audit does not meet the standard required by the L'Oréal benchmarks, a specific interim audit is scheduled for the following year.

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

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

L'Oréal also shares with its subcontractors the objective of improving environmental, health and safety performances. Audits are carried out by third parties for this purpose on production or logistics subcontracting sites, in accordance with criteria defined by the Group which are similar to those used for the Group's entities.

TYPES OF AUDITS CONDUCTED IN 2016

	OBJECTIVES	METHODOLOGY	2016 AUDITS
Risk audits	Ensuring that the technical equipment, processes and operating methods implemented by management and used by employees do not carry risks of damage to their health, safety or the environment. Ensuring that the sites comply with all the legal obligations to which they are subject. Giving the Group's General Management objective knowledge of the risks in the areas of EHS on the L'Oréal sites and providing the assurance that they are under control.	For 4 years, these audits have covered all international operations. They are carried out by independent experts.	These risk audits were carried out at 1 plant, 2 distribution centres, and 1 research centre.
EHS culture audits	Measuring and developing management's leadership and internal EHS culture so that EHS is at the heart of the responsibilities of all operational managers.	All the Group's sites are subject to regular EHS culture audits. These audits are carried out by internal EHS specialists through group interviews with 20-30% of the site's workforce.	These EHS culture audits were carried out at 1 distribution centre and 2 research centres.
Combined Risk and Culture Audits	Combination of the risk and culture audits.	This single audit is carried out with the help of an outside firm as regards risks and by internal teams with regard to culture.	These combined risk and culture audits were carried out at 9 plants, 11 distribution centres and 1 administrative site.
Combined Quality, Environment, Health, Safety and Performance (QEHSP) Audits	Optimising the professional practices audits at a site by combining the various existing Operations Division audit programmes.	This audit was conducted on the basis of the references manuals for each of the EHS, Quality and Performance professions, with the help of an outside firm as regards EHS risks and internal terms for each of the audited fields.	A first combined pilot audit was conducted in 2016 at a plant. Other pilot audits will be conducted in 2017, with the objective of application of these audits in 2018.
Real estate audits	Checking that the buildings are in compliance with the Group's real estate procedures, and on the due and proper completion of extension or renovation operations and preservation of the assets. Since 2009, these audits have included aspects concerning "Quality of interior air" and Energy Performance.	The Real Estate Department carries out audits of the Company's real estate assets every year on a rotating basis with the assistance of an outside firm.	13 sites were audited.
Industrial subcontractor audits	Verifying the production conditions of the Group's industrial subcontractors (manufacture of products, particularly aerosols, inflammable products, etc.)	These audits are carried out by outside firms. If necessary, a follow-up audit is scheduled.	55 sites were audited.
Logistics subcontractor audits	The objective is to evaluate the level of EHS management of the site and to identify the presence of insufficiently controlled risks.	These audits are conducted by specialised firms. The evaluation of the site following the audit determines the action plan to be implemented and the frequency of future audits.	15 logistics subcontractors were audited.

In addition to these audits, loss prevention inspections are carried out regularly by experts within the scope of the Group's Fire and Environment insurance policies. In 2016, 8 plants and 2 distribution centres were inspected in 8 countries with regard to environmental risks (Germany, Egypt, Spain, France, India, Israel, Kenya and the United Kingdom) and 21 sites with regard to fire prevention in 11 countries (Germany, Australia, Belgium, China, Korea, Dubai, Spain, France, India, Israel and the USA).

Integrating acquisitions into all these processes

The Group regularly acquires new industrial sites. A formal integration process then makes it possible to provide these sites with extra support and assistance in order for them to be brought into compliance with all the EHS requirements defined, and to bring under control the potential risks.

The purpose of this integration process is to enable these sites to rapidly achieve the performance level expected by the Group. It comprises:

1. A regulatory compliance audit carried out by a third party within 6 months of the acquisition;
2. Deployment of the EHS processes described above (EHS manual, EHS reporting, training, audit programme);
3. Monitoring of its integration within the Group.

3.1.3.3. The Group's Health and Safety policy

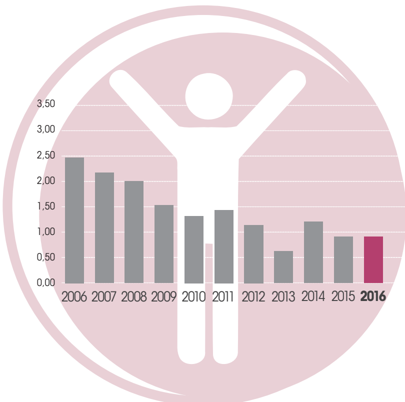
A shared ambitious policy

L'Oréal undertakes to develop, produce, distribute and sell innovative products of the highest quality, while having an ethical conduct and looking after, in particular, the health and safety of employees, consumers and the communities in which the Group performs its activities. The Health (H) and Safety (S) policy is defined and implemented in order to fulfil these requirements. It is a priority objective of the Group's general policy and constitutes one of its main managerial pillars. Each manager is assessed with regard to his/her ability to deploy the policy, and with regard to his/her Health and Safety results.

"Zero accident" is the ambitious target that L'Oréal has set itself with regard to the safety of its employees. To achieve this target, the Group has put in place comprehensive programmes aimed at reducing the risks and ensuring constant improvement in results. This safety culture has led to setting high standards and involving employees at all levels of the Company [(1)].

3

PERFORMANCE SUMMARY FOR PLANTS AND DISTRIBUTION CENTRES SINCE 2006 (TFC)



Priority focuses for deployment of the Health and Safety Policy

The main EHS focuses and orientations relate to the 8 following areas:

1. Definition and deployment of strategy and action plans to achieve the target for 2020: TFc[(2)] (Conventional Frequency Rate) < 0.5 for all the Group's sites;
2. Commitment and visible participation by management;
3. Initiatives to deal with the most frequent incidents, including in particular a global economics programme and a specific programme to prevent falls and hand injuries;
4. EHS organisation and practices in line with the Group's standards with OHSAS 18001 accreditation for all Operations Division sites;
5. Specific training programme for managers, EHS managers and operators/technicians;
6. Ongoing improvement of the Health and Safety management systems at all sites;
7. Active participation by employees;
8. Sharing of resources, feedback and best practices.

(1) *These rates may be subject to an imprecision of 5% maximum due to the local interpretation of the rules; work to improve the precision of these indicators is currently in progress.*
(2) *TFc = Number of lost-time accidents per millions hours worked for L'Oréal staff.*

Frequency rate – number of accidents in the workplace in 2016

Overall, the 2016 results are in line with those for previous years for the whole Group, even if they are slightly worse than for 2015. 173 lost-time accidents (L'Oréal staff and temporary employees) were reported in 2016, representing a conventional frequency rate (TFc) [(1)] of 1.21* ☑ (1.32 in 2015) and an enlarged frequency rate (TFe) of 1.31* ☑ (1.41 in 2015) [(2)].

FREQUENCY RATE IN 2016

The 173 lost-time accidents (L'Oréal staff and temporary employees) registered in the Group in 2016 lead to the following frequency rates per entity:

SITES	TFc 2016	VARIATION IN TFC VS; 2015	TFe 2016	VARIATION IN TFE VS. 2015
Plants and distribution centres	0.98 ☑	-18%	1.17 ☑	-12%
Administrative sites	0.73	+36%	0.7éé	+21%
R&I SITES	1.7	+25%	1.9	+19%
Sales forces & Stores	2.2	-34%	2.8	-29%
Group: all sites	1.21	-9%	1.31	-8%

Accident severity rate

The accident severity rate is identical to that for 2015 for the Group. It stands at 0.06 ☑ for the plants and distribution centres in 2016 and 0.03 for the Group.

(1) TFc = Number of lost-time accidents per million hours worked for L'Oréal staff.
(2) TFe = Number of lost-time accidents (L'Oréal staff and temporary employees) + number of non-lost time accidents with adjustments to tasks (L'Oréal staff) per millions hours worked.
☑ The Statutory Auditors have expressed a reasonable assurance with regard to this indicator.

A global programme dedicated to improving safety

L'Oréal has equipped itself with the necessary tools and programmes to attain excellence with regard to safety:

Close involvement of all employees	EHS Monitoring Committees	The Management Committee of each site carries out a general review of the action plans and the effectiveness of the EHS programmes.
	SIO (Safety Improvement Opportunities)	This programme incites employees to inform their direct managers of situations considered as involving risks in order for corrective measures to be taken.
	Constructive Challenge	This framework programme aims at improving individual safety culture so that each and every employee plays a proactive role both in his/her own safety and that of others. The objective of this programme is to cover 100% of the sites in 2020.
A programme to improve the ergonomics culture	Ergonomic attitude	This programme, which is intended to be extended to all the Group's sites by 2020, has been based since 2015 on a roadmap consisting of 4 levels which enable the sites to systematically improve their ergonomics culture and determine their individual action plans.
Safety control tools	MESUR (Managing Effective Safety Using Recognition and Realignment)	These are periodic on-site safety visits by a manager. In 2015, the programme was also deployed on certain administrative and research sites. In 2016, 24,197 MESUR visits were conducted on all the L'Oréal Group's sites.
	Group EHS audits	The "Combined Risk and Culture Audits" carried out as from 2014 fully include the evaluation of EHS culture and risk management, the assessment of the visible commitment by managers and employees and the process of ongoing improvement through action plans.
Dedicated training sessions	Safety Training for management	In 2016, 75 top managers (managers of plants or distribution centres, Management Committee members etc.) attended the *Leadership & Safety culture* seminar, held at the CEDEP, the European Centre for Executive Development on the campus of INSEAD in France. Since the start of this programme, over 350 senior managers have been trained. The main objectives of these seminars are to raise the awareness of top managers to safety issues, to increase their leadership ability to have safer behaviour adopted and maintained over the long term.

In 2014, an *Ergonomic Attitude* Governance Committee was launched with the Group's senior managers (from Operations, R&I, Marketing, IT, HR and the EHS teams). This committee's role is to determine the vision, objectives and actions to be deployed within the Group and to ensure that this programme provides effective support for L'Oréal's *Share & Care* program. The committee has defined a roadmap and, since 2015, it meets twice a year to oversee its deployment.

3.1.3.4. The Group's environmental policy

L'Oréal, which has long been committed to reducing its environmental footprint, has stepped up its ambition with the *Sharing Beauty With All* programme. Deployment of the Group's growth strategy, which aims at winning a billion new consumers, provides at the same time for acceleration of the reduction of the environmental impact of its activities.

Low-carbon growth and the preservation of natural resources are at the centre of this strategy. The Group's environmental policy thus rests on the foundations of the reduction in the consumption of natural resources (energy, water, raw materials), the use of renewable energies, wastewater management, and recovery of the waste generated to the best possible extent.

The implementation of this policy provides for all the sites to systematically combine operational performance and environmental performance, through knowledge, measurement and optimisation of the environmental impacts, in carrying out their activities and the deployment of their projects.

In each area (energy supply, water resources management and recovery of waste), the sites give preference as far as possible to the implementation of local projects in order to contribute to the development of the territories on which they are established.

Reducing the environmental footprit of industrial operations

Whether it involves building a new plant, the purchase of new equipment, or the definition of new processes, each industrial development is an opportunity for reducing the environmental footprint. It is the fruit of a longstanding commitment. As from 1992, the construction of a site performance measurement and reporting system with regard to water and energy consumption and waste generation made it possible very early on to monitor the sites' environmental results on a monthly basis, and as from 2009, to set pioneering targets with regard to the Operations Division scope: a reduction of – 50% in CO_2 emissions in absolute terms, in water consumption in litres per finished product and in waste generation in grams per finished product by 2015 from a 2005 baseline.

Within the scope of the *Sharing Beauty With All* programme, the Group has increased these initial commitments by raising these reduction targets from 50% to 60% by 2020 from a 2005 baseline. The Group also pledged by 2020 to no longer send any industrial waste to landfill and to reduce CO_2 emissions from transportation of its products by 20% per sales unit per kilometre from a 2011 baseline (transportation flows of finished products from the production sites to delivery to the customer).

These targets have led to:

- the implementation by each site of detailed improvement plans, the effectiveness of which is assessed at the time of the Group's EHS audits;
- continuous improvement in the sites' environmental performance for several years, notably *via* the definition and dissemination of best practices in terms of energy efficiency, consumption of natural resources and waste reduction and treatment;
- major developments and technological innovations in each of the 3 areas (CO_2, water, waste), going as far as the implementation of completely integrated solutions taking into consideration all the environmental impacts. Certain plants, like those in Libramont or Burgos, now have facilities on their sites making it possible to produce renewable energy (from biomethanation or biomass), to treat and recycle part of the industrial water, and to reduce waste generation while promoting waste recovery.

See also paragraph 3.2.2. *Producing sustainably*.

Managing risks and controlling the impact of sites on their environment

As soon as a project for a new site is being considered, an overall environmental impact study is required immediately during the design phase. The objective is to minimise the project's impact on the environment and to adapt the project to local conditions at the site where it is to be located. In the same way, at the time of the purchase of land or buildings, L'Oréal conducts a due diligence which includes, in particular, a review of the environmental aspects.

Ground use

With regard to operation of the sites, the preventive measures described in the internal procedures must be complied with in order to avoid all pollution (ground, groundwater, underground water, etc.). These measures are verified at the time of EHS audits and inspections by insurers.

L'Oréal's policy with regard to ground use is as follows:

- reducing the impact of construction on the environment, for example by using a zone which is already industrially developed, or an existing industrial site or industrial wasteland;
- if possible, the site will have to be on a plot of land located over 30 metres away from any water body (sea, ponds, lakes, rivers, etc.);
- the site will avoid land situated on natural spaces, public green spaces, land which is the habitat for endangered or disappearing species or any other undeveloped zone (for example: farmland, etc.);
- rehabilitating polluted sites (industrial wasteland) where development is more difficult due to environmental contamination (real contamination or contamination perceived as such), thus avoiding construction on natural or undeveloped land;
- preventing soil erosion which may result from rainwater runoff or wind erosion during construction, *inter alia* by protecting the arable soil layer which is stored to enable it to be reused;
- maintaining or restoring existing natural habitats and biodiversity;

- maximising the green space areas on the site (even in excess of the local regulations) and minimising the impermeable areas or natural spaces.

Noise pollution

L'Oréal's industrial activities are not particularly noisy. The sites comply with the noise standards to which they are subject. The internal environmental reporting system informs L'Oréal each month of any non-compliance on this subject.

Provisions for environmental risks

The amount of the provisions booked for environmental risks is not material. Two sites have set aside a provision for the treatment of their soil. Most of this provision corresponds to land which does not require any treatment for the activities which are currently carried out on the site (see note 13.3. of the *Consolidated Financial Statements*).

Implementation of a continuous improvement process

In order to make environmental performance a lasting part of industrial processes, L'Oréal has embarked since 2003 on the process of ISO 14001 (Environmental Management) certification of all its plants. As of the end of 2016, 83% of the plants are ISO 14001 certified, *i.e.* 35 plants out of 42. Over the next few years, the last plants acquired or built recently will be ISO 14001 certified. The Group has also defined processes and guidelines making it possible to achieve levels of excellence in all the business units.

Furthermore, in 2015, the Group launched an ISO 50001 (Energy management) certification programme with the objective of certifying all its plants by 2020, according to a defined roadmap. As of the end of 2016, 24% of the plants have been ISO 50001 certified, namely 10 plants, out of which 6 are in France, 1 in India, 1 in Germany, 1 in Italy, and 1 in Spain.

Deploying the environmental strategy outside the industrial sites

Reducing the environmental impact related to transportation

L'Oréal has pledged, within the scope of the *Sharing Beauty With All* programme, to reduce by 20% the CO_2 emissions per sales unit per kilometre generated by the transportation of its products between 2011 and 2020. The scope of consolidation covers the transportation flows of finished products from the production sites up to delivery to the customer. The Group has initiated a thought process into optimisation of its distribution channels while engaging a dialogue with the transport companies that are its partners to use less polluting means of transport.

3

Deploying the environmental strategy on the administrative sites and in the research centres

The processes making it possible to apply the environmental policy on the industrial sites have been gradually rolled out at the administrative sites and the research centres. Audits (risk, culture, combined risk and culture, real estate) are carried out on those sites in particular and EHS training courses are now accessible to EHS managers of these sites. The environmental indicator reporting requirement has now been extended to these sites in order to be able to measure, monitor and manage their performance more precisely. In this regard, the *Working Sustainably* programme, the pilot phase of which was launched in 2016, provides for objectives of reducing by 2020 from a 2016 baseline CO_2 emissions by 60% in absolute terms, energy consumption in kWh per hour worked by 20%, water consumption in litres per hour worked by 20%, and waste generation in kg per hour worked by 20%. It aims to reinforce the commitment of the administrative sites and the research centres with regard to the environment and to encourage them to identify and formally provide for action plans.

The reporting of the environmental data of the administrative sites and research centres was audited in order to form the baseline for these targets.

ENVIRONMENTAL INDICATORS OF THE ADMINISTRATIVE SITES AND RESEARCH CENTRES:

Indicator	Unit	2016
Hours worked (L'Oréal and temporary employees)	1,000 hours	71,674
Total energy consumption	MWh	170,993
Energy consumption per 100 hrs worked	kWh/100 hours	239
CO_2 emissions (Scopes 1&2)	Tonnes	32,937
Water consumption	m^3	419,098
Water consumption per 100 hrs worked	l/100 hours	585
Transportable waste	Tonnes	7,495
Transportable waste per 100 hrs worked	Kg/100 hours	10.5

Working alongside suppliers and subcontractors

Above and beyond its strict requirements with regard to its own sites, L'Oréal has for a number of years deployed an environmental policy all across the value chain of its products and its activities.

Indeed, L'Oréal works in partnership with its suppliers to improve the environmental profile of its products *via* the eco-design of packaging, ingredients and formulas.

L'Oréal also makes available to its suppliers training tools aimed at promoting the Group's best practices. The Group invited 302 suppliers to participate in 2016 in the CDP Supply Chain, the CO_2 emission reporting programme for companies. In order to support its suppliers in this demanding process, L'Oréal sends their results with its comments and the opportunities for improvement.

The Group also provides them with a toolbox to help them to understand the CDP questionnaires better. These actions contribute to supporting them in the development of their environmental strategy and monitoring the improvement of their performance year after year.

In 2015, the Group set itself the ambition that, by 2020, suppliers representing 80% of the direct purchases:

- will participate in the CDP Supply Chain;
- will set targets for reducing their carbon footprint;
- will communicate on their action plans to succeed in reaching this target.

The Group also ensures control of the environmental risks associated with the activities of its subcontractors, focusing on compliance with local environmental laws and verification of the absence of environmental risks, by means of EHS audits (see section 3.1.3.2). Where a difficulty is identified, an improvement plan is then defined and progress checked regularly.

Monitoring the Group's main greenhouse gas emissions

For the fourth year running, L'Oréal was given a score of "A" by the CDP, representing the highest level of performance of the Climate Leadership Index with regard to management of its carbon footprint, its strategy with regard to climate change and the transparency of its policy.

L'Oréal carries out a Greenhouse Gas Assessment (GHG Assessment) for all the Group's activities every year, in order to measure its CO_2 emissions and identify the action plans that will enable it to reduce its impact. This Assessment, which has been prepared since 2007, is made in accordance with the *Greenhouse Gas Protocol* (GHG Protocol) rules, the international reference method for recording GHG Emissions. It makes it possible to determine the Group's total carbon footprinted according to three defined Scopes:

- Scope 1: "*direct emissions from sources owned or controlled by the reporting entity.*";
- Scope 2: "*indirect emissions in connection with the consumption of electricity, heat or steam necessary for production of the product*" or to the operations of the reporting entity;
- Scope 3: "*other indirect emissions related to the supply chain ('upstream' emissions) and the use of products and services during their life cycle ('downstream' emissions).*"

Scopes 1 and 2 – emissions measured and reported on a monthly basis

These CO_2 emissions are measured by all the Group's sites and reported monthly.

Scopes 1 and 2 correspond to those for which the Group takes direct action *via* programmes to control energy consumption deployed on the sites and for the procurement of renewable energy. They are the subject of ambitious reduction targets as part of the *Sharing Beauty With All* programme (see *Sharing Beauty With All* programme below):

- The *Producing sustainably* objectives cover the industrial sites (plants and distribution centres), and provide for a reduction of 60% in CO_2 emissions in absolute value by 2020 from a 2005 baseline;
- The commitments related to the *Working Sustainably* programme cover all the administrative sites and research centres, with a reduction target of 60% in CO_2 emissions in absolute value by 2020 from a 2016 baseline.

For 2016, all these emissions represented 81.2 thousand tonnes for the plants and distribution centres, and are -67% down as compared to 2005, and 32.9 thousand tonnes for the administrative sites and research centres.

These data are audited and published annually; the margin of uncertainty at the level of the Group is approximately 1% for the Operations Division sites and 5% for the administrative sites and research centres.

Scope 3 - emissions estimated annually

Scope 3 covers all the other greenhouse gas emissions which are not directly related to manufacture of the product but to other stages in its life cycle (procurement, transportation, use, end of life, etc.) and other impacts related to the Group's activities (business travel, etc.). These emissions are the subject of an annual estimate according to the GHG Protocol methodology which represents the best possible approach to the CO_2 impact that is indirectly related to the Group's activities.

The GHG Protocol defines 15 types of emissions associated with Scope 3:

Upstream or Downstream	Scope 3 categories
Upstream	1. Purchased products and services
	2. Capital goods
	3. Fuel - and energy-related activities (not included in Scope 1 and Scope 2 emissions)
	4. Upstream transportation and distribution
	5. Waste generated by the sites
	6. Business travel
	7. Employee commuting
	8. Upstream leased assets
Downstream	9. Downstream transportation and distribution
	10. Processing of sold products
	11. Use of sold products
	12. End-of-life treatment of sold products
	13. Downstream leased assets
	14. Franchises
	15. Investments

For 2015, the L'Oréal Group's emissions have been estimated at 7,720,000 thousand tonnes.

The main types of emissions, representing over 90% of Scope 3, have been updated (1) in 2016 and break down as follows:

- Use of sold products: 4,267 thousand tonnes

  CO_2 emissions related to use of L'Oréal products by consumers are due to the hot water used for rinsing off certain products, such as shampoos, shower gels or dyes. CO_2 emissions for this category are mainly related to the nature and method of production of the energy used to produce the hot water.

- Purchased products and services: 1,897 thousand tonnes

  CO_2 emissions related to this category correspond to preparation of all the materials used for the products manufactured by the Group. These emissions include the extraction of materials, their transportation to suppliers, then their processing prior to delivery.

- End-of-life treatment of sold products: 437 thousand tonnes

  The CO_2 emissions related to this category correspond to treatment of sold products after their use: packaging items treated in the existing channels and wastewater treated in water treatment plants. The CO_2 emissions for this category are mainly related to the nature and method of production of the energy used for each type of treatment.

- Business travel: 382 thousand tonnes

  The CO_2 emissions related to this heading correspond to business travel for all employees from all countries. These emissions take into account the different means of transport used (car, train, plane). They also include travel by sales forces.

- Downstream transportation and distribution: 310 thousand tonnes

  The CO_2 emissions related to this item correspond to the emissions from transportation of sold Products; transportation flows of finished products from the production sites up to delivery to the customer.

The Group's commitments to a low-carbon economy have already led to several initiatives and achievements aimed at reducing the important categories under Scope 3:

- Programmes conducted with the Group's suppliers for many years in order to raise their awareness of the main environmental issues and, in particular, the control of their CO_2 impacts. This is the case *via* the CDP Supply Chain, in which L'Oréal invited 302 suppliers to participate in 2016. Within the framework of the *Sharing Beauty With All* programme, participation by strategic suppliers has been made compulsory and 96% of the suppliers asked to participate have responded positively. These are suppliers involved in industries that generate CO_2, and may be large industrial groups or small and medium-sized businesses. In December 2015 at the time of the COP21, L'Oréal pledged that suppliers representing 80% of direct purchases:
  - will participate in the CDP Supply Chain,
  - will set targets for reducing their carbon footprint,
  - will communicate on their action plans to succeed in reaching this target;
- An initial commitment made by the Group concerning the reduction of the impact of downstream transportation, with a target of a reduction in greenhouse gas emissions engendered by the transportation of its finished products, from the production sites up to delivery to the customer, by -20% per sales unit per kilometre, by 2020 from a 2011 baseline (see *Sharing Beauty With All* programme below);
- The *Carbon Balanced* commitment, providing that the residual emissions for Scopes 1 and 2, and the downstream transportation category of Scope 3, will be compensated for in 2020 thanks to an ambitious insetting programme: the remainder of these emissions must be balanced *via* the reduction of the carbon emissions in the sustainable sourcing channels for certain raw materials, in partnership with the suppliers;
- Finally, L'Oréal undertook, *via* the *Science Based Targets* programme, as from the end of 2015, to define long-term reduction targets with regard to the significant categories of Scope 3. These targets will be submitted for validation to the SBT Committee (WWF, WRI, CDP) during the first half of 2017.

Margin of uncertainty related to the Scope 3 estimates

In general, greenhouse gas assessments are, by definition, subject to a margin of error or "uncertainty". The highest level of uncertainty concerns the Scope 3 estimate, in light of the number and nature of the data necessary for its calculation (emission factors of the energy used to heat the water necessary for the phase of use of our rinse-off products all over the world, the quantity of water necessary for rinsing off, CO_2 emissions of our raw materials and packaging suppliers, distances travelled for transportation, etc.).

Because measurement of the global CO_2 impact of the Group's activities is essential information in light of the commitments made to fight against climate change, efforts are made year after year to increase the reliability of these data. The level of uncertainty of the Group's Scope 3 emissions is between 20 and 30%.

This means that, unlike for Scopes 1 and 2, the changes in Scope 3 emissions from one year to the next may be related more to the quality of the data collected and the calculation methods used than real measurement of a change in performance. Finally, this margin of uncertainty with regard to Scope 3 is a reality for all companies, and does not make it possible to consider this data as a reliable benchmark or method of performance assessment.

(1) *In 2016, the Group udated the calculation of its carbon footprint concerning activities for 2015. Four of the five largest categories under Scope 3 of the 2016 GHG assessment were calculated based on information for 2016. Only the "End-of-life Treatment of Sold Products" category has been estimated on the basis of the assessment for 2015, on a prorated basis to the changes in the quantities of materials used.*

Adaptation to the consequences of climate change

Conscious of the consequences of climate change, L'Oréal has initiated its transition towards an increasingly responsible business development model in which the extra-financial issues are placed at the same level as the financial objectives with a vision of global performance. The ambition is to design an innovative low-carbon business model and to make a contribution to the major collective challenge represented by limiting global warming.

For this purpose, the Group has, for example, pledged to slash the absolute quantities of greenhouse gas emissions in its plants and its distribution centres by 60% (*versus* a 2005 baseline) *via* targets provided for in the Sharing Beauty With All programme; with the *Carbon Balanced* programme, between now and 2020, the L'Oréal Group is going to balance its greenhouse gas emissions (Scope 1, Scope 2 and emissions related to downstream transportation) by generating carbon savings in the sustainable sourcing channels for its raw materials, in partnership with the Group's suppliers (see paragraph on *Producing Sustainably*).

Furthermore, the L'Oréal Group evaluates and integrates the risks related to climate change in its overall risk management process in order adopt the most suitable solutions.

The main risks identified are as follows:

- an increase in the frequency and intensity of rainfall, in particular in river areas, may momentarily interrupt or slow production and distribution processes;
- episodes of extreme drought may affect the availability of resources;
- cyclones, hurricanes and typhoons may damage facilities, hamper the supply chain and potentially threaten employee safety.

These risks and their consequences may also represent a financial risk for the Group, in particular with regard to the security and safety of employees (see section 2.8.4. the paragraphs on "*Safety and Security*" and "*Environment and safety*" of the Risk factors), production and the supply chain (see section 2.8.4. the paragraph on "*Production and the* supply chain" of the Risk factors), an increase in charges, etc. In order to manage these risks, to lessen their impact and to guarantee business continuity, L'Oréal has implemented a certain number of measures including:

- a business continuity plan and a crisis management plan;
- a security policy making it possible to manage the consequences of extreme climate events, in particular on the Group's information systems, and its data centres;
- programmes to assist in preserving natural resources in areas affected by drought.

3.1.4. THE L'ORÉAL GROUP'S SOCIETAL COMMITMENT

Via the *Sharing Beauty With All* programme, the Group has reaffirmed its commitment to responsible growth shared with its employees, its suppliers and the surrounding communities.

As the Group's societal commitment extends well beyond its philanthropic activities, L'Oréal maintains an ongoing dialogue with its stakeholders and continually interacts with the local social and economic fabric in which it carries out its business activities. Furthermore, L'Oréal applies the strictest measures in terms of consumer safety, anti-corruption measures and respect for Human Rights.

3.1.4.1. Conducting a constant dialogue with stakeholders

L'Oréal attaches great importance to the dialogue with its stakeholders, namely with all those whose actions are likely to have an impact on L'Oréal and all those who are concerned by its activities.

Within the framework of an ongoing dialogue and as part of a process aimed at making continual progress, L'Oréal endeavours to take account of stakeholder expectations in its strategy.

For this purpose, the Group has defined and developed a method of *ad hoc* interaction, that it considers the most efficient and appropriate, with all those involved.

A strategy of an evolving dialogue

The dialogue conducted by L'Oréal with its stakeholders took place in three phases:

1st phase: upstream of the definition of the Group's *Sharing Beauty With All* commitments with regard to Sustainable Development, L'Oréal engaged a dialogue between 2011 and 2013 with 754 organisations, including a physical dialogue with 232 of them, through forums organised by the Group in 8 key countries. In order to establish the priority focuses of its Sustainable Development strategy, the Group launched a "materiality analysis" as from 2012. This made it possible to identify 29 topics for attention shared by the stakeholders with regard to the Group. L'Oréal was then able to compare stakeholder expectations with the definition of its own CSR strategy.

The materiality analysis took place in 4 phases:

- identification and prioritisation of stakeholder expectations;
- identification and prioritisation of Sustainable Development challenges for L'Oréal;
- establishment of materiality;
- revision of CSR strategy and L'Oréal's indicators.

Thanks to this process, L'Oréal is able, at regular intervals, to revise the priorities of its CSR strategy, assess the relevance of its indicators and adapt its reporting by communicating on the most "material" topics, namely those that are at the heart of the concerns of the stakeholders and the main challenges for the Group.

2nd phase: the Group set up in 2013 a dialogue platform hosted on the loreal.com website making it possible to continue this dialogue on-line, offering the possibility for NGOs, associations and not-for-profit organisations to interact with the Group's experts.

3rd phase: since 2013, L'Oréal has set up special-purpose panels and consultations with regard to various topics in order to include the views of NGOs, associations, not-for-profit organisations and experts in its thought process and its projects. In 2016, the Group engaged a dialogue with 89 stakeholders in order to challenge its projects and progress, and also updated its materiality grid.

	RELATIONSHIPS MAINTAINED	A FEW INITIATIVES
Employees	L'Oréal sets up a large number of dialogue arrangements with its employees to ensure their health, safety and well-being at work while listening to their concerns.	Over 60% of the Group's employees took part in *Ethics Day* in 2016, and more than 4,800 questions were raised worldwide. In 2016, this webchat was enhanced with a crowdsourcing on the topic of "*How to Better Work Together*", resulting in over 1,100 ideas received from 61 countries.
Suppliers	L'Oréal maintains an extensive dialogue with its suppliers and shares with them its ambitions in the area of Sustainable Development.	During annual Business Reviews, L'Oréal discusses 5 main subjects with its suppliers: quality, innovation, competitiveness, delivery/supply chain and Corporate Social Responsibility. 223 *Business Reviews* took place in 2016.
Consumers	L'Oréal is heedful of both current and future needs and concerns of its consumers, in particular with regard to Sustainable Development.	In 2016, L'Oréal held consumer sustainability panels in France in Paris, Lyon and Bordeaux to discuss its sustainable projects and listen to their expectations.
Shareholders	To guarantee the relationship of confidence between L'Oréal and its shareholders, the Group maintains an ongoing dialogue by organising regular meetings, by participating in marketplace actions and *via* a whole range of multimedia tools.	◆ Publication of the 1st Digital Activity Report in 2015; ◆ Participation in 2016 in the Actionaria Stock Market Fair for the 13th year running; ◆ Holding of around ten meetings and site visits with shareholders in France and Belgium; ◆ Sending of shareholders' letters and newsletters; ◆ Presentation of *Sharing Beauty With All* strategy at the Annual General Meeting in April 2016.
Customers (distributors)	As it does with its suppliers, L'Oréal builds close relationships with its distributors by involving them in the preparation of joint Sustainable Development projects.	In 2016, for example, the Consumer Products Division continued to work with the Leclerc chain of stores on responsible POS advertising, through the second edition of a competition organised jointly aimed at recycling the L'Oréal POS advertising in the 660 Leclerc stores.
NGOs, associations and not-for-profit organisations	The *Panel of critical friends* is an external governance body, which reviews the progress made on the *Sharing Beauty With All* programme every year, casts a critical eye over the actions conducted, suggests improvements and challenges L'Oréal's Sustainable Development ambition.	In 2016, the panel met in the presence of Jean-Paul Agon in New York, in the USA.
	Since 2013, L'Oréal sets up panels and launches consultations on various topics in order to include the views of NGOs, associations and not-for-profit organisations in its reflection process and its projects.	In 2016, L'Oréal held a dialogue at corporate level with 89 organisations from all over the world to discuss its initiatives and challenge its progress.
	Once a year, all L'Oréal's employees are invited to spend a day on voluntary actions for associations and not-for-profit organisations, on public utility projects and supporting the surrounding communities, while continuing to receive their salary.	In 2016, for the 8th edition of Citizen Day, nearly 28,000 employees took part in the event in 70 countries.
Extra-financial rating agencies and investors	L'Oréal guarantees the transparency of its information and discusses CSR topics regularly with both extra-financial rating agencies and with investors.	L'Oréal is in contact, in particular, with Vigéo-Eiris, OEKOM, the CDP, etc. to discuss extra-financial performance and identify areas for improvement.
The scientific community including researchers and academics	Research and Innovation are an integral part of the identity of L'Oréal which maintains close links with a large number of public or private research centres all over the world, in the form of partnerships or collaboration, in areas as varied as green chemistry, synthetic biology, genomics, skin stem cells, microfluidics, bioprinting, or the microbiome.	◆ Through the L'Oréal Foundation's *For Women in Science* programme, the Foundation rewards scientists and awards scholarships to young female researchers; ◆ In 2016, L'Oréal created its first university research chair in digital biology at Laval University (Quebec). ◆ L'Oréal has set up a Scientific Advisory Board of 10 eminent scientists, which meets twice a year. Two major topics were dealt with in 2016: sustainable innovation to examine the most promising approaches that will inspire future innovations; and regenerative medicine, a rapidly expanding field in Asia.
The public authorities	At local, national or international level, L'Oréal maintains close relationships with the public authorities in particular *via* professional associations.	L'Oréal is a member of many associations all over the world, including: Cosmetics Europe, the US cosmetics industry association, CAFFCI (China Association of Fragrance Flavour and Cosmetic Industries), ISTMA (Indian Soap and Toiletries Mfrs Association), CTPA (Cosmetic, Toiletry & Perfumery Association), etc.
Students and young graduates	L'Oréal has been identified as one of the most attractive companies for students.	◆ Organisation of Business Contests in 2016, 15,000 students from all over the world registered for the Brandstorm competition; ◆ Support for various chairs, like the marketing chair at the Saïd Business School, Oxford University, the Entrepreneurship chair at the HEC business school and the Leadership and Diversity Chair at the ESSEC business school in France, or the Marketing – Innovation & Creativity chair at INSEAD.

3.1.4.2. The strong dynamism of L'Oréal's corporate philanthropy activities

L'Oréal has always been committed to worthy causes and to the surrounding communities. First created in 2007, the purpose of the L'Oréal Corporate Foundation is to coordinate all the corporate philanthropy initiatives developed all over the world through the Group's subsidiaries and its brands. This commitment to good corporate citizenship now plays a strategic role in its development.

Under the chairmanship of L'Oréal's Chairman and CEO, the L'Oréal Foundation's Board of Directors has 15 members, including 8 personalities from the Group and 7 from outside the Company, chosen for their expertise in the Foundation's areas of intervention.

The commitments of the L'Oréal Foundation centre round two major thematics which are part of the Group's DNA: science and solidarity beauty. Thanks to its *For Women in Science* action, the L'Oréal Foundation generates vocations from young women students in secondary schools, encourages women researchers all over the world and recognizes excellence in an area where women are still not sufficiently represented. The L'Oréal Foundation also implements the *Beauty for a Better Life* programme which maked it possible to provide free training in 2016 in the beauty professions to over 3,295 people in very difficult living situations in 25 countries and which, in France, makes it possible to offer people with cancer or victims of social exclusion beauty care and well-being treatments.

L'Oréal-UNESCO For Women In Science: A commitment maintained for more than 18 years

To fight against the under-representation of women in the scientific world, the L'Oréal Foundation created the *L'Oréal-UNESCO For Women in Science* programme in 1998. This international programme is born of one conviction: because the world needs science, science needs women. This is why it identifies, rewards, encourages and showcases every year women from all continents who, through their discoveries, contribute to advancing knowledge.

2,530 women in science

from over 112 countries who have received awards and been rewarded since 1998

Two of the 92 prize-winners who have received the L'Oréal-UNESCO award, Elizabeth Blackburn and Ada Yonath, were Nobel Prize-winners in 2009.

Research scholarships are also awarded on a national, regional and international scale to encourage women pursuing doctoral or post-doctoral studies, with promising talent, to pursue their scientific careers.

250 Research scholarships

on a worldwide basis including 30 in France in 2016 out of over 6,531 applications from candidates all over the world

The L'Oréal Foundation launched in France in 2014 a new programme dedicated to young girls, *L'Oréal For Girls in Science*, marking a new stage in the commitment by the Foundation. Intended to encourage more scientific vocations among girls at secondary schools and to fight against pre-conceived ideas relating to science and women in science, this programme was the subject of an agreement with the French Ministry of National Education, Higher Education and Research in 2015.

Beauty for a Better Life: beauty to feel better and live better

Beauty care and well-being treatments

Convinced of the physical and psychic benefits of beauty care and well-being treatments for vulnerable women, the L'Oréal Foundation promotes the integration of such care and treatments in medical and social contexts. It works in particular in France with the *UNICANCER* centres or NGOs like *Emmaüs* or *Joséphine pour la beauté des femmes.*

7,000 beneficiaries
Of beauty care and well-being treatments in 2016

Training in beauty professions for the most vulnerable populations

The Foundation has developed a free education and training programme in beauty professions that relies on the L'Oréal Group's know-how, such as hairdressing and make-up. The beneficiaries are vulnerable women experiencing social or economic problems, young people who have left home or who have dropped out of school or victims of conflicts or domestic violence.

The objectives of the programme: to help these women who are in a situation of great distress to regain motivation and recover their self-esteem and give them the possibility of professional reintegration through high-quality training provided by professionals, long-term support adapted to each pupil, and a reputed diploma.

The programme, deployed in 25 countries (Vietnam, China, India, Colombia, Dubai, Chile, Pakistan, South Africa, etc.), relies on the local support of the L'Oréal Group's subsidiaries, the local authorities and NGOs recognised for their commitment to the communities, and the coordination of the L'Oréal Foundation.

3,295 in a very difficult living situation(1)
trained in the beauty professions in 2016 within the framework of the Beauty for a Better Life programme

(1) This figure corresponds to the number of people who received diplomas under the programme in 2016 in the 21 countries where the programme is active. The proframme is furthermore in the process of being launched in another 4 countries.

A partnership with Médecins du Monde to give children a smile

The L'Oréal Foundation also supports the *Médecins du Monde* association's reconstructive surgery operations (*Opération Sourire* or "Give me a smile") for children who suffer from congenital malformations and young women who have been victims of acid-throwing attacks. The L'Oréal Foundation enables these people to recover their dignity and be accepted back into their community. More than 1,400 children were operated on in over 10 countries.

1,400 children operated on in 2016
within the framework of Opération sourire

3.1.4.3. Rolling out initiatives locally in favour of the communities

In addition to the large programmes initiated by the Foundation and rolled out across the world, each and every L'Oréal entity is encouraged to take local actions in relation with the situations in their particular countries. In 2016, L'Oréal thus supported several hundreds of projects throughout the world, involving actions in the fields of solidarity, education, culture or the environment.

Citizen Day

Armed with the conviction that everyone has a role to play, L'Oréal mobilises its employees at the time of a citizenship action day, known as *Citizen Day*.

Every year since 2010, L'Oréal's employees spend a day of their working time offering their skills and devoting their energy to several hundred associations and not-for-profit organisations in the social and environmental field.

This involves, for example, cleaning natural sites, setting up well-being workshops for people in fragile situations, repainting centres for old people or people in difficulty, helping people who are looking for a job to prepare their résumés, etc.

For the last seven years, more and more employees have shown a commitment every year. In 2016, with nearly 28,000 participants and 300,000 hours of voluntary work, L'Oréal *Citizen Day* provided support to 515 associations and not-for-profit organisations in 70 countries.

Pursuing local initiatives in favour of employment

L'Oréal is a leading economic player in all the geographical zones where it is established. On this basis, it contributes to local employment and thus participates in regional development. Within the scope of its policy for the professional integration of people who are having great difficulty finding work, the Group has undertaken a large number of local initiatives.

In addition, L'Oréal will pay an amount of €24.9 million for the territorial economic contribution (CET) in respect of the 2016 financial year.

In 2016, the Group continued with its initiatives in several countries with the following examples in particular:

The distribution centre in Karlsruhe (Germany)

The distribution centre in Karlsruhe is continuing to develop its partnership with the association HWK (*Hagsfelder Werkstätten und Wohngemeinschaften Karlsruhe GmbH*) which promotes the professional integration of disabled people:

- In 2015, 40 people with disabilities at HWK were in charge of the sorting activities for returns made by the subsidiary's customers, preparing testers and sending out orders made from L'Oréal's online store;
- In 2016, 10 more people from HWK were called upon to work for L'Oréal. Certain people work directly on the logistics platform, on the *RePaCC* machine in particular. This machine produces cardboard cushions out of non-reusable boxes. This is a major recycling initiative in Germany.

The plant in Suzhou (China)

To hire disabled persons and provide them with support, the plant in Suzhou has launched various actions including the following:

- a close partnership with the *Suzhou Disabled people's association*;
- participation twice a year in a local forum specialising in the employment of disabled people;
- opening up applications for vacant administrative positions to disabled persons.

These actions have made it possible to hire 5 people in two years.

The Burgos plant (Spain)

In order to improve waste management, the Burgos plant has developed a waste management project with *Aspanias* (an enterprise which promotes the employment of disabled persons).

To this effect, 11 people with intellectual or physical disabilities (with a disability rate of between 33% and 70%) have been trained and are responsible for all waste management. They work on-site and are completely integrated in the everyday life of the teams.

Supporting training for young people

As a socially involved company, L'Oréal is gambling on young people by investing in training for the new generations. For a number of years, the Group has developed close partnerships with primary and secondary schools but also universities and leading graduate management, engineering and research schools. Its objective: offering students the possibility to discover the Company during their cursus, by proposing to them internships every year and, for over 20 years, apprenticeship contracts or contracts offering work experience in all employment positions. A qualitative assessment of the apprentice training centres (*Centres de Formation d'Apprentis* or "CFA") is made every year.

For 2016, in France, L'Oréal will have to pay an amount of €5,219,191 in apprenticeship tax.

Through its sites and its subsidiaries, the Group undertakes a host of initiatives to support training for young people:

- Florence (USA)

  The plant in Florence has launched a programme aimed at promoting technical jobs for young people in partnership with the *Kentucky Federation for Advanced Manufacturing Education*. The young people who are selected follow a two-year training programme consisting of two days of theoretical courses a week and three days in different positions in the plant: packaging, manufacturing, maintenance, etc.

  This training enables them to gain a technician's diploma.

  The Florence plant has regularly taken on 4 students per year.

- BRI, Fapagau, Sicos and Soprocos (France)

  L'Oréal has set up a partnership with Adecco in order to provide assistance to people finding it hard to find a job with a view to their professional integration through training.

  This partnership involves the participation of the Group's four plants: Fapagau, Sicos, Soprocos and BRI, the unemployment agencies in the sites concerned, and the Adecco team who together select 12 candidates of between 25 and 48 years of age in a difficult living situation.

  In addition, a work and training programme has been devised with *Humando* (the Adecco's training subsidiary) which consists of theoretical training at *Humando* and practical training on the packaging lines at the plants where each person is supervised by a mentor.

  With the 4 plants, these 12 candidates have three-month contracts known as CIPIs ("*Contrats d'Insertion Professionnelle en Intérim*", *i.e.* professional insertion contracts for temporary work) then a work experience contract for 9 months. Upon completion of these contracts, their training will allow them to acquire the equivalent of a qualifying diploma to become a packaging line operator.

769 young people on work and training contracts in France

(350 apprenticeship contracts and 415 contracts offering work experience), 364 of whom were at L'Oréal S.A.

3.1.4.4. Fair business practices

The L'Oréal Group wishes to act in all circumstances in accordance with the ethical principles that it has set and to comply with the laws and regulations in force in all the countries where it is present.

Actions taken to prevent all forms of corruption

L'Oréal, signatory of the United Nations Global Compact

L'Oréal has been a member of the United Nations Global Compact since 2003 and supports the fight against corruption. The Group is committed to complying with the United Nations Anti-Corruption Convention of October 31st, 2003 and to applying all the applicable laws, including anti-corruption laws.

This commitment is supported at the highest level of the Company by its Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact every year.

L'Oréal is a member of the International Chamber of Commerce Anti-Corruption Commission and a member of Transparency International France.

L'Oréal's Code of Ethics and the practical corruption prevention guides

L'Oréal's Code of Ethics publicly states a zero-tolerance policy on corruption which applies to all employees, corporate officers, Directors and members of the Executive and Management Committees of the Group and its subsidiaries worldwide. L'Oréal's Code of Ethics was updated in 2014. Available in 45 languages, and in French and English in Braille, it is distributed to all employees worldwide.

L'Oréal has moreover published a more detailed corruption prevention policy available on loreal.com.

With regard to employees, the Group also has other reference documents for the purpose of specifying the practices to be adopted and fighting against corruption:

- *Specific anti-corruption guide:* rolled out throughout the Group as a whole since 2013, it covers the relationships with each of L'Oréal's stakeholders, in particular with the public authorities and intermediaries. This practical guide is intended to specify the Group's standards and to help employees to handle situations that they might encounter in the performance of their duties.

It reaffirms L'Oréal's corruption prevention policy which was approved by the Chairman and Chief Executive Officer and the Executive Committee and presented to the Board of Directors. This policy posted online on L'Oréal's website (www.loreal.com) restates the following principles:

- the zero-tolerance policy on corruption;
- the prohibition on facilitation payments;
- the prohibition on all contributions to political parties or politicians with the aim of obtaining a commercial advantage;
- the prohibition on giving and accepting gifts and/or invitations that might influence or be perceived as influencing a business relationship;
- communication of the commitment to preventing corruption to the Group's business partners;
- compliance with these commitments by intermediaries or agents representing L'Oréal, particularly in countries where there is a high corruption risk;

- *Employee guide - Gifts/Invitations*: distributed in 2014 on a groupwide basis to specify the rules in this regard;
- "*The Way We Buy*": a practical and ethical guide for the purpose of governing the relationships between suppliers and all employees involved in purchasing decisions. This document has been translated into 12 languages.

The involvement of everyone in preventing corruption

The Executive Committee	Regularly reviews the corruption prevention policy presented to the Board of Directors.
The Director of Risk Management and Compliance	Is in charge of developing the corruption prevention programme.
The Country Managers	Are responsible for the proper deployment of the corruption prevention programme and guarantee compliance with the corruption prevention policy.
Employees	May contact their management, their Legal Director, their Administrative & Financial Director, their Internal Control Manager, their Ethics Correspondent or the Director of Risk Management and Compliance and, ultimately, the Senior Vice-President and Chief Ethics Officer if they have any questions about compliance with this commitment. The aim is to ensure that all the situations encountered are thoroughly examined and, where applicable, that the appropriate steps can be taken.

Sharing the fight against corruption with the Group's business partners

L'Oréal wants to share its commitment to fight against corruption with its business partners and compliance with the law is included in the Group's general terms of purchase. It moreover reserves the right to put an end to any relationships with business partners who fail to comply with anti-corruption laws.

Group-level risk assessment	The risk of corruption is included in the Group-level risk assessment. A tool enables Country Managers to assess and analyse possible local ethical risks (including corruption) and to take the necessary prevention measures.
Specific Human Resources procedures	An *Obtains results with integrity* ethical competency is included in the annual appraisal system for all employees.
L'Oréal's "*Open Talk*" policy	This enables employees to express any concerns they may have, including with regard to corruption, namely directly *via* a secure website to the Group's Senior Vice-President and Chief Ethics Officer. Any allegation raised in good faith is examined in detail and appropriate measures are taken, where necessary, in the event of non-compliance with the corruption prevention policy.
Training	An E-learning on corruption prevention is currently being deployed all over the world.
Internal Control within the scope of the control procedures for operational activities	The Group's Internal Control system provides for control procedures for operational activities and in particular with regard to separation of tasks. L'Oréal's Internal Audit teams are particularly vigilant in this respect. Corruption risks are systematically reviewed during Internal Audit assignments, through individual interviews with regard to Ethics. These interviews include questions specifically concerning corruption and are conducted separately with the Country Manager and the Administrative and Financial Director. They give rise to an individual report reviewed and signed by these latter persons.
Due diligence prior to proposed acquisitions	The answers to the "ethics questionnaire" submitted to target companies are intended to identify whether corruption risk prevention has been taken into account by such companies.

A group supporting Human Rights

L'Oréal, signatory of the United Nations Global Compact

L'Oréal has been a member of the United Nations Global Compact since 2003 and is committed to respecting and promoting Human Rights. This includes, in particular, the Fundamental Conventions of the International Labor Organization even though these conventions have not all been ratified by all the countries where L'Oréal is present. This commitment is supported at the highest level of the Company by its Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact every year.

Furthermore, in 2015, L'Oréal joined the UN Global Compact LEAD that brings together the most commited companies to sustainability.

Commitment of all employees in respect for human rights

- The Senior Vice-President and Chief Ethics Officer is in charge of overseeing the respect of Human Rights in the Group. This mission has been entrusted to him by L'Oréal's Chairman and Chief Executive Officer, to whom he reports regularly. He informs the Board of Directors and the Executive Committee;
- Country Managers are in charge of implementing the Human Rights policy in their country. The Group's Senior Vice-President and Chief Ethics Officer meets systematically with each new Country Manager and Country Human Resources Director in order to raise their awareness on Human Rights issues;
- The Human Resources teams are responsible for respect for Human Rights with regard to employees;
- The Purchasing teams are responsible for respect for Human Rights at the sites of suppliers and subcontractors;
- Employees may contact their management, their Human Resources Director, their Legal Director, their Purchasing Director, their Ethics Correspondent and, ultimately, the Senior Vice-President and Chief Ethics Officer if they have any questions about compliance with this commitment.

L'Oréal's Code of Ethics and other policies in favour of human rights

The L'Oréal Spirit	Main commitments with regard to employees (health, hygiene, safety and security, diversity, sexual and moral harassment, privacy).
	The Group's commitments to the abolition of child labour and forced labour, the selection of suppliers and the contribution to the community.
Code of Ethics	L'Oréal's commitments to respecting and promoting Human Rights, with reference in particular to the Universal Declaration of Human Rights and the United Nations Guiding Principles on Business and Human Rights. L'Oréal also supports the United Nations Women's Empowerment Principles.
The Way We Buy	A practical guide intended to specify the Group's standards and to help employees handle situations that they could encounter in the performance of their duties in relationships with suppliers.
Ethical Commitment Letter	Suppliers and subcontractors are asked to comply with the ethical commitment letter that refers to compliance with the Fundamental Conventions of the International Labor Organization as well as local laws.
"Suppliers/Subcontractors and Child Labor"	Description of the main commitments concerning child labour by suppliers/subcontractors.

Actions implemented in the Group in favour of human rights

Risk assessment	**Risk assessment** with regard to Human Rights is based in particular on the indicators of the *Verisk Maplecroft* index [(1)]. **A tool** enables Country Managers to assess any local ethical risks (including with regard to Human Rights). Since 2013, 89% of the Countries have carried out an ethics self-assessment. The precise analysis of supplier and subcontractor risks is carried out by the Purchasing Department, namely through social audits. An **annual ethics reporting system** enables monitoring of the implementation of the ethics programme, particularly with regard to Human Rights. The Countries are informed of their potential areas for improvement by the Office of the Chief Ethics Officer. 100% of the countries completed their annual ethics reporting in 2016.
Ongoing communication	***Ethics Day***: an annual day on ethics has been organised since 2009. A live webchat with L'Oréal's Chairman and Chief Executive Officer enables all the Group's employees to ask questions and exchange on the application of L'Oréal's Ethical Principles on a day-to-day basis, including concerning respect for Human Rights. Ethics chats are also organised locally with each Country Manager. In 2016, over 60% of the employees took part in these chats and over 4,800 questions were asked worldwide. The Senior Vice-President and Chief Ethics Officer **regularly visits the Group's entities** all over the world to meet employees at all levels of the Company. In 2016, within this framework, he visited 16 countries, making a total of 63 countries visited since the end of 2013. 96% of the countries have communicated on at least one topic related to Human Rights. The employees also have access to a dedicated intranet site which provides additional information on ethics, including on Human Rights.
Training	A **specific, compulsory e-learning on ethics** covering Human Rights issues in particular is currently being rolled out in all countries. ◆ As of December 31st, 2016, 76% of the employees with access to the online module had completed this course. ◆ 15 in-room training sessions were provided to 382 employees, representing 1,150 hours of training in 2016. ◆ In 2016, 90 purchasers were trained in responsible purchasing practices. This training is compulsory for any new purchaser. ◆ 94% of the Group's countries included subjects related to Human Rights in their local training programme.
Specific Human Resources procedures	The ethical competency "***Acts/Leads with Human Sensitivity***" is integrated in the annual appraisal system for all employees.
Operational procedures	In accordance with its commitments to compliance with the principles of the Convention on Biological Diversity, in 2005, L'Oréal included in its sustainable sourcing policy for renewable raw materials compliance with **the rights of indigenous peoples**, which is based on obtaining a prior agreement, and the guarantee of a fair return to the local populations. When **choosing a site** to be purchased or at the time of an off-plan lease agreement, L'Oréal ensures that the seller became the owner and paid compensation to any occupants/users in compliance with international guidelines. The agreement of the Group's Security and Safety Department is required before choosing a new security services provider or renewing an ongoing contract with such a service provider. Where it is locally possible, L'Oréal gives preference to security service providers who have adhered to the International Code of Conduct for Private Security Service Providers. The subsidiaries enter into contracts locally for property security services and check on the skills, official accreditations and training of security guards.
Due diligence prior to proposed acquisitions	The answers to the **"Ethics and Human Rights questionnaire"** submitted to target companies are intended to identify whether the risks related, *inter alia*, to failure to respect Human Rights (abolition of child labour and compulsory and forced labour, etc.) have been taken into account by such companies.
L'Oréal's "Open Talk" policy	This enables employees to express any concerns they may have, including with regard to Human Rights, in particular to the Group's Senior Vice-President and Chief Ethics Officer directly *via* a secure website. Any allegation raised in good faith is examined in detail and appropriate measures are taken, where necessary, in the event of non-compliance with the Human Rights policy. No allegation of any Human Rights violation, and namely the violation of the rights of indigenous peoples, was reported to the Group's Senior Vice-President and Chief Ethics Officer in 2016.

(1) *Verisk Maplecroft is an internationally renowned risk analysis and strategy consulting firm, which provides a wide spectrum of risk analyses, including risks related to Human Rights.*

Promotion of and compliance with the ILO conventions

Even though no L'Oréal sites have been identified as presenting a substantial risk of incidents of non-compliance with the principles of freedom of association and/or the right to collective bargaining, forced labour, child labour or discrimination, all L'Oréal sites, wherever they are in the world, are subject to control in the form of compulsory Annual Reporting, *via* the Annual Ethics Reporting platform and the Country reporting intranet system for the collection of Human Resources data.

All social audits of suppliers cover the questions of freedom of association and the right to collective bargaining, forced labour, child labour and discrimination. In the event of a major non-compliance, corrective action plans are put in place and a follow-up audit is carried out. The most serious cases of non-compliance or the absence of effective implementation of a corrective action plan may lead to breaking off commercial relations or, where applicable, non-referencing of a new supplier.

	WITHIN THE COMPANY	SUPPLIER SOCIAL AUDITS
Respect for freedom of association and the right to collective bargaining	The measures taken are described in paragraph 3.1.2.6 Work organisation. In countries where freedom of association and the right to collective bargaining are restricted or non-existent, L'Oréal ensures that other modes of dialogue exist with its employees enabling them to report any concerns they have.	3.6% ☑ of non-compliance related to the issue of freedom of association. Most of the cases of non-compliance concerned the absence of trade union elections or creation of the workers' committee in countries where this is a local requirement.
Elimination of all forms of forced or compulsory labour	Recourse to prison labour is possible when it is voluntary within the scope of a professional reinsertion programme, and paid at market price. Suppliers/subcontractors must request the authorisation of L'Oréal before they have recourse to this form of labour. Furthermore, all Group entities are required to ensure that none of their employees are subject to the retention of identity papers or travel documents, or are obliged to pay recruitment fees or to deposit money affecting their ability to leave their employment.	5.0% ☑ of non-compliance related to the issue of forced or compulsory labour. Most of the cases of non-compliance concerned the retention of identity papers or abusive contracts. 2 severe cases of non-compliance concerned the lack of freedom to leave work stations to go to the toilets, the other being a case of work subcontracted to prisons.
The abolition of child labour	All L'Oréal entities are required to verify the age of their new employees when they are hired. L'Oréal has chosen to set a compulsory minimum age of 16 for its entire staff, a minimum age which is higher than that required by the International Labor Organization. In light of their young age, employees who are between 16 and 18 years old are subject to specific conditions. They may not do night work, overtime, work involving the use of hazardous substances or tools or for carrying heavy loads. They benefit from a reinforced training programme, appointment of an internal "tutor" and inclusion on a special register. In 2016, 836 employees aged between 16 and 18 worked within the Group's entities.	1 ☑ of the social audits conducted in 2016 of suppliers and subcontractors revealed the employment of a child who was less than 16 years of age. He was 15 years and 5 months old at the time he was hired. After having put in place a system to verify the age of its employees, the supplier agreed that unplanned audits could be carried out. It is now in compliance.
Elimination of all forms of discrimination	The measures taken are described in paragraph 3.1.2.7. *Diversity and equal opportunities.*	0.5% ☑ of non-compliance related to the issue of discrimination. They concerned pre-employment pregnancy tests. The two suppliers concerrned by this practice were asked to cease this practice. A follow-up audit will be organized.

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

3.1.4.5. Measures adopted with regard to consumer health and safety

Guaranteeing the quality and safety of products all over the world

Consumer safety is an absolute priority for L'Oréal. Safety assessment is at the centre of development of new products and a prerequisite before any product is launched on the market.

The same safety requirements are applied to all our products so that consumers from all over the world have access to the same quality of products.

The L'Oréal Group has set up a global entity (*Worldwide Safety Evaluation*) consisting of nearly 100 employees across 3 continents whose role is to assess and guarantee the safety of the products developed by the Group.

Assessing product safety

L'Oréal has set up a process to ensure that all products developed by the Group, whatever the geographical location of the laboratory in charge of the project, are subject to the same level of rigorous safety evaluation. Thus, the evaluations by the *Worldwide Safety Evaluation* entity based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle. This approach enables L'Oréal to meet the safety requirements of the national regulations in force in all the countries in which its products are put on sale, testifying to their safety of use. A safety report is issued for each product launched on the market.

The product safety evaluation is based on the evaluation of each ingredient that enters into the composition of the product and the finished product itself. It is carried out on the basis of existing safety data and the latest medical and scientific knowledge, as well as conditions of use. If necessary, L'Oréal conducts additional safety studies in qualified laboratories all over the world. The results of these studies are interpreted by experienced scientists who are specially trained in safety issues with regard to cosmetic ingredients and products.

Furthermore, L'Oréal's ethical principles, rooted in both scientific rigour and responsiveness to societal concerns, lead to a pre-emptive approach whereby formulations are evolved by removing and/or replacing substances on the basis of new data.

L'Oréal's added value, in terms of the safety assessment of ingredients and finished products, lies in its investment for over 20 years in the development of predictive methods and tissue engineering, and their international regulatory recognition. For many years, the Group has thus been investing in science and technology to create new evaluation tools which are used every day by safety assessors.

L'Oréal also works closely with all the international stakeholders involved in relevant industries in order to progress the development of alternative cross-disciplinary solutions in the field of safety assessment.

This longstanding commitment means that the Group no longer carries out animal testing in laboratories for any of its products or ingredients, anywhere in the world. The Group also does not delegate responsibility for doing so to anyone else. An exception could be considered if a national supervisory authority so requires within the framework of its arsenal of laws and regulations.

In fact, L'Oréal's products continually evolve as and when technological innovations occur, but with the constant desire to guarantee the highest level of safety for both consumers and professionals.

Cosmeto-vigilance and impact on safety assessment

Finally, after the product is launched on the market, L'Oréal continues to evaluate the use and tolerance of its products sold *via* the international cosmeto-vigilance network. This network collects, validates and analyses, using recognised rigorous methodologies, the adverse effects related to the use of a product.

This organisation makes it possible to identify any potential exceptionally "unusual" intolerances on the market. In such cases, supplementary investigations may be proposed to the consumers concerned. The product dossier is then re-examined in order to identify the cause of the intolerance and take appropriate measures where required. If necessary, a change may be made in the composition of the formula.

This information is used to update the corresponding cosmetic product dossiers.

3

3.2. THE *SHARING BEAUTY WITH ALL* PROGRAMME

An objective of sustainable growth

The *Sharing Beauty With All* programme presents the targets that the Group has set itself for 2020 with the aim of reducing its environmental impact and increasing its social and societal commitments, while sharing its growth with the surrounding communities.

This programme, the results of which are reviewed and challenged every year by a panel of independent international experts (*the Panel of Critical Friends*[1]) is based on four pillars:

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

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

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

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

(1) *L'Oréal has set up an external governance body, called The Panel of Critical Friends which meets, together with Jean-Paul Agon, the Group's Chairman and Chief Executive Officer, once a year to challenge the progress made on the Sharing Beauty With All programme. This panel of international experts is chaired by José Maria Figueres (Former President of Costa Rica, President of the Carbon War Room, strongly committed to environmental topics) and consists of Lo Sze Ping, CEO of WWF China. Mehjabeen Abidi-Habib, Pakistani researcher in human ecology, natural resource management specialist. HRH Celenhle Dlamini, a South African who is one of the Directors of the Ubuntu Institute, David Jones, former Havas Worldwide CEO, Founder of One Young World and the author of Who cares wins. Khalid AlKhudair, CEO and Founder of Glowork, an organisation engaged in the emancipation of women in Saudi Arabia through employment. Invited to attend in 2016: Nigel Salter, CEO of Salterbaxter, Solitaire Townsend, CEO and co-founder of Futerra, and Sille Krukow, nudging specialist and expert in behavioral design, the founder of Krukow.*

3.2.1 INNOVATING SUSTAINABLY

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

2020 TARGETS	2016 RESULTS
100% of the Group's products will have a positive environmental or social benefit. Every time it invents or updates a product, its environmental or societal profile will be improved against at least one of the following criteria:	**82%** of new products that have been screened have an improved environmental or social profile (1).
◆ **the new formula uses renewable raw materials that are sustainably sourced or raw materials derived from green chemistry;**	**18%** of new or updated products have an improved social/environmental profile due to a new formula including sustainably sourced renewable raw materials or raw materials respecting the principles of green chemistry.
◆ **the new formula reduces the environmental footprint, particularly with regard to water;**	**27%** of new or updated products have an improved environmental profile due to a new formula with a reduced environmental footprint.
◆ **the new packaging has an improved environmental profile;**	**57%** of new or updated products have an improved environmental profile due to improved packaging.
◆ **the new product has a positive societal impact.**	**10%** of new or updated products have an improved social profile thanks to a positive social impact.

(1) These are new products, i.e. products for which new formulas have been developed and which are produced for the first time in the Group's plants or products for which packaging was changed/updated in 2016.

On an everyday basis, formulators are encouraged to use raw materials with a favourable environmental profile. Raw materials without any foreseeable impact on the aquatic environment, or sustainably sourced renewable raw materials or raw materials respecting green chemistry principles, are given preference as from conception of the formulas.

3.2.1.1 Giving preference to the use of sustainably sourced renewable raw materials

The Group's constant concern with regard to the sourcing of its raw materials is, over and above quality considerations, to guarantee the sustainability of resources.

In 2010, the signatory countries to the Convention on Biological Diversity adopted the Nagoya protocol, aimed at regulating access to the genetic resources of a given region and the fair and equitable sharing of the benefits arising from the use of those resources.

Conscious of these issues well before the Nagoya protocol came into force, L'Oréal's Research department has continuously striven, since 2005, to adopt an approach aimed at securing its sourcing channels for the future to respond to the issues of sustainable use of Biodiversity. For this purpose, the Group gives preference, in particular, to the use of renewable raw materials, namely those whose carbon content is mostly of plant origin, and ensures that they are responsibly sourced.

Responsible sourcing: the *Sharing Beauty With All* programme has increased the Group's ambitions in all areas of Sustainable Development. Thus, in 2020, 100% of the renewable raw materials must be sustainably sourced. In this respect, they must:

- be traceable with an identified botanic and geographic origin;
- integrate the main Sustainable Development challenges all across their production chain (including respect for Human Rights in accordance with the ILO principles, preservation of biodiversity and social development).

In 2016, 100% of the renewable raw materials used by the Group were reassessed based on criteria such as respect for biodiversity and contribution to socio-economic development in the territories from which they originate.

Out of the 300 plant species which are the source of the renewable raw materials used by the Group, less than 13% (in number) involve significant Biodiversity issues (protection measures, impact of production on natural environments) depending on their geographic origin and their extraction or production method. They are the subject of specific action plans entered into with suppliers and with the systematic support of independent external third parties, in order to handle the real impacts on the territories of origin of the ingredients.

At the end of 2016, 94% of the renewable raw materials (in Group purchase volumes) are the subject of improvement plans or actions with the suppliers concerned in order to ensure sustainable sourcing – this is the case, in particular, of the species identified as the most sensitive (13%) and for 100% of purchases of palm oil and derivatives.

L'Oréal has defined "sustainable sourcing risk" indicators making it possible to assess the initiatives taken in favour of the use of renewable and sustainable raw materials. The ecological, social and societal criteria are taken into consideration. "Plant Information Sheets" have, for example, been prepared for all the plant species that may be used. The Group updates the information collected regularly.

For its Guar project in India, L'Oréal won the gold medal in the Sustainable and Responsible purchasing category, at the 2016 Purchasing Awards.

The Purchasing Awards are a major event in the year for the Purchasing profession and reward Purchasing Departments, suppliers and service providers in 6 categories.

2016 results

54% (in terms of volume) of the raw materials used by L'Oréal are renewable, namely around 1,540 raw materials from nearly 350 species of plants from over 100 countries.

Green chemistry promotes the development of ingredients with a favourable environmental profile made from plant raw materials, for which the number of synthesis stages, non-toxic solvent and energy consumption, and the production of byproducts are minimised.

BIODIVERSITY AND LOCAL DEVELOPMENT

Candelilla wax comes from a wild shrub that grows in the Chihuahan Desert, in Mexico, a very rich biodiversity zone. This wax is used in cosmetics for its softening and protective properties, particularly in hair care and skin care products or make-up. In order to improve the conditions of production of this candelilla wax while respecting biodiversity, L'Oréal and its partners provide support to 225 rural producers, known as "candelilleros", in structuring the production and sourcing of the wax and access to the Mexican social security system.

43% (in terms of number) of the Group's newly registered raw materials are renewable and 28% of them respect green chemistry principles

L'Oréal finalised the traceability campaigns launched with all its suppliers, thus making it possible for 100% of plant-based ingredients to now be traced to their country of production, or even as far as the biomass production site.

CERTAIN PRODUCTS SOLD IN 2016 HAVE A PERCENTAGE OF RENEWABLE RAW MATERIALS ABOVE 94%	
Matrix Biolage RAW Uplift Shampoo	Matrix
Kérastase Aura Botanica Soin	Kérastase
Kiehl's Midnight Recovery Botanical Cleansing Oil	Kiehl's
Absolue Precious Oil	Lancôme
R&G Aura Mirabilis Ultra-Thin Clean Mask	Roger&Gallet

Currently, 17% of the raw materials used by L'Oréal (in terms of volume) are based on green chemistry principles (*i.e.*, they come from renewable resources, are transformed using an environmentally respectful process and have a favourable environmental profile). This represents more than 750 raw materials. In 2016, 28 new raw materials based on green chemistry principles have been registered.

ASSOCIATING THE GROUP'S SUPPLIERS WITH ITS QUEST FOR PROGRESS

L'Oréal has defined a progress-focused approach which will make it possible to attain the *Sharing Beauty With All* programme targets. The global scale of the programme has encouraged the Group to share its initiative with its renewable raw material suppliers. L'Oréal is attentive to four criteria: traceability, conformity, consideration of critical issues and acceptability.

An in-depth investigation into the supply chains is initiated with certain suppliers for the most sensitive raw materials. It starts with a document analysis and goes as far as an on-site investigation conducted by an independent third party. The investigation varies according to the nature and level of the environmental and social risk. In 2016, this method was subject to several critical reviews by external stakeholders. These made it possible to recognise the relevance of this management system for the sustainable sourcing of renewable raw materials.

In the event of a variance compared to the Group's sustainable sourcing targets, corrective action plans are undertaken in cooperation with suppliers and with the systematic support of independent external third parties.

The Group also integrates environmental and social issues relating to the industrial operations of its suppliers in other initiatives (the *Buy & Care* responsible purchasing programme).

Fighting against deforestation

Within the scope of its commitment to "zero deforestation", L'Oréal deploys an innovative strategy for the traceability of its palm oil derivatives, in partnership with all the stakeholders (small-scale growers, NGOs and suppliers):

- 100% of purchases of palm oil and palm oil and palm kernel derivatives have been certified as sustainable according to the RSPO criteria (www.rspo.org) since 2012;
- 50% of the main derivatives come from sources that are identified (as far as the mills).

L'Oréal, a responsible, innovative company

L'Oréal consumes less than 700 tonnes of palm oil every year, but nevertheless consumes 60,000 tonnes of derivatives of palm oil (which come from the palm fruit pulp) and palm kernel oil (extracted from the palm fruit kernel). These two oils are used to produce glycerine, fatty acids and fatty alcohols which form part of the composition of its products.

Continuing the efforts made at certification

100% of the volumes of palm oil used by L'Oréal meet the standards and procedures of the *Roundtable on Sustainable Palm Oil* (RSPO), *via* one of its most demanding traceability models, the SG (Segregated) model. Concerning the derivatives, which are also 100% certified, L'Oréal has increased the proportion of its physically certified purchases to reach a "Mass Balance" of 34% at the end of 2016, as against 26% in 2015 (the remainder continues to be covered by the RSPO "Book & Claim" model).

Ensuring the traceability of derivatives as far as the mills

Within the framework of its "Zero deforestation" commitment made in 2014, the Group pledged to trace the main palm and palm kernel derivatives that it uses as far as the mills by the end of 2015. This is a difficult task as the process for transformation of the derivatives involves a large number of players and many branches of the supply chains.

An initial phase involving a survey was conducted in 2014, with the support of a firm of independent experts, of L'Oréal's strategic suppliers, who supply more than half its palm and palm kernel derivatives. In 2015, L'Oréal continued to enhance its data collection by extending the scope to cover all its suppliers in order to be able to trace and identify the origin of 100% of its main palm and palm kernel derivatives. The results of this work show that Malaysia and Indonesia are the main countries from which supplies are obtained, and that 80% of these volumes of palm and palm kernel derivatives could be traced to the refineries, 50% up to the mills and 12% as far as the plantations.

The Group has also begun verifications with regard to the products traced up to identified mills to ensure that they are not linked to deforestation. A further investigation phase was launched in September 2016, in order to update and complete these data. The results will be available in 2017.

Malaysia: supporting small-scale palm growers

Small-scale independent palm grows represent approximately 40% of the world’s palm oil production. With poor knowledge of agricultural practices, they are sometimes forced, in order to increase their low output, to extend their palm plantations illegally. In Malaysia, L’Oréal has launched a project called SPOTS (*Sustainable Palm Oil & Traceability with Sabah small producers*), a completely new initiative on the palm derivatives market, in which traceability of production up to the plantation does not exist. In partnership with three of its suppliers, all committed to the project on a long-term basis, and with the support of Wild Asia, a social enterprise, L’Oréal has agreed to purchase the RSPO-certified production of 500 small-scale palm growers for 5 years. These growers are thus given fairer, long-term access to the international market, which enables them to improve their agricultural practices and their living conditions and thereby avoid deforestation.

At the end of 2016:

- 100% of supplies of palm oil and derivatives are RSPO-certified;
- 50% of the main palm oil derivatives come from an identified source (mill).

But also:

- 100% of soya oil purchases from Brazil are certified as organic and obtained from fair trade sources;
- 97% of the paper used for product leaflets and 99% of the cardboard used for boxes are certified as obtained from sustainably managed forests (FSC or PEFC);
- 89% of the paper/cardboard used for POS advertising (cardboard stands, graphic printing) is certified (FSC or PEFC).

100% of palm oil purchases are certified as sustainable in accordance with RSPO criteria

3.2.1.2. Reduction of the environmental footprint particularly with regard to water

L’Oréal opened its first eco-toxicology laboratory as early as 1995 to anticipate and reduce its environmental footprint. Through this initiative, the Group has developed expertise with regard to the potential impacts of its cosmetic products on aquatic environments. It assesses the raw materials included in the formulation of its products right from the design phase, thus making a strict selection of ingredients.

ASSESSING THE INGREDIENTS

The Group has also developed several tools and procedures to determine the potential impact on biodiversity and water of the ingredients used:

- innovative methods for early measurement of the aquatic eco-toxicity of raw materials and formulas were developed in the environmental research laboratory;
- in 2004, the Group initiated the assessment of its entire raw materials portfolio according to three criteria: persistence, *i.e.* the resistance of the molecules to natural biological degradation, bioaccumulation, the ability of organisms to absorb and concentrate chemical substances, and environmental toxicity;
- in 2013, an index was developed making it possible to quantify the environmental performance of a cosmetic formula. To do this, a calculation method for the Water Footprint specific to cosmetic products was also applied (performance index for a formula based on the environmental profile of its ingredients in terms of biodegradability and aquatic eco-toxicity) to the entire portfolio of formulas.

100% of the existing formulas in the product portfolio and the new formulas designed in 2016 are assessed on the basis of the foregoing criteria.

Measuring the environmental impact of formulas and improving their biodegradability

For several years, L'Oréal has carried out life cycle assessments of its products in order to identify and evaluate their impacts on the environment. These studies show that one of the main environmental impacts is related to the quantity of water withdrawn and the quality of wastewater discharged, during the phase of use.

In order to minimise this impact, the Group makes efforts to measure and increase the biodegradability of its formulas and reduce their water footprint [1].

A new eco-design tool created at the end of 2015

To classify the products according to the benefits offered to the consumer, all the 19 types of products manufactured by the Group (shampoos, hair care products, shower gels, skin care products, cleansers, hair colours, styling products, deodorants, sun care products, make-up, perfumes, etc.) were analysed. After having defined 143 product categories and screened more than 40,000 formulas between 2014 and 2015, an eco-design tool was created at the end of 2015 to guarantee that all new formulas are developed with the goal of an improved environmental profile with identical benefits for the consumer. In 2016, the tool was deployed and is used by all the teams of product formulators to assess the biodegradability and water footprint at the time of creation of all the new formulas.

AMONG THE NEW PRODUCTS LAUNCHED IN 2016, THE FOLLOWING PRODUCTS HAVE FORMULAS WITH BIODEGRADABILITY LEVELS OF OVER 98% ACROSS L'ORÉAL'S DIVISIONS:

Matrix Biolage Raw Recover Shampoo	Matrix
Aura Mirabilis Ultra-Thin Clean Mask	Roger&Gallet
Absolue Precious Oil	Lancôme
Kérastase Aura Botanica Soin	Kérastase

EXAMPLE:

In 2016, Matrix launched the Biolage RAW Recover shampoo which has an exceptional environmental profile:

- biodegradability that is 99% higher than the average for the product category;
- a water footprint that is at least 75% lower than the average for the category of "Shampoos for sensitive or very sensitive hair".

In 2015, L'Oréal increased the average percentage of biodegradability of its shampoos to 91%.

3.2.1.3. Improving the environmental profile of packaging

Packaging represents a significant part of the environmental impact of cosmetic products. The reduction in the environmental footprint of packaging is therefore naturally part of the "*Innovating sustainably*" commitment under the *Sharing Beauty With All* programme.

In 2007, L'Oréal launched a Packaging and the Environment policy based on 3 pillars, called the "3Rs":

- Respect: respecting consumers, the environment and biodiversity;
- Reduce: designing packaging articles and finished products with an optimised weight and size;
- Replace: substituting for non-renewably sourced materials alternative materials such as recycled materials or bio-sourced materials.

(1) *The improvement in the biodegradability and water footprint of the new formulas put into production as from 2015 will be assessed using as a baseline the average values for the formulas sold in 2013 with the same cosmetic benefits and the previous formula for those formulas that are updated.*

These pillars apply well ahead of the launch, right from the marketing brief and are orchestrated *via* a global, systematic eco-design process for packaging. This process is enriched with documents and tools all the time. Conscious of the fact that sustainability is a consumer expectation and a source of innovation, the Packaging & Development teams are fully implicated in the *Sharing Beauty With All* programme.

This approach has been extended to POS (Point-of-Sale) advertising display stands. An eco-design process based on 20 best practices and key performance indicators has been put in place. A pilot process was launched in 2015 and 2016, and this process has been deployed in 7 operational entities. L'Oréal participated in the committees for validation of the certification of 2 further POS advertising companies; these companies were audited according to the ÉCO POPAI standards (for the eco-design of POP advertising).

Respect: materials vigilance and respect for resources

L'Oréal requires food quality level for all the materials used in packaging in contact with its products. The Group also takes a proactive approach with its suppliers in order to ensure that packaging does not contain any sensitive substances. Audits are conducted regularly in order to ensure the conformity of the packaging items delivered.

The Group has also pledged to remove PVC from all its packaging. Except for the recent acquisitions, in 2016, PVC now only represents 0.03% of the plastic used in the Group.

Control of the source of the materials used in the packaging is a major issue which requires responsible sourcing. L'Oréal has set itself the target of using, for its paper, cardboard or wooden packaging, materials from responsibly managed forests, exploited with respect for the populations and forest ecosystems and ensuring the maintenance of biodiversity. The paper and cardboard used for packaging come from forests that are preferably FSC or PEFC certified (or have obtained any other certification recognised by PEFC International). In 2016, 97% of the paper used for product leaflets and 99% of the cardboard used for boxes are certified as being from sustainably managed forests This certification process is also used for POS advertising (cardboard stands, graphic printing): in 2016, 89% of the paper/cardboard used in POS advertising is certified (this figure covers 80% of the expenses in this category). Since 2010, L'Oréal has been a member of the Forest Stewardship Council (FSC) in France and the FSC branding is the only one claimed on packaging for L'Oréal products.

Reduce: systematic optimisation of the resources used for packaging

Weight and volume reduction in packaging, an integral part of design, is a major driver for improvement in the environmental profile of products. Every year, L'Oréal launches new initiatives aimed at reducing the quantity of materials used in packaging. They are then recorded through indicators.

4,703 tonnes of packaging materials were saved between 2008 and the end of 2016 due to actions to reduce them at source. In 2016, 506 t of virgin materials *versus* 130 t in 2015 were saved.

To illustrate the progress made, the following initiatives were taken by the packaging teams in 2016 to lighten the weight or reduce the volume of packaging:

- -11% in the weight of aluminium deodorant cans for the Garnier brand in the Americas zone, representing aluminium savings of 50 tonnes;
- -68% in the weight of the caps of Matrix brand hair colour tubes in the Americas, representing 15 tonnes of plastic saved;
- -58% in the weight of L'Oréal Paris brand hair colour tubes in Europe, by proposing a laminated tube in place of the aluminium tube, representing savings of 136 tonnes in materials.

To limit packaging volumes for its finished products, L'Oréal has defined its own procedures in the absence of harmonised international regulations.

To optimise the flows of components, L'Oréal has developed wall-to-wall production(1) for immediate proximity of use of packaging which reduces its environmental impact.

To evaluate the impact of its finished products, L'Oréal makes the following tools available in its design centres:

- a Life Cycle Assessment (LCA) software application that evaluates environmental impacts;
- a new tool to respond to *Sharing Beauty With All* commitments. This tool takes into account a whole set of defined impact indicators that make it possible to make a robust assessment both of the environmental and social impacts of the products. It has been deployed with regard to 6 brands to date and will be extended to all the Group's brands in 2017 (except for recent acquisitions);
- finally, a tool to help in reducing the environmental impacts of transport packaging for packing items from the suppliers to the plants and finished products from the plants to the Group's distribution centres.

(1) Since 2010, the Group has implemented wall-to-wall production, which consists in setting up, within its plants, a production unit for packaging operated by a supplier. This partnership makes it possible to develop reactivity and industrial flexibility, while reducing the transportation of packaging and generation of waste related to their packing.

Replace

Aware that non-renewable resources will not last forever, the Group seeks to replace them with recycled materials or biomass-based materials. Several brands include in their bottles up to 100% of recycled plastic (Kiehl's, Kérastase), or recycled glass (Roger&Gallet, Lancôme, The Body Shop).

7,050 tonnes of recycled materials made it possible to save the equivalent quantity of virgin materials in 2016 (42% more than in 2015).

In 2016, the 58% reduction in the weight of the L'Oréal Paris Casting Cream Gloss made it possible to reduce packaging consumption by 136.3 tonnes and the lightening of the weight of the L'Oréal Paris Elsève shampoo bottle transport crates by 15% represents a saving of 103.4 tonnes of corrugated cardboard.

7,050 tonnes of recycled materials
used in the Group's packaging

3.2.1.4. Demonstrating a societal benefit

The objectives of the *Sharing Beauty With All* programme express L'Oréal's conviction that the reduction of the environmental footprint of its products has to be accompanied by an improvement in their societal benefit. By using fair trade for its procurement of raw materials, L'Oréal responds to this requirement. It contributes to the social integration of people in difficulty while guaranteeing environmentally friendly sourcing.

Equity in business has gradually become a major pillar of the Group's *Solidarity Sourcing* programme launched in 2010 [1].

- 2016 Results

10% of new or updated products have an improved social profile thanks to the *Solidarity Sourcing* programme.

95% of The Body Shop products contain ingredients from the *Community Fair Trade* (CFT) programme.

20,700 people benefited in 2016 from fair trade-sourced raw material purchases for The Body Shop brand

For example, in 2016:

- 100% of the Group's shea butter purchases were made through the *Solidarity Sourcing* programme, thanks to which the women gathering shea nuts in Burkina Faso receive in April-May, at the end of the dry season when stocks of food have been almost used up, pre-financing for their crops and a purchase price that is higher than the market price;
- 100% of soya oil supplies from Brasil comes from a fair trade, organic and RTRS (Round Table on Responsible Soy) certified source and ;
- 100% of sesame oil purchases are from fair trade sources.

(1) See Solidarity Sourcing, paragraph 3.2.4.3

3.2.2. PRODUCING SUSTAINABLY

"By 2020, the Group commits to reducing its environmental footprint by 60%".

Within the scope of the *Sharing Beauty With All* programme, L'Oréal has undertaken to improve its production conditions to reduce its environmental footprint by 60% in 2020 from a 2005 baseline. In all its plants and distribution centres, the Group strives to reduce its greenhouse gas emissions, its water consumption and its waste generation. It also pledges to reduce the footprint from transportation of its products and to no longer send waste to landfill.

2020 TARGETS	2016 RESULTS
Reducing CO_2 emissions at our plants and distribution centres by 60% in absolute terms, from a 2005 baseline.	The percentage of achievement is already a **67%** reduction in CO_2 emissions from a 2005 baseline [(1)].
Reducing our water consumption by 60% per finished product unit, from a 2005 baseline.	A reduction of **48%** in water consumption from a 2005 baseline [(2)].
Reducing waste generated by 60% per finished product unit, from a 2005 baseline.	A reduction of **35%** in waste generation from a 2005 baseline [(3)].
Sending zero waste to landfill.	**0.2%** of waste from plants and distribution centres was sent to landfill [(4)]. In December 2016, these sites achieved the target of zero waste to landfill (excluding regulatory obligations).
Reducing CO_2 emissions from transportation of products by 20% per sales unit per km from a 2011 baseline.	Transportation of products led to CO_2 emissions of 310,441 tonnes in 2016, which represents 0.0221 g CO_2/sales unit/km. A **20%** reduction in CO_2 emissions generated by transportation of products per sales unit/km, from a 2011 baseline [(5)].

(1) *The calculation of CO2 emissions concerns Scopes 1 and 2 of plants and distribution centres. The reduction percentage is calculated in absolute value from a 2005 baseline.*

(2) *The water consumption calculation concerns plants and distribution centres. The reduction percentage is calculated in litre/finished product, from a 2005 baseline.*

(3) *The calculation of waste generation concerns plants and distribution centres. The reduction percentage is calculated in grams of waste per finished product from a 2005 baseline. This indicator includes transportable waste (excluding returnable packaging rotation loops).*

(4) *The percentage of waste sent to landfill is calculated by dividing the quantity of waste sent to landfill ☑ excluding regulatory obligations by the total quantity of waste generated (130,592 t ☑ including returnable packaging rotation, excluding waste sent to landfill due to regulatory obligations).*

(5) *The calculations are made for the Group scope with the exception of NYX Europe, The Body Shop, Niely, and IT Cosmetics as well as products sold online from the Group's websites.*

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

3.2.2.1. Reducing greenhouse gas emissions by 60% from a 2005 baseline

As the cosmetics industry has a relatively low energy demand and relatively low CO_2 emissions as compared with other industrial sectors, L'Oréal's production sites are not subject to the CO_2 emission quotas provided for by the European regulations. However, L'Oréal, a company that is invested in the fight against climate change, conducts a particularly proactive policy for the reduction of its CO_2 emissions.

The Group moreover set itself ambitious targets as from 2009: reducing greenhouse gas emissions at its plants and distribution centres by 50% in 2015 from a 2005 baseline. This objective was fulfilled in 2014 even though production volumes increased by 21% as compared to 2005. This performance continued for the following years and in 2016, a reduction of 67% in CO_2 emissions was achieved while production has increased by 29% since 2005. The target reduction of 60% between 2005 and 2020 set by the *Sharing Beauty With All* programme was thus attained 4 years ahead of schedule.

For the 4th year running, L'Oréal was recognised as one of the leading companies worldwide in the fight against climate change, by the annual CDP rating. L'Oréal was given a score of "A", representing the highest level of performance of the *Climate Leadership Index* with regard to management of its carbon footprint and its strategy with regard to climate change and the transparency of its policy.

In order to limit its impact on climate change and to fulfil its objective of reducing greenhouse gas emissions, L'Oréal has deployed a strategy based on two areas:

1. Reducing its energy requirements by improving energy efficiency across all its facilities (buildings, equipment, etc.);
2. Making increased use of renewable energies.

Reducing energy consumption

For over twenty years, the Group has been endeavouring to reduce its energy consumption. These efforts essentially concern two areas:

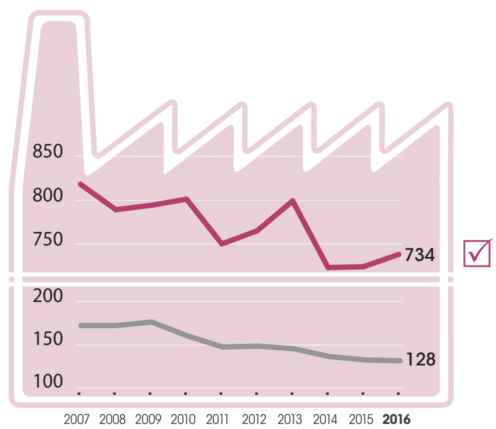
- ongoing improvement of industrial processes and the performance of associated equipment;
- optimisation of energy consumption in the buildings. In this respect, any new Group building has to comply with the strictest environmental standards.

This policy made it possible to reduce the consumption of plants and distribution centres in kWh per finished product by 33% between 2005 and 2016.

IMPROVING ENERGY EFFICIENCY THANKS TO THE BUS PROJECT

The BUS (*Better Utilities For Sustainability*) project implemented in 2010 on a Group-wide basis makes it possible to identify methods, technical solutions and good practices for cleaning, cooling and air compression processes. To date, 11 good practices contribute in particular to improving energy efficiency; they are accompanied by technical recommendations and rolled out throughout the Group.

TOTAL ENERGY CONSUMPTION IN KILOWATT-HOURS



DATA RELATING TO CONSUMPTION WITH AN IMPACT ON GLOBAL WARMING

	2015	2016
Renewably sourced electricity (MWh)	249,561	266,304 ☑
Biogas (MWh)	1,246	13,461
Other renewably sourced energy (MWh)	37,569	47,449
Total renewably sourced energy (MWh)	**288,376**	**327,214**
Non-renewable electricity (MWh)	132,139	124,626 ☑
Gas (MWh)	258,838	239,292 ☑
Fuel oil (MWh)	11,614	9,908 ☑
Other non-renewable energies (MWh)	28,576	32,745 ☑
Total non-renewable energy (MWh)	**431,167**	**406,571**
TOTAL ENERGY CONSUMPTION (MWH)	**719,543**	**733,785** ☑

In order to anchor this performance durably in the industrial management processes, the Group has undertaken ISO 50001 certification of its plants since 2014. Its objective is the certification of 100% of its production sites by 2020. As of the end of 2016, 24% of the plants have already been ISO 50001 certified.

Use of renewable energies

L'Oréal has defined a strategy involving the use of renewable energies which is based on the potentialities offered by each local context.

To this effect, over the last few years, several large projects have been rolled out on certain of the Group's sites, enabling them to produce their own renewable energy directly and thereby significantly reducing their CO_2 emissions:

- the French sites of Rambouillet and Roye and those in Burgos in Spain and Turin in Italy receive their energy supplies from the installation of biomass-fired boilers or plants which are fuelled exclusively by local resources;
- the Belgian plant in Libramont covers almost all its energy needs through biomethanation, also using local resources, which allows for the combined production of heat and power;

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

- in China, in the United States and in Spain, several plants are equipped with photovoltaic panels;
- the energy mix of the Settimo plant in Italy consists of several locally produced renewable energies: solar panels installed on the roof of the plant and a biomass plant which supply power, the town's heating network, and finally the biogas produced from municipal waste.

Other sites have chosen to procure renewable energies according to the local offerings. This is the case, for example, of the Chinese plant in Yichang which has chosen to cover all its energy needs by connecting to the hydroelectricity produced from the dam located nearby.

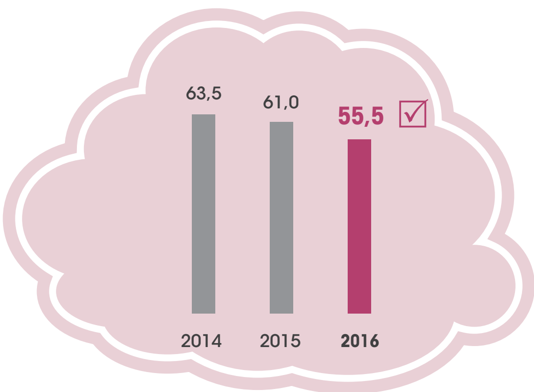
2016 results

Thanks to these projects and a longstanding investment in renewable energies, 15 of the Group's sites achieved carbon neutrality by the end of 2016.

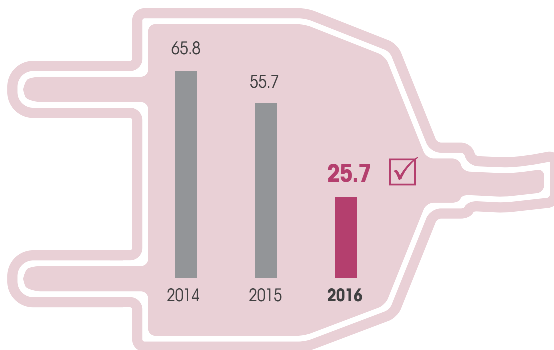
In 2016, 45% of the energy consumed by the plants and distribution centres came from renewable sources ☑

The Group's greenhouse gas emissions

DIRECT CO_2 (THOUSANDS OF TONNES) (1)

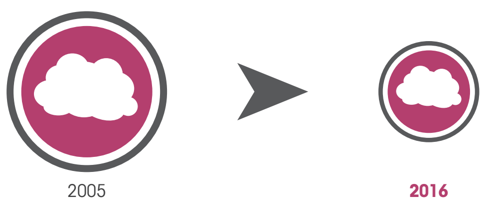


MARKET BASED INDIRECT CO_2 (THOUSANDS OF TONNES) (2)



2016 results

GREENHOUSE GAS EMISSIONS



-67%

(in absolute value: tonnes of CO2, with a constant scope, according to the GHG Protocol)

The Group's emissions, excluding greenhouse gas

in tonnes – for the scope of the plants and distribution centres	2015	2016
SO_2 (t)	6.3	5.3
VOCs (t)	150	146
Ozone depleting substances (t)	NA	2.3* ☑

* *Emissions from the refrigeration units used on the Group's sites are now part of the monthly reporting on emissions.*

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

(1) The monitoring indicator for CO_2 emissions now includes emissions related to refrigerant leaks.

(2) Starting from 2016, the Group's emissions are now calculated in accordance with the new concepts defined by the GHG protocol, and monitored according to the Market-based CO_2 indicator, which replaces the Net CO2 indicator.

CARBON BALANCED PROJECT: TOWARDS A LOW-CARBON COMPANY BY 2020

At the end of 2016, L'Oréal shows a reduction of -67% in carbon emissions related to its industrial activities for production that has increased by 29% since 2005. This is a major signal: the Group proves that it is possible to decorrelate economic growth from carbon emissions.

To go even further, in light of the urgent climate situation, the Group pledged to balance its residual CO_2 emissions (Scopes 1 & 2, downstream transportation of its finished products) by 2020, in order to become a *Carbon balanced* company.

This new ambition reinforces L'Oréal's low carbon strategy and it now applies a twofold approach in order to reduce its carbon footprint:

1. 60% reduction in absolute terms of emissions related to its industrial activities by 2020 compared to 2005, through increasing use of renewable energies and by improving energy efficiency at its industrial sites;
2. Reaching a balance, by 2020, in the remainder of those emissions by reducing carbon emissions from its sustainable sourcing of raw materials, in partnership with its suppliers.

Through this new ambition, L'Oréal wants to avoid carbon emissions in an equivalent quantity to these residual greenhouse gas emissions (approximately 400,000 tonnes of CO_2 *per annum*, in 2014). This innovative programme is being rolled out *via* various projects structured around three main areas of focus in line with the methodologies developed by international standards and the Kyoto protocol:

- improvement in energy efficiency;
- promotion of productive, low-carbon agricultural practices;
- development of forest management and agroforestry projects.

To evaluate and accompany this new process, L'Oréal has set up a committee of independent experts, who are all carbon specialists, chaired by Christian de Perthuis, Professor at the Paris Dauphine University and founder of the Climate Economics Chair.

It has been estimated that the first three energy and forestry projects that have been put in place since 2015 have made it possible to generate carbon savings of 8,300 tonnes of CO_2.

Example in Burkina Faso: the use of improved stoves to reduce wood consumption and the associated carbon emissions.

In South West Burkina Faso, L'Oréal procures shea nuts from 35,000 women, in a landlocked rural area, where wood is the only available source of energy, aggravating the risk of deforestation. In 2016, L'Oréal, in partnership with its supplier Olvéa and the Burkinabe social enterprise Nafa Naana, facilitated the acquisition of 1,500 improved metal stoves, replacing the traditional "three-stone" stoves, thereby avoiding the emission of over 2,300 tonnes of CO_2 a year and the cutting of nearly 800 tonnes of timber and helping the women to save time and also make significant savings.

Reducing emissions related to transportation of products

Within the scope of the *Sharing Beauty With All* programme, L'Oréal has initiated the reduction in greenhouse gas (GHG) emissions engendered by the transportation of its products and has set itself a target of a reduction of 20% per sales unit per kilometre by 2020 from a 2011 baseline. The scope of consolidation covers the transportation flows of finished products from the production sites up to delivery to the customer [(1)]. To achieve this objective, a large number of action plans for transportation are being deployed all over the world.

Two initiatives cane be highlighted for 2016: L'Oréal China has reduced its GHG emissions significantly through the use of rail transport instead of road freight. This allowed a 13% reduction of the Group indicator (g CO_2/unit/km) between 2011 and 2016. The Africa, Middle East zone optimises the filling of its containers when they leave the Cairo plant, with a fill rate that has increased from 82% to 95% thanks to an innovative method of loading.

Furthermore, the leadership and empowerment of the countries with regard to their GHG emission commitments have advanced. The measurement and consolidation of GHG emissions will be integrated into the subsidiaries' new standard transport management tool (the Transport Management System). The monitoring of the actions taken has been improved by putting in place a single tool for the reporting and consolidation of CO2 emissions based on the ADEME (the French Environment and Energy Management Agency) methodology. The teams have succeeded in covering all the Group's brands excluding The Body Shop and the recent acquisitions, as well as online sales.

2016 results

Transportation of products led to CO2 emissions of 310,441 tonnes in 2016, which represents 0.0221 g CO2/sales unit/km. As compared to 2011, the CO2/sales unit/km emission indicator has fallen by 20%. At the end of 2016, the Group achieved the target set for 2020.

(1) With the exception of the transportation of finished products sold online from the Group's websites.

3.2.2.2. Reducing water consumption per finished product by 60% from a 2005 baseline

Water is used at each stage of production of the products, first of all by the Group's suppliers for the preparation of the raw materials and packaging, then in its plants and finally by consumers at the time of their use. The Group is therefore endeavouring to reduce its water footprint throughout the life cycle of its products, and more particularly during production.

L'Oréal implements its industrial programme by systematically applying simple principles aimed at preserving the resource through respectful use of water, using the minimum for its needs, and taking into account its local availability.

Since 2005, L'Oréal has slashed absolute water use by its plants and distribution centres by 33%, while production (excluding raw materials plants) has increased by 29%. This led to a 48% reduction in its water consumption in litres per finished product at the end of 2016. Within the framework of the *Sharing Beauty With All* programme, the Group has pledged to augment this performance to 60% between now and 2020.

The sustainable water management strategy is based, in particular, on the following main principles:

- mapping and reduction in consumption;
- reuse of industrial water, before treatment, for a different purpose;
- recycling of its wastewater during certain stages of the production process (washing, cooling) after a specific additional treatment stage.

SETTING OBJECTIVES FOR THE REDUCTION OF WATER CONSUMPTION

A standard tool for analysis and exhaustive mapping of water consumption is now deployed in each of the Group's plants – the "Waterscan tool". This tool makes it possible to categorise the different uses of water (washing, cooling, sanitation, etc.) and to identify consumption in each of these categories. The best performances for a given use are established as a Group standard, and are then set as a target for each plant. The projects making it possible to achieve these targets are identified and quantified on each site and the completion of such projects scheduled over time. This forms the Group's "Water roadmap", performance of which is monitored on a monthly basis.

Reducing water consumption in industrial processes

L'Oréal has worked more particularly on reducing consumption of the water used for cleaning production equipment and packaging lines at its plants. An operation necessary in order to maintain very strict hygiene standards and which indeed represents 35% of total water use by the industrial sites. Firstly, the quantity of water used for these operations is reduced to a minimum, without affecting product quality (specific optimisation of use of cleaning water, determined on the basis of the formula for each product manufactured and the equipment used). Secondly, improvements with regard to the equipment have made it easier to wash the facilities. Finally, training courses in best cleaning practices are provided to the operational teams all over the world, thanks to the OPTICIP (*OPTimisation Cleaning In Place*) process.

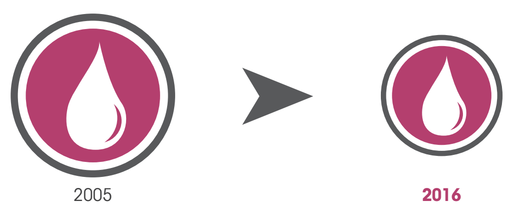
Promoting recycling and on-site treatment

The principle consists in re-treating wastewater when it leaves the site's wastewater treatment plant using various different technologies (ultra-filtration, reverse osmosis, etc.). These treatment operations make it possible to obtain very high quality water, that conforms to the Group's standards for reuse in certain industrial processes. The water treated in this manner can be reused to clean production equipment or for cooling the equipment, for example.

As of the end of 2016, 10 of the Group's plants have recycling facilities of this kind, forerunners in the cosmetics industry, which enable them to reuse water. The Group is continuing to deploy these technologies on its production sites.

2016 results

WATER CONSUMPTION



-48%
(in litres per finished product)

Total water consumption in the plants and distribution centres was 2,168 ☑ thousand m^3 in 2016, representing a -2% decrease in absolute value as compared to 2015, and a 5% decrease with regard to production (L/FP).

Treatment of industrial wastewater

Approximately half of L'Oréal's plants have their own wastewater treatment plants, which are essential prerequisites for recycling. These use a range of methods, including physical, chemical and biological processes, adapted to the characteristics of the wastewater and local discharge conditions.

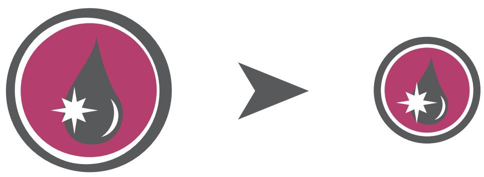
In 2016, total chemical oxygen demand for the Group's wastewater (in tonnes of COD), after on-site treatment has fallen by 40% as compared to a 2005 baseline. It amounts to 0.8 g of COD per finished product, representing a decrease of 53% compared with 2005.

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

L'Oréal is continuing to install on-site wastewater treatment facilities, like, for example, the new facility installed in South Africa in 2015.

2016 results

WASTEWATER QUALITY INDEX



2005 2016

-53%

(grams of COD per finished product)

	2015	2016
Accidental spills (m^3)	0	1
Wastewater discharge (m^3)	1,211,294	1,128,495
Tonnes of COD	4,669	4,562

An accidental spill in the plant in Egypt occurred when a retention basin containing washing water was emptied.

THE *WATER DISCLOSURE PROJECT* AN INITIATIVE IN FAVOUR OF TRANSPARENCY OF WATER INFORMATION

Since 2010, L'Oréal has taken part in the *Water Disclosure Project*, of which it is one of the Founding Responders. This programme is aimed at encouraging companies to publish every year their water management strategy, their results and the projects they have launched to improve their performances and to reduce the risks with regard to their activities related to water consumption. It was launched by the CDP, an important, independent not-for-profit organisation which promotes transparency and environmental information reporting with regard to several topics: global warming, water, deforestation, etc.

In 2016, L'Oréal was recognised for the first time as one of the world leaders for its strategy and its actions with regard to sustainable water management and was included on the list of companies given a score of "A", i.e. the highest possible level of performance in the CDP rating. It is the only French company included on this list of international groups.

In 2016, for the fourth edition of the *Water Disclosure Project*, L'Oréal moreover contacted 31 in order to involve them in this process. These suppliers were chosen on the basis of the following 3 criteria: technology that uses a lot of water, location of the production sites in water stressed areas, and significance of the volumes of purchases by L'Oréal. By the end of 2016, 23 of them had agreed to take part in the programme and will be given an individual result sheet showing the comments of the Group's environmental experts, which enables them to identify the key points for progress.

3.2.2.3. Reducing waste generation per finished product by 60% from a 2005 baseline

For many years, L'Oréal has followed an ambitious waste management policy that goes far beyond regulatory compliance and the prevention of risks. Within the framework of the *Sharing Beauty With All* programme, the Group has raised its ambition by pledging to reduce the waste generated by its plants and distribution centres by 60%. An ambitious challenge, in light of L'Oréal's exacting definition of waste. Indeed, any solid discharge that is not a finished product intended for consumers is considered as waste, whatever its treatment and future recovery. This includes, for example, raw material packaging or packing items, wastewater treatment plant sludge, broken pallets, etc.

Reducing waste generation at source

L'Oréal's commitment concerning waste reduction requires the involvement of a large number of players. It is an environmental performance indicator, first and foremost for its industrial sites but also all across the Group's value chain:

- from packaging, in which the teams are mobilised through an eco-design process for transport packaging (reduction of weight or volume, optimisation, reuse, etc.) aimed at reducing waste as from the design of packaging;
- to the purchasing teams, the privileged contacts with suppliers who are the main producers of transport packaging for raw materials and packing items received in the Group's plants;
- through all the industrial teams involved in the quest for ongoing improvement of the manufacturing and packaging processes, in order to reduce losses; or also by developing wall-to-wall production, a process which reduces at source the waste related to the procurement of components;

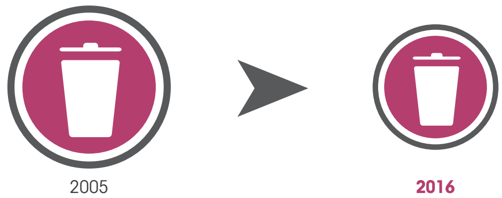
- and up to the whole of the supply chain for which the reduction in obsolete inventories is essential for the reduction of waste related to the activities. For example, in 2016, the Europe zone initiated a programme for the reduction of obsolete products. Coordinated action by each of the countries made it possible to reduce the waste from unsold products by 30%. This is the result of concerted action, firstly with regard to the sales forecasts and secondly with regard to recovery *via* outlets, family sales, staff sales and gifts.

Furthermore, the Group has initiated a campaign against wasting food. L'Oréal adopts best practices in the Company restaurants that it manages directly, serving approximately 2,000 meals a day in the Paris region: very strict monitoring of use-by dates and inventories, real-time and on-demand cooking, and a service that is attentive to the quantities served while satisfying individual demands.

Reduction of waste generation by the industrial sites is therefore a cross-disciplinary, managerial and organisational challenge.

2016 results

GENERATION OF TRANSPORTABLE WASTE



-35%

(grams per finished product, excluding reusable packaging rotation, including the accounting of reusable packaging at source)

The generation of waste at the industrial sites represented 88,262 tonnes ☑ in 2016 corresponding to a 3% decrease in absolute value as compared to 2015, and a 5% decrease with regard to production (g/FP). This reduction is the result of a number of medium - and long-term projects, right across the value chain of the Operations Division.

	2015	2016
Transportable waste excluding returnable packaging rotation, with returnable packaging accounted at source (tonnes) (1)	90,587	88,262 ☑
Returnable packaging rotation (tonnes) (2)	41,878	43,064 ☑
Total recovered (tonnes)	122,476	127,711
Recovery index (%) (2)	93	98 ☑

(1) System for recording returnable transport packaging: L'Oréal records the weight of its returnable packaging in transportable waste when it is used for the first time. Then, each of its sites endeavours to maximise the number of rotations. This recording of the weight of returnable packaging at source is an incentive for rotation and contributes to increasing the life of the packaging through its reuse.

(2) The recovery index corresponds to the quantity of waste recovered (127,711 t) divided by the total amount of waste generated (130,592 t, including returnable packing rotation, excluding waste sent to landfill due to regulatory obligations).

Recovering the waste generated

The reduction of waste generation also reflects the efficient use of resources. The Group's ambition is to pursue this commitment, while associating it with that of recovery of the waste that it has not been possible to avoid. Indeed, the Group makes sure, at the same time, that it treats the waste in the best possible manner, and an extremely good recovery performance has been obtained for many years.

In 2013, L'Oréal moreover set an objective of zero waste to landfill by 2020 for its industrial sites (excluding regulatory obligations); work was undertaken with specialised companies and the local authorities for the implementation of suitable treatment solutions. Mobilisation of all the sites thus made it possible to achieve the "zero waste to landfill" target at all the plants and distribution centres in December 2016, 4 years ahead of the target date of 2020.

Achievement of the target of "zero waste to landfill" is the first stage of a more global process of circular savings in which the Group is engaged. The objective is to maximise the recovery of its waste by giving priority to reuse or recycling. Furthermore, L'Oréal seeks to promote as far as possible the local treatment of waste, in order to reduce the environmental impact of the waste and to create potential synergies with other organisations and entities in the territory.

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

2016 Results

98% of waste recovered in 2016 ☑ *i.e.* 5% more than in 2005 (22 plants and 28 distribution centres had a 100% recovery rate in 2016).

2.2% of waste was destroyed without recovery (incineration without recovery for energy use and waste to landfill), *i.e.* 2,823 tonnes.

100% of plants and distribution centres send zero waste to landfill since December 2016 (excluding regulatory obligations)

3.2.3 LIVING SUSTAINABLY

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

2020 TARGETS	2016 RESULTS
A product assessment tool will evaluate the environmental and social profile of all new products. All brands will make this information available to allow consumers to make sustainable lifestyle choices.	The percentage of brands that provide consumers with information obtained from the Product Assessment Tool in order to allow them to make well-informed consumption choices, and the percentage of new products assessed using the Product Assessment Tool will be available by the end of 2017, once the tool that is currently being developed has been finalised.
All brands will have assessed their environmental and social impact and made commitments to improve their footprint.	**90%** of the brands have evaluated their social or environmental impact. *This percentage is calculated on the basis of their share of consolidated sales for 2015.*
Every brand will report on its progress and associate consumers with its commitments.	**46%** of the brands have carried out an action to raise awareness among consumers. The percentage of brands raising awareness among consumers about sustainable lifestyle choices in 2016 is calculated on the basis of their share of consolidated sales for 2015.
Our consumers will be able to influence our sustainability actions through a consumer sustainability panel.	A consumer sustainability panel was set up in 2016 in France in the form of panels organised in Paris, Lyon and Bordeaux making it possible to collect the consumers' perspective which will be used to prepare the action plan for 2017.

3.2.3.1. Assessing the footprint of our products

A tool which is currently being developed: the Product Assessment Tool

Since 2014, the Group has put in place a simplified tool that makes it possible to assess, in the form of an index, the social and environmental performance of its products. Four brands (Biotherm, Redken US, Garnier and La Roche-Posay) were pilots to test this assessment tool over the whole of 2015, and thus assessed the performance of their products on the basis of 11 environmental and social criteria. This tool, which is easy to use, made it possible to mobilise the marketing teams and raise their awareness to possible eco-design drivers. In 2016, an initial version of the Product Assessment Tool integrating the environmental and social impacts, and co-developed with external experts in life cycle analysis was deployed in 5 brands which makes it possible to simulate various design scenarios, to assess their impact on the environment and on society.

Developing ongoing improvement plans with the brands

At the same time as the development of the tool, each brand will have assessed its environmental and societal footprint by 2020 and will have made commitments to improve it.

In order to do so, the Packaging & Development teams, the CSR team and the laboratories conduct, with the Management Committees of the international brands, analyses of their portfolios of formulas and their packaging. The aim is to define sustainable innovation plans in order to systematically identify the possible improvement drivers for each range and each product in order to activate them.

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

This has enabled many brands to improve the environmental and social profile of their products launched in terms of both formula and packaging.

In 2016, La Roche-Posay, for example, updated the formula of its Ultra-fine exfoliating scrub, which has biodegradability that has now been improved by 10%, in particular thanks to the replacement of the plastic microbeads by perlite, a mineral particle with an excellent environmental profile.

A large number of products, for example, launched by various Group's brands, increasingly incorporate recycled plastic. The Matrix Biolage R.A.W., Kérastase Aura Botanica and the L'Oréal Paris Botanicals shampoo bottles are 100% composed of recycled plastic (except for the caps and pumps). The same dynamic is at play concerning the incorporation of recycled glass in the packing, up to 25% for Lancôme, L'Oréal Paris, L'Oréal Professionnel, Roger & Gallet, The Body Shop or Vichy.

3.2.3.2. Raising awareness among consumers about sustainable lifestyle choices

Conscious of the ability of its brands to mobilise their business partners, customers and consumers around today's major environmental and social causes, the L'Oréal Group pledged that everyone would identify a cause that it personally wants to defend and undertake campaigns to raise awareness.

Across all the Divisions, nearly half of the Group's brands took action in this respect in 2016.

Armani beauté continued *Acqua for life*, its initiative in favour of access to drinking water conducted with *Green Cross International*.

Biotherm reaffirmed its commitment to ocean protection alongside *Mission Blue*.

La Roche-Posay launched yet another *Skin Checker* campaign to raise awareness to the need to examine moles and prevent melanoma, winning third place in the *Grand Prix de la communication solidaire* (solidarity and communication award), in the category of "*Cinema and TV*", open to communications agencies, associations, not-for-profit organisations, international solidarity organisations, foundations, public and private organisations, and to companies.

The Matrix brand conducted digital environmental awareness campaigns around the launch of its new R.A.W. range, *via* the hashtag #LIVE R.A.W., inciting its consumers to save energy through fun challenges like, for example, taking a cold shower.

The Garnier brand has created a dedicated section on its website to share with consumers advice and tips on how to reduce their environmental footprint.

Ushuaia continued its partnership with the *Pur Projet* organisation, with an engaging digital campaign that led to over 2,300 trees being planted by the brand.

Yet another example, at the end of 2016, L'Oréal Professionnel had trained more than 430,000 hairdressers in the prevention of repetitive strain injury (RSI) and has launched a free mobile app. *15' Coach*, to help them to adopt the right posture.

Finally, in Australia, Brazil, Canada, the USA and Japan, Clarisonic, Garnier, Kiehl's, Maybelline or L'Oréal Paris have entered into a partnership with *TerraCycle*, an organisation that specialises in waste collection, inviting consumers to send off the packaging for their products free-of-charge, and this packaging is then reused to manufacture various everyday objects.

3.2.3.3. Brands that are committed to acting ethically

The L'Oréal Group recognises the importance of responsible advertising and marketing communication as essential means of providing information to consumers with regard to the characteristics and qualities of cosmetic products. In this respect, L'Oréal, a member of *Cosmetics Europe*, signed the charter on responsible advertising and marketing communication on cosmetics in 2012. The purpose of this charter is to set the cosmetics industry common ground towards responsible cosmetics advertising and marketing communication in Europe.

It makes it possible to ensure that advertising and marketing communications:

- comply with the relevant European and national regulations and the applicable self-regulatory framework;
- are sincere, truthful and not misleading;
- allow informed choices by the consumer;
- are socially responsible.

L'Oréal is also a member of the French Union of Advertisers (Union Des Annonceurs or "UDA") and contributed to preparation of its charter on responsible communication. The Group reports on its actions in this field every year. Since 2012, L'Oréal has developed a training programme for the employees in its marketing teams in order to keep them apprised of good communication practices.

3.2.4. DEVELOPING SUSTAINABLY

Sharing growth with its stakeholders is one of L'Oréal's priorities. The Group applies its vision of responsible corporate citizenship with regard to its employees, its suppliers and the surrounding communities.

3.2.4.1 … with our employees

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

2020 TARGETS	2016 RESULTS
Our employees will benefit from healthcare coverage aligned with the best practices of the country they are based in.	**88%** of the Group's permanent employees have access to healthcare coverage reflecting best practices in their country of residence (1).
Our employees will benefit from financial protection in the event of unexpected life events such as death or total permanent disability.	**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 (1).
Our employees will have access to training wherever they are in the world.	**77%** of the Group's employees followed at least one training course in 2016 (2).

(1) *Calculated according to the Group's global scope (Cosmetics and The Body Shop), namely 100% of the employees included within the scope of the Share § Care program (the Group's permanent employees (Cosmetics and The Body Shop) except, in certain countries, part-time contracts < 21 hours a week, beauty advisors and store employees, with the proviso that the integration of recent acquisitions and new subsidiaries only takes place gradually).*

(2) *Calculated according to the Group's global scope (Cosmetics and The Body Shop).*

Providing all the Group's employees with healthcare coverage and financial protection in the event of unexpected life events

L'Oréal seeks to offer its employees the best levels of social protection and to universalise its social model, in a manner that is completely consistent with its global dimension. This is a strong commitment which reflects the Company's vision, whereby sustainable growth necessarily goes hand in hand with a global vision and a high level of social performance. L'Oréal has made the commitment (see L'Oréal's *Share & Care* program) that all employees will have access to:

- healthcare coverage which is aligned with best practices in their country of residence;
- financial protection in the event of unexpected life events, such as temporary or permanent disability.

Providing access to one training session per year for all the Group's Employees wherever they are in the world

Training is at the heart of Human Resources strategy. L'Oréal can thus attract the best talents and prepare the leaders of the future. The Group's ambition is to enable its employees, whatever their profession, job, position or country, to have access to development opportunities throughout their working life. This vision is borne out by its training policy called *Learning for All*. The *Sharing Beauty With All* programme has translated this ambition into a commitment: allowing all employees to benefit from one training action per year by 2020 (see paragraph 3.1.2.2. *Training*).

3.2.4.2 … with our suppliers

"By 2020, 100% of the Group's strategic suppliers will be participating in our supplier sustainability programme."

2020 TARGETS	2016 RESULTS
All strategic suppliers [1] will be evaluated and selected on social and environmental performance.	**83%** of the Group's strategic suppliers[1] have been evaluated and selected on the basis of their environmental and social performance. They represent more than 74% of total direct purchases (raw materials, packaging items and subcontracting). Furthermore, in 2016, 1,187 social audits were carried out, making a total of **over** 8,200 since 2006.
All strategic suppliers [1] will have completed a self-assessment of their sustainability policy with the Group's support.	**83%** of strategic suppliers [1] have completed a self-assessment of their sustainability policy with the Group's support. This percentage is based on the calculation of the number of suppliers who, in 2016, had been assessed on their social, environmental and ethical policies, as well as the application of such policies at their own suppliers, by Ecovadis.
All suppliers will have access to L'Oréal training tools to improve their sustainability policies.	An online site dedicated to suppliers was launched in 2016. Initially accessible to strategic suppliers[1], it will be deployed gradually. It proposes e-learning modules, videos presentations on ethics, climate change, social audits, etc.
20% of strategic suppliers [1] will be associated with our *Solidarity Sourcing* programme.	**4%** of strategic suppliers[1] are associated with the Group's *Solidarity Sourcing* programme.

(1) *Strategic suppliers are suppliers whose added value is significant for the Group by contributing to the L'Oréal sustainable strategy by their weight, their innovations, their strategic alignment and their geographical deployment. 80% of the amount of direct purchases will ultimately be covered by this approach. The portfolio of suppliers will therefore solely consist, in 2020, of suppliers with the best CSR results: new suppliers selected on their performances and longstanding suppliers whom the Group continues to use as they are some of the best.*

As a socially responsible company L'Oréal includes its entire value chain, including the work carried out by its suppliers, in its Sustainable Development policy. There are thousands of suppliers throughout the world who cover the Group's needs in terms of packaging, raw materials, subcontracting, production equipment, promotional and advertising items, etc. The global volume of purchases directly related to production represented €4.43 billion in 2016 (Cosmetics scope, excluding The Body Shop).

The Group has decided to use its partners' environmental and social performances as a selection criterion. On this basis, the commitments under the *Sharing Beauty With All* programme fit in with, and follow on from, those in the Group's responsible purchasing policy initiated in 2002 with the L'Oréal *Buy & Care* programme. This contributes to sharing good practices and the Company's values and standards with its suppliers.

Assessing and selecting the Group's strategic suppliers on the basis of their social and environmental performance

The Corporate Social and Environmental Responsibility (CSR) commitments of suppliers play a significant role in the choice of the Group's business partners. L'Oréal's purchasing teams have in this respect defined 5 pillars of performance that make it possible to assess and choose suppliers:

- Competitiveness;
- Quality;
- Supply Chain & Service;
- Innovation;
- Corporate Social and Environmental Responsibility.

These pillars form the basis both for daily performance and for long-term strategies. A global scorecard has been deployed for all purchasing fields and makes it possible to precisely measure suppliers' results, in particular their compliance with their environmental, social and societal commitments which represent 20% of the final assessment.

The CSR strategy and action plans of suppliers are fully integrated into their relationship with L'Oréal and are therefore discussed at strategic meetings (Business Reviews). In this way, in 2016, 223 business reviews were carried out. The evaluation of suppliers on the CSR pillar is based, in particular, on their compliance with their social audits, the implementation of *Solidarity Sourcing* projects and their results in the *CDP Supply Chain* programme for the reduction of CO_2 emissions.

Suppliers and subcontractors are also asked to comply with the ethical commitment letter that refers to compliance with the Fundamental Conventions of the International Labor Organization as well as local laws, in particular with regard to minimum wages, working time and health and safety (see section 3.1.4.4. *Respect for the ILO Conventions*).

83% of the Group's strategic suppliers were evaluated and selected on their environmental and social performance

They represent more than 74% of total direct purchases (raw materials, packing items and subcontracting)

PROVIDING SUPPORT TO NEW SUPPLIERS

L'Oréal actively seeks to work with suppliers who share its ethical values and commitments. Its purchasing teams have the task of identifying new suppliers and integrating them in light of the Group's expectations and its strategy *via* the *Welcome on Board* (WOB) supplier referencing process. This allows it to make sure that the supplier is of real interest and to provide the supplier with all the information, documents and contacts required for it to understand the expectations and processes at L'Oréal. The final objective is to obtain the supplier's commitment to L'Oréal's values.

Ensuring compliance with commitments by subcontractors and suppliers through social audits

The Group's subcontractors and its suppliers of raw materials, packaging, production equipment and POS advertising/promotional items and materials located in countries where there is considered to be a risk are mandatorily subject to a social audit aimed in particular at ensuring compliance with the applicable laws, Human Rights and labour law. This audit also verifies employee safety and working conditions in the workplace.

The social audits are carried out on behalf of L'Oréal by independent external service providers.

The initial audits and the re-audits three years later are financed by the Group. Follow-up audits that make it possible to verify the effectiveness of the action plans are paid for by the suppliers.

10 chapters are audited:

- child labour;
- forced and compulsory labour;
- the environment, health and hygiene and safety;
- compliance with the laws relating to trade unions;
- non-discrimination;
- disciplinary practices;
- sexual harassment or a hostile working environment;
- due payment of wages/compensation and benefits;
- working time;
- relations with subcontractors.

L'Oréal's social audit is based to a great extent on the internationally recognised SA 8000 standard. The Group has also imposed more stringent criteria, particularly with regard to the minimum age for child labour. It is set at 16 years of age for all employees working for suppliers, a higher age limit than the minimum age required by the Fundamental Conventions of the International Labor Organization (ILO).

Suppliers and subcontractors may nevertheless request waivers from the Group Purchasing Director for the use of employees under the age of 16 upon presentation of a complete file (schooling, type of contract, working conditions, type of work). Pursuant to the "Suppliers/Subcontractors and Child Labour" policy, formally laid down in 2011, waivers of this kind are only possible for apprenticeship programmes or for children carrying out light work if this work does not affect their health and safety or their regular attendance at school, where the local law allows it and when the supplier/subcontractor has appointed an internal "tutor" for the children.

Key figures

5,200 supplier sites have been subject to social audits since the reporting tool was set up in 2006:

- 1,187 audits ☑ were carried out in 2016, making a total of over 8,200 since 2006;
- 49% of the audits in 2016 were carried out in Asia;
- 68% of supplier sites audited for the first time (initial audits) presented major instances of non-compliance. During follow-up audits, there were no longer any major non-compliances for 46% of the suppliers who were initially non-compliant.

THE BODY SHOP, A SOURCE OF INSPIRATION

Since its integration into L'Oréal in 2006, The Body Shop (TBS) has pursued its longstanding programme of social audits. TBS is one of the founding members of the *Ethical Trading Initiative* (ETI) and has adopted their *Supplier Code of Conduct*. The Body Shop has thereby developed a programme enabling them to support their responsible sourcing policy. Working conditions, defined in the *Supplier Code of Conduct*, are notably controlled on the production sites of suppliers (56 audits were carried out in 2016). 3 supplier support programmes initiated between 2012 and 2014 were closed. In 2016, a pilot project for a dialogue with workers was launched.

Inciting strategic suppliers to reduce their greenhouse gas emissions

L'Oréal has successfully pledged to combat climate change by setting ambitious targets, in particular that of reducing its CO2 emissions by 60% between 2005 and 2020, for its plants and distribution centres. At the same time, L'Oréal also wants to actively contribute to reducing the greenhouses gases of its supply chain. Approximately 20% of the Group's carbon footprint results from the activities of its suppliers. This is the reason why L'Oréal has associated its suppliers since 2009 with the process for measurement and reduction of its carbon footprint by encouraging them to work with the CDP, within the framework of the CDP Supply Chain programme. This NGO, of which L'Oréal has been a member since 2003, invites companies to publish their environmental impact and provides them with measurement, evaluation and communication tools.

Within the framework of the *Sharing Beauty With All* programme, participation by L'Oréal's strategic suppliers in the CDP Supply Chain has now been made compulsory and 96% of the suppliers asked to participate have responded positively. They have been selected in the 6 fields of purchases (raw materials, packaging items, production equipment, subcontracting, POS advertising/promotional items and materials and indirect purchases), all over the world. They are suppliers involved in industries that generate CO_2, and may be large industrial groups or small and medium-sized businesses. In December 2015 at the time of the COP21, L'Oréal pledged that suppliers representing 80% of direct purchases:

- will participate in the CDP Supply Chain;
- will set targets for reducing their carbon footprint;
- will communicate on their action plans to succeed in reaching this target.

As of the end of 2016, the suppliers fulfilling this commitment represent 57% of direct purchases.

L'Oréal was recognised by the CDP as one of companies that are the most committed to reducing greenhouse gas emissions. The large number of the Group's suppliers who are partners of the CDP testifies to this fact. This growing commitment results in particular from the strong commitment of L'Oréal's purchasing and environmental teams who transmit results with comments and opportunities for improvement to the suppliers who participated. Supply Chain performance is at the heart of the discussions during the annual business reviews, but also throughout the year.

In addition to their participation, L'Oréal pledged to ensure that its suppliers would make progress. In order to do so, in 2016, the purchasing and environmental teams:

- organised meetings with subcontracting providers on climate change and the CDP;
- led online conferences for suppliers wishing to know more;
- continued to develop online toolboxes to help suppliers to gain an understanding of these subjects.

The average of supplier scores for 2016 is "C" as against 76 of "D" in 2015 (change in the rating by the CDP). In 2016, 55 additional suppliers agreed to participate for the first time in the CDP Supply Chain (Asian suppliers, subcontractors, raw material distributors). The total number of suppliers who have thus worked on climate change is 291 (out of the 302 suppliers invited to participate this year).

THE GROUP'S SUPPLIERS ASSOCIATED WITH THE WATER DISCLOSURE PROJECT

Within the framework of the *Sharing Beauty With All* programme, L'Oréal has pledged to reduce its water footprint, which very naturally led the Group to join the *Water Disclosure Project*, as soon as it was launched in 2013. This project is aimed at measuring and reducing companies' water footprint. L'Oréal invited 17 of its main suppliers to adhere to this programme and 15 of them responded positively. Following on from this pilot project, 31 suppliers were invited to participate in 2016, and 23 of them agreed.

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

All L'Oréal's strategic suppliers will carry out a self-assessment with regard to their sustainability policy

L'Oréal has initiated a programme for assessment of strategic suppliers and their sustainability policy. In addition to its own assessment, L'Oréal has an evaluation carried out of the Sustainable Development policies of its suppliers. The purpose of these evaluations carried out by Ecovadis is to refine the analysis of supplier performances and to help them to improve by identifying their areas for progress.

2016 results

More than 500 suppliers had their social, environmental and ethical policies evaluated by Ecovadis as well as the deployment of such policies at their own suppliers in 2016. 144 of them represent 83% of the Group's strategic suppliers.

Associating 20% of the Group's strategic suppliers with the Group's Solidarity Sourcing programme

Using L'Oréal's purchases as a driver for the promotion of social inclusion is the objective of the Solidarity Sourcing programme. The Group is pursuing this global solidarity sourcing and responsible purchasing programme initiative created in 2010, which aims to help to give people from economically vulnerable communities durable access to employment and income. In the same way as it shares its environmental commitments with its suppliers, the Group has set a target within the framework of the *Sharing Beauty With All* programme of associating 20% of its strategic suppliers with the Solidarity Sourcing programme.

2016 results

4% of the Group's strategic suppliers were associated with the Group's *Solidarity Sourcing* programme in 2016.

3.2.4.3 … with the communities around us

"By 2020, the Group will enable more than 100,000 people from socially or financially deprived communities to access work through its actions."

2020 TARGETS	2016 RESULTS
100,000 people from socially or financially deprived communities will be able to access work through the following programmes:	Over **67,533** people from socially or financially deprived communities have had access to work.
◆ ***Solidarity Sourcing;***	**63,228** people accessed work through the *Solidarity Sourcing* programme.
◆ **Beauty professionalisation;**	**3,295** people from an underprivileged environment were trained in beauty professions.
◆ **Employment of disabled people and people from under-represented socio-ethnic groups.**	**1,010** people with disabilities worked for L'Oréal [(1)].

(1) This figure takes into account the total number of disabled employees (with permanent and fixed-term employment contracts) as of December 31st, 2016. This indicator only takes into account employees who wanted to declare their disability and have it recognised, as all the employees concerned do not systematically wish to do so.

Due to its many industrial and administrative sites all over the world, L'Oréal is strongly involved, in the vicinity of its sites, in the life of the surrounding local communities. A company committed to demonstrating strong corporate citizenship, L'Oréal makes a contribution to many local projects. As a general rule, the Group's establishments and its subsidiaries build good relations with the communities in the areas in which they operate, and make every effort to share their growth with them.

This ambition led to a commitment in the *Sharing Beauty With All* programme: enabling over 100,000 people from socially or financially deprived communities to access work by 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

Solidarity Sourcing

Solidarity Sourcing, the emblematic purchasing programme which is part of the *Sharing Beauty With All* programme

Created in 2010, Solidarity Sourcing is L'Oréal's global responsible purchasing programme.

Its aim is to use the Group's purchasing power to serve social inclusion. It consists in dedicating part of its purchases to suppliers giving people who are generally excluded from the labour market durable access to work and income.

The Group is therefore continuing to open up its procurement process to companies who employ people from economically vulnerable communities, including small companies and those who have more difficulty in having access to multinational companies.

The *Solidarity Sourcing* programme concerns for example: fair trade producers, companies which employ disabled workers, social insertion enterprises or companies owned by minorities (when this is permitted by the national legislation).

Solidarity Sourcing offers a novel purchasing approach due to its global, holistic nature:

- the programme is deployed in all the geographic zones;
- it concerns all areas of purchases (raw materials, subcontracting, promotional items, etc.);
- it comprises an environmental aspect for the projects that require it.

The ambition of the programme is to associate economic performance with a positive social, societal and environmental footprint.

In 2016, *Solidarity Sourcing* enabled 63,228 people from socially or economically vulnerable communities all over the world to gain access to work or to keep a job and receive decent income.

This programme has offered the opportunity for the Group's purchasers to enrich their jobs by contributing to improving the lives of thousands of people involved in the production of the goods and services purchased.

In addition, L'Oréal encourages its strategic suppliers to implement programmes inspired from the *Solidarity Sourcing* programme for their own purchases. In 2016, 4% of these suppliers have thus applied a similar programme. L'Oréal pledged that 20% of them would be involved in the project by 2020.

Solidarity Sourcing: fair trade cotton at L'Oréal Professionnel hairdressers

In 2016, the teams in the U.S.A. deployed with a temporary employment provider a new social inclusion project which involves a three-year contract.

It has allowed for the reinsertion through work of 806 full-time equivalent employees, from minorities officially recognised as underprivileged on the American labour market.

This programme is regulated by law and encouraged by the government it is aimed at restoring equal opportunities for people from historically discriminated minorities, in particular due to their origin or their gender. The beneficiaries are present in 6 States: Alabama, Arkansas, California, New Jersey, Pennsylvania and Texas. They mainly work in L'Oréal's plants and distribution centres and hold various industrial, administrative, sales, accounting or financial positions.

3.3. METHODOLOGICAL NOTES

3.3.1. SOCIAL DATA

3.3.1.1 Scope of consolidation

The workforce indicated, and the breakdowns in this respect, correspond to the total workforce for the Cosmetic Divisions and The Body Shop [1]. If an indicator relates to a scope different from that of Cosmetic Divisions and The Body Shop, the scope of consolidation is indicated in a note.

3.3.1.2 Indicators

The indicators chosen are those used in the management of employees and of the social aspects of the Company. They reflect the results of the Human Resources policy.

3.3.1.3 Data

Four methods are used to collect data for the defined scope:

- most of the data are collected using the dedicated *Country Reporting* intranet system, available in all countries in which there is a L'Oréal subsidiary.

  The system covers several topics: workforce, training, absenteeism, labour relations, the L'Oréal *Share & Care* program, remuneration, diversity, recruitment and profit sharing:

  - at the beginning of each year, the local Human Resources Directors provide the required data for the previous year,
  - when the data are compiled, each country must validate a charter committing to the accuracy of all the data provided.
- other data are collected by each department concerned (*i.e.* Training, Recruitment) using dedicated systems which follow the same operational and dissemination approach;
- if information is not consolidated for the entire Cosmetics Division scope, it can be extrapolated from the available results for the entities connected to the local Information Systems (IS), provided that the scope covered by such entities is representative;
- lastly, the specific data relating to "executives" and other specific populations (expatriates, key positions, etc.) are gathered from the "CAROL" online career monitoring system, deployed in all Cosmetic Divisions subsidiaries.

The number of employees trained is calculated on the basis of all types of training format and length. The number of employees trained who received less than 1 hour's training is not significant.

Concerning the *Share & Care* indicator relating to healthcare coverage, the best practices in the countries are regularly evaluated in each country in which the Group is present.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

3.3.2. HEALTH AND SAFETY DATA

3.3.2.1 Scope of consolidation

The safety indicators relate to the Cosmetics and The Body Shop sites (plants, distribution centres, administrative sites, research centres and stores) as well as sales forces.

Safety reporting covers 97% of plants and distribution centres and over 82% of the workforce of the administrative sites, research centres, sales forces and stores.

The safety indicators of the plants and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The plants or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental and safety reporting systems. In accordance with this rule, the data of 3 sites that recently became part of the Group are not integrated in the Group's EHS reporting for 2016: Niely (plant), DC Niely, and DC Torrance.

3.3.2.2 Indicators

The indicators applied are those used in the management of the Group's sites. They reflect the results of the Group's Environmental, Health and Safety (EHS) policy.

3.3.2.3 Data

The following method is used to collect data for the defined scope:

The health and safety data are collected using the dedicated site reporting intranet system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

(1) *The subsidiaries in Venezuela were deconsolidated as of December 31st, 2015. Certain recent acquisitions (Atelier Cologne, Thermes St Gervais, TBS Chile, Côte d'Ivoire, Bangladesh), whose information system is not yet connected to the Group's systems, are excluded from the scope of the reporting. They represent 0.2% of the Group's employees. The objective is to integrate them into the reporting for 2017.*

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

3.3.3. ENVIRONMENTAL DATA

3.3.3.1 Scope of consolidation

The environmental indicators set out relate to the Cosmetics and The Body Shop sites: plants, distribution centres, administrative sites and research centres.

The environmental indicators of the plants and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The plants or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental reporting systems: for the 2016 financial year, 97% of the plants and distribution centres participated in the reporting system, while data pertaining to 3 sites, recently integrated into the Group, are not yet included in the published data: Niely (plant), DC Niely, and DC Torrance.

The indicators do not take into account the impacts of non-recurring work concerning water and energy consumption and waste generation. Similarly, in the special case where a subcontractor is located geographically on the sites, its impacts are not taken into account.

In order to cover all the Group's impacts, the environmental reporting has been extended to the Group's administrative and R&I sites. In 2016, 91 administrative and R&I sites, representing over 80% of the workforce of the Group's administrative and R&I sites, participated in the reporting. 98% of these sites provided information relating to energy consumption and CO_2 emissions. As they share their premises with other companies, a few sites could not obtain their water consumption and waste production data. Nevertheless, 94% of the sites with more than 50 employees reported their water consumption and 86% the quantity of their waste.

3.3.3.2 Indicators

The indicators chosen are those used in the management of the Company's sites. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

Greenhouse gases: the methodology used for the CO_2 estimates follows the GHG Protocol's rules.

The Group's emissions are now calculated using the new concepts defined by the GHG Protocol and monitored using the Market-Based CO2 indicator, instead of the Net CO2 indicator.

Furthermore, this indicator for the monitoring of CO_2 emissions now includes emissions related to refrigerant leaks.

With the desire for comparability, the data on CO_2 emissions for the 2005 baseline provided have been updated in light of these rules (recalculated on the basis of a constant scope). The calculation of the 2005 baseline is based on the 2003 emission factors of local electricity suppliers – when they are available. When the emission factors are not available, IEA (International Energy Agency) and eGrid [(1)] emission factors, available in 2006, corresponding to IEA factors for 2003 and EPA [(2)] (eGRID) factors for 2000, are used. For the estimates for the following years, the emission factor used follows the GHG Protocol rules: in general, that provided by the supplier, which is the most precise; if it is not known, the regional emission factor is used or failing this, the IEA emission factor (the 2015 IEA edition for 2016 emissions).

Comment concerning Scope 3: unlike Scopes 1 and 2, the changes in Scope 3 emissions from one year to the next may relate more to the quality of the data collected and the methods of calculation used than to a real measurement of change in performance. This margin of uncertainty with regard to Scope 3 is a reality for all companies, and does not make it possible to consider this data as a reliable benchmark or method of performance assessment.

Waste: L'Oréal includes in transportable waste everything that comes out of a plant or a distribution centre and which is not a finished or semi-finished product (for example, the following are concerned for a plant: raw material packaging or packing items, wastewater treatment plant sludge, broken pallets, etc.).

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of returnable packaging, a system of recording returnable packaging at source was put in place in 2014. L'Oréal thus records the weight of its returnable packaging at source in transportable waste, with each of the sites being responsible for maximising the number of rotations. The recording of the weight of reusable packaging at source is a measure intended to encourage rotation of this returnable packaging and contributes, through its reuse, to increasing the useful life of the packaging.

Sites that no longer send any waste for destruction or to landfill except for regulatory constraints are considered to have attained a 100% recovery rate.

3.3.3.3 Data

The following method is used to collect data for the defined scope: the data are collected using the dedicated intranet-based site reporting system, available in all countries in which there is a L'Oréal subsidiary. This system covers several topics: quality, process performance and EHS data. The required data are reported every month by the local managers. When the data are compiled, each site or zone must validate the accuracy of the data provided. A process of continuous improvement of these systems has been put in place. They are reviewed each year by the Statutory Auditors and modified taking into account their recommendations and monitoring objectives for subsequent years: updating of the

(1) Emissions & Generation Resource Integrated Database.
(2) Environmental Protection Agency.

indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

3.3.4. SOCIETAL DATA

3.3.4.1 Scope of consolidation

The scope covers, depending on the indicators, L'Oréal parent company, France or the Group. The specific scope is specified for each indicator.

3.3.4.2 Indicators

The indicators chosen are those within the scope of the Grenelle II regulations, with the aim of data comparability.

3.3.4.3 Data

The following methods are used to collect data for the defined scope:

- the data relating to Ethics is collected by the Ethics Department using the Annual Ethics Reporting platform. A certain amount of data is collected by the Country reporting intranet system for the collection of Human Resources data (see the Human Resources data reporting methodology described above);
- the other data are collected from the Corporate Departments concerned (Communications Department, Sustainable Development Department, Human Resources Department, Purchasing Department, Worldwide Safety Evaluation and the Director of Risk Management and Compliance).

3.3.5. "INNOVATING SUSTAINABLY" DATA

3.3.5.1 Scope of consolidation

The calculation is made on the basis of a scope limited to the data available in the WISE tool, which now covers 87% of the volumes produced by the Group;

The calculation of the indicators is based on all new or updated products (sales models only), *i.e.* products manufactured in 2016 (which did not exist in 2015) in the L'Oréal Group's plants;

The products considered in 2016 cover all categories of formulas (including make-up and perfumes);

The calculation of the indicators is made on the basis of the number of new or updated products, either in terms of formula or in terms of packaging;

The new or updated products do not include "extensions of range".

3.3.5.2 Indicators

Concerning the indicator on the "Percentage of products analysed with an improved social or environmental profile (as a %)": a new or updated product is included in the indicator if its profile has been improved by at least one of the criteria measured by the other indicators (sustainable sourcing or green chemistry, improvement of the environmental impact of the formula, improvement of the packaging, presence of raw materials obtained under the *Solidarity Sourcing* programme).

Concerning the indicator on the "Percentage of new or updated products with an improved environmental profile thanks to a new formula with a reduced environmental footprint": the improvement is assessed on the basis of the biodegradability and eco-toxicity criteria of the new formula or the updated formula compared to the average rating of the product family concerned, for an equivalent use. It only concerns products with a new or updated formula.

Concerning the indicator on the "Percentage of new or updated products with an improved environmental profile thanks to new packaging with a reduced environmental footprint": the improvement is assessed on the basis of the criteria of the quantity of resources used, quality/sustainability of the resources used (recycled) and management of the end of life of the new packaging or updated packaging compared to the average rating of the product family concerned, for an equivalent use. It only concerns products for which the packaging is new or updated.

Concerning the indicator on the "Percentage of new or updated products with an improved social profile thanks to a positive social impact": the indicator corresponds to the percentage of new or updated products including raw materials obtained under the *Solidarity Sourcing* programme. The number of *Solidarity Sourcing* raw materials is not compared to any baseline.

3

3.4. TABLES OF CONCORDANCE

3.4.1 TABLE OF CONCORDANCE IN RESPECT OF SOCIAL, ENVIRONMENTAL AND SOCIETAL MATTERS

Page	Grenelle II – French Decree of April 24th, 2012 and of August 19th, 2016	Global Compact
	PRINCIPLES	
192-194	Scope of reporting	# 1 to 2
192-194	*Comply or explain*	
192-194	Data comparability	
192-194	Reference to standards	
201-203	Attestation with regard to the exhaustiveness of information	
201-203	Opinion with regard to the true and fair view given by the information	
	SOCIAL INFORMATIONS	
	Employment	
129	◆ Total workforce	# 3 to 8 and # A, # D
129	◆ Distribution of employees by gender, by age and by geographic zone	
128-129	◆ Recruitments	
130	◆ Dismissals	
132-133	◆ Remuneration and trends	
	Work organization	
139-140	◆ Organization of working time	# 3 to 8
130	◆ Absenteeism	
	Labor relations	
139-140	◆ Organization of the dialogue between employees and management	# 3 to 8
140	◆ Situation with regard to collective agreements	
	Health & Safety	
144-151	◆ Health and safety conditions at work	# 3 to 8
140	◆ Status report on agreements signed with trade union organizations with regard to health and safety at work	
149-150	◆ Frequency and severity of accidents at work	
130	◆ Occupational diseases	
	Training	
130-132	◆ Training policy implemented	# 3 to 8
132	◆ Total number of hours of training	
	Equality of treatment	
141-142	◆ Measures taken to promote gender equality	# 3 to 8 and # A, # D
143	◆ Measures taken in favour of employment and professional insertion of the disabled	
142-144	◆ Policy to combat discrimination	
	Promotion & compliance with the ILO conventions	
165-167	◆ Compliance with freedom of association and the right to collective bargaining	# 3 to 8 and # A, # D
165-167	◆ Elimination of discrimination in respect of employment and occupation	
165-167	◆ Elimination of forced or compulsory labour	
165-167	◆ Effective abolition of child labour	
	ENVIRONMENTAL INFORMATIONS	
	General environmental policy	
152-156	◆ Organisation of the Company to take into account environmental issues and, where applicable, environmental evaluation or certification measures	# 9 to 11
147	◆ Training actions and provision of information to employees with regard to environmental protection	
	Pollution and waste management	
177-184	◆ Circular economy	
177-184	◆ The means devoted to prevention of environmental risks and pollution	
154	◆ The amount of the provisions and cover with regard to environmental risks, on condition that this information is not liable to cause serious harm to the Company in a lawsuit in process	# 9 à 11
182-184	◆ Waste prevention, recycling, reutilization, other forms of waste recovery and elimination measures	
181-182	◆ Measures for prevention or reduction of, or to remedy, emissions into the air, water and soil seriously affecting the environment	# 9 à 11
183	◆ Measures against food waste.	

Page	Grenelle II – French Decree of April 24th, 2012 and of August 19th, 2016	Global Compact
153	◆ Taking into account noise pollution and any other form of pollution specific to an activity	
	Sustainable use of resources	
181-182	◆ Water consumption and water supply depending on local constraints	# 9 to 11
170-176	◆ Raw material consumption and measures taken to improve efficiency in their use	
177-180	◆ Energy consumption, measures taken to improve energy efficiency and use of renewable energies	
152-153	◆ Soil use	
	Climate change	
177-180	◆ Greenhouse gas emissions	# 9 to 11
	Protection of biodiversity	
156	◆ Adaptation to the consequences of climate change	
154-155	◆ Significant sources of greenhouse gas emissions generated by the activity, in particular by the use of goods and services producted by the company	
170-174	◆ Measures taken to preserve or develop biodiversity	# 9 to 11
	SOCIETAL INFORMATIONS	
	Territorial, economic and societal impact of the Company's activities	
161-162	◆ On employment and regional development	# 16 to 18 and 21 and # C
161-162	◆ On neighbouring or local populations	
	Relations maintained with people or organisations who are stakeholders of the Company's activities	
161-162	◆ Particularly, associations promoting professional insertion, educational establishments, environmental defence associations, consumer associations and neighbouring populations	# 2 and 16 to 18
157-158	◆ The conditions for the dialogue with these people or organisations	
159-161	◆ Partnership or philanthropy actions	
	Subcontracting and suppliers	
187-191	◆ Taking into account social and environmental issues in purchasing policy	# 2 to 11 and # B
187-191	◆ The importance of subcontracting and taking their social and environmental responsibility into account in relations with suppliers and subcontractors	
	Fair practices	
162-164	◆ The actions taken to prevent corruption	
168-169	◆ The measures taken in favour of consumer health and safety	# 12 to 14
165-167	**Other actions taken in favour of Human Rights**	**# 3 TO 5 AND # A TO D**

3.4.2. TABLE OF CONCORDANCE AND ADDITIONAL REPORTING ON THE BASIS OF THE GRI REPORTING FRAMEWORK

This table shows the GRI reference indicators and the other indicators that the Group considers relevant with regard to social, environmental and societal policy.

Some of the indicators are not shown in this table and their values appear on the pages indicated.

GRI topic	GRI G4 reference	Pages of Report	Additional indicators	Value for 2016
General Disclosures	G4-1	2-3		
	G4-2	41, 99-120		
	G4-3	302		
	G4-4	12-15, 37-38		
	G4-5	last page		
	G4-6	16, 19		
	G4-7	302		
	G4-8	12-25		
	G4-9	23-32		
	G4-10	129, 139		
	G4-11	139, 141		
	G4-12-13	18, 22		
	G4-14 to 16	17-18, 114, 141-144, 158, 162, 168-170, 180, 182, 185, 188		
	G4-17	37-40		
	G4-18 to 23	157, 192-194		
	G4-24 to 27	157-158		
	G4-28 to 31	324, 350-351		
	G4-32			Core
	G4-33	201-208		
Governance	G4-34 to 38	44-81, 157		
	G4-39	47		
	G4-40	47-65		
	G4-41	62-63		
	G4-42	65-66		
	G4-43	72		
	G4-44	72		
	G4-45 to 47	65-71, 102-105		
	G4-48	63-67		
	G4-49	157, 166, 324		
	G4-51	82, 95-96		
	G4-53	45, 132, 318-321		
	G4-56 to 58	101, 162-167		
Economic	EC1	23-32		
	EC2	151-154, 171-172, 179, 181		
	EC3	134-137		
	EC4	NA		
	EC5	131-132		
	EC6		Key positions outside France held by local managers (%)	34% ☑
	EC7	158-161, 189-190		
	EC8	186-190		
	EC9	NA		

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

GRI topic	GRI G4 reference	Pages of Report	Additional indicators	Value for 2016
Environment	EN1-2	170-176		
	EN3	177-178	Fuel consumption from non-renewable sources (kWh)	249,200,591 kWh
			Fuel consumption from renewable fuel sources (kWh)	15,876,263 kWh
			Total consumption of non-renewable electricity (kWh)	124,626,458 kWh
			Total consumption of renewable electricity (kWh)	266,304,727 kWh
			Total consumption of non-renewable heating (kWh)	32,744,447 kWh
			Total consumption of renewable heating (kWh)	45,032,850 kWh
			Total quantity of energy produced at sites (kWh)	38,194,187 kWh
			% of renewable energy in total energy consumption	44.60%
	EN4 to 7	177-180	Energy intensity (kWh/1,000 FP)	127.7 kWh/1,000 finished product
	EN8		Volume of water withdrawn – Surface water, including water from wetlands, rivers, lakes and oceans and ground water	214,827 m^3
			Volume of water withdrawn – Rainwater collected directly and stored (m^3)	7,197 m^3
			Volume of water withdrawn – Waste water from another organization (m^3)	0 m^3
			Water from municipal water suppliers or water from other water utilities (m^3)	1,946,326 m^3
			Total volume of water consumed by plants and distribution centres (m^3)	2,168,350 m^3
			% of water consumption intended for cleaning (plants and distribution centres)	35%
	EN9		Number of plants located in a water stressed area	9
			% of plants located in a water stressed area	21%
	EN10		Water recycled in the plants	7%
	EN11	152-153		
	EN12	170-174		
	EN13-14	152-153		
	EN 15	177-178	Variation in **direct** CO_2 emissions as compared to 2005 (%)	-41% (3)
	EN16	178-179	Variation in **indirect** CO_2 emissions as compared to 2005 (%)	-83% (4)
	EN17	180		
	EN18		Intensity of **direct** CO_2 emissions at 12/31/2016 (g eq. CO_2/FP)	9,7 g eq CO_2/finished product (5)
			Variation in the intensity of **direct** CO_2 emissions compared to 2005	-55% (3)
			Intensity of **indirec**t CO_2 emissions at 12/31/2016 (g eq. CO_2/FP)	4.5 g eq CO_2/finshed product (6)
			Variation in the intensity of **indirect** CO_2 emissions compared to 2005	-87% (3)
			Intensity of CO_2 emissions at 12/31/2016 (g eq. CO_2/FP)	14.1 g eq CO_2/finshed product (7)
			Variation in the intensity of CO_2 emissions as compared with 2005 (direct+indirect)	-74% (3)
	EN20	179		
	EN21	179	Nox emissions (tonnes)	55 t
			POP emissions (kg)	0
			VOC emissions (tonnes)	146 t
	EN22	179-182	Tonnes of BOD5	1,697 t
			Hazardous waste generated (= all types of solid or liquid waste other than wastewater) (tonnes)	19,111 t
	EN23	182-184	Waste recovered through energy recovery (tonnes)	37,543 t
			Waste recovered through reuse and recycling (tonnes)	90,168 t
			Waste incinerated without energy recovery (tonnes)	2,602 t
	EN24	182		
	EN25	183		
	EN27	170-176		
	EN28	NA		

GRI topic	GRI G4 reference	Pages of Report	Additional indicators	Value for 2016
	EN29		Amount of environmental fines (€)	0 euro
			Number of environmental fines	0
	EN30	180		
	EN31	NA		
	EN32	187	Coverage of L'Oréal suppliers participating in the CDP Supply Chain Climate Change (target: 80%) (%)	75%
	EN34	NA		
Labor Practices and Decent Work	LA1	129	Employee turnover	13.19% (figure not provided last year)
	LA2	133-138		
	LA4	140		
	LA5	139-141		
	LA6	130, 149-151	Plants and distribution centres with 0 lost-time accident rate (employees of L'Oréal)	79
			Administrative sites with 0 lost-time accident rate (employees of L'Oréal)	63
			R&I centres with 0 lost-time accident rate (employees of L'Oréal)	6
			Total absenteeism rate (%)	4.40%
			Absenteeism rate due to illness (% total absenteeism)	2.20%
			Total of sites with 0 lost-time accident rate (employees of L'Oréal)	148
	LA7-8	130, 141		
	LA9	130-132		
	LA10-11	128-132		
	LA12	141-143		
	LA13	141		
	LA14-15	167, 188-189		
	LA16	167		
Human rights	HR1	167		
	HR2	166		
	HR3	142-143		
	HR4	167		
	HR5	167	% of non-compliances in social audits related to child labour (1)	6%
	HR6	167		
	HR7	167		
	HR8	166		
	HR9	166		
	HR10	167	% of portfolio of suppliers audited (out of those to be audited)	88% (2)
			Audits – Europe	229
			Audits – Asia, Pacific	581
			Audits – Americas	289
			Audits – Africa, Middle East Zone	88
	HR11	167	% of non-compliances in social audits related to remuneration (1)	20.50%
			% of non-compliances in social audits related to working hours (1)	22.10%
			% of non-compliances in social audits related to working conditions, health and safety (1)	36.80%
			% of non-compliances in social audits – others (1)	14.6%
	HR12	167		

GRI topic	GRI G4 reference	Pages of Report	Additional indicators	Value for 2016
Society	SO1	188-189		
	SO3-5	162-165		
	SO6	NA		
	SO7	113-114		
	SO8	113-114		
	SO9-10	187-188		
	SO11	NA		
Product Responsibility	PR1	106-107, 168		
	PR2	168		
	PR3-4	NA		
	PR6	108-109		
	PR7	NA		
	PR-8	NA		
	PR-9	NA		

(1) *This data should be read as follows, for example for the "remuneration" chapter: 20.50% of the (major or minor) instances of non-compliance noted in 2016 (out of the social audits conducted) related to "Remuneration". In the event of a major non-compliance, corrective action plans are put in place and a follow-up audit is carried out. The most serious cases of non-compliance or the absence of effective implementation of a corrective action plan may lead to breaking off commercial relations or, where applicable, non-referencing of a new supplier.*

(2) *With regard to this indicator, to date, 21 countries are missing out of the 126 targeted in the reporting tools.*

(3) *With cooling gases, and excluding administrative and research sites.*

(4) *With cooling gases, Market-based and excluding administrative and research sites.*

(5) *With cooling gases, excluding the administrative and research sites. With the administrative and research sites = 10.8 g eq CO_2/finished product.*

(6) *With cooling gases, excluding the administrative and research sites. With the administrative and research sites = 9.1 g eq CO_2/finished product.*

(7) *With cooling gases, excluding the administrative and research sites. With the administrative and research sites = 19.9 g eq CO_2/finished product.*

3.5. REPORTS BY THE STATUTORY AUDITORS

3.5.1 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

For the year ended December 31st, 2016

To the Shareholders,

In our capacity as Statutory Auditors of L'Oréal, (the "Company"), appointed as independent third party and certified by COFRAC under number(s) 3-1048 (1), we hereby report to you on the consolidated Human Resources, environmental and social information for the year ended December 31st, 2016 included in the Management Report (hereinafter named "CSR Information"), pursuant to article L. 225-102-1 of the French Commercial Code (Code de commerce).

Company's responsibility

The Board of Directors is responsible for preparing a company's Management Report including the CSR Information required by article R. 225-105-1 of the French Commercial Code in accordance with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the Management Report and available on request from the General Direction of Operations, HR and Corporate Social Responsibility.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of Ethics (*Code de déontologie*) of our profession and the requirements of article L. 822-11 of the French Commercial Code.

In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the Management Report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved nine persons and was conducted between November 2016 and January 2017 during a 13 weeks period. We were assisted in our work by our sustainability experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des Commissaires aux Comptes*) relating to this engagement and with ISAE 3000 (2) concerning our conclusion on the fairness of CSR Information.

(1) Whose scope is available at www.cofrac.fr
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding Human Resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the Management Report with the list provided in article R. 225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, *i.e.*, the Company, its subsidiaries as defined by article L. 233-1 and the controlled entities as defined by article L. 233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in the CSR section of the Management Report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the Management Report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted about fifty interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for Internal Control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the Internal Control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the Human Resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important [(1)]:

- at parent entity, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the Management Report;
- at the level of a representative sample of entities and sites selected by us [(2)] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and to identify potential undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents on average 20% of headcount and between 16% and 29% of quantitative environmental data disclosed.

(1) See the Appendix.
(2) HR data: 5 subsidiaries: Belgium, United-States, Poland, Canada and Mexico.
Health and safety, environmental data: 16 sites: South Africa, SA South Africa, DC Centurion, Brazil (RIO), Brazil (SAO), SA Brazil, SA Aulnay, R&I Chevilly, Rambouillet, Fapagau, Italy, SA Italy, Montreal, San Luis Potosi, Mexico and DC Mexico.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the Company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and Internal Control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 10th, 2017

French original signed by one of the Statutory Auditors

Deloitte & Associés

Frédéric Moulin Partner	Florence Didier-Noaro Partner, Sustainability Services

APPENDIX

The CSR Information that we considered to be the most important, on which we conducted detailed tests, are the following:

Human Resources:

Employment

- Total workforce
- Employees by geographic zone
- Breakdown by type of contract
- Employees by gender
- Age pyramid
- Number of local managers outside France (key position)
- Number of hired employees with a permanent contract
- Number of dismissals (permanent contract)
- Percentage of employees benefiting from financial protection in the event of personal injury, such as death or permanent disability
- Percentage of employees having access to healthcare coverage reflecting best practices in their country of residence
- Share & Care: Number of countries that implemented the "Teleworking/smart working" programme.
- Share & Care: Number of countries that implement the "Daily flexible working time" programme.
- Share & Care: Number of countries that implemented the "Banking hours" programme.
- World Profit Sharing 2015 (payed in 2016)

Work organisation

- Global absenteeism rate
- Absenteeism related to diseases

Social relation

- Number of collective agreements in force at December 31st, 2016
- Percentage of employees covered by a collective agreement (national/sectoral, company)
- Percentage of employees working in subsidiaries where there are employee representative institutions

Training

- Number of training hours
- Percentage of employees who followed at least one training course in 2016

Diversity

- Percentage of brand managed by women
- Number of employees with disabilities working for L'Oréal in 2016
- Number of countries that submitted a disability insertion project in 2016
- Number of entities having been awarded the European label "Gender Equality European and International Standard" GEEIS
- Number of entities having been awarded the European label "Economic Dividend for Gender Equality" EDGE
- Number of countries with a diversity coordinator
- Number of countries where the diversity strategy covers social and multicultural origins.

Respect of ILO Conventions

- Countries that implemented a process to fight against child labor
- Countries that implemented a process to fight forced labor

Environment, Health & Safety:

Production

- FG units produced (millions)
- Quantity of produced bulk (tons)

Water

- COD content after treatment (tons)
- Wastewater discharge (m^3)
- Total net water consumption (excluding recycled water and rain water for gardening) (m^3 and l/FG)
- Use of water/breakdown by water usage (m^3)

Energy

- Total energy consumption (MWh)
- Breakdown by energy source: Electricity, Gas, Fuel oil, Steam, Others (MWh)
- Percentage of renewable energy used by factories and distribution centres (%)
- Renewable electricity consumption (MWh)

Pollution and waste management

- Transportable waste excluding reusable packaging rotation with reusable packaging recorded at source (tons)
- Reusable packaging rotation (tons)

- SO_2 emissions (tons)
- VOC emissions (tons)
- 2016 waste treatment
- Recovery index (%)
- Waste sent to landfill (tons)
- Waste sent to landfilled for legal constraints (tons)

Greenhouse Gas Emissions

- Refrigerant fluids leaks (kg)
- Total CO_2 emissions gross and net direct (tons)
- Total CO_2 emissions gross and net linked indirect of energy
- Total CO_2 emissions direct & indirect Market Based and Location Based (tons)
- CO_2 emissions from transportation of products (in grams of CO_2 per unit sold and per km)
- Group's Carbon footprint
- Information related to the Carbon Balanced programme

Biodiversity

- Percentage of renewable raw materials used by the Group
- Information related to the "zero deforestation" programme

Health and safety

- Number of conducted MESUR visits (Managing Effective Safety Using Recognition & realignment)
- Number of hours worked by L'Oréal and temporary personnel (in thousands)
- TFc – Conventional frequency rate
- TFe – Enlarged frequency rate
- Accident severity rate

Societal

Social, economic and territorial impact

- Number of people from socially or financially deprived communities having accessed to work through the programs implemented by the Group
- Number of people having accessed work through the Solidarity Sourcing programme – including TBS
- Number of people in a very difficult social or economic situation having received free vocational training in the beauty sector as part of the Beauty for a Better Life programme, supported by the L'Oréal Foundation

Impact of products and brands

- Percentage of new or renovated products having an improved environmental or social profile
- Percentage of new or renovated products having an improved environmental profile thanks to a new formula that reduces their environmental footprint
- Percentage of new or renovated products having an improved environmental profile thanks to a new formula that uses renewable raw materials that are sustainably sourced or derived from green chemistry
- Percentage of new or renovated products having an improved social profile because they incorporate raw materials from Solidarity Sourcing programmes.
- Percentage of new or renovated products having an improved environmental profile thanks to a reduction in the environmental footprint of packaging
- Information related to the implementation of the Product Assessment Tool
- Percentage of the brands that have evaluated their social or environmental impact
- Percentage of the brands that have carried out a consumer awareness initiative

Subcontractors and suppliers

- Percentage of the Group's strategic suppliers that have been evaluated and selected on the basis of their CSR performance
- Percentage of suppliers that have completed a self-assessment of their sustainability policy with the support of the Group
- Percentage of the Group's strategic suppliers associated to the program Solidarity Sourcing
- Number of social audits carried out in 2016
- Split of non-compliances identified during the social audits of suppliers per chapter
- Percentage of the supplier portfolio having been audited (among those who should have been audited)

Consumer health and safety

- Information on the cosmetovigilance plan

Stakeholders

- Information on the engagement with stakeholders

3.5.2. REASONABLE ASSURANCE REPORT OF THE STATUTORY AUDITORS ON SELECTED ENVIRONMENTAL, SOCIAL AND SOCIETAL INFORMATION PUBLISHED IN THE 2016 ANNUAL REPORT

In our capacity of Statutory Auditors of L'Oréal and on L'Oréal's request, we carried out verification works aiming at giving a reasonable assurance on a selected environmental, social and societal information published in L'Oréal 2016 Annual Report.

The social information selected by L'Oréal is the following:

- The total headcount,
- Breakdown of headcount by geographic zone,
- The local managers excluding France (key positions),
- The percentage of brands managed by women,
- The number of entities with a disability insertion project submitted in 2016,
- The number of entities having been awarded the European label "Gender Equality European & International Standard" - GEEIS,
- The number of entities having been awarded the European label "Economic Dividend for Gender Equality" - EDGE,
- The number of countries with a diversity coordinator.

The societal information selected by L'Oréal is the following:

- The number of supplier social audits carried out in 2015,
- The distribution of non-compliances noted during supplier social audits.

The environmental, health and safety information selected by L'Oréal is the following:

- Number of FG units produced,
- Quantity of produced bulk,
- Direct and indirect "marked-based" CO_2 emissions,
- Total energy consumption,
- Breakdown by energy source (electricity, gas, fuel, steam, other energies),
- Percentage of renewable energy consumed,
- Renewable electricity consumed,
- Ozone depleting substances,
- Net total water consumption,
- Net total water consumption per FG,
- Transportable waste excluding returnable packaging in rotation, with returnable packaging accounted at source,
- Returnable packaging in rotation,
- Treatment of transportable waste linked to activity,
- Waste to landfill,
- Waste to landfill for local regulatory constraints,
- Recovery index,
- Conventional frequency rate,
- Enlarged frequency rate,
- Severity rate.

This information has been prepared under the responsibility of L'Oréal Board of Directors in accordance with the guidelines used by the Company (hereinafter the "Guidelines") of which a summary appears in the Annual Report and that are available upon request from the Operations, Human relations and Corporate Social Responsibility Departments.

Based on our work, it is our responsibility to express a conclusion of reasonable assurance on these selected pieces of information.

Nature and scope of procedures

We performed our work described below in accordance with the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des Commissaires aux Comptes*) relating to this engagement and with the international standard ISAE 3000 [1].

We have conducted the following diligences giving a reasonable assurance on the fact that the environmental, social, societal, health and safety information selected by L'Oréal has been presented, in all material aspects, in compliance with the Guidelines used by L'Oréal.

- We have examined, at group level, the reporting procedures set up by L'Oréal with regard to their relevance, completeness, reliability, neutrality and clarity.
- We have verified the set-up a process to collect, compile, process and check the selected information with regard to its completeness and consistency. We have also reviewed the Internal Control and risk management procedures used to prepare the selected information.
- We have conducted analytical procedures and verified calculations and data consolidation through various samplings. This work has especially been backed with interviews with persons from L'Oréal Sustainable Development Department in charge of data collection and consolidation.
  - We have selected a sample of entities for selected Social information at subsidiary level:
    - Canada;
    - USA;
    - Mexico;
    - Belgium;
    - Poland.
  - for selected Environmental, Health and Safety information:
    - Afrique du Sud (South Africa);
    - Allemagne (Germany);
    - Belgique (Belgium);
    - Brésil RIO (Brazil);
    - Brésil SAO (Brazil);
    - BRI (France);
    - DC Centurion (South Africa);
    - DC Germany (Germany);
    - DC Mexico (Mexico);
    - DC Streetsboro (USA);
    - DC Nottingham (UK);
    - DC Watersmead (UK);
    - Egypt (Egypt);
    - Fapagau (France);
    - Florence (USA);
    - Franklin (USA);
    - Italie (Italie);
    - Mexique (Mexico);
    - Montréal (Canada)
    - Pologne (Poland);
    - Rambouillet (France);
    - Russie (Russia)
    - San Luis Potosi (Mexico);
    - Sicos (France);
    - Turquie (Turkey).

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

- At these entities level:
  - We have verified, through interviews with people in charge of data collection, the correct application of the Guidelines;
  - We have conducted detailed testing on representative samples consisting in calculation verification and corroboration of that with supporting documents.

These selected entities represent 60% of Finished Goods Units produced by the Group, and between 51% and 76% of the environmental information reviewed.

Selected social and societal data have been audited in L'Oréal Headquarters.

We were assisted in our work by our specialists in corporate social responsibility.

Conclusion

Based on our work, the environmental, social, societal, health and safety information selected by L'Oréal, presented hereinabove and published in its Annual Report, has been presented, in all material aspects, in accordance with the Guidelines used by L'Oréal in 2016.

Neuilly-sur-Seine, February 10th, 2017

The Statutory Auditors,

Original French version signed by the Statutory Auditors

Deloitte & Associés	PricewaterhouseCoopers Audit
Frédéric Moulin Partner	Gérard Morin Partner
Florence Didier-Noaro Partner, Sustainability Services	Sylvain Lambert Partner, Sustainability Services

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

L'Oréal parent company is a French company with its registered office in France, which performs a sales activity specific to that country. At the same time, L'Oréal parent company has firstly a role of holding company and strategic coordination and secondly that of scientific, industrial and marketing coordination of the L'Oréal Group on a worldwide basis. Most of the subsidiaries have a role of marketing of the products manufactured by the Group's factories in the countries or zones in which it is established.

The L'Oréal Group wholly owns the vast majority of its subsidiaries. The financial statements set out in this chapter present the results of the L'Oréal Group as a whole, including all subsidiaries. The Statutory Auditors' Report on the consolidated financial statements has been included at the end of this chapter.

4.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	2016	2015	2014
Net sales	**3.1**	**25,837.1**	**25,257.4**	**22,532.0**
Cost of sales		-7,341.7	-7,277.4	-6,500.7
Gross profit		**18,495.4**	**17,980.0**	**16,031.3**
Research and development		-849.8	-794.1	-760.6
Advertising and promotion		-7,498.7	-7,359.6	-6,558.9
Selling, general and administrative expenses		-5,607.0	-5,438.6	-4,821.1
Operating profit	**3.1**	**4,539.9**	**4,387.7**	**3,890.7**
Other income and expenses	4.1	-543.8	-193.4	-307.2
Operational profit		**3,996.1**	**4,194.3**	**3,583.5**
Finance costs on gross debt		-32.6	-23.7	-31.4
Finance income on cash and cash equivalents		39.1	55.6	42.3
Finance costs, net		**6.5**	**31.9**	**11.0**
Other financial income (expenses)	9.4	-25.8	-45.7	-35.1
Sanofi dividends		346.5	336.9	331.0
Profit before tax and associates		**4,323.4**	**4,517.4**	**3,890.4**
Income tax	6	-1,214.6	-1,222.9	-1,111.0
Share of profit in associates		-0.1	4.0	-13.5
Net profit from continuing operations		**3,108.7**	**3,298.5**	**2,765.9**
Net profit from discontinued operations	**2.3**	**-**	**-**	**2,142.7**
Net profit		**3,108.7**	**3,298.5**	**4,908.6**
Attributable to:				
◆ owners of the company		3,105.8	3,297.4	4,910.2
◆ non-controlling interests		2.9	1.1	-1.6
Earnings per share attributable to owners of the company (*euros*)		5.55	5.92	8.51
Diluted earnings per share attributable to owners of the company (*euros*)		5.50	5.84	8.39
Earnings per share of continuing operations attributable to owners of the company (*euros*)	11.4	5.55	5.92	4.79
Diluted earnings per share of continuing operations attributable to owners of the company (*euros*)	11.4	5.50	5.84	4.73
Earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items (*euros*)	11.4	6.52	6.26	5.41
Diluted earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items (*euros*)	11.4	6.46	6.18	5.34

4.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	**2016**	2015	2014
Consolidated net profit for the period		**3,108.7**	**3,298.5**	**4,908.6**
Financial assets available-for-sale		*-201.0*	*347.6*	*-172.7*
Cash flow hedges		*-124.0*	*60.1*	*-17.2*
Cumulative translation adjustments		*19.6*	*373.7*	*584.0*
Income tax on items that may be reclassified to profit or loss (1)		*86.3*	*-28.9*	*7.3*
Items that may be reclassified to profit or loss		**-219.1**	**752.5**	**401.4**
Actuarial gains and losses	*11.3*	*-1.3*	*598.1*	*-672.7*
Income tax on items that may not be reclassified to profit or loss (1) (2)		*-39.3*	*-205.3*	*225.1*
Items that may not be reclassified to profit or loss		**-40.6**	**392.8**	**-447.6**
Other comprehensive income		**-259.7**	**1,145.3**	**-46.2**
Consolidated comprehensive income		**2,849.0**	**4,443.8**	**4,862.4**
Attributable to:				
◆ **owners of the company**		**2,845.6**	**4,443.1**	**4,864.3**
◆ non-controlling interests		3.4	0.7	-1.9

(1) The tax effect is as follows:

€ millions	**2016**	2015	2014
Financial assets available-for-sale	*41.7*	*-14.4*	*7.2*
Cash flow hedges	*44.6*	*-14.4*	*0.1*
Items that may be reclassified to profit or loss	**86.3**	**-28.9**	**7.3**
Actuarial gains and losses	*-39.3*	*-205.3*	*225.1*
Items that may not be reclassified to profit or loss	**-39.3**	**-205.3**	**225.1**
TOTAL	**47.0**	**-234.1**	**232.4**

(2) Including €19.7 million arising on the remeasurement of deferred tax in France further to the planned change in the tax rate by 2020.

4.3. COMPARED CONSOLIDATED BALANCE SHEETS

ASSETS

€ millions	Notes	12.31.2016	12.31.2015	12.31.2014
Non-current assets		**25,584.6**	**24,457.6**	**23,284.2**
Goodwill	7.1	8,792.5	8,151.5	7,525.5
Other intangible assets	7.2	3,179.4	2,942.9	2,714.6
Property, plant and equipment	3.2	3,756.9	3,403.5	3,141.1
Non-current financial assets	9.3	9,306.5	9,410.9	9,069.0
Investments in associates	8	1.0	1.0	-
Deferred tax assets	6.3	548.3	547.9	834.0
Current assets		**10,045.6**	**9,253.7**	**8,774.6**
Inventories	3.3	2,698.6	2,440.7	2,262.9
Trade accounts receivable	3.3	3,941.8	3,627.7	3,297.8
Other current assets	3.3	1,420.4	1,486.9	1,199.3
Current tax assets		238.8	298.6	97.6
Cash and cash equivalents	9.2	1,746.0	1,399.8	1,917.0
TOTAL		**35,630.2**	**33,711.3**	**32,058.8**

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EQUITY & LIABILITIES

€ millions	Notes	12.31.2016	12.31.2015	12.31.2014
Equity	**11**	**24,504.0**	**23,617.0**	**20,196.9**
Share capital		112.4	112.6	112.3
Additional paid-in capital		2,817.3	2,654.4	2,316.8
Other reserves		13,951.6	12,873.4	9,773.3
Other comprehensive income		4,237.6	4,517.5	3,745.9
Cumulative translation adjustments		410.9	391.9	17.8
Treasury stock		-133.6	-233.3	-683.0
Net profit attributable to owners of the company		3,105.8	3,297.4	4,910.2
Equity attributable to owners of the company		**24,501.9**	**23,613.9**	**20,193.3**
Non-controlling interests		2.1	3.1	3.6
Non-current liabilities		**1,918.9**	**1,920.6**	**2,595.6**
Provisions for employee retirement obligations and related benefits	5.4	711.8	807.2	1,479.7
Provisions for liabilities and charges	12.1	333.3	195.9	193.6
Deferred tax liabilities	6.3	842.9	876.8	855.2
Non-current borrowings and debt	9.1	30.9	40.8	67.1
Current liabilities		**9,207.3**	**8,173.7**	**9,266.3**
Trade accounts payable		4,135.3	3,929.0	3,452.8
Provisions for liabilities and charges	12.1	810.7	754.6	722.0
Other current liabilities	3.4	2,854.4	2,597.3	2,403.2
Income tax		173.2	151.9	167.1
Current borrowings and debt	9.1	1,233.7	741.0	2,521.2
TOTAL		**35,630.2**	**33,711.3**	**32,058.8**

4.4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2013	**599,794,030**	**121.2**	**2,101.2**	**17,187.2**	**4,370.1**	**-568.1**	**-566.4**	**22,645.2**	**5.8**	**22,651.0**
Consolidated net profit for the period				4,910.2				4,910.2	-1.6	4,908.6
Financial assets available-for-sale					*-165.5*			*-165.5*		*-165.5*
Cash flow hedges					*-17.0*			*-17.0*	*-0.1*	*-17.1*
Cumulative translation adjustments							*584.2*	*584.2*	*-0.2*	*584.0*
Other comprehensive income that may be reclassified to profit and loss					**-182.5**		**584.2**	**401.7**	**-0.3**	**401.4**
Actuarial gains and losses					*-447.6*			*-447.6*		*-447.6*
Other comprehensive income that may not be reclassified to profit and loss					**-447.6**			**-447.6**		**-447.6**
Consolidated comprehensive income				**4,910.2**	**-630.1**		**584.2**	**4,864.3**	**-1.9**	**4,862.4**
Capital increase	3,828,502	0.8	215.6	-0.1				216.3	2.3	218.6
Cancellation of Treasury stock		-9.7		-6,035.9		6,045.6		-		-
Dividends paid (not paid on Treasury stock)				-1,507.3				-1,507.3	-2.8	-1,510.1
Share-based payment				113.5				113.5		113.5
Net changes in Treasury stock	-49,380,654			0.2		-6,160.5		-6,160.3		-6,160.3
Purchase commitments for minority interests				21.0				21.0	-2.3	18.7
Changes in scope of consolidation								-	2.5	2.5
Other movements				-5.3	5.9			0.6		0.6
At 12.31.2014	**554,241,878**	**112.3**	**2,316.8**	**14,683.5**	**3,745.9**	**-683.0**	**17.8**	**20,193.3**	**3.6**	**20,196.9**
Consolidated net profit for the period				3,297.4				3,297.4	1.1	3,298.5
Financial assets available-for-sale					*333.2*			*333.2*		*333.2*
Cash flow hedges					*45.6*			*45.6*		*45.6*
Cumulative translation adjustments							*374.1*	*374.1*	*-0.4*	*373.7*
Other comprehensive income that may be reclassified to profit and loss					**378.8**		**374.1**	**752.9**	**-0.4**	**752.5**
Actuarial gains and losses					*392.8*			*392.8*		*392.8*
Other comprehensive income that may not be reclassified to profit and loss					**392.8**			**392.8**		**392.8**
Consolidated comprehensive income				**3,297.4**	**771.6**		**374.1**	**4,443.1**	**0.7**	**4,443.8**
Capital increase	4,657,959	0.9	337.6					338.5		338.5
Cancellation of Treasury stock		-0.6		-362.8		363.4		-		-
Dividends paid (not paid on Treasury stock)				-1,511.4				-1,511.4	-2.6	-1,514.0
Share-based payment				117.6				117.6		117.6
Net changes in Treasury stock	1,088,341			-77.1		86.3		9.2		9.2
Purchase commitments for minority interests				23.5				23.5	1.5	25.0
Changes in scope of consolidation								-		-
Other movements				0.1				0.1	-0.1	-
At 12.31.2015	**559,988,178**	**112.6**	**2,654.4**	**16,170.8**	**4,517.5**	**-233.3**	**391.9**	**23,613.9**	**3.1**	**23,617.0**

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2015	**559,988,178**	**112.6**	**2,654.4**	**16,170.8**	**4,517.5**	**-2 33.3**	**391.9**	**23,613.9**	**3.1**	**23,617.0**
Consolidated net profit for the period				3,105.8				3,105.8	2.9	3,108.7
Financial assets available-for-sale					*-159.3*			*-159.3*		*-159.3*
Cash flow hedges					*-79.3*			*-79.3*	*-0.1*	*-79.4*
Cumulative translation adjustments							*19.0*	*19.0*	*0.6*	*19.6*
Other comprehensive income that may be reclassified to profit and loss					**-238.6**		**19.0**	**-219.6**	**0.5**	**-219.1**
Actuarial gains and losses					*-40.6*			*-40.6*		*-40.6*
Other comprehensive income that may not be reclassified to profit and loss					**-40.6**			**-40.6**		**-40.6**
Consolidated comprehensive income				**3,105.8**	**-279.2**		**19.0**	**2,845.6**	**3.4**	**2,849.0**
Capital increase	2,074,893	0.4	162.8					163.2		163.2
Cancellation of Treasury stock		-0.6		-498.9		499.5		-		-
Dividends paid (not paid on Treasury stock)				-1,741.9				-1,741.9	-3.4	-1,745.2
Share-based payment				120.4				120.4		120.4
Net changes in Treasury stock	-1,964,675			-99.3		-399.8		-499.1		-499.1
Purchase commitments for non-controlling interests								-	-0.1	-0.1
Changes in scope of consolidation				-0.8				-0.8	-0.9	-1.7
Other movements				1.2	-0.7			0.6	-0.1	0.5
AT 12.31.2016	**560,098,396**	**112.4**	**2,817.3**	**17,057.3**	**4,237.6**	**-133.6**	**410.9**	**24,501.9**	**2.1**	**24,504.0**

4.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	**2016**	2015	2014
Cash flows from operating activities				
Net profit attributable to owners of the company		3,105.8	3,297.4	4,910.2
Non-controlling interests		2.9	1.1	-1.6
Elimination of expenses and income with no impact on cash flows:				
◆ depreciation, amortisation and provisions		1,424.5	933.8	856.2
◆ changes in deferred taxes	6.1	79.8	53.4	60.0
◆ share-based payment (including free shares)	5.5	120.4	117.6	113.5
◆ capital gains and losses on disposals of assets		-16.2	0.2	-0.9
Net profit from discontinued operations		-	-	-2,142.7
Share of profit in associates net of dividends received		0.1	-4.0	13.5
Gross cash flow		**4,717.3**	**4,399.5**	**3,808.2**
Changes in working capital	3.5	-12.7	-196.4	55.9
Net cash provided by operating activities (A)		**4,704.6**	**4,203.1**	**3,864.1**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-1,386.5	-1,172.1	-1,008.2
Disposals of property, plant and equipment and intangible assets		34.2	6.5	18.7
Changes in other financial assets (including investments in non-consolidated companies)		-42.9	-35.2	403.4
Dividends received from discontinued operations		-	-	41.7
Effect of changes in the scope of consolidation	2.2	-1,209.3	-435.3	1,194.0
Net cash (used in) from investing activities (B)		**-2,604.5**	**-1,636.1**	**649.6**
Cash flows from financing activities				
Dividends paid		-1,832.9	-1,534.8	-1,589.3
Capital increase of the parent company		163.2	338.6	216.4
Capital increase of subsidiaries		-	-	2.3
Disposal (acquisition) of Treasury stock		-499.1	9.2	-6,160.3
Purchase of non-controlling interests		-6.1	-	-
Issuance (repayment) of short-term loans		449.8	-1,832.4	2,225.0
Issuance of long-term borrowings		1.8	1.1	0.2
Repayment of long-term borrowings		-17.5	-5.8	-13.0
Net cash (used in) from financing activities (C)		**-1,740.8**	**-3,024.1**	**-5,318.7**
Net effect of changes in exchange rates and fair value (D)		-13.1	-60.1	62.7
Change in cash and cash equivalents (A+B+C+D)		**346.2**	**-517.2**	**-742.3**
Cash and cash equivalents at beginning of the year (E)		**1,399.8**	**1,917.0**	**2,659.3**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (A+B+C+D+E)	**9.2**	**1,746.0**	**1,399.8**	**1,917.0**

Income taxes paid amount to €1,041.0 million, €1,398.9 million and €1,060.3 million respectively for the years 2016, 2015 and 2014.

Interests paid amount to €35.4 million, €23.9 million and €31.2 million respectively for the years 2016, 2015 and 2014.

Dividends received excluding dividends received from discontinued operations amount to €346.5 million, €336.9 million and €331.0 million for the years 2016, 2015 and 2014, and are included within gross cash flow.

4.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 1 Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of December 31st, 2016.

On February 9th, 2017, the Board of Directors closed the consolidated financial statements at December 31st, 2016. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on April 20th 2017.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2016.

The Group may be concerned by the following standards:

- IFRS 15 "Revenue from Contracts with Customers" applicable as from January 1st, 2018, the Group does not expect this standard to have a material impact;
- IFRS 9 "Financial Instruments" applicable as from January 1st, 2018, the Group is primarily concerned by:
  - the change in the accounting treatment of investments and their remeasurement through profit or loss or in equity under the fair value option. The shares concerned relate mainly to the Group's investment in Sanofi,
  - the possibility of deferring recognition of the time value of currency options in equity in the same way as for forward hedges, so as to only impact income at the date the hedged transactions occur;
- IFRS 16 "Leases" applicable as from January 1st, 2019, not yet adopted by the European Union.

The Group is not concerned by the new standards and amendments to standards published and effective as of January 1st, 2016.

1.1. Use of estimates

The preparation of the consolidated financial statements in accordance with international accounting standards requires that the Group make a certain number of estimates and assumptions that may affect the value of the Group's assets, liabilities, equity and net profit (loss).

These estimates and assumptions mainly concern the measurement of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payment. Estimates used by the Group in relation to these different areas are made on the basis of information available at the date the accounts are prepared and described in detail in each specific associated note.

1.2. Scope and methods of consolidation

All companies included in the scope of consolidation have a fiscal year ending December 31st or close their accounts on that date.

All companies directly or indirectly controlled by the parent company L'Oréal have been fully consolidated.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been accounted for by the equity method in accordance with IFRS 11.

Associates over which the Group has a significant influence have been accounted for by the equity method.

1.3. Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Income statement items are translated at average exchange rates for the year.

The resulting translation difference attributable to the Group is entered directly under equity under the item *Cumulative translation adjustments*, while the translation difference attributable to non-controlling interests is recognised under the *Non-controlling interests* item.

1.4. Valuation of goodwill in foreign currencies

Goodwill generated on foreign companies is considered to form part of the assets and liabilities of the foreign company, and is therefore expressed in the entity's functional currency and translated using exchange rates effective at the closing date. Goodwill recorded before January 1st, 2004 continues to be recorded in euros.

NOTE 2 Main events of the period

2.1. Changes in the scope of consolidation

2.1.1. Year 2016

Acquisitions

On January 4th, 2016, L'Oréal USA announced the signing of an agreement to acquire key assets from Raylon Corporation, a fullservice wholesale distributor of salon professional products.

The acquisition will expand SalonCentric's distribution coverage of salon professional products in Pennsylvania, New Jersey, Delaware, and portions of Maryland, West Virginia and New York, representing approximately 3,500 salons.

This acquisition has been fully consolidated since February 26th, 2016.

On June 30th, 2016, L'Oréal announced the signature of an agreement to acquire Atelier Cologne. Launched in 2009, Atelier Cologne specialised in niche perfumery sold in selected retailers.

This operation was finalised on July 25th, 2016.

This acquisition has been fully consolidated since July 25th, 2016.

On July 13th, 2016, L'Oréal has submitted a firm offer to Rivadis group for the acquisition of the Société des Thermes de Saint-Gervais-les-Bains and licence to use the Saint-Gervais Mont-Blanc brand. Based on this offer, the Rivadis group has granted exclusive negotiation rights to L'Oréal.

This operation was finalised early-November and has been fully consolidated since November 1st, 2016.

On July 22nd, 2016, L'Oréal announced the signing of a definitive agreement to acquire IT Cosmetics, one of the fastest growing prestige beauty brands in the United States for a cash purchase price of US $1.2 billion. For last 12 months prior to the acquisition, IT Cosmetics had net sales of US $182 million.

Founded by Jamie Kern Lima and Paulo Lima and co-owned by TSG Consumer Partners, IT Cosmetics was developed with leading plastic surgeons to provide women with innovative, problem-solving skincare and makeup products that empower them to feel confident and beautiful.

This operation was finalised on August 31st, 2016.

This acquisition has been fully consolidated since August 31st, 2016.

The cost of these new acquisitions represents €1,238.2 million. The total amount of goodwill and other intangible assets resulting from these acquisitions has been provisionally estimated respectively at €913.6 and €290.4 million. The allocation of the purchase price to the identifiable intangible assets of these acquisitions had not been finalised at December 31st, 2016. These acquisitions represent around €224.5 million in full-year net sales and €51.5 million full-year operating profit.

2.1.2. Year 2015

a) Acquisitions

On September 8th, 2014, L'Oréal announced that it has signed an agreement to acquire Niely Cosmeticos. Founded in 1981 by Daniel Fonseca de Jesus, Niely Cosmeticos is the largest independent hair coloration and hair care company in Brazil, one of the world's largest hair colour and hair care markets. With a net revenue of 406 million Brazilian Reals (€130 million) in 2014, the Niely Cosmeticos group has two main brands: Cor & Ton for hair coloration and Niely Gold for shampoos and care. Furthermore, Niely Cosmeticos has industrial and logistical facilities in Nova Iguaçu, in the State of Rio. The approval granted by the local regulatory authorities was confirmed in early January 2015. On March 31st, 2015, L'Oréal finalised the acquisition of Niely Cosmeticos. This acquisition has been fully consolidated since April 1st, 2015.

On February 3rd, 2015, The Body Shop announced the completion of the deal to acquire the assets of Adidem Pty Limited, the company operating The Body Shop Australia since 1983. This acquisition will move the fifth biggest The Body Shop market's retail sales from a Franchise operation to a Company-Owned market. This acquisition has been fully consolidated since February 2nd, 2015.

The cost of these new acquisitions represents €380.5 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €348.0 million and €24.5 million, respectively. These acquisitions represent around €183.1 million in full-year net sales and €0.9 million in full-year operating profit.

b) Other operation

In late November 2014, L'Oréal and Nestlé announced their intention to end the operations of their joint venture Innéov. On April 24th, 2015, Nestlé Skin Health announced that Galderma, its company focused on medical solutions, would acquire certain assets of Innéov group to serve as the foundation for its entry into the nutraceutical market. This operation was finalised on June 30th, 2015.

2.1.3. Year 2014

a) Acquisitions

On April 30th, 2014, L'Oréal finalised the acquisition of Decléor and Carita. Decléor/Carita achieved a turnover of approximately €80 million in 2013. Founded in 1974, Decléor is the world's leading brand in aromatherapy. Created in 1945 by Maria & Rosy Carita, known as hairdressers for stars, Carita incarnates the art of prestigious French pampering. This acquisition has been fully consolidated since May 1st, 2014.

On August 15th, 2013, L'Oréal and Magic Holdings International Limited have announced L'Oréal's proposal to acquire all of the shares of Magic Holdings International Limited, a company listed in the Hong Kong Stock Exchange. The proposed price is HK $6.30 per share. The transaction has been approved by the Ministry Commerce of the People's Republic of China (MOFCOM) in early January 2014. A specialist in cosmetic facial masks, Magic's turnover in 2013 was approximately €166 million. Facial masks are one of China's beauty market's fastest growing areas with very promising development prospects. Magic's MG brand is one of China's leading brands in this category. This acquisition was finalised on April 8th, 2014, following the approval of the Shareholders' Meeting of Magic Holdings International Limited. This acquisition has been fully consolidated since April 1st, 2014.

On July 30th, 2014, L'Oréal finalised the acquisition of NYX Professional Makeup, a mass market brand rooted in professional make-up artistry with its headquarters in Los Angeles. In 2013, NYX Professional Makeup reported net sales of US $72 million, a growth of +46% *vs* 2012. This acquisition has been fully consolidated since August 1st, 2014.

On October 20th, 2014, L'Oréal USA announced the acquisition of Carol's Daughter. Headquartered in New York City, Carol's Daughter is a premier American multi-cultural beauty brand with a pioneering heritage in the natural beauty movement. Following a multi-channel distribution model, Carol's Daughter offers a comprehensive range of products that are available at specialty beauty stores, mass retailers, on HSN, through e-commerce and at Carol's Daughter branded stores in New York City. For the 12 months ending September 30th, 2014, Carol's Daughter had net sales of US $27 million. This acquisition has been fully consolidated since November 18th, 2014.

On December 17th, 2014, L'Oréal announced the acquisition of Coloright, a start-up company that develops hair fibre optical reader technology for a long-term Research programme. Through this acquisition, L'Oréal reinforces its historic leadership in hair research. This acquisition has been fully consolidated since December 17th, 2014.

The cost of these new acquisitions amounts to €1,382.6 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €928.6 million and €422.4 million, respectively. These acquisitions represent around €366.2 million in full-year net sales and €29.9 million in full-year operating profit.

b) Other operation

On July 8th, 2014, L'Oréal announced that it had finalised:

- the acquisition of 48,500,000 L'Oréal shares (8% of its share capital) owned by Nestlé; and
- the disposal of its 50% ownership in Galderma to Nestlé (note 2.3.).

The L'Oréal shares acquired have been immediately cancelled. The sale of Galderma led to a pre-tax capital gain of €2.2 billion and a post-tax capital gain of €2.1 billion.

2.2. Impact of changes in the scope of consolidation in the cash flow statement

In 2016, this item mainly related to the acquisitions of Raylon, IT Cosmetics, Atelier Cologne and Thermes Saint-Gervais.

In 2015, this item mainly related to the acquisitions of Niely Cosmeticos and assets of Adidem Pty Limited in Australia for The Body Shop.

In 2014, this item mainly related to the acquisitions of Magic Holdings, NYX Professional Makeup, Decléor and Carita and Carol's Daughter, and to the sale of Galderma to Nestlé.

2.3. Discontinued operations and assets held for sale

Nestlé and L'Oréal announced that their respective Boards of Directors, in meetings held on February 10th, 2014, have approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal will buy 48.5 million of its own shares (8% of its share capital) from Nestlé. This buyback will be financed:

- partially through the disposal by L'Oréal to Nestlé of its 50% stake in Swiss dermatology pharmaceuticals company Galderma (a 50/50 joint venture between L'Oréal and Nestlé) for an enterprise value of €3.1 billion (€2.6 billion of equity value), paid by Nestlé in L'Oréal shares (21.2 million shares). This transaction is expected to result in a pre-tax capital gain of around €2.2 billion for accounting purposes;
- for the remainder, corresponding to 27.3 million L'Oréal shares held by Nestlé, in cash for an amount of €3.4 billion.

The price per L'Oréal share retained for this transaction is the average of its closing prices between Monday November 11th, 2013 and Monday February 10th, 2014: €124.48. All the shares bought back by L'Oréal have been cancelled. The transaction was subject to customary conditions, including the prior consultation of Galderma's and L'Oréal's works councils. Clearance of relevant antitrust authorities has been obtained.

This operation was completed on July 8th, 2014 (note 2.1.3.b).

For simplicity, Galderma has been classified within *Assets held for sale* for accounting purposes since January 1st, 2014.

Consequently, Galderma is shown within *Discontinued operations* in the 2014 consolidated income statements. Consolidated statements of cash flows for all periods presented are not impacted anymore.

2.4. Situation in Venezuela

Our subsidiaries in Venezuela were deconsolidated at December 31st, 2015 for the following reasons:

- an increasingly difficult economic situation in the country;
- constraints imposed by the government restricting our operations and limiting our scope for taking and implementing operational decisions;
- currency fluctuations making the operations of our subsidiaries no longer material.

The deconsolidation of our Venezuelan subsidiaries is reflected by a negative €107.2 million impact shown in *Other non-recurring income and expenses* in our 2015 consolidated financial statements.

The situation did not improve in 2016 and our Venezuelan subsidiaries are currently accounted for using the cost model.

NOTE 3 Operating items – Segment information

ACCOUNTING PRINCIPLES

Net sales

Net sales are recognised when the risks and rewards inherent to ownership of the goods have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner, based mainly on statistics compiled from past experience and contractual conditions.

Cost of sales

The cost of goods sold consists mainly of the industrial production cost of products sold, the cost of distributing products to customers including freight and delivery costs, either directly or indirectly through depots, inventory impairment costs, and royalties paid to third parties.

Research and development expenditure

Expenditure during the research phase is charged to the income statement for the financial year during which it is incurred.

Expenses incurred during the development phase are recognised as Intangible assets only if they meet all the following criteria set out in IAS 38:

- the project is clearly defined and the related costs are separately identified and reliably measured;
- the technical feasibility of the project has been demonstrated;
- the intention and ability to complete the project and to use or sell the products resulting from the project have been demonstrated;
- the resources necessary to complete the project and to use or sell it are available;
- the Group can demonstrate that the project will generate probable future economic benefits, as the existence of a potential market for the production resulting from the project, or its internal usefulness has been demonstrated.

In view of the very large number of development projects and uncertainties concerning the decision to launch products relating to these projects, L'Oréal considers that some of these capitalisation criteria are not met.

Advertising and promotion expenses

These expenses consist mainly of expenses relating to the advertisement and promotion of products to customers and consumers. They are charged to the income statement for the financial year in which they are incurred.

Selling, general and administrative expenses

These expenses relate mainly to sales teams and sales team management, marketing teams and administrative services, as well as general expenses and the costs of share-based payment (stock options and free shares).

Operating profit

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses.

Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at cost and are not revalued.

Significant capital assets financed through capital leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within *Borrowings and debt* on the balance sheet.

Investment subsidies are recorded as liabilities under *Other current liabilities*.

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Property, plant and equipment are depreciated using the straight-line method, over the following useful lives:

Buildings	10-40 years
Industrial machinery and equipment	5-15 years
Point-of-sales advertising: stands and displays	3 years
Other	3-10 years

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment are considered to have a value of zero at the end of the useful lives indicated above.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value.

A provision is made for any doubtful receivables based on an assessment of the risk of non-recovery.

The Group's policy is to recommend credit insurance coverage when this is allowed by local regulations.

3.1. Segment information

3.1.1. Segment information

The Cosmetics Divisions are organised into four sectors, each operating with specific distribution channels:

- Professional Products Division: products used and sold in hair salons and beauty institutes;
- Consumer Products Division: products sold in mass-market retail channels;
- L'Oréal Luxe Division: products sold in selective retail outlets, *i.e.* department stores, perfumeries, travel retail, the Group's own boutiques and certain online sites;
- Active Cosmetics Division: dermocosmetics products sold through all health channels such as pharmacies, parapharmacies, drugstores and medispas.

The *non-allocated* item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options not allocated to the Cosmetics Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 60 countries), as well as through home and online sales. The Body Shop net sales and operating profit are characterised by strong seasonal fluctuations due to a high level of activity during the last few months of the year.

As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

The performance of each Operational Division is measured on the basis of *operating profit*.

€ millions **2016**	**Sales**	**Operating profit**	**Operational assets (1)**	**Investments in property, plant and equipment and intangible assets**	**Depreciation, amortisation and provisions**
Professional Products	3,399.7	688.6	3,410.9	125.7	149.2
Consumer Products	11,993.4	2,417.1	9,462.2	659.8	534.4
L'Oréal Luxe	7,662.4	1,622.8	6,506.9	335.8	374.9
Active Cosmetics	1,860.7	431.5	1,101.2	56.3	60.6
COSMETICS DIVISIONS TOTAL	**24,916.3**	**5,160.0**	**20,481.2**	**1,177.6**	**1,119.1**
Non-allocated		-653.9	834.2	177.5	123.7
The Body Shop	**920.8**	**33.8**	**1,244.4**	**51.6**	**43.4**
GROUP	**25,837.1**	**4,539.9**	**22,559.9**	**1,406.6**	**1,286.1**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2015	Sales	Operating profit	Operational asset (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	3,399.7	678.5	3,342.4	127.5	154.9
Consumer Products	11,844.2	2,385.8	9,057.4	539.7	511.7
L'Oréal Luxe	7,230.0	1,497.5	5,235.6	305.4	300.1
Active Cosmetics	1,816.3	414.7	991.5	49.7	54.7
COSMETICS DIVISIONS TOTAL	**24,290.2**	**4,976.4**	**18,626.9**	**1,022.3**	**1,021.4**
Non-allocated		-643.6	759.3	119.6	127.4
The Body Shop	**967.2**	**54.8**	**1,381.4**	**40.0**	**38.7**
GROUP	**25,257.4**	**4,387.7**	**20,767.6**	**1,181.9**	**1,187.5**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2014	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	3,032.4	608.8	3,089.5	75.4	120.1
Consumer Products	10,767.5	2,186.2	8,217.4	459.7	450.4
L'Oréal Luxe	6,197.9	1,269.2	4,870.3	246.8	223.8
Active Cosmetics	1,660.4	376.4	914.8	39.1	41.8
COSMETICS DIVISIONS TOTAL	**21,658.2**	**4,440.6**	**17,092.0**	**821.0**	**836.1**
Non-allocated		-615.2	740.6	152.8	114.2
The Body Shop	**873.8**	**65.3**	**1,268.6**	**33.5**	**46.7**
GROUP	**22,532.0**	**3,890.7**	**19,101.2**	**1,007.3**	**997.0**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

Operational assets can be reconciled to the 2016, 2015 and 2014 balance sheets as follows:

€ millions	**2016**	2015	2014
Operational assets	**22,559.9**	**20,767.6**	**19,101.2**
Non-current financial assets	9,306.5	9,410.9	9,069.0
Investments in associates	1.0	1.0	-
Deferred tax assets	548.3	547.9	834.0
Other current assets	1,468.5	1,584.1	1,137.6
Cash and cash equivalents	1,746.0	1,399.8	1,917.0
Non-allocated assets	**13,070.3**	**12,943.7**	**12,957.6**
TOTAL ASSETS	**35,630.2**	**33,711.3**	**32,058.8**

4

3.1.2. Information by geographic zone

All information is presented on the basis of geographic location of the subsidiaries.

3.1.2.1. Consolidated net sales by geographic zone

	2016		Growth (%)		2015 (1)		2014 (1)	
	€ millions	**% of total**	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,572.2	33.2%	0.0%	2.4%	8,572.7	33.9%	8,223.7	36.5%
of which France	2,498.4	9.7%	-6.0%	-6.0%	2,582.0	10.2%	2,557.0	11.3%
North America	7,287.3	28.2%	6.4%	6.5%	6,848.4	27.1%	5,577.5	24.8%
New Markets	9,977.6	38.6%	1.4%	6.4%	9,836.3	38.9%	8,730.8	38.7%
GROUP	**25,837.1**	**100.0%**	**2.3%**	**5.1%**	**25,257.4**	**100.0%**	**22,532.0**	**100.0%**

(1) As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

3.1.2.2. Cosmetics net sales by geographic zone

	2016		Growth (%)		2015 (1)		2014 (1)	
	€ millions	**% of total**	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,008.0	32.1%	0.5%	2.5%	7,968.4	32.8%	7,647.2	35.3%
of which France	2,467.4	9.9%	-3.4%	-3.4%	2,552.6	10.5%	2,529.0	11.7%
North America	7,098.8	28.5%	6.7%	6.7%	6,654.4	27.4%	5,389.4	24.9%
New Markets	9,809.5	39.4%	1.5%	6.5%	9,667.4	39.8%	8,621.6	39.8%
Asia, Pacific	5,635.4	22.6%	1.8%	3.6%	5,537.9	22.8%	4,614.1	21.3%
Latin America	1,838.0	7.4%	-1.8%	11.9%	1,871.3	7.7%	1,853.7	8.6%
Eastern Europe	1,571.5	6.3%	2.7%	10.4%	1,530.4	6.3%	1,585.4	7.3%
Africa, Middle East	764.5	3.1%	5.0%	7.9%	727.9	3.0%	568.4	2.6%
COSMETICS ZONES TOTAL	**24,916.3**	**100.0%**	**2.6%**	**5.2%**	**24,290.2**	**100.0%**	**21,658.2**	**100.0%**

(1) As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

3.1.2.3. Breakdown of operating profit of Operational Divisions by geographic zone

€ millions	2016	2015 (1)	2014 (1)
Western Europe	1,831.5	1,800.5	1,727.2
North America	1,392.3	1,256.8	1,010.4
New Markets	1,936.2	1,919.2	1,703.0
COSMETICS DIVISIONS TOTAL	**5,160.0**	**4,976.4**	**4,440.6**
Non-allocated	-653.9	-643.6	-615.2
COSMETICS	**4,506.1**	**4,332.9**	**3,825.4**

(1) As of July 1st, 2016, the Asian Travel Retail business of the Consumer Products Division, previously recorded under the Western Europe Zone, was transferred to the Asia, Pacific Zone. All figures for earlier periods have been restated to allow for this change.

3.1.2.4. Breakdown of operational assets and consolidated investments by geographic zone

	2016		2015		2014	
€ millions	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets
Western Europe	8,925.3	410.2	8,582.8	347.6	8,270.8	297.2
North America	7,071.9	409.2	5,962.3	319.0	5,268.5	221.8
New Markets	5,728.5	409.7	5,463.3	395.7	4,820.7	335.5
Non-allocated	834.2	177.5	759.3	119.6	741.2	152.8
GROUP	**22,559.9**	**1,406.6**	**20,767.6**	**1,181.9**	**19,101.2**	**1,007.3**

3.2. Depreciation and amortisation expense and Property, plant and equipment

3.2.1. Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amount to €1,028.4 million, €963.0 million and €871.2 million respectively, for 2016, 2015 and 2014.

3.2.2. Property, plant and equipment

€ millions **2016**	12.31.2015	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2016
Land and buildings	2,223.4	70.9	-84.3	-9.5	54.3	2,254.7
Machinery and equipment	3,204.0	219.9	-121.8	29.9	91.4	3,423.3
Point-of-sales advertising: stands and displays	1,896.5	410.7	-287.5	13.5	40.1	2,073.3
Other property, plant and equipment and fixed assets in progress	1,579.2	494.6	-110.5	22.8	-196.6	1,789.5
Gross value	**8,903.1**	**1,196.0**	**-604.1**	**56.7**	**-10.9**	**9,540.8**
Land and buildings	1,154.9	78.6	-73.1	-0.5	3.5	1,163.4
Machinery and equipment	2,196.3	250.6	-118.8	27.0	-26.7	2,328.5
Point-of-sales advertising: stands and displays	1,320.0	375.3	-287.2	4.8		1,412.8
Other property, plant and equipment	828.5	142.3	-110.0	7.6	10.9	879.2
Depreciation and provisions	**5,499.6**	**846.8**	**-589.1**	**38.9**	**-12.4**	**5,783.9**
Property, plant and equipment – Net	**3,403.5**	**349.2**	**-15.0**	**17.8**	**1.4**	**3,756.9**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

€ millions 2015	12.31.2014	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2015
Land and buildings	2,146.2	56.7	-36.3	25.5	31.3	2,223.4
Machinery and equipment	3,005.0	189.8	-131.1	31.8	108.4	3,204.0
Point-of-sales advertising: stands and displays	1,622.8	345.3	-189.9	58.6	59.7	1,896.5
Other property, plant and equipment and fixed assets in progress	1,379.9	404.7	-71.2	36.8	-170.9	1,579.2
Gross value	**8,153.9**	**996.6**	**-428.5**	**152.6**	**28.5**	**8,903.1**
Land and buildings	1,100.7	78.6	-33.0	14.0	-5.3	1,154.9
Machinery and equipment	2,054.1	239.6	-129.5	26.2	5.9	2,196.3
Point-of-sales advertising: stands and displays	1,117.8	339.9	-189.6	39.6	12.3	1,320.0
Other property, plant and equipment	740.2	128.2	-69.8	27.7	2.2	828.5
Depreciation and provisions	**5,012.8**	**786.2**	**-421.9**	**107.4**	**15.1**	**5,499.6**
Property, plant and equipment – Net	**3,141.1**	**210.4**	**-6.6**	**45.2**	**13.4**	**3,403.5**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

€ millions 2014	12.31.2013	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2014
Land and buildings	1,946.7	99.6	-65.4	58.4	106.9	2,146.2
Machinery and equipment	2,753.8	157.9	-124.9	84.7	133.6	3,005.0
Point-of-sales advertising: stands and displays	1,404.6	287.6	-184.7	79.4	35.9	1,622.8
Other property, plant and equipment and fixed assets in progress	1,327.6	302.8	-78.8	70.2	-241.9	1,379.9
Gross value	**7,432.7**	**848.0**	**-453.8**	**292.7**	**34.4**	**8,153.9**
Land and buildings	1,026.9	90.4	-57.4	26.1	14.7	1,100.7
Machinery and equipment	1,885.7	230.9	-121.7	56.0	3.2	2,054.1
Point-of-sales advertising: stands and displays	958.1	287.7	-184.5	54.8	1.7	1,117.8
Other property, plant and equipment	670.8	104.8	-71.5	37.7	-1.6	740.2
Depreciation and provisions	**4,541.4**	**713.8**	**-435.1**	**174.6**	**18.0**	**5,012.8**
Property, plant and equipment – Net	**2,891.2**	**134.2**	**-18.7**	**118.0**	**16.4**	**3,141.1**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed assets.

Property, plant and equipment include capital lease contracts for the following amounts:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Land and buildings	66.8	65.4	61.1
Machinery and equipment	6.1	9.1	2.5
Other property, plant and equipment and fixed assets in progress	27.0	31.4	27.8
Gross value	**99.9**	**105.9**	**91.3**
Depreciation	56.0	65.2	54.3
Net value	**43.9**	**40.7**	**37.0**

3.3. Inventories, Trade accounts receivable and Other current assets

3.3.1. Inventories

€ millions	12.31.2016	12.31.2015	12.31.2014
Finished products and consumables	2,446.4	2,191.3	2,028.0
Raw materials, packaging and semi-finished products	550.3	517.4	501.7
Gross value	**2,996.8**	**2,708.7**	**2,529.7**
Valuation allowance	298.2	268.0	266.8
Inventories – net	**2,698.6**	**2,440.7**	**2,262.9**

3.3.2. Trade accounts receivable

€ millions	12.31.2016	12.31.2015	12.31.2014
Gross value	3,993.4	3,677.8	3,334.7
Valuation allowance	51.6	50.1	36.9
Net value	**3,941.8**	**3,627.7**	**3,297.8**

Trade accounts receivable are due within one year. Group policy is to recommend credit insurance coverage as far as local conditions allow.

The non-collection risk on trade receivables is therefore minimised, and this is reflected in the level of the allowance, which is less than 2% of gross receivables at the end of 2016.

3.3.3. Other current assets

€ millions	12.31.2016	12.31.2015	12.31.2014
Tax and employee-related receivables (excluding income tax) (1)	548.6	544.9	351.5
Prepaid expenses	312.0	300.4	272.1
Derivatives	254.2	283.0	262.5
Current financial assets (2)	49.5	101.7	72.0
Other current assets	256.1	256.9	241.2
TOTAL	**1,420.4**	**1,486.9**	**1,199.3**

(1) Including the €189.5 million fine payed in April 2015 following the decision of the competition authority in France (note 12.2.2.b).
(2) Nestlé repaid €43.9 million of loans in July and August 2016.

3.4. Other current liabilities

€ millions	12.31.2016	12.31.2015	12.31.2014
Tax and employee-related payables (excluding income tax)	1,301.1	1,241.8	1,153.4
Credit balances on trade receivables	855.0	841.7	748.1
Fixed asset payables	196.5	156.3	147.6
Derivatives	330.4	205.4	215.8
Other current liabilities	171.4	152.1	138.3
TOTAL	**2,854.4**	**2,597.3**	**2,403.2**

3.5. Changes in working capital

This caption amounts to a negative €12.7 million in 2016, a negative €196.4 million in 2015 and a positive €55.9 million in 2014 and can be analysed as follows:

€ millions	2016	2015	2014
Inventories	-188.7	-108.1	-18.0
Trade accounts receivable	-244.2	-269.8	-119.7
Trade accounts payable	161.5	403.9	55.8
Other receivables and payables	258.7	-222.4	137.8
TOTAL	**-12.7**	**-196.4**	**55.9**

NOTE 4 Other operational income and expenses

ACCOUNTING PRINCIPLES

Other income and expenses

The *Other income and expenses* item includes capital gains and losses on disposals of property, plant and equipment and intangible assets, impairment of assets, restructuring costs, and clearly identified, non-recurring income and expense items that are material to the consolidated financial statements.

The cost of restructuring operations is fully provisioned if it results from a group obligation towards a third party originating from a decision taken by a competent body which is announced to the third parties concerned before the end of the reporting period. This cost consists mainly of severance payments, early retirement payments, the cost of unworked notice periods, the costs of training for employees affected by the restructuring measures, and other costs relating to site closures. Any write-offs of fixed assets or impairment charged against inventories and other assets related directly to these restructuring measures are also recorded as restructuring costs.

Operational profit

Operational profit is calculated based on operating profit and includes other income and expenses such as capital gains and losses on disposals of property, plant, and equipment and intangible assets, impairment of assets, and restructuring costs.

4.1. Other operational income and expenses

This item breaks down as follows:

€ millions	2016	2015	2014
Capital gains and losses on disposals of property, plant and equipment and intangible assets (1)	16.2	-0.2	1.0
Impairment of property, plant and equipment and intangible assets (2)	-447.2	-	-
Restructuring costs (3)	-101.6	-85.1	-77.9
Other (4)	-11.2	-108.1	-230.3
TOTAL	**-543.8**	**-193.4**	**-307.2**

(1) Including in 2016, €17.7 million in capital gains on sales of buildings in the Paris region in connection with the geographical concentration of business operations in France.
(2) In 2016, the Magic brand and goodwill (€49.0 million (€36.7 million after tax) and €162.7 million respectively), as well as Clarisonic goodwill (€235.5 million) (note 7).
(3) Including:
- *in 2016, the geographical concentration of the French commercial entities of the four Divisions at a single site and the associated reorganisation (€45.4 million), uniting of Operations and Research & Innovation at a single site (€3.5 million), the rescaling of subsidiaries in Germany and Switzerland (€12.1 million), the discontinuance of the Matrix brand in Brazil (€4.3 million), the ongoing reorganisation of NYX Professional Makeup distribution activities (€3.8 million), the integration of Magic's corporate support functions with those of L'Oréal China, the reorganisation of Magic distribution activities (€27.2 million), and the streamlining of production of Clarisonic products (€5.2 million);*
- *in 2015, the reorganisation of logistics activities for the Luxe business in Northern Europe (€13.1 million), the combination of headquarters in Milan in Italy and the reorganisation of logistics activities (€5.8 million), the reorganisation of Nordic teams around Denmark (€7.6 million), the completion of the reorganisation of logistics activities in Spain, which now include the Professional Products Division, along with the reorganisation of the Consumer Products sales team (€15.8 million), the reduction in headcount in Argentina as a result of the country's economic difficulties (€10.9 million), the write-down of a research building in Chicago, United States (€2.7 million), the continued reorganisation of Decléor and Carita distribution activities (€19.1 million) and NYX Professional Makeup distribution activities (€8.6 million), and the discontinuance of our operations in Nigeria (€3.9 million);*
- *in 2014, the termination of the distribution of the Garnier brand in China (€35.0 million), the industrial reorganisation in the United States (€7.9 million), the realignment of L'Oréal teams in Italy (€16.0 million), the first phase in the reorganisation of distribution for Decléor and Carita (€9.1 million) and the restructuring of The Body Shop distribution network in the US (€21.8 million), leading to the closure of a large number of stores as well as the Wake Forest distribution centre, offset by downward adjustments in expenses relating to the discontinuance of the Club des Créateurs de Beauté activity (€4.1 million).*

(4) Including:
- *in 2016, reversals of provisions for contingencies recognised in the opening balance sheet of NYX Professional Makeup, Magic and Niely at the time of the acquisition (€6.9 million), offset by acquisition-related costs (€20.3 million);*
- *in 2015, the deconsolidation of the Venezuelan subsidiary (€107.2 million) (note 2.4.), the reversal of the provision for liabilities in an amount of €9.2 million following the out-of-court settlement reached with the Belgian competition authority in June 2015, the additional €1 million following the termination of the proceedings with the German competition authority (note 10.2.2.a), acquisition-related costs (€8.9 million) and the upward revision of the 2014 exceptional "solidarity" tax on high salaries (€1.2 million);*
- *in 2014, the exceptional "solidarity" tax on high salaries (€17.4 million), costs relating to acquisitions (€20.4 million), and the fine levied by the competition authority against L'Oréal S.A. (€189.5 million) (note 12.2.2.b).*

NOTE 5 Number of employees, personnel costs and employee benefits

5.1. Number of employees

	12.31.2016	12.31.2015	12.31.2014
Western Europe	32,981	32,203	31,080
North America	16,572	14,968	15,441
New Markets	39,778	35,710	32,090
TOTAL (1)	**89,331**	**82,881**	**78,611**

(1) Excluding employees of equity-accounted companies.

5.2. Personnel costs

€ millions	**2016**	2015	2014
Personnel costs (including welfare contributions) (1)	**5,437.9**	**5,223.0**	**4,623.4**

(1) Excluding personnel costs of equity-accounted companies.

Personnel costs include the pension expense (excluding the interest component), the cost of any share-based payments (stock options and free shares), and payroll taxes. The exceptional "solidarity" tax on high salaries amounting to €17.4 million in 2014 is shown in *Other operational income and expenses* (note 4) and is not included in personnel costs.

5.3. Executive compensation

Costs recorded in respect of compensation and similar benefits granted to the Management Committee and the Board of Directors can be analysed as follows:

€ millions	**2016**	2015	2014
Directors' fees	1.2	1.2	1.1
Salaries and benefits including employer welfare contributions	29.9	30.6	28.8
Employee retirement obligation charges	15.6	17.3	16.0
Share-based payment (Stock option and free shares)	24.1	25.8	23.5

The number of executives who were members of the Management Committee was 15 at December 31st, 2016 compared with 16 at December 31st, 2015 and at December 31st, 2014.

5.4. Post-employment benefits, termination benefits and other long-term employee benefits

ACCOUNTING PRINCIPLES

The Group operates pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid.

The characteristics of the defined benefit schemes in force within the Group are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. An early retirement plan and a defined benefit plan have also been set up. In some Group companies there are also measures providing for the payment of certain healthcare costs for retired employees.
  These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

The charges recorded in the income statement during the year include:

- service cost, *i.e.* additional rights vested by employees during the accounting period;
- the impact of any change to existing schemes on previous years or of any new schemes;
- interest cost, *i.e.* change in the value of the discounted rights over the past year;
- income on external funds calculated on the basis of the discount rate applied to the benefit obligation.

The latter two items represent the interest component of the pension expense. The interest component is shown within *Finance Result* on the *Other financial income and expenses* line.

To determine the discounted value of the obligation for each scheme, the Group applies an actuarial valuation method based on the final salary (projected unit credit method). The obligations and the fair value of plan assets are assessed each year using length-of-service, life expectancy, staff turnover by category and economic assumptions (such as inflation rate and discount rate).

The calculation method used for 2016 and previous financial years involves discounting the cash flows related to the various plans using a single interest rate. As interest rates have dropped sharply over the past few years, in 2017 the Group intends to use a simplified granular approach to calculate its service cost for the period. Under this simplified approach, two different discount rates are used to calculate the obligation and the service cost based on the duration of the future cash flows relating to each of these items.

This change does not affect the calculation of the overall obligation but reduces service cost, primarily for the US and France in 2017 owing to durations exceeding those of the obligation and the interest rate yield curve in these countries. Interest cost will continue to be calculated by applying to plan assets the discount rate used for the obligation and by applying the differential interest rate to service cost for the period.

Actuarial gains and losses arising on post-employment defined benefit obligations are recognised in equity.

Actuarial gains and losses in relation to other benefits such as jubilee awards and long-serve bonuses are immediately charged to the income statement.

The liability corresponding to the Company's net defined benefit obligation regarding its employees is recorded in the balance sheet on the *Provisions for employee retirement obligation and related benefits* line.

The actuarial assumptions used to calculate these obligations take into account the economic conditions specific to each country or Group company. The weighted average assumptions for the Group are as follows:

In %	**12.31.2016**	12.31.2015	12.31.2014
Discount rate	2.4%	2.9%	2.8%
Salary increases	3.9%	4.5%	4.7%
Expected long-term return on plan assets	2.3%	3.0%	2.9%

	12.31.2016			12.31.2015			12.31.2014		
	Initial rate	**Final rate**	**Application of final rate**	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate
Expected rate of health care inflation	5.7%	4.2%	2021	5.8%	4.3%	2021	5.8%	4.2%	2019

The discount rates are obtained by reference to market yields on high quality corporate bonds having maturity dates equivalent to those of the obligations.

Bond quality is assessed by reference to the AA-/Aa3 minimum rating provided by one of the three main credit-rating agencies.

It can be broken down by geographic zone as follows:

In %	**2016**	2015	2014
Weighted average (all countries) based on the benefit obligation	**2.4%**	**2.9%**	**2.8%**
of which:			
euro zone [1]	1.8%	2.4%	2.2%
United States	3.5%	3.8%	3.8%
United Kingdom	2.5%	3.8%	3.8%

(1) The weighted average for 2016 consists of a 1.9% discount rate on annuity plans with an average term of 21.0 years and a 1.5% discount rate on capital plans with an average term of 13.6 years.

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €219.4 million for the euro zone, €65.3 million for the United States and €100.3 million for the United Kingdom.

The expected returns on plan assets are based on the discount rates used.

The breakdown of plan assets is as follows:

In %	**12.31.2016**	12.31.2015	12.31.2014
Equity securities [1]	38.5%	39.2%	35.6%
Bonds	54.0%	52.4%	56.4%
Property assets [2]	4.1%	4.3%	3.7%
Monetary instruments	1.7%	2.7%	1.2%
Other	1.7%	1.4%	3.1%
TOTAL	**100%**	**100%**	**100%**

(1) Of which L'Oréal shares: nil.
(2) Of which property assets occupied by Group entities: nil.

The allocation of plan assets has to comply with specific investment limits for the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The variations during 2016, 2015 and 2014 are set out below:

€ millions	Present value of defined benefit obligations	Plan assets	Net provisions
Balance at December 31st, 2013	**3,651.4**	**-2,711.8**	**939.6**
Service cost	141.4	-	141.4
Interest cost	144.2	-	144.2
Expected return on assets	-	-115.1	-115.1
Past service cost: new plans / plan amendments	-5.1	-	-5.1
Curtailments	-33.2	-	-33.2
Settlements	0.1	-	0.1
Benefits paid	-174.5	130.7	-43.8
Contributions paid	4.1	-255.6	-251.5
Actuarial gains and losses	881.2	-208.6	672.6
Translation differences	155.8	-128.0	27.8
Other movements	-5.1	7.8	2.7
Balance at December 31st, 2014	**4,760.3**	**-3,280.6**	**1,479.7**
Service cost	180.0	-	180.0
Interest cost	136.1	-	136.1
Expected return on assets	-	-104.0	-104.0
Past service cost: new plans / plan amendments	-13.1	-	-13.1
Curtailments	-13.2	-	-13.2
Settlements	-96.5	94.5	-2.0
Benefits paid	-251.5	190.7	-60.8
Contributions paid	4.3	-228.0	-223.7
Actuarial gains and losses	-600.2	2.3	-597.9
Translation differences	151.8	-130.0	21.8
Other movements	-3.3	7.6	4.3
Balance at December 31st, 2015	**4,254.7**	**-3,447.5**	**807.2**
Service cost	173.4	-	173.4
Interest cost	128.5	-	128.5
Expected return on assets	-	-108.2	-108.2
Past service cost: new plans / plan amendments	2.8	-	2.8
Curtailments	-20.5	-	-20.5
Settlements	-	-	-
Benefits paid	-187.5	125.4	-62.1
Contributions paid	6.4	-234.1	-227.7
Actuarial gains and losses	126.5	-125.2	1.3
Translation differences	-41.3	58.0	16.7
Other movements (1)	33.8	-33.4	0.4
BALANCE AT DECEMBER 31ST, 2016	**4,476.8**	**-3,765.1**	**711.8**

(1) Including in 2016, an amendment to a pension plan in Germany (change from a defined contribution plan to a defined benefit plan) for €40.5 million following the decrease in interest rates.

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Present value of defined benefit obligations wholly or partly funded	4,049.3	3,732.5	4,014.8
Fair value of plan assets	3,765.1	3,447.5	3,280.6
Net position of defined benefit obligations wholly or partly funded	284.2	285.0	734.2
Present value of defined benefit obligations wholly unfunded	427.5	522.2	745.5

The retirement expense charged to the income statement is recorded within personnel expenses for the operating part and within financial costs for the financial part and can be analysed as follows:

€ millions	2016	2015	2014
Service cost	173.4	180.0	141.4
Interest cost	128.5	136.1	144.2
Expected return on plan assets	-108.2	-104.0	-115.1
New plans/plan amendments	2.8	-13.1	-5.1
Curtailments	-20.5	-13.2	-33.2
Settlements	-	-2.0	0.1
TOTAL	**176.0**	**183.8**	**132.3**

Contributions to defined contribution plans recognised as an expense in 2016, 2015 and 2014 amounted to €463.1 million, €446.5 million and €409.8 million, respectively.

A change of 1% point in medical cost inflation would have the following impact:

	Increase of 1%	Decrease of 1%
Impact on projected benefit obligation	13.4	-10.9
Impact on current service cost and interest costs	0.6	-0.5

Actuarial gains and losses for the periods presented are as follows:

€ millions **2016**	**Present value of defined benefit obligations**	**Plan assets**	**Net provisions**
Actuarial gains and losses: experience adjustments	-55.5	-125.2	-180.7
Actuarial gains and losses: demographic assumptions	-9.1	-	-9.1
Actuarial gains and losses: financial assumptions	191.1	-	191.1
TOTAL	**126.5**	**-125.2**	**1.3**

€ millions 2015	Present value of defined benefit obligations	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	-101.3	2.3	-99.0
Actuarial gains and losses: demographic assumptions	-140.4	-	-140.4
Actuarial gains and losses: financial assumptions	-358.5	-	-358.5
TOTAL	**-600.2**	**2.3**	**-597.9**

€ millions 2014	Present value of defined benefit obligations	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	-9.1	-208.6	-217.7
Actuarial gains and losses: demographic assumptions	49.6	-	49.6
Actuarial gains and losses: financial assumptions	840.7	-	840.7
TOTAL	**881.2**	**-208.6**	**672.6**

5.5. Stock subscription or purchase options – Free shares

ACCOUNTING PRINCIPLES

In accordance with the requirements of IFRS 2 "Share-based payment", the value of options or free shares granted as calculated at the grant date is expensed in the income statement over the vesting period, which is generally 5 years for purchase options and 4 years for free shares.

The fair value of stock options is determined using the Black & Scholes model. This model takes into account the characteristics of the plan such as the exercise price and exercise period, and market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural assumptions regarding beneficiaries.

The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents, for plans prior to January 1st, 2016, is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.

The impact of IFRS 2 on profit for the period is booked on the *Selling, general and administrative expenses* line of the income statement at Group level, and is not allocated to the Divisions or geographic zones.

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a) Share subscription or purchase options

The table below sets out data concerning option plans in force at December 31st, 2016.

Grant date	Number of options	Number of options not yet exercised	Exercise period From	Exercise period To	Exercise price
04.25.2006	2,000,000	-	04.26.2011	04.25.2016	€72.60
12.01.2006	5,500,000	-	12.02.2011	12.01.2016	€78.06
11.30.2007	4,000,000	614,650	12.01.2012	11.30.2017	€91.66
03.25.2009	3,650,000	696,333	03.26.2014	03.25.2019	€50.11
04.27.2010	4,200,000	1,745,795	04.28.2015	04.27.2020	€80.03
04.22.2011	1,470,000	741,273	04.23.2016	04.22.2021	€83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee). The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of options granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2016, the performance conditions were definitively met for the April 22nd, 2011, April 27th, 2010 and March 25th, 2009 plans.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

	Subscription options					
	April 2006	December 2006	November 2007	March 2009	April 2010	April 2011
Risk-free rate of return	3.80%	3.62%	4.01%	3.15%	2.83%	3.42%
Expected life span	6 years	7 years	7 years	7 years	7 years	8 years
Expected volatility	20.50%	22.52%	23.00%	31.95%	23.53%	22.60%
Expected dividends	1.35%	1.35%	1.24%	2.83%	1.86%	2.10%
Share price	€74.10	€74.60	€94.93	€50.94	€80.50	€85.68
Exercise price	€72.60	€78.06	€91.66	€50.11	€80.03	€83.19
Fair value	€17.48	€17.19	€25.88	€12.16	€17.17	€18.58

Expected volatility is equal to the implied volatility of the options listed on MONEP at the grant dates. As from 2007, in order to mitigate the effects of atypical phenomena, the volatility used corresponds to the average between implied volatility at the grant date and historic volatility over the expected life span of the option. The expected life span has been adjusted to take account of behavioural assumptions relating to the beneficiaries.

Data concerning all share option plans during fiscal years 2014, 2015 and 2016 are set out below:

	12.31.2016		12.31.2015		12.31.2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Number of options not exercised at beginning of period	**5,933,374**	**€77.61**	**10,770,989**	**€75.28**	**14,298,484**	**€72.24**
• Options granted	-		-		-	
• Options exercised	-2,080,123	€78.65	-4,808,115	€72.39	-3,505,993	€62.89
• Options expired	-55,200		-29,500		-21,502	
Number of options not exercised at end of period	**3,798,051**	**€77.04**	**5,933,374**	**€77.61**	**10,770,989**	**€75.28**
Of which:						
• number of exercisable options at end of period	3,798,051	€77.04	4,704,874	€76.16	5,560,989	€70.13
• expired options at end of period	-		3,000		3,000	

The weighted average share price was €163.04, €162.95 and €125.73 respectively, for 2016, 2015 and 2014.

The total charge recorded in 2016, 2015 and 2014 amounted to €1.6 million, €9.3 million and €20.4 million, respectively.

b) Free shares

The table below summarises data about free share plans.

Grant date					
Stock subscription plans	Stock purchase plans	Vesting date	Number of shares granted	Number of shares issued/allotted	Number of shares not fully vested
04.27.2010		04.28.2014	450,000	390,100	
	04.22.2011	04.23.2015	1,038,000	939,300	
	04.17.2012	04.18.2016	1,325,050	1,233,900	
	04.26.2013	04.27.2017	1,057,820	1,960	1,001,805
04.17.2014		04.18.2018	1,068,565	1,050	1,028,565
04.22.2015		04.23.2019	860,150	425	840,875
04.20.2016		04.21.2020	906,100		902,675

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, for plans prior to January 1st, 2016, during which the shares cannot be sold.

The performance conditions concern for the April 20th, 2016, April 22nd, 2015, April 17th, 2014, April 26th, 2013 and April 17th, 2012 plans:

- for 50% of shares granted, the increase in comparable Cosmetic revenues for the:
  - 2017, 2018 and 2019 fiscal years under the 2016 plan,
  - 2016, 2017 and 2018 fiscal years under the 2015 plan,
  - 2015, 2016 and 2017 fiscal years under the 2014 plan,
  - 2014, 2015 and 2016 fiscal years under the 2013 plan, and
  - 2013, 2014 and 2015 fiscal years under the 2012 plan in relation to the growth in revenues for a panel of competitors;
- for 50% of shares granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the:

- 2017, 2018 and 2019 fiscal years under the 2016 plan;
- 2016, 2017 and 2018 fiscal years under the 2015 plan;
- 2015, 2016 and 2017 fiscal years under the 2014 plan;
- 2014, 2015 and 2016 fiscal years under the 2013 plan; and
- 2013, 2014 and 2015 fiscal years under the 2012 plan.

and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

A total of 936,300 shares and 1,230,850 shares were definitively granted, respectively, on April 23rd, 2015 under the April 22nd, 2011 plan and on April 18th, 2016 under the April 17th, 2012 plan.

At December 31st, 2016, the performance conditions were deemed to have been met.

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The fair value of free share awards is determined using the following assumptions:

	Stock subscription plans		Stock purchase plans		Stock subscription plans		
Grant date	April 2010	April 2011	April 2012	April 2013	April 2014	April 2015	April 2016
Risk-free rate of return	1.75%	2.60%	1.43%	0.50%	0.65%	-0.02%	-0.06%
Discount for post-vesting transfer restrictions for French employees	8.65%	8.54%	8.06%	5.75%	4.46%	1.70%	n/a
Dividends expected	1.86%	2.10%	2.14%	1.76%	2.06%	1.52%	1.85%
Share price	€80.50	€85.68	€93.68	€130.45	€121.35	€177.10	€168.10
Fair value							
◆ Employees resident in France	€66.78	€70.36	€77.07	€112.37	€104.58	€161.49	€154.32
◆ Employees not resident in France	€73.73	€77.67	€84.62	€119.87	€109.99	€164.50	€154.32

The expense recorded in 2016, 2015 and 2014 amounted to €118.8 million, €108.4 million and €93.0 million, respectively

NOTE 6 Income tax

ACCOUNTING PRINCIPLES

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carryforwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilized.

Under the French system of tax consolidation, the taxable profits of some French companies are offset when determining the overall tax charge, which is payable only by L'Oréal, the parent company of the tax group. Tax consolidation systems also exist outside France.

6.1. Detailed breakdown of income tax

€ millions	**2016**	2015	2014
Current tax	1,134.8	1,169.5	1,051.0
Deferred tax	79.8	53.4	60.0
INCOME TAX	**1,214.6**	**1,222.9**	**1,111.0**

6.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	**2016**	2015	2014
Profit from continuing operations before tax and associates	**4,323.4**	**4,517.4**	**3,890.4**
Theoretical tax rate	28.84%	30.04%	29.83%
Expected tax charge	**1,246.7**	**1,357.1**	**1,160.5**
Impact of permanent differences (1)	132.7	3.6	106.5
Impact of tax rate differences (2)	-170.1	-127.9	-116.2
Change in unrecognised deferred taxes	10.8	12.0	10.1
Other (3)	-5.5	-21.9	-49.9
GROUP TAX CHARGE	**1,214.6**	**1,222.9**	**1,111.0**

(1) In 2016, this amount includes €130.5 million relating to impairment losses recognised against Clarisonic and Magic (note 4.1.). In 2014, €72 million relates to the fine levied by the French competition authority.
(2) Including in 2016, €45 million relating to the impact on deferred tax balances of the decrease in the tax rate from 34.43% to 28.92% planned in France by 2020.
(3) Including tax credits, taxes on dividend distributions, tax reassessments and provisions for tax liabilities. This amount includes €52 million in 2016 and €45 million in both 2015 and 2014 relating to the 3% additional levy on dividends paid as well as €57 million relating to claims made to recover the share of costs and expenses levied on certain dividends paid to tax-consolidated companies by companies based in the European Union.

The expected tax charge reflects the sum of pre-tax profit for each country, multiplied by the normal taxation rate. The theoretical tax rate reflects the total expected tax charge as a percentage of pre-tax profit. The impact of any reduced tax rates existing in certain countries in addition to the normal tax rates is included on the line *Impact of tax rate differences*.

6.3. Deferred taxes in the balance sheet

The net change in deferred taxes (assets and liabilities) can be analysed as follows:

€ millions	
Balance of deferred tax assets at December 31st, 2013	**643.3**
Balance of deferred tax liabilities at December 31st, 2013	**-730.6**
Income statement impact	-60.0
Translation differences	-21.2
Other effects (1)	147.3
Balance of deferred tax assets at December 31st, 2014	**834.0**
Balance of deferred tax liabilities at December 31st, 2014	**-855.2**
Income statement impact	-53.4
Translation differences	-47.1
Other effects (1)	-207.2
Balance of deferred tax assets at December 31st, 2015	**547.9**
Balance of deferred tax liabilities at December 31st, 2015	**-876.8**
Income statement impact	-79.8
Translation differences	17.5
Other effects (1)	96.7
BALANCE OF DEFERRED TAX ASSETS AT DECEMBER 31ST, 2016	**548.3**
BALANCE OF DEFERRED TAX LIABILITIES AT DECEMBER 31ST, 2016	**-842.9**

(1) Including mainly the deferred tax impact of currency hedging instruments recognised in equity as well as the tax effect on actuarial gains and losses recognised in equity. In 2016, this item also includes the impact of the reduced tax rate in France on the Sanofi shareholding for €33 million. In 2014, it also includes the impact on newly consolidated companies for €115.7 million.

Deferred tax assets and liabilities recorded in the balance sheet may be broken down as follows:

	12.31.2016		12.31.2015		12.31.2014	
€ millions	**Deferred tax assets**	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	536.4	542.0	537.8	510.4	825.5	503.1
Deferred tax liabilities on revaluation of Sanofi		300.9		366.4		352.1
Tax credits and tax loss carry-forwards	11.9		10.1		8.5	
DEFERRED TAX TOTAL	**548.3**	**842.9**	**547.9**	**876.8**	**834.0**	**855.2**

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€211.3 million, €196.8 million and €440.7 million respectively at the end of 2016, 2015 and 2014) and provisions for liabilities and charges (€153.4 million, €190.2 million and €167.2 at the end of 2016, 2015 and 2014).

Deferred tax liabilities on temporary differences mainly relate to intangible assets acquired in the context of business combinations other than non-tax-deductible goodwill.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €102.5 million at December 31st, 2016 compared with €79.2 million at December 31st, 2015 and €55.3 million at December 31st, 2014.

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NOTE 7 Intangible assets

7.1. Goodwill

ACCOUNTING PRINCIPLES

Business combinations are accounted for by the purchase method. The assets, liabilities and contingent liabilities of the Company acquired are measured at fair value at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition and the Group's interest in the fair value of the identified assets and liabilities is recorded as *Goodwill* and allocated to the Cash Generating Units expected to benefit from the acquisition or the related synergies.

Goodwill generated on the acquisition of an associate is presented in the *Investments in associates* line.

For business combinations carried out after January 1st, 2010, the main changes with regard to previously applicable accounting principles are set out below:

- for each acquisition, the Group chooses whether to recognise the full amount of goodwill regardless of the ownership interest acquired, or an amount of goodwill corresponding to its interest in the acquired company (previously the only method allowed);
- deferred tax assets recognised after the initial accounting is complete are included in profit or loss, and in contrast to previous practices, the amount of goodwill that would have been recorded had the deferred tax asset been recognised as an identifiable asset at the acquisition date is not deducted;
- costs incurred in respect of a business combination are now expensed and no longer included in the cost of the acquisition;
- the cost of the acquisition, which includes contingent consideration, is recognised and measured at its acquisition-date fair value. Subsequent changes in fair value, affecting in particular the contingent consideration recorded in liabilities, are taken to *Other income and expenses* in the income statement and no longer treated as an adjustment to goodwill;
- any previous interest held in the acquiree prior to the date control was obtained is now remeasured at its acquisition-date fair value, with the corresponding gain or loss on remeasurement taken to the income;
- purchase commitments for minority interests are recognised in financial debt at the acquisition-date fair value. Subsequent changes in fair value of the commitment are recognised by adjusting equity.

Goodwill is allocated by Cash Generating Unit or by groups of Cash Generating Units. A Cash Generating Unit consists of one or more worldwide trademarks.

€ millions

2016	12.31.2015	Acquisitions/ Disposals	Other movements	12.31.2016
L'Oréal Professionnel/Kérastase	388.4	2.7	6.7	397.9
Matrix	426.3		9.9	436.2
Redken/PureOlogy	565.4	4.8	15.4	585.6
Decléor and Carita	137.4			137.4
Other	3.3		0.1	3.4
Professional Products Total	**1,520.8**	**7.5**	**32.1**	**1,560.4**
L'Oréal Paris	795.0	13.6	61.8	870.5
Maybelline/Garnier	1,215.1		76.6	1,291.7
Magic Holdings	453.9		-179.9	274.0
LaSCAD	158.3			158.3
NYX Professional Makeup	336.1	0.1	9.0	345.1
Niely	232.2		-51.9	180.3
Other	180.7		6.1	186.8
Consumer Products Total	**3,371.3**	**13.7**	**-78.3**	**3,306.7**
Lancôme	803.0		-2.7	800.3
Shu Uemura	133.0		8.7	141.7
YSL Beauté	519.8			519.8
Perfumes	334.8	112.9		447.8
Clarisonic	311.9		-238.0	73.9
Urban Decay	156.7		4.4	161.1
IT Cosmetics	-	779.5	32.9	812.4
Other	65.4		0.3	65.6
L'Oréal Luxe Total	**2,324.6**	**892.4**	**-194.5**	**3,022.6**
Vichy/Dermablend	283.3		2.2	285.5
Other	121.7		2.1	123.8
Active Cosmetics Total	**405.0**	**-**	**4.3**	**409.2**
Other	80.0		3.9	83.9
The Body Shop	**449.9**	**-**	**-40.0**	**409.8**
GROUP TOTAL	**8,151.5**	**913.6**	**-272.5**	**8,792.5**

2016 acquisitions mainly relate to IT Cosmetics, Atelier Cologne, the Thermes Saint-Gervais and the American distributor Raylon for €913.6 million.

Provisional goodwill amounting to €232.2 million and resulting from the acquisition of Niely was allocated to the L'Oréal Paris CGU for €51.6 million and to the Maybelline/Garnier CGU for €45.1 million, based on expected synergies.

No significant disposals took place during 2016.

Other movements mainly reflect the positive impact of changes in exchange rates for €117.4 million as well and the recognition of impairment losses against Clarisonic (€235.6 million) and against Magic (€162.7 million) (note 7.3.).

The accumulated impairment losses relating to Clarisonic, Magic, Softsheen-Carson, Yue-Sai and Sanoflore amount to €246.3 million, €163.1 million, €158.8 million, €33.1 million and €35.7 million respectively, at December 31st, 2016.

€ millions 2015	12.31.2014	Acquisitions/ Disposals	Other movements	12.31.2015
L'Oréal Professionnel/Kérastase	364.6	4.8	19.0	388.4
Matrix	391.0		35.3	426.3
Redken/PureOlogy	518.5		46.9	565.4
Decléor and Carita	136.5		0.8	137.4
Other	-		3.3	3.3
Professional Products Total	**1,410.6**	**4.8**	**105.3**	**1,520.8**
L'Oréal Paris	782.1	7.4	5.5	795.0
Maybelline/Garnier	1,141.4	6.0	67.7	1,215.1
Magic Holdings	427.1		26.8	453.9
LaSCAD	158.3			158.3
NYX Professional Makeup	304.7		31.4	336.1
Niely	-	286.4	-54.2	232.2
Other	175.4		5.3	180.7
Consumer Products Total	**2,989.0**	**299.8**	**82.5**	**3,371.3**
Lancôme	797.5		5.5	803.0
Shu Uemura	119.9		13.1	133.0
YSL Beauté	519.8			519.8
Perfumes	334.8			334.8
Clarisonic	285.2		26.7	311.9
Urban Decay	142.6		14.1	156.7
Other	64.5		0.9	65.4
L'Oréal Luxe Total	**2,264.3**	**-**	**60.3**	**2,324.6**
Vichy/Dermablend	272.9	4.8	5.6	283.3
Other	114.9		6.7	121.7
Active Cosmetics Total	**387.8**	**4.8**	**12.3**	**405.0**
Other	84.3		-4.3	80.0
The Body Shop	**389.4**	**51.6**	**8.9**	**449.9**
GROUP TOTAL	**7,525.5**	**361.1**	**265.0**	**8,151.5**

2015 acquisitions mainly relate to Niely and The Body Shop Australia for €337.9 million.

No significant disposals took place during 2015.

Other movements mainly reflect the positive impact of changes in exchange rates for €272.9 million.

The accumulated impairment losses relating to Softsheen-Carson, Yue-Sai and Sanoflore amount to €152.6 million, €34.4 million and €35.7 million respectively, at December 31st, 2015.

€ millions 2014	12.31.2013	Acquisitions/ Disposals	Other movements	12.31.2014
L'Oréal Professionnel/Kérastase	344.6		20.0	364.6
Matrix	355.4		35.6	391.0
Redken/PureOlogy	469.0		49.5	518.5
Decléor and Carita	-	136.5		136.5
Professional Products Total	**1,169.0**	**136.5**	**105.1**	**1,410.6**
L'Oréal Paris	770.6		11.5	782.1
Maybelline/Garnier	1,053.4	1.0	87.0	1,141.4
Magic Holdings	-	376.3	50.8	427.1
LaSCAD	159.1		-0.8	158.3
NYX Professional Makeup	-	281.6	23.1	304.7
Carol's daughter	-	61.0	5.7	66.7
Other	106.7		2.0	108.7
Consumer Products Total	**2,089.8**	**719.9**	**179.3**	**2,989.0**
Lancôme	779.0	11.1	7.4	797.5
Shu Uemura	117.7		2.2	119.9
YSL Beauté	519.8			519.8
Perfumes	334.7		0.1	334.8
Clarisonic	257.5		27.7	285.2
Urban Decay	128.0		14.6	142.6
Other	63.5		1.0	64.5
L'Oréal Luxe Total	**2,200.3**	**11.1**	**53.0**	**2,264.3**
Vichy/Dermablend	267.1		5.8	272.9
Other	108.0		6.9	114.9
Active Cosmetics Total	**375.1**	**-**	**12.7**	**387.8**
Other	-	81.5	2.8	84.3
The Body Shop	**371.8**	**0.7**	**16.9**	**389.4**
GROUP TOTAL	**6,206.0**	**949.7**	**369.8**	**7,525.5**

2014 acquisitions mainly relate to Decléor and Carita, Magic Holdings, NYX Professional Makeup, Carol's daughter and Coloright for €936.9 million.

No significant disposals took place during 2014.

Other movements mainly reflect the positive impact of changes in exchange rates for €377.7 million.

The accumulated impairment losses relating to Softsheen-Carson, Yue-Sai and Sanoflore amount to €140.4 million, €32.2 million and €35.7 million respectively, at December 31st, 2014.

7.2. Other intangible assets

ACCOUNTING PRINCIPLES

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition as well as internally generated intangible assets are also included in this item.

a) Intangible assets acquired through business combinations

They mainly consist of trademarks, customer relationships and formulas and patents.

With regard to trademarks, the use of the discounted cash flow method is preferred to enable the value in use to be monitored more easily following the acquisition. Two approaches have been adopted to date:

- premium-based approach: this method involves estimating the portion of future cash flows that could be generated by the trademark, compared with the future cash flows that the activity could generate without the trademark;
- royalty-based approach: this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks, based on sales forecasts drawn up by the Group.

These approaches are based on a qualitative analysis of the trademark in order to ensure that the assumptions selected are relevant. The discount rate used is based on the weighted average cost of capital (WACC) for the target acquired. Terminal growth rates are consistent with available market data (generally 2.5% for Europe and 3% for the rest of the world, except in specific cases).

A trademark may have a finite or an indefinite useful life span.

Local trademarks which are to be gradually replaced by an international trademark already existing within the Group have a finite useful life span.

They are amortised over their useful lives as estimated at the date of acquisition.

International trademarks are trademarks which have an indefinite life span. They are tested for impairment at least once a year during the fourth quarter, and whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable amount of the trademark based on the model adopted when the acquisition took place.

Customer relationships refer to relations developed with customers either through contractual arrangements or by non-contractual means through constant revenue streams resulting from the target's competitive position or reputation in its market.

The useful life of a customer relationship is limited and varies depending on the estimated attrition rate of existing customers at the time of the acquisition.

The Group may decide to identify and value patents and formulas that it intends to develop.

The value of a patent or a formula is assessed on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The amortisation period applicable to patents corresponds to the period during which they enjoy legal protection. Formulas, which are not protected by legal means, are amortised over a maximum period of 5 years.

b) Internally generated intangible assets

These mainly consist of software.

The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades resulting in additional functions are also capitalised.

Capitalised development costs are amortised from the date on which the software is made available in the entity concerned over its probable useful life, which in most cases is between 5 and 8 years.

€ millions **2016**	12.31.2015	**Acquisitions/ Amortisation**	**Disposals/ Reversals**	**Change in the scope of consolidation (1)**	**Other movements**	**12.31.2016**
Brands with indefinite useful life (2)	2,031.5			234.1	-46.0	2,219.5
Amortisable brands and product ranges	116.1	1.8			0.1	117.9
Licences and patents	319.6	2.6	-0.4	0.9	1.0	323.6
Software	1,031.2	87.2	-52.0	0.1	84.7	1,151.2
Customer relationships	539.5			55.2	12.0	606.8
Key money	70.0	12.1	-1.5	0.5	1.3	82.3
Other	232.2	106.9	-0.1	0.0	-75.4	263.6
Gross value	**4,340.1**	**210.6**	**-54.1**	**290.9**	**-22.5**	**4,765.0**
Brands with indefinite useful life	116.9	49.0			-0.3	165.5
Amortisable brands and product ranges	76.3	4.6			-1.1	79.8
Licences and patents	135.5	15.5	-0.5	0.3	-0.4	150.5
Software	739.6	109.5	-52.0	0.0	7.5	804.5
Customer relationships	241.1	41.0	-	0.0	8.7	290.9
Key money	17.1	3.8	-1.4	0.0	0.0	19.5
Other	70.8	7.0	-0.1	0.0	-2.8	74.9
Amortisation and provisions	**1,397.2**	**230.5**	**-54.0**	**0.3**	**11.6**	**1,585.5**
Other intangible assets – net	**2,942.9**	**-19.9**	**-0.2**	**290.6**	**-34.1**	**3,179.4**

(1) This item consists mainly of changes in the scope of consolidation resulting from IT Cosmetics.
(2) At December 31st, 2016, brands with an indefinite useful life consist mainly of The Body Shop (€486.5 million), Matrix (€330.1 million), Kiehl's (€145.1 million), Shu Uemura (€110.8 million), Clarisonic (€102.5 million), Decléor and Carita (€81.4 million), NYX Professional Makeup (€106.3 million), Magic (€135.2 million) and IT Cosmetics (€228.6 million).

Other movements mainly consisted of the negative change in exchange rates over the period for - €29.8 million.

Accumulated impairment losses amount to €14.0 million on Biomedic, €45.4 million on Yue-Sai, €57.0 million on Softsheen-Carson and €49.1 million on Margic at December 31st, 2016.

€ millions 2015	12.31.2014	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2015
Brands with indefinite useful life (2)	1,875.6			28.6	127.3	2,031.5
Amortisable brands and product ranges	110.7	0.4			5.0	116.1
Licences and patents	288.0	14.0	-1.2		18.8	319.6
Software	906.5	62.0	-31.4	0.9	93.2	1,031.2
Customer relationships	479.5			13.8	46.2	539.5
Key money	64.7	6.8	-1.5		-0.1	70.0
Other	193.8	102.1	-1.2	2.9	-65.3	232.2
Gross value	**3,918.8**	**185.3**	**-35.3**	**46.2**	**225.1**	**4,340.1**
Brands with indefinite useful life	109.9				7.0	116.9
Amortisable brands and product ranges	69.3	4.8			2.2	76.3
Licences and patents	123.1	13.6	-1.2		-	135.5
Software	640.6	109.0	-31.4	0.8	20.6	739.6
Customer relationships	181.5	39.0			20.6	241.1
Key money	14.7	2.9	-0.4			17.1
Other	65.2	7.5	-1.7		-0.3	70.8
Amortisation and provisions	**1,204.2**	**176.8**	**-34.7**	**0.8**	**50.1**	**1,397.2**
Other intangible assets – net	**2,714.6**	**8.5**	**-0.6**	**45.4**	**175.0**	**2,942.9**

(1) This item consists mainly of changes in the scope of consolidation resulting from Niely and The Body Shop Australia.
(2) At December 31st, 2015, brands with an indefinite useful life consist mainly of The Body Shop (€564.9 million), Matrix (€321.9 million), Kiehl's (€141.8 million), Shu Uemura (€105.9 million), Clarisonic (€99.8 million), Decléor and Carita (€81.4 million), NYX Professional Makeup (€103.4 million) and Magic (€140.4 million).

Other movements mainly consisted of the positive change in exchange rates over the period for €155.7 million as well as the allocation of the purchase price of Coloright acquired in 2014 (shown on the Licences and patents line for €16.4 million under the technology).

Accumulated impairment losses amount to €14.0 million on Biomedic, €47.2 million on Yue-Sai and €55.7 million on Softsheen-Carson at December 31st, 2015.

€ millions 2014	12.31.2013	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2014
Brands with indefinite useful life (2)	1,447.2	7.2		283.7	137.5	1,875.6
Amortisable brands and product ranges	91.9	0.1		9.2	9.5	110.7
Licences and patents	285.3	0.3		0.7	1.7	288.0
Software	788.4	57.7	-44.0	2.3	102.1	906.5
Customer relationships	324.4		-5.3	106.4	54.0	479.5
Key money	54.8	5.3	-0.2	5.2	-0.4	64.7
Other	151.7	88.7	-8.6		-38.0	193.8
Gross value	**3,143.7**	**159.3**	**-58.1**	**407.5**	**266.4**	**3,918.8**
Brands with indefinite useful life	101.4				8.5	109.9
Amortisable brands and product ranges	60.6	4.7			4.0	69.3
Licences and patents	108.9	13.1			1.1	123.1
Software	558.1	98.2	-43.9	1.7	26.5	640.6
Customer relationships	136.9	29.4	-5.3	0.4	20.1	181.5
Key money	8.8	6.2	-0.1		-0.1	14.7
Other	63.8	7.3	-8.6	-0.3	3.0	65.2
Amortisation and provisions	**1,038.3**	**158.9**	**-57.9**	**1.8**	**63.1**	**1,204.2**
Other intangible assets – net	**2,105.4**	**0.4**	**-0.2**	**405.7**	**203.3**	**2,714.6**

(1) This item consists mainly of changes in the scope of consolidation resulting from Decléor and Carita, NYX Professional Makeup, Magic Holdings and Carol's daughter.
(2) At December 31st, 2014, brands with an indefinite useful life consist mainly of The Body Shop (€532.3 million), Matrix (€295.5 million), Kiehl's (€131.3 million), Shu Uemura (€98.6 million), Clarisonic (€91.2 million), Decléor and Carita (€81.4 million), NYX Professional Makeup (€94.0 million) and Magic (€131.5 million).

Other movements mainly consisted of the positive change in exchange rates over the period as well as the allocation of the purchase price of Cheryl's Cosmeceuticals, Emporio Body Store and Nickel acquired in 2013 (shown on the *Other* line for €11.7 million and on *Amortisable brands* line for €4.7 million).

Accumulated impairment losses amount to €14.0 million on Biomedic, €44.2 million on Yue-Sai and €51.7 million on Softsheen-Carson at December 31st, 2014.

7.3. Impairment tests on intangible assets

ACCOUNTING PRINCIPLES

Goodwill is not amortised. It is tested for impairment at least once a year during the fourth quarter or whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

Impairment tests consist of comparing the carrying amount of assets including goodwill with the recoverable amount of each Cash Generating Unit. A Cash Generating Unit corresponds to one or more worldwide brands. A Cash Generating Unit can contain several brands depending on organisational criteria and particularly when distribution circuits and commercial/management structures are pooled. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. The cash flows are determined in the currencies of the countries in question and are translated, in the same way as the net carrying amounts to which they are compared, at the estimated exchange rate for the following year. The discount rate used for these calculations is based on the weighted average cost of capital (WACC), which amounts to 6.8% in 2016, to 6.9% in 2015 and 7.9% in 2014 for amounts in euro, adjusted where appropriate by a country risk premium according to the geographic zones concerned. The discount rates are post-tax rates applied to post-tax cash flows, and result in recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows. The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data (generally 2.5% for Europe and 3% for the rest of the world for terminal values except in specific cases).

The use of discounted cash flow forecasts is preferred in order to determine recoverable amounts, unless details of similar recent transactions are readily available.

Impairment charged against goodwill cannot be reversed.

Impairment tests of Cash Generating Units for which the carrying amount of goodwill and intangible assets with indefinite useful lives is significant, are carried out based on the following data and assumptions:

		Discount rate (%)	
€ millions	Net carrying amount of goodwill and brands with indefinite useful lives	International excluding USA	USA
2016 Test			
Maybelline/Garnier	1,291.7	6.8	7.8
The Body Shop	896.4	7.1	(1)
L'Oréal Paris	870.5	6.8	7.8
Lancôme	800.3	6.8	7.8
Matrix	766.2	6.8	7.8
Redken/PureOlogy	662.5	6.8	7.8
YSL Beauté	519.8	6.8	(1)
Perfumes/Helena Rubinstein	464.1	6.8	7.8
NYX Professional Makeup	451.5	6.8	7.8
L'Oréal Professionnel/Kérastase	397.9	6.8	7.8
Magic	360.2	9.1	
Vichy/Dermablend	324.3	6.8	(1)
2015 Test			
Maybelline/Garnier	1,215.1	6.9	8.1
The Body Shop	1,014.7	7.3	(1)
Lancôme	803.0	6.9	8.1
L'Oréal Paris	795.0	6.9	8.1
Matrix	748.2	6.9	8.1
Redken/PureOlogy	640.0	6.9	8.1
Magic	594.3	9.5	
YSL Beauté	519.8	6.9	(1)
L'Oréal Professionnel/Kérastase	388.4	6.9	8.1
Clarisonic	411.7	6.9	8.1
Vichy/Dermablend	321.7	6.9	(1)
2014 Test			
Maybelline/Garnier	1,141.4	7.9	8.9
The Body Shop	921.7	8.5	(1)
Lancôme	797.5	7.9	8.9
L'Oréal Paris	782.2	7.9	8.9
Matrix	686.5	7.9	8.9
Redken/PureOlogy	585.5	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	364.6	7.9	8.9
Clarisonic	376.4	7.9	8.9
Vichy/Dermablend	309.7	7.9	(1)

(1) Since the USD amounts for the YSL Beauté, The Body Shop and Vichy/Dermablend CGUs are not material, no specific discount rate has been used in this respect.

Impairment tests carried out on the two CGUs (Clarisonic and Magic) at December 31st, 2016 did not lead to any change in the impairment losses recognised at June 30th, 2016.

At December 31st, 2016, a 1% increase in the discount rate on all Cash Generating Units of the Group would lead to an impairment loss risk of around €210.8 million.

The terminal growth rate is consistent in accordance with market data, *i.e.* 2.5% for Europe and 3% for the rest of the world.

A 1% decrease in the terminal growth rate on all Cash Generating Units of the Group would lead to an impairment loss risk of around €90.7 million.

A 1-point decrease in the margin rate over the business plan period on all Cash Generating Units of the Group would lead to an impairment loss risk of around €103.7 million.

NOTE 8 Investments in associates

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Investments in associates	**-**	**-**	**-**
◆ Galderma (1)	-	-	-
◆ Innéov (2)	1.0	1.0	-
TOTAL	**1.0**	**1.0**	**-**

(1) Classified within assets held for sale since January 1st, 2014; the sale was completed on July 8th, 2014 (note 2.3.).

(2) Classified in provisions for liabilities and charges at December 31st, 2014 (€10.8 million), since the Group's share in net assets was negative (note 12.1.). In late November 2014, L'Oréal and Nestlé announced their intention to end the operations of their joint venture Innéov. As a result, a provision was booked in 2014 for the costs relating to this discontinued operation in an amount of €10.6 million before the tax effect (see note 11.4.1.). At June 30th, 2015, a part of the assets of Innéov was sold to Nestlé Skin Health subsidiary, Galderma (note 2.1.2.b).

NOTE 9 Financial assets and liabilities – Cost of debt

ACCOUNTING PRINCIPLES

Finance costs, net

Net financial debt consists of all current and non-current financial borrowings and debt, less cash and cash equivalents.

Net finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

Borrowings and debt

Borrowings and debt are valued at amortised cost based on an effective interest rate.

In accordance with the principle of fair value hedge accounting, fixed-rate borrowings and debt swapped at a floating rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance costs and are offset by changes in the value of the related interest rate swaps.

The fair value of fixed-rate debt is determined by the discounted cash flow method using bond yield curves at the closing date, allowing for the spread corresponding to the Group's risk class to be taken into account.

The carrying amount of floating-rate debt is a reasonable approximation of its fair value.

Medium- and long-term borrowings and debt are recorded under *Non-current liabilities*. Short-term borrowings and debt and the current portion of medium- and long-term borrowings and debt are presented under *Current liabilities*.

Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

Investments in shares and cash, which are held in an account blocked for more than three months, cannot be recorded under cash and are presented under *Other current assets*.

Bank overdrafts considered to be financing are presented in *Current borrowings and debt*.

Units of cash unit trusts are considered to be assets available-for-sale. As such, they are valued in the balance sheet at their market value at the closing date. Any related unrealised gains are accounted for in *Finance costs, net* in the income statement.

The carrying amount of bank deposits is a reasonable approximation of their fair value.

Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and receivables maturing after more than 12 months.

Investments in non-consolidated companies are considered to be financial assets available-for-sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line *Other comprehensive income*.

The fair value of listed securities is determined on the basis of the share price at the closing date. If the fair value of unlisted securities cannot be reliably determined, these securities are valued at cost.

If the unrealised loss accounted for through equity is representative of significant or prolonged impairment, this loss is recorded in the income statement.

Long-term loans and receivables are considered to be assets generated by the business. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

9.1. Borrowings and debt

The Group takes out bank loans to cover its medium-term financing needs and issues short-term marketable instruments in France and commercial paper in the US to cover its financing needs in the short term. None of these borrowings are subject to an early repayment clause linked to compliance with financial ratios (covenants).

9.1.1. Debt by type

	12.31.2016		12.31.2015		12.31.2014	
€ millions	**Non-current**	**Current**	Non-current	Current	Non-current	Current
Short-term marketable instruments	-	979.8	-	505.4	-	2,294.8
MLT bank loans	1.3	2.7	1.6	0.4	0.1	0.2
Debt on capital lease contracts	20.3	4.3	24.3	5.8	25.4	5.3
Overdrafts	-	36.7	-	57.3	-	48.4
Other borrowings and debt	9.3	210.2	14.9	172.1	41.6	172.6
TOTAL	**30.9**	**1,233.7**	**40.8**	**741.0**	**67.1**	**2,521.2**

9.1.2. Debt by maturity date

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Under 1 year (1)	1,233.7	741.0	2,521.2
1 to 5 years	12.1	24.7	51.2
Over 5 years	18.8	16.1	15.9
TOTAL	**1,264.6**	**781.8**	**2,588.3**

(1) At December 31st, 2016, the Group had confirmed undrawn credit lines for €3,726.6 million compared with €3,813.3 million at December 31st, 2015 and €3,300.0 million at December 31st, 2014. These lines were not subject to any covenants.

Estimated interest expense at December 31st, 2016 and December 31st, 2015 is not material given the outstanding debt at these dates, comprising short-term marketable instruments drawn at very short terms and at negative interest rates in France, very short-term miscellaneous borrowings contracted locally by subsidiaries, and finance lease liabilities.

At the end of 2014, estimated interest payments totalled around €1.2 million for 2015, €0 million for the period 2016-2019 and €0 million after 2019.

These estimates are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and assuming that no debt is rolled over at maturity. Amounts payable under capital leases are not taken into account as they are not material.

9.1.3. Debt by currency

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Euro (EUR)	21.8	127.2	1,850.6
US Dollar (USD)	989.1	415.5	479.0
Brazilian Real (BRL) (1)	93.9	41.6	83.6
Chinese Yuan Renminbi (CNY)	46.8	55.4	43.4
Indonesian Rupiah (IDR)	21.7	21.8	19.9
British Pound (GBP)	15.0	18.7	18.5
Colombian Peso (COP)	14.6	2.2	2.76
Egyptian Pound (EGP)	11.9	24.4	18.6
Chilean Peso (CLP)	10.7	-	-
South African Rand (ZAR)	7.8	-	-
Other	31.3	75.0	71.9
TOTAL	**1,264.6**	**781.8**	**2,588.3**

(1) Including €5.1 million and €32.6 million in amounts due to non-controlling interests respectively in 2015 and 2014 in respect of the Emporio Body Store acquisition.

9.1.4. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Floating rate	1,202.6	748.9	2,555.4
Fixed rate	62.1	32.9	32.9
TOTAL	**1,264.6**	**781.8**	**2,588.3**

9.1.5. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments are 0.07% in 2016 compared with 0.22% in 2015 and 0.30% in 2014 for short-term marketable instruments.

Bank loans amounted to €4.0 million at December 31st, 2016 and €2.0 million at December 31st, 2015, The Group did not hold bank loans at December 31st, 2014.

9.1.6. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

	12.31.2016	12.31.2015	12.31.2014
Euro (EUR) (1)	-0.33%	0.04%	0.37%
US Dollar (USD)	0.48%	0.15%	0.07%

(1) The fall in euro interest rates is now reflected by drawdowns of short-term marketable instruments with negative interest rates.

9.1.7. Fair value of borrowings and debt

The fair value of fixed-rate debt is determined for each loan by discounting future cash flows, based on bond yield curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net carrying amount of outstanding bank loans and other floating-rate loans is a reasonable approximation of their fair value.

The fair value of borrowings and debt amounted to €1,265.3 million at December 31st, 2016 compared with €782.5 million at December 31st, 2015 and €2,589.2 million at December 31st, 2014.

9.1.8. Debt covered by collateral

No debt was covered by material amounts of collateral at December 31st, 2016, 2015 and 2014.

9.1.9. Confirmed credit lines

At December 31st, 2016, L'Oréal and its subsidiaries had €3,726.6 million of confirmed undrawn credit lines, compared with €3,813.3 million at December 31st, 2015 and €3,300.0 million December 31st, 2014.

Credit lines fall due as follows:

- €100.0 million in less than 1 year;
- €3,626.6 million between 1 year and 4 years.

9.2. Cash and cash equivalents

€ millions	12.31.2016 Carrying amount	12.31.2016 Acquisition cost	12.31.2015 Carrying amount	12.31.2015 Acquisition cost	12.31.2014 Carrying amount	12.31.2014 Acquisition cost
Marketable securities	758.4	758.5	335.3	335.3	666.5	666.4
Bank accounts and other cash and cash equivalents	987.6	987.6	1,064.5	1,064.5	1,250.5	1,250.5
TOTAL	**1,746.0**	**1,746.1**	**1,399.8**	**1,399.8**	**1,917.0**	**1,917.0**

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). Marketable securities are considered as *Financial assets available-for-sale*.

Unrealised gains amount to €0.0 million in 2016 compared with €0.0 and €0.1 million respectively in 2015 and in 2014.

Term accounts with a maturity of less than 3 months at inception are shown on the *Bank accounts and other cash and cash equivalents* line.

9.3. Non-current financial assets

€ millions	12.31.2016 Carrying amount	12.31.2016 Acquisition cost	12.31.2015 Carrying amount	12.31.2015 Acquisition cost	12.31.2014 Carrying amount	12.31.2014 Acquisition cost
Financial assets available-for-sale						
◆ Sanofi (1)	9,091.7	4,033.5	9,292.7	4,033.5	8,945.1	4,033.5
◆ Unlisted securities (2)	17.5	112.5	4.1	99.0	5.1	5.6
Financial assets at amortised cost						
◆ Non-current loans and receivables	197.3	200.8	114.1	118.3	118.9	123.2
TOTAL	**9,306.5**	**4,346.8**	**9,410.9**	**4,250.8**	**9,069.0**	**4,162.3**

(1) L'Oréal's stake in Sanofi was 9.15% at December 31st, 2016. The carrying amount at December 31st, 2016, December 31st, 2015 and December 31st, 2014 (€9,091.7 million, €9,292.7 million and €8,945.1 million respectively) corresponds to the market value of the shares based on the closing price at each of these dates (€76.90, €78.60 and €75.66, respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12.

(2) As the fair value of unlisted securities cannot be reliably determined, they are recognised at cost less any impairment losses. Changes in acquisition cost between 2016 and 2015 relate primarily to investments made in several investment funds; changes in this item between 2015 and 2014 chiefly concerned the value of L'Oréal Venezuela which was deconsolidated at December 31st, 2015 and written down in full (note 2.4.).

9.4. Other financial income and expenses

This item breaks down as follows:

€ millions	2016	2015	2014
Interest component of pension costs	-20.3	-32.1	-29.1
Other financial income and expenses	-5.5	-13.6	-6.0
TOTAL	**-25.8**	**-45.7**	**-35.1**

NOTE 10 Derivatives and exposure to market risks

ACCOUNTING PRINCIPLES

Derivative instruments entered into to hedge identifiable foreign exchange and interest rate risks are accounted for in accordance with hedge accounting principles.

Forward foreign exchange contracts and options are put in place in order to hedge items recorded in the balance sheet (fair value hedges) and cash flows on highly probable future commercial transactions (cash flow hedges).

All foreign exchange hedging instruments are recorded on the balance sheet at their market value, including those which relate to purchases and sales in the next accounting period. Hence changes in the fair value of these hedging instruments is recorded as follows:

- changes in the market value linked to variations in the time value of forwards used as hedges are recognised in equity and the amount accumulated in equity impacts the income statement at the date on which the hedged transactions are completed;
- changes in the market value linked to variations in the time value of options are recognised in the income statement;
- changes in the market value linked to variations in the spot rate between the inception of the hedge and the closing date are charged to equity, and the amount accumulated in equity impacts income statements at the date on which the transactions hedged are completed. Any remaining hedge ineffectiveness is recognised directly in the income statement.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the balance sheet. Similarly, if a currency hedge has been taken out in respect of fixed assets purchased with foreign currency, these assets are valued in the balance sheet on the basis of the hedging rate.

The Group may decide to hedge certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated equity, under the item *Cumulative translation adjustments*.

With regard to interest rate risk, fixed-rate debt and financial loans hedged by interest rate swaps are valued in the balance sheet at their market value. Changes in the fair value of these items are recorded as finance costs and offset by adjustments to the fair value of the related hedging derivatives. Floating-rate debt and financial loans are valued at cost, which corresponds to their market value. The swaps or caps which hedge these items are valued in the balance sheet at their market value, with changes in value recorded directly through equity on the *Other comprehensive income* line.

The fair value of interest rate derivative instruments is their market value. Market value is calculated by the discounted cash flow method at the interest rate effective at the closing date.

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the Group uses derivatives negotiated with counterparties rated investment grade.

In accordance with Group rules, currency and interest rate derivatives are set up exclusively for hedging purposes.

10.1. Hedging of currency risk

The Group is exposed to currency risk on commercial transactions recorded on the balance sheet and on highly probable future transactions.

The Group's policy regarding its exposure to currency risk on future commercial transactions is to hedge at the end of the year a large part of the currency risk for the following year, using derivatives based on operating budgets in each subsidiary.

All the Group's future foreign currency flows are analysed in detailed forecasts for the coming budgetary year. Any currency risks identified are hedged by forward contracts or by options in order to reduce as far as possible the currency exposure of each subsidiary. The term of the derivatives is aligned with the Group's settlements. Exchange rate derivatives are negotiated by REGEFI (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when required by local regulations. Such operations are supervised by REGEFI.

As the Group's bank, REGEFI is subject to the European Market Infrastructure Regulation (EMIR). Published by the European Commission in September 2012, EMIR is aimed at moving OTC markets towards a centralized model, thereby enhancing market transparency and regulatory oversight and decreasing systemic risk using a guarantee mechanism. As the Group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by managing their own cash and debt are almost non-existent.

Owing to the Group's policy of hedging a large part of annual requirements for the following year at the end of the current year, the sensitivity of profit or loss to changes in foreign exchange rates at December 31st is marginal. The impact of changes in foreign exchange rates on the foreign exchange cash flow hedges reserve is described in note 11.3.

All derivatives held for currency risk hedging purposes, including those intended to hedge the currency risk on Galderma and Innéov, have a maturity of less than 18 months at inception, and can be analysed as follows:

	Nominal			Market value		
€ millions	**12.31.2016**	12.31.2015	12.31.2014	**12.31.2016**	12.31.2015	12.31.2014
Currency futures						
Purchase/Sale of EUR against foreign currencies	**2,148.0**	**1,648.5**	**1,810.8**	**-92.7**	**15.5**	**-10.3**
GBP/EUR	352.4	293.1	165.5	24.1	-1.8	-11.0
RUB/EUR	243.1	203.2	139.9	-44.3	27.0	53.1
USD/EUR	181.2	204.8	411.3	-21.8	-17.3	-32.3
CAD/EUR	180.1	104.0	86.8	-2.6	5.9	-2.9
MXN/EUR	156.9	177.4	214.0	4.0	5.2	6.5
CNY/EUR	143.6	-14.8	161.4	-0.3	-9.4	-9.5
HKD/EUR	117.6	54.3	27.9	-23.0	-7.3	-10.7
TRY/EUR	84.1	82.8	72.4	5.7	-1.3	-2.4
AUD/EUR	82.9	89.7	90.1	-2.7	-0.5	0.6
BRL/EUR	78.4	55.8	81.9	-14.1	7.4	-1.0
EUR/Asia, Pacific currencies	232.2	146.0	169.5	-6.4	-1.5	-5.6
EUR/Eastern European currencies	85.7	69.5	54.4	0.1	0.0	0.5
EUR/Other currencies	209.9	182.9	135.7	-11.4	9.0	4.6
Purchase of USD against foreign currencies	**441.2**	**236.1**	**119.3**	**-13.3**	**24.6**	**8.3**
USD/Latin American currencies	177.2	112.2	66.7	-13.7	16.5	5.5
USD/CAD	84.1	80.1	52.6	2.7	6.0	2.8
USD/Other currencies	179.9	43.8	-	-2.2	2.1	-
Sale of USD against foreign currencies	**23.1**	**128.8**	**216.9**	**9.2**	**15.6**	**15.5**
USD/Asia, Pacific currencies	23.1	128.8	216.2	9.2	15.6	13.3
USD/Other currencies	-	-	0.7	-	-	2.2
Other currency pairs	**658.0**	**324.1**	**200.5**	**14.5**	**0.5**	**2.0**
CURRENCY FUTURES TOTAL	**3,270.4**	**2,337.5**	**2,347.5**	**-82.2**	**56.1**	**15.6**
Currency options						
EUR/GBP	49.7	-	37.6	3.9	-	0.4
EUR/RUB	39.6	35.6	60.9	0.2	10.4	24.8
EUR/USD	39.0	186.1	141.6	0.2	1.3	1.3
EUR/HKD	36.2	68.8	67.9	0.1	0.5	0.9
EUR/CNY	17.5	44.0	52.9	0.3	0.9	1.1
EUR/BRL	7.5	13.6	19.5	0.0	3.2	2.5
EUR/Other currencies	-	26.1	58.0	-	1.5	1.6
Other currency pairs	**9.1**	**18.4**	**17.5**	**0.0**	**4.1**	**2.0**
CURRENCY OPTIONS TOTAL	**198.6**	**392.6**	**456.1**	**4.8**	**21.9**	**34.5**
of which total options purchased	198.6	392.6	456.1	4.8	21.9	34.5
TOTAL	**3,469.0**	**2,730.1**	**2,803.6**	**-77.4**	**78.0**	**50.0**

The market values by type of hedging are as follows:

€ millions	**2016**	2015	2014
Fair value hedges (1)	-20.0	0.2	11.9
Cash flow hedges	-57.4	77.8	38.1
TOTAL	**-77.4**	**78.0**	**50.0**

(1) Fair value hedges relate to currency risks on operating receivables and payables as well as on foreign currency investments and financing.

The fair value of the derivatives is their market value.

The Group has no significant foreign currency exposures that are not hedged in the balance sheet.

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10.2. Foreign exchange gains and losses

ACCOUNTING PRINCIPLES

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives.

Foreign exchange gains and losses break down as follows:

€ millions	2016	2015	2014
Time value	-45.5	-34.6	-15.8
Other foreign exchange gains and losses	79.8	-27.2	50.7
TOTAL	**34.3**	**-61.7**	**34.9**

Foreign currency transactions are translated at the spot rate at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using the exchange rates effective at the closing date. Foreign exchange gains and losses also include the following items relating to derivative instruments:

- changes in market value linked to variations in the time value;
- changes in market value linked to variations in the spot rate between the inception of the hedge and the date on which the hedged transactions are completed;
- residual ineffectiveness linked to excess hedges and recognised directly in the income statement under other foreign exchange gains and losses for a negative €10.9 million in 2016, for a positive €3.9 million in 2015 and for a positive €0.4 million in 2014.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	2016	2015	2014
Cost of sales	21.8	-71.7	32.6
Research and development	6.9	29.8	-5.7
Advertising and promotion	3.4	-12.4	4.7
Selling, general and administrative expenses	2.1	-7.4	3.2
Foreign exchange gains and losses	**34.3**	**-61.7**	**34.9**

10.3. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at December 31st, 2016, 2015 and 2014.

10.4. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have a direct positive impact of €5.4 million on the Group's net finance costs at December 31st, 2016 compared with a direct positive impact of €6.5 million at December 31st, 2015 and a direct negative impact of €6.4 million at December 31st, 2014. This calculation allows for cash, cash equivalents and derivatives, and assumes that total net debt/net cash remains stable and that fixed-rate debt at maturity is replaced by floating-rate debt.

The impact of a 100 basis point rise in interest rates on the fair value of the Group's fixed-rate financial assets and liabilities, after allowing for any interest rate derivatives, can be estimated at €0.2 million at December 31st, 2016 compared with €0.2 million at December 31st, 2015 and €0.3 million at December 31st, 2014.

10.5. Counterparty risk

The Group has financial relations with international banks rated investment grade. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used to manage exchange rate and interest rate risk are issued by leading international banking counterparties.

10.6. Liquidity risk

The Group's liquidity risk can be assessed on the basis of its outstanding short-term debt under its paper programme. If these bank facilities were not renewed, the Group had confirmed undrawn credit lines of €3,726.6 million at December 31st, 2016. The availability of these credit lines is not dependent on financial covenants.

10.7. Shareholding risk

No cash has been invested in shares.

Available cash is invested with top-ranking financial institutions in the form of non-speculative instruments which can be drawn in very short periods. At December 31st, 2016, marketable securities consist mainly of unit trusts (note 9.2.).

At December 31st, 2016, the Group holds 118,227,307 Sanofi shares for an amount of €9,091.7 million (note 9.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €76.90 on December 31st, 2016 would have an impact of plus or minus €909.2 million before tax on Group equity.

If the share price were to fall significantly below €34.12 (the initial cost of the Sanofi shares), or fall below that price for a prolonged length of time, L'Oréal may have to recognise an impairment loss on its asset through profit or loss.

At December 31st, 2015, the Group held 118,227,307 Sanofi shares for an amount of €9,292.7 million (note 9.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €78.60 on December 31st, 2015 would have an impact of plus or minus €929.3 million before tax on Group equity.

At December 31st, 2014, the Group held 118,227,307 Sanofi shares for an amount of €8,945.1 million (note 9.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €75.66 on December 31st, 2014 would have an impact of plus or minus €894.5 million before tax on Group equity.

10.8. Fair value hierarchy

IFRS 7 as amended in 2009 requires financial assets and liabilities recognised at fair value in the balance sheet to be classified according to three levels:

- level 1: quoted prices on an active market;
- level 2: valuation techniques using observable inputs;
- level 3: valuation techniques using unobservable inputs.

The following table provides an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

€ millions

December 31st, 2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets at fair value				
Foreign exchange derivatives		254.2		254.2
Sanofi shares	9,091.7			9,091.7
Marketable securities	758.5			758.5
TOTAL ASSETS AT FAIR VALUE	**9,850.2**	**254.2**	**-**	**10,104.4**
Liabilities at fair value				
Foreign exchange derivatives		330.4		330.4
TOTAL LIABILITIES AT FAIR VALUE	**-**	**330.4**	**-**	**330.4**

€ millions

December 31st, 2015	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		283.0		283.0
Sanofi shares	9,292.7			9,292.7
Marketable securities	335.3			335.3
TOTAL ASSETS AT FAIR VALUE	**9,628.0**	**283.0**	**-**	**9,911.0**
Liabilities at fair value				
Foreign exchange derivatives		205.4		205.4
TOTAL LIABILITIES AT FAIR VALUE	**-**	**205.4**	**-**	**205.4**

€ millions

December 31st, 2014	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		262.4		262.4
Sanofi shares	8,945.1			8,945.1
Marketable securities	666.5			666.5
TOTAL ASSETS AT FAIR VALUE	**9,611.6**	**262.4**	**-**	**9,874.0**
Liabilities at fair value				
Foreign exchange derivatives		215.8		215.8
TOTAL LIABILITIES AT FAIR VALUE	**-**	**215.8**	**-**	**215.8**

10.9. Offsetting financial assets and financial liabilities

Financial assets and liabilities resulting from foreign exchange and/or interest rate hedging transactions entered into with the Group's counterparty banks are not offset in the balance sheet since they are FBF (French Banking Federation) or ISDA (International Swaps and Derivatives Association) agreements that only provide for offsetting in the event of default by one of the parties to the agreement. Accordingly, they do not meet the offsetting criteria set out in IAS 32.

Had the agreements been offset at the level of each counterparty bank, assets and liabilities would have decreased by €125.4 million, €114.2 million and €116.4 million respectively at December 31st, 2016, 2015 and 2014.

NOTE 11 Equity – Earnings per share

11.1. Share capital and additional paid in capital

Share capital consists of 561,855,741 shares with a par value of €0.20 at December 31st, 2016, following the exercise of subscription options for 6,255 shares and 1,231,570 free shares and the cancellation of 3,202,500 shares.

Share capital consisted of 562,983,348 shares with a par value of €0.20 at December 31st, 2015 following the exercise of subscription options for 4,657,509 shares and 450 free shares and the cancellation of 2,905,000 shares.

Share capital consisted of 561,230,389 shares with a par value of €0.20 at December 31st, 2014 following the exercise of subscription options for 3,439,202 shares and 389,300 free shares and the cancellation of 48,500,000 shares (note 2.1.3.b).

11.2. Treasury stock

ACCOUNTING PRINCIPLES

Treasury stock is recorded at acquisition cost and deducted from equity. Capital gains/losses on disposal of Treasury stock net of tax are charged directly to equity and do not contribute to profit for the financial year.

a) 2016

The change in the number of shares in 2016 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2016	**562,983,348**	**-2,995,170**	**559,988,178**
Shares cancelled	-3,202,500	3,202,500	
Options and free shares exercised	2,074,893	1,237,825	3,312,718
Treasury stock purchased		-3,202,500	-3,202,500
AT 12.31.2016	**561,855,741**	**-1,757,345**	**560,098,396**

The change in Treasury stock in 2016 is as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	€ millions
AT 01.01.2016		**2,995,170**	**2,995,170**	**233.3**
Shares cancelled	-3,202,500		-3,202,500	-499.5
Options and free shares exercised		-1,237,825	-1,237,825	-99.7
Treasury stock purchased	3,202,500		3,202,500	499.5
AT 12.31.2016	**-**	**1,757,345**	**1,757,345**	**133.6**
€ millions	-	133.6	133.6	

b) 2015

The change in the number of shares in 2015 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2015	**561,230,389**	**-6,988,511**	**554,241,878**
Shares cancelled	-2,905,000	2,905,000	
Options and free shares exercised	4,657,959	1,088,341	5,746,300
Treasury stock purchased			
AT 12.31.2015	**562,983,348**	**-2,995,170**	**559,988,178**

The change in Treasury stock in 2015 was as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	€ millions
AT 01.01.2015	**2,905,000**	**4,083,511**	**6,988,511**	**683.0**
Shares cancelled	-2,905,000		-2,905,000	-363.4
Options and free shares exercised		-1,088,341	-1,088,341	-86.3
Treasury stock purchased	-			-
AT 12.31.2015	**-**	**2,995,170**	**2,995,170**	**233.3**
€ millions	-	233.3	233.3	

c) 2014

The change in the number of shares in 2014 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2014	**605,901,887**	**-6,107,857**	**599,794,030**
Shares cancelled	-48,500,000	48,500,000	
Options and free shares exercised	3,828,502	69,346	3,897,848
Treasury stock purchased (1)		-49,450,000	-49,450,000
AT 12.31.2014	**561,230,389**	**-6,988,511**	**554,241,878**

(1) The strategic transaction with Nestlé led to the cancellation of 48,500,000 shares at July 8th, 2014 (note 2.1.3.b).

The change in Treasury stock in 2014 was as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	€ millions
AT 01.01.2014	**1,955,000**	**4,152,857**	**6,107,857**	**568.1**
Shares cancelled	-48,500,000		-48,500,000	-6,045.6
Options and free shares exercised	-	-69,346	-69,346	-4.0
Treasury stock purchased	49,450,000		49,450,000	6,165
AT 12.31.2014	**2,905,000**	**4,083,511**	**6,988,511**	**683.0**
€ millions	363.4	319.6	683.0	

11.3. Other comprehensive income

The following tables indicate movements in this item:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Financial assets available-for-sale			
Reserve at beginning of period	5,259.2	4,911.6	5,084.2
Changes in fair value over period	-201.0	347.6	-172.6
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
Reserve at end of period	**5,058.2**	**5,259.2**	**4,911.6**

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Cash flow hedges – foreign exchange			
Reserve at beginning of period	148.8	88.8	108.6
Changes in fair value over period	-118.7	168.0	16.0
Changes in fair value recorded in profit and loss	-5.2	-108.0	-33.2
Deconsolidation	-0.1	-	-2.6
Reserve at end of period	**24.7**	**148.8**	**88.8**

The table below shows the impact of an increase or decrease of over 10% in the euro and US dollar against other currencies on the foreign exchange cash flow hedging reserve and the market value of the hedging instruments:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Impact of a 10% increase in the EUR against all other Group currencies	+224.5	+216.2	+199.1
Impact of a 10% decrease in the EUR against all other Group currencies	-214.4	-200.4	-187.0
Impact of a 10% increase in the USD against key Group currencies	+24.5	-11.7	-38.9
Impact of a 10% decrease in the USD against key Group currencies	-14.2	+21.9	+51.0

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Cash flow hedges – interest rates			
Reserve at beginning of period	-	-	-
Changes in fair value over period	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
Reserve at end of period	**-**	**-**	**-**

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-944.2	-1,542.2	-879.5
Actuarial gains/(losses) over the period	-1.3	594.7	-651.8
Impact of asset ceiling	-	3.4	-20.9
Deconsolidation	-0.7	-0.1	10.0
Reserve at end of period	**-946.2**	**-944.2**	**-1,542.2**

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Other comprehensive income			
Gross reserve	4,136.6	4,463.8	3,458.2
Associated tax effect	100.9	53.7	287.7
Reserve net of tax	**4,237.6**	**4,517.5**	**3,745.9**

11.4. Net profit of continuing operations attributable to owners of the company excluding non-recurring items – Earnings per share

ACCOUNTING PRINCIPLES

Earnings per share are calculated in accordance with the rules set out in IAS 33.

Basic earnings per share are obtained on the basis of the weighted average number of shares outstanding during the year, less the average number of treasury shares held deducted from equity.

Where applicable, diluted earnings per share take into account dilutive stock options and free shares in accordance with the Treasury stock method, under which sums collected on exercise or purchase are assumed to be allocated firstly to share buybacks at market price.

11.4.1. Reconciliation with net profit from continuing operations

Net profit of continuing operations attributable to owners of the company excluding non-recurring items reconciles as follows with net profit of continuing operations attributable to owners of the company:

€ millions	**2016**	2015	2014
Net profit of continuing operations attributable to owners of the company	**3,105.8**	**3,297.4**	**2,767.6**
Capital gains and losses on property, plant and equipment and intangible assets	-16.2	0.2	-1.0
Impairment of property, plant and equipment and intangible assets	447.2	-	-
Restructuring costs	101.6	85.1	77.9
Other (1)	11.2	108.1	230.3
Tax effect on non-recurring items	-36.2	-29.3	-23.2
Non-controlling interests on non-recurring items	-0.1	-0.2	-1.6
Tax effect on acquisitions and internal restructuring	5.6	-13.4	21.1
Impact of the decrease in the French tax rate on deferred tax liabilities relating to the Sanofi shareholding	-24.0	-	-
3% additional levy on paid dividends (2)	52.3	45.3	45.2
Costs net of tax of the discontinuation of the Innéov operation by L'Oréal and disposal of a part of its assets (note 2.1.2.b)	-	-3.4	9.0
NET PROFIT OF CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**3,647.2**	**3,489.8**	**3,125.3**

(1) Including €107.2 million relating to the deconsolidation of our subsidiaries in Venezuela at December 31st, 2015 (note 2.4.) and €189.5 million relating to the fine handed levied against L'Oréal S.A. by the competition authority at December 31st, 2014.

(2) The 3% additional levy on the amount of dividends paid by L'Oréal represents an additional tax payment on past profit distributions and depending on decisions made at the Annual General Meeting. So as not to distort the presentation of the Group's operational performance in the period, this surtax is recognised on the Income tax line of the income statement as a non-recurring item.

11.4.2. Earnings per share of continuing operations

The tables below set out earnings per share of continuing operations attributable to owners of the company (excluding the dilutive impact of shares carrying preferential dividend rights, note 11.4.5.):

2016	**Net profit attributable to owners of the company** *(€ millions)*	**Number of shares**	**Earnings per share attributable to owners of the company** *(€)*
Earnings per share	3,105.8	559,190,339	5.55
Stock options	-	2,677,722	-
Free shares	-	2,641,074	-
DILUTED EARNINGS PER SHARE	**3,105.8**	**564,509,135**	**5.50**

2015	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	3,297.4	557,351,236	5.92
Stock options	-	4,480,499	-
Free shares	-	3,059,653	-
DILUTED EARNINGS PER SHARE	**3,297.4**	**564,891,388**	**5.84**

2014	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,767.6	577,258,167	4.79
Stock options	-	5,206,652	-
Free shares	-	2,773,855	-
DILUTED EARNINGS PER SHARE	**2,767.6**	**585,238,674**	**4.73**

11.4.3. Earnings per share of continuing operations excluding non-recurring items

The tables below set out in detail earnings per share of continuing operations attributable to owners of the company excluding non-recurring items (excluding the dilutive impact of shares carrying preferential dividend rights, note 11.4.5.):

2016	**Net profit attributable to owners of the company excluding non-recurring items** (€ millions)	**Number of shares**	**Earnings per share attributable to owners of the company excluding non-recurring items** (€)
Earnings per share excluding non-recurring items	3,647.2	559,190,339	6.52
Stock options	-	2,677,722	-
Free shares	-	2,641,074	-
Diluted earnings per share excluding non-recurring items	**3,647.2**	**564,509,135**	**6.46**

2015	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	3,489.8	557,351,236	6.26
Stock options	-	4,480,499	-
Free shares	-	3,059,653	-
Diluted earnings per share excluding non-recurring items	**3,489.8**	**564,891,388**	**6.18**

2014	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	3,125.3	577,258,167	5.41
Stock options	-	5,206,652	-
Free shares	-	2,773,855	-
Diluted earnings per share excluding non-recurring items	**3,125.3**	**585,238,674**	**5.34**

11.4.4. Calculation of the number of shares

All potential ordinary shares are included in the calculation of earnings per share since all stock option plans have a dilutive impact on the periods presented.

11.4.5. Diluted earnings per share including the impact of shares carrying preferential dividend rights

The table below shows the calculation of diluted earnings per share taking into account the 10% preferential dividend payable for 2016 on shares held continuously in registered form between December 31st, 2014 and the 2017 dividend payment date. The number of shares eligible for the preferential dividend cannot exceed 0.5% of the share capital for any one shareholder.

2016	**Number of shares**	**Diluted earnings per share**	**Diluted earnings per share of continuing operations**
Shares carrying ordinary dividend rights	523,478,712	5.46	5.46
Shares carrying preferential dividend rights	41,030,423	6.01	6.01

2015	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	529,927,154	5.80	5.80
Shares carrying preferential dividend rights	34,964,234	6.38	6.38

2014	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	552,329,500	8.34	4.70
Shares carrying preferential dividend rights	32,909,174	9.18	5.17

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NOTE 12 Provisions for liabilities and charges – Contingent liabilities and material ongoing disputes

12.1. Provisions for liabilities and charges

ACCOUNTING PRINCIPLES

Provisions for liabilities and charges are set up to cover probable outflows for the benefit of third parties without any equivalent consideration being received by the Group in return. They relate mainly to restructuring costs and tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

These provisions are estimated on the basis of the assumptions deemed most probable or by using statistical methods, depending on the type of provisions.

Provisions for liabilities and charges are recorded either as *Non-current liabilities* or as *Current liabilities*, depending on their nature. Provisions for liabilities or litigation which must be settled within 12 months of the closing date, and those linked to the normal operating cycle (such as product returns), are recorded as *Current liabilities*. Other provisions for liabilities and charges are recorded as *Non-current liabilities*.

12.1.1. Closing balances

€ millions	12.31.2016	12.31.2015	12.31.2014
Non-current provisions for liabilities and charges	**333.3**	**195.9**	**193.6**
Other non-current provisions (1)	333.3	195.9	193.6
Current provisions for liabilities and charges	**810.7**	**754.6**	**722.0**
Provisions for restructuring	47.5	50.9	65.5
Provisions for product returns	323.4	309.3	244.4
Other current provisions (1)	439.8	394.4	412.1
TOTAL	**1,144.0**	**950.4**	**915.6**

(1) This item includes provisions for tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract), personnel-related costs and risks relating to investigations carried out by competition authorities.
The provisions relating to investigations carried out by competition authorities amount to €214.4 million at December 31st, 2016 compared with €212.5 million at December 31st, 2015 and €239.4 million at December 31st, 2014 (note 12.2.2.a and b).
The provisions relating to the dispute on IPI with the tax administration in Brazil amount to €91.4 million and €20.8 million respectively at December 31st, 2016 and December 31st, 2015 (note 12.2.1.).
This caption also includes investments in associates when the Group's share in net assets is negative (note 8).

12.1.2. Changes in provisions for liabilities and charges during the period

€ millions	12.31.2014	12.31.2015	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	12.31.2016
Provisions for restructuring	65.5	50.9	48.5	-40.4	-6.1	-5.4	47.5
Provisions for product returns	244.4	309.3	303.1	-216.8	-79.3	7.2	323.4
Other provisions for liabilities and charges	605.7	590.2	219.7	-115.2	-51.8	130.1	773.1
TOTAL	**915.6**	**950.4**	**571.3**	**-372.4**	**-137.2**	**131.9**	**1,144.0**

(1) Mainly resulting from translation differences and €58.4 million relating to the dispute on IPI with the tax administration in Brazil (note 12.2.1.).
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Other income and expenses	50.6	-40.5	-7.8
◆ Operating profit	480.2	-322.2	-107.1
◆ Financial (income)/expense	-	-	-
◆ Income tax	40.5	-9.7	-22.3

The change in this caption in 2015 can be analysed as follows:

€ millions	12.31.2013	12.31.2014	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	12.31.2015
Provisions for restructuring	98.2	65.5	37.1	-36.4	-20.7	5.4	50.9
Provisions for product returns	226.6	244.4	263.7	-172.9	-46.6	20.7	309.3
Other provisions for liabilities and charges	378.5	605.7	141.7	-107.2	-95.4	45.4	590.2
TOTAL	**703.3**	**915.6**	**442.5**	**-316.5**	**-162.7**	**71.5**	**950.4**

(1) Mainly resulting from translation differences and €24.7 million relating to the dispute on IPI with the tax administration in Brazil (note 12.2.1.).
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Other income and expenses	37.1	-54.3	-30.0
◆ Operating profit	387.1	-253.4	-78.2
◆ Financial (income)/expense	-	-	-
◆ Income tax	18.3	-8.8	-54.5

The change in this caption in 2014 can be analysed as follows:

€ millions	12.31.2012	12.31.2013	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/Exchange rate/Other (1)	12.31.2014
Provisions for restructuring	129.4	98.2	31.0	-56.0	-12.4	4.7	65.5
Provisions for product returns	211.3	226.6	202.3	-159.7	-48.3	23.5	244.4
Other provisions for liabilities and charges	375.1	378.5	333.3	-89.0	-54.4	37.3	605.7
TOTAL	**715.8**	**703.3**	**566.6**	**-304.7**	**-115.1**	**65.5**	**915.6**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Other income and expenses	228.6	-56.5	-12.5
◆ Operating profit	317.5	-235.0	-81.0
◆ Financial (income)/expense	-	-	-
◆ Income tax	20.5	-13.2	-21.6

12.2. Contingent liabilities and material ongoing disputes

Besides certain disputes arising in the ordinary course of its operations and for which the provisions set aside are considered to be appropriate by the Group (note 12.1.), L'Oréal is party to several material disputes, described below:

12.2.1. Tax dispute in Brazil

- In terms of taxation, in early January 2013, L'Oréal Brasil received a tax reassessment notice regarding the indirect IPI tax for fiscal year 2008. The reassessment concerned an amount of BRL. 449.8 million including BRL. 297.2 million in interest and penalties (€131.0 million). The Brazilian tax authorities questioned the price used to calculate the IPI tax base. After consulting its tax advisors, L'Oréal Brasil considers that the Brazilian tax authorities' position is unfounded and has challenged this notice. L'Oréal Brasil continues its legal proceedings with the tax authorities and no provision has therefore been recognised in this respect.
- In December 2015, L'Oréal Brasil received a further tax reassessment notice concerning the indirect IPI tax for 2011 for BRL. 608.9 million including BRL. 357.5 million in interest and penalties (€177.3 million), based on the same grounds as those set forth in the 2008 reassessment. L'Oréal has challenged this notice and is pursuing its legal proceedings with the administrative courts. No provision has therefore been recognised in this respect.
- In January 2017, L'Oréal Brazil received a further tax reassessment notice for BRL 594 million (€173.1 million) regarding the indirect IPI tax for fiscal year 2012. The reassessment was based on the same arguments as the notice for fiscal years 2008 and 2011. L'Oréal is challenging this notice and has not set aside any provision in this respect.
- In January 2015, decree 8.393/2015 stated that commercial companies in Brazil would be liable for the indirect IPI tax on certain products as from May 1st, 2015. L'Oréal refutes the legal basis of this decree and has challenged its application.

Pending the court rulings, the IPI tax is included on L'Oréal's invoices and the Company collects the corresponding amounts which are invested in term deposits with a leading bank. The amounts collected are shown in *Provisions for liabilities and charges* within liabilities while the deposits are booked symmetrically in *Non-current financial assets*. Interest recognised on the IPI liability (based on the SELIC rate) and income on the amounts invested are carried in *Other financial income and expenses*.

12.2.2. Investigations carried out by the competition authorities

The national competition authorities in several European countries have launched investigations targeting the cosmetics industry in particular.

a) Europe (excluding France)

The proceedings are at different stages:

- in Spain, the decision in first instance was appealed against before the Court of Cassation and subsequently the Constitutional Court. In October 2016, the Constitutional Court dismissed the appeal lodged by L'Oréal España claiming breach of the fundamental rights of the defence. The Court of Cassation's ruling is therefore final and binding. The competition authority is to recalculate the fine in light of the criteria adopted by the Court of Cassation; however, it cannot exceed the amount initially set by the competition authority. The Group maintains its provision for the full amount of the fine initially notified;
- in Greece, the Greek competition authority initiated proceedings against several manufacturers of luxury cosmetics, including L'Oréal Hellas, and a statement of objections was served on this company on July 13th, 2016 for alleged anti-competitive practices. The hearings were held at the end of 2016 and L'Oréal Hellas refuted all accusations of anti-competitive practices. A decision by the competition authority is expected during the first half of 2017.

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b) France

In France, the decision in first instance was handed down by the French competition authority on December 18th, 2014 in the household and personal care sector concerning events that took place in the early 2000s. L'Oréal S.A. was ordered to pay a fine of €189.5 million.

On October 27th, 2016, the Paris Court of Appeal upheld this first instance decision.

L'Oréal refutes all accusations of concerted practices with its competitors and regrets that the French competition authority did not take into account the highly competitive French market in household and personal care products as illustrated by the number of manufacturers and retailers present on the market, the large choice of products available to consumers, and the high degree of innovation and number of product launches.

L'Oréal has lodged an appeal in cassation.

It should be noted that since the appeal and appeal in cassation do not entail a stay in the judgment, the fine provisioned at the end of 2014 was paid on April 28th, 2015.

At December 31st, 2016, the provision was maintained in liabilities and the payment recognised in *Other current assets*.

A provision has been set aside for all disputes still in progress at December 31st, 2016 amounting to €214.4 million at the year-end *versus* €212.5 million at end-2015 and €239.4 million at end-2014.

At the present time, no other exceptional events or disputes are highly likely to have a material impact on the earnings, financial position, assets, or operations of the Company or the L'Oréal Group.

NOTE 13 Off-balance sheet commitments

13.1. Operating lease commitments

These amount to €2,840.4 million at December 31st, 2016 compared with €2,697.2 million at December 31st, 2015 and €1,983.2 million at December 31st, 2014, of which:

- €536.8 million was due in within 1 year at December 31st, 2016, compared with €477.9 million at December 31st, 2015 and €428.1 million at December 31st, 2014;
- €1,372.8 million was due in 1 to 5 years at December 31st, 2016, compared with €1,310.9 million at December 31st, 2015 and €1,058.3 million at December 31st, 2014;
- €930.8 million was due in over 5 years at December 31st, 2016, compared with €908.4 million at December 31st, 2015 and €496.8 million at December 31st, 2014.

13.2. Other off-balance sheet commitments

Confirmed credit lines are discussed in note 9.1.9.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within 1 year and are as follows:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Guarantees given (1)	324.0	229.2	238.3
Guarantees received	59.8	54.4	61.8
Capital expenditure orders (2)	306.7	302.8	249.8
Firm purchase commitments under logistics supply contracts	640.9	533.8	482.0

(1) *These consist mainly of guarantees given to governmental bodies or concerning loans granted to third parties who are partners of the Group, and the net commitment toward the L'Oréal Foundation for its long-term action programme.*
(2) *Despite their strategic nature, none of these investments taken individually is material enough at Group level to warrant more detailed disclosure.*

13.3. Environmental risks

The Group strictly complies with regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial position, earnings or assets.

The risks identified at December 31st, 2016 are not material.

NOTE 14 Transactions with related parties

14.1. Transactions with associated companies (Related parties)

Equity-accounted companies include joint ventures only.

The consolidated financial statements include transactions carried out between the Group and its equity-accounted companies, considered to be related parties. The main transactions with these related parties and the associated outstanding balances are as follows:

€ millions	**2016**	2015	2014
Sales of goods and services	0.1	-	0.5
Financial expenses and income	-	-	-

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Operating receivables	0.3	0.6	3.6
Operating payables	0.2	-	0.4
Financial receivables	-3.0	-11.0	-1.0

14.2. Related parties with a significant influence on the Group

L'Oréal has been informed that on December 16th, 2016, the members of the Bettencourt Meyers family group, and Mr. Jean-Paul Agon for 100 shares, signed lock-up agreements under the Dutreil law for 185,704,189 L'Oréal shares representing 33.065% of the capital and of the voting rights of the Company on the date of the agreement.

The lock-up agreements were concluded in application of Articles 787 B and 885 I *bis* of the French General Tax Code for a period of two years, tacitly renewable for one-year periods. They do not include any preferential rights for sales or acquisitions for the benefit of the signatories and do not constitute a concerted action *vis-à-vis* the Company.

In 2016, no significant transactions were carried out with a member of senior management or a shareholder with a significant influence, except for the operation above.

NOTE 15 Fees accruing to auditors and members of their networks payable by the Group

	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Amount		%		Amount		%	
€ millions excl. VAT	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Audit								
Statutory audit	6.6	7.0	56%	72%	6.0	6.5	67%	77%
L'Oréal	1.0	1.0	9%	10%	1.1	1.2	12%	14%
Fully consolidated subsidiaries	5.6	6.0	47%	62%	4.9	5.4	54%	63%
Other directly related audit assignments (1)	4.0	1.8	34%	18%	2.2	1.2	24%	14%
L'Oréal	0.8	0.7	7%	8%	2.0	0.7	22%	8%
Fully consolidated subsidiaries	3.2	1.0	27%	11%	0.2	0.5	2%	6%
Audit sub-total	**10.6**	**8.8**	**90%**	**90%**	**8.3**	**7.7**	**90%**	**90%**
Other services								
Other services (legal, tax, employee-related, other)	1.2	0.9	10%	10%	0.9	0.8	10%	10%
TOTAL	**11.8**	**9.7**	**100%**	**100%**	**9.2**	**8.5**	**100%**	**100%**

(1) Mainly concerning acquisition audits.

NOTE 16 Subsequent events

On January 10th, 2017, L'Oréal announced the signing of a definitive agreement with Valeant to acquire the skincare brands CeraVe, AcneFree and Ambi for a cash purchase price of US $1.3 billion.

CeraVe was founded in 2005 and offers a range of advanced skincare products, specifically cleansers, moisturizers, sunscreens, healing ointments and a dedicated baby line. Developed with dermatologists, CeraVe is one of the fastest growing skincare brands in the US with average growth over the past two years exceeding 20%. CeraVe's multi-channel distribution strategy includes drug stores, mass and beauty retailers, and select online outlets.

AcneFree markets and distributes a full range of OTC cleansers and acne treatments in the US, Ambi distributes skincare products formulated for the needs of multicultural consumers. Both brands are distributed in drug stores, mass retailers and select online outlets.

The three brands have annualized combined revenue of approximately US $168 million.

CeraVe, AcneFree and Ambi will become part of L'Oréal's Active Cosmetics Division, which includes brands such as La Roche-Posay, Vichy and SkinCeuticals that are developed with and endorsed by health professionals – dermatologists, pediatricians and other physicians.

The closing is subject to the standard regulatory approvals and other customary conditions.

4.7. CONSOLIDATED COMPANIES AT DECEMBER 31ST, 2016

4.7.1. FULLY CONSOLIDATED COMPANIES

Company	Head office	% interest
Atelier Cologne (as a group)	France	100.00
Banque de Réalisations de Gestion et de Financement (Regefi)	France	100.00
Beauté, Recherche & Industries	France	100.00
Beautycos International Co. Limited	China	100.00
Beautylux International Cosmetics (Shanghai) Co. Ltd	China	100.00
Biotherm	Monaco	99.80
Canan Kozmetik Sanayi Ve Ticaret A.S.	Turkey	100.00
Centre Logistique d'Essigny	France	100.00
Chimex	France	100.00
Cobelsa Cosmeticos, S.A.	Spain	100.00
Colainaf	Morocco	100.00
Coloright Ltd	Israel	100.00
Compagnie Thermale Hôtelière et Financière	France	100.00
Cosbel S.A. de C.V.	Mexico	100.00
Cosmelor Ltd	Japan	100.00
Cosmephil Holdings Corporation Philippines	The Philippines	100.00
Cosmetil	Morocco	49.80
Cosmétique Active France	France	100.00
Cosmétique Active International	France	100.00
Cosmétique Active Production	France	100.00
Cosmétique Beauté Distribution France	France	100.00

Company	Head office	% interest
Egyptelor LLC	Egypt	100.00
Elebelle (Pty) Ltd	South Africa	100.00
EpiSkin	France	99.89
Erwiton S.A.	Uruguay	100.00
Exclusive Signatures International	France	100.00
Fapagau & Cie	France	100.00
Faprogi	France	100.00
Finval	France	100.00
Frabel S.A. de C.V.	Mexico	100.00
Gemey Maybelline Garnier	France	100.00
Gemey Paris – Maybelline New York	France	100.00
Helena Rubinstein	France	100.00
Helena Rubinstein Italia S.p.A	Italy	100.00
Holdial	France	100.00
Hygiène Beauté Distribution France	France	100.00
Interbeauty Products Limited	Kenya	100.00
IT Cosmetics Limited	United Kingdom	100.00
Kosmepol Sp z.o.o	Poland	100.00
L & J Ré	France	100.00
LOA1	France	100.00
LOA3	France	100.00
LOA5	France	100.00
LOA6	France	100.00
LOA7	France	100.00
LOA8	France	100.00
La Roche-Posay Laboratoire Pharmaceutique	France	99.98
Laboratoire Sanoflore	France	100.00
Laboratorios de cosmeticos Vogue S.A.S.	Colombia	100.00
Lancôme Parfums & Beauté & Cie	France	100.00
LaSCAD	France	100.00
Lehoux et Jacque	France	100.00
Logistica 93 S.r.l.	Italy	100.00
L'Oréal Adria d.o.o.	Croatia	100.00
L'Oréal Argentina S.A.	Argentina	100.00
L'Oréal Australia Pty Ltd	Australia	100.00
L'Oréal Balkan d.o.o.	Serbia	100.00
L'Oréal Baltic SIA	Latvia	100.00
L'Oréal Bangladesh Ltd	Bangladesh	100.00
L'Oréal Belgilux S.A.	Belgium	100.00
L'Oréal Brasil Comercial de Cosméticos Ltda	Brazil	100.00
L'Oréal Brasil Licenciamentos Empresariais, Cosmeticos e Perfumes Ltda	Brazil	100.00
L'Oréal Brasil Pesquisas E Desenvolvimentos LTDA	Brazil	100.00
L'Oréal Bulgaria EOOD	Bulgaria	100.00
L'Oréal Canada, Inc.	Canada	100.00
L'Oréal Central America	Panama	100.00
L'Oréal Central West Africa	Nigeria	100.00
L'Oréal Ceska Republika s.r.o	Czech Republic	100.00

Company	Head office	% interest
L'Oréal Chile S.A.	Chile	100.00
L'Oréal (China) Co. Ltd	China	100.00
L'Oréal Colombia S.A.	Colombia	100.00
L'Oréal Cosmetics Industry SAE	Egypt	100.00
L'Oréal Côte d'Ivoire	Ivory Coast	100.00
L'Oréal Danmark A/S	Denmark	100.00
L'Oréal Deutschland GmbH	Germany	100.00
L'Oréal East Africa Ltd	Kenya	100.00
L'Oréal Egypt LLC	Egypt	100.00
L'Oréal España S.A.	Spain	100.00
L'Oréal Finland Oy	Finland	100.00
L'Oréal Guatemala S.A.	Guatemala	100.00
L'Oréal Hellas S.A.	Greece	100.00
L'Oréal Hong Kong Ltd	Hong Kong	100.00
L'Oréal India Pvt Ltd	India	100.00
L'Oréal Investments B.V.	The Netherlands	100.00
L'Oréal Israël Ltd	Israel	92.97
L'Oréal Italia S.p.A	Italy	100.00
L'Oréal Kazakhstan LLP	Kazakhstan	100.00
L'Oréal Korea Ltd	Korea	100.00
L'Oréal Liban SAL	Lebanon	99.88
L'Oréal Libramont	Belgium	100.00
L'Oréal Magyarorszag Kozmetikai Kft	Hungary	100.00
L'Oréal Malaysia SDN BHD	Malaysia	100.00
L'Oréal Manufacturing Midrand Pty Ltd	South Africa	100.00
L'Oréal Maroc	Morocco	50.00
L'Oréal Mexico S.A. de C.V.	Mexico	100.00
L'Oréal Mexico Servicios S.A. de C.V.	Mexico	100.00
L'Oréal Middle East	United Arab Emirates	100.00
L'Oréal Nederland B.V.	The Netherlands	100.00
L'Oréal New Zealand Ltd	New Zealand	100.00
L'Oréal Norge A/S	Norway	100.00
L'Oréal Osterreich GmbH	Austria	100.00
L'Oréal Pakistan Private Limited	Pakistan	100.00
L'Oréal Panama Comercial S.A.	Panama	100.00
L'Oréal Panama S.A.	Panama	100.00
L'Oréal Peru S.A.	Peru	100.00
L'Oréal Philippines, Inc.	The Philippines	100.00
L'Oréal Polska Sp z.o.o	Poland	100.00
L'Oréal Portugal, Lda	Portugal	100.00
L'Oréal Produits de Luxe France	France	100.00
L'Oréal Produits de Luxe International	France	100.00
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany	100.00
L'Oréal Produktion Deutschland GmbH & Co. Kg	Germany	100.00
L'Oréal Romania SRL	Romania	100.00
L'Oréal Saipo Industriale S.p.A	Italy	100.00
L'Oréal Saudi Arabia	Saudi Arabia	75.00

Company	Head office	% interest
L'Oréal Singapore Pte Ltd	Singapore	100.00
L'Oréal Slovenija Kozmetika d.o.o	Slovenia	100.00
L'Oréal Slovensko s.r.o	Slovakia	100.00
L'Oréal SLP S.A. de C.V.	Mexico	100.00
L'Oréal South Africa Holdings Pty Ltd	South Africa	100.00
L'Oréal Suisse S.A.	Switzerland	100.00
L'Oréal Sverige AB	Sweden	100.00
L'Oréal Taiwan Co. Ltd	Taiwan	100.00
L'Oréal Thailand Ltd	Thailand	100.00
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	Turkey	100.00
L'Oréal UAE Général Trading LLC	United Arab Emirates	99.80
L'Oréal UK Ltd	Great Britain	100.00
L'Oréal Ukraine	Ukraine	100.00
L'Oréal Uruguay S.A.	Uruguay	100.00
L'Oréal USA, Inc. (as a group)	United States	100.00
L'Oréal Venezuela, C.A. (2)	Venezuela	100.00
L'Oréal Verwaltungs GmbH	Germany	100.00
L'Oréal Vietnam Co. Ltd	Vietnam	100.00
L'Oréal West Africa Ltd	Ghana	100.00
Magic Holdings (as a group)	China	100.00
Masrelor LLC	Egypt	100.00
Matrix Distribution GmbH	Germany	100.00
Niely Cosmeticos (as a group)	Brazil	100.00
Nihon L'Oréal K.K.	Japan	100.00
NLO K.K.	Japan	100.00
NYX Professional Makeup	Belgium	100.00
Oomes B.V.	The Netherlands	100.00
P.T. L'Oréal Indonesia	Indonesia	100.00
P.T. Yasulor Indonesia	Indonesia	100.00
Parbel of Florida, Inc.	United States	100.00
Parfums Cacharel & Cie	France	100.00
Parfums Guy Laroche	France	100.00
Parfums Paloma Picasso & Cie	France	100.00
Parfums Ralph Lauren	France	100.00
Prestige et Collections International	France	100.00
Procosa Productos de Beleza Ltda	Brazil	100.00
Productos Capilares L'Oréal S.A.	Spain	100.00
Redken France	France	100.00
SLP Asistencia S.A. de C.V.	Mexico	100.00
Scental Ltd	Hong Kong	100.00
Shanghai Episkin BioTechnology Co. Ltd	China	99.89
Shanghai L'Oréal International Trading Co Ltd	China	100.00
Shu Uemura Cosmetics Inc.	Japan	100.00
Sicôs & Cie	France	100.00
Société Hydrominérale de La Roche-Posay	France	99.98
Soprocos	France	100.00
Soproréal	France	100.00

Company	Head office	% interest
Sparlys	France	100.00
The Body Shop (as a group)	Great Britain	100.00 (1)
Thermes de Saint Gervais Les Bains Le Fayet	France	100.00
Venprobel (2)	Venezuela	100.00
Viktor&Rolf Parfums	France	100.00
Yichang Tianmei International Cosmetics Co. Ltd	China	100.00
Zao L'Oréal	Russia	100.00

(1) Except for Body Store S.A. in which the Group has a 51% interest.
(2) Deconsolidated at December 31st, 2015 (note 2.4.).

4.7.2. EQUITY-ACCOUNTED COMPANIES

Company	Head office	% interest
Innéov Argentina S.A.	Argentina	50.00 (1)
Innéov Deutschland GmbH	Germany	50.00 (1)
Innéov España S.A.	Spain	50.00 (1)
Innéov Hellas A.E.	Greece	50.00 (1)
Innéov Italia S.r.l.	Italy	50.00 (1)
Innéov Mexico S.A. de C.V.	Mexico	50.00 (1)
Innéov Taiwan Co. Ltd	Taiwan	50.00 (1)
Laboratoires Innéov Portugal Unipessoal Lda	Portugal	50.00 (1)
Nutricos (Shanghai) Trading Co., Ltd	China	50.00 (1)
Nutricos Suisse	Switzerland	50.00 (1)
Nutricos Technologies	France	50.00 (1)

(1) Companies jointly owned with Nestlé.

4.8 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31, 2016)

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of L'Oréal;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements, based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- L'Oréal performs impairment tests on goodwill and intangible assets with indefinite useful lives at least once a year and whenever there is an indication that an asset may be impaired, in accordance with the methods set out in Note 7.3 to the consolidated financial statements. We have reviewed the terms and conditions for implementing these impairment tests as well as the assumptions applied;
- Obligations relating to pensions, early retirement benefits and other related benefits granted to employees have been valued and recorded in accordance with the accounting policies described in Note 5.4 to the consolidated financial statements. We have reviewed and analyzed the valuation methods of these obligations, the data used and the assumptions applied.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's Management Report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 20, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit Gérard Morin	Deloitte & Associés Frédéric Moulin

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2016 Parent Company Financial Statements*

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5.9 Statutory Auditors' Report on the financial statements 299

* *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.*

The individual financial statements set out in this chapter are those of L'Oréal parent company. They show the financial position of the parent company *stricto sensu*. Unlike the consolidated financial statements, they do not include the results of the Group's subsidiaries.

The information with regard to the parent company financial statements that was previously included in the Management Report of the Board of Directors is now included in this chapter.
The pages concerned are the table showing the main changes and thresholds crossed regarding investments in subsidiaries and the five-year financial summary as well as the amount of expenses and charges provided for in Article 223 *quater* of the French Tax Code and the table showing trade accounts payable provided for by Articles L. 441-6-1 and D. 441-4 of the French Commercial Code. The Statutory Auditor's Report on the parent company financial statements completes this information

5.1. COMPARED INCOME STATEMENTS

€ millions	Notes	**12.31.2016**	12.31.2015	12.31.2014
Operating revenue		**3,381.2**	**3,283.1**	**3,091.0**
Sales	2	3,053.1	2,967.6	2,818.6
Reversals of provisions and transfers of charges		65.2	50.5	40.5
Other revenue	3	262.9	265.0	231.9
Operating expenses		**-3,212.7**	**-3,053.9**	**-2,942.9**
Purchases and change in inventories		-206.5	-209.3	-195.6
Other purchases and external charges		-1,754.0	-1,667.6	-1,573.2
Taxes and similar payments		-110.0	-100.6	-150.4
Personnel costs		-827.0	-825.9	-795.1
Depreciation, amortisation and charges to provisions	5	-205.6	-147.3	-139.4
Other charges		-109.6	-103.2	-89.2
Operating profit		**168.5**	**229.2**	**148.1**
Net financial revenue	6	3,009.5	2,671.9	2,496.5
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	-96.1	118.4	-39.2
Exchange gains and losses		-167.5	-12.2	33.2
Net financial income		**2,745.9**	**2,778.1**	**2,490.5**
Profit before tax and exceptional items		**2,914.4**	**3,007.3**	**2,638.6**
Exceptional items	7	**5.8**	**42.0**	**2,431.3**
Employee Profit Sharing		-18.9	-17.2	-19.0
Income tax	8	113.1	23.3	-112.9
NET PROFIT		**3,014.4**	**3,055.4**	**4,938.0**

5.2. COMPARED BALANCE SHEETS

ASSETS

€ millions (net amounts)	Notes	12.31.2016	12.31.2015	12.31.2014
Intangible assets	11	1,535.5	1,298.8	1,179.5
Tangible assets	12	477.3	455.6	422.7
Financial assets	14	10,571.1	10,229.0	10,239.5
Non-current assets		**12,583.9**	**11,983.4**	**11,841.7**
Inventories		26.8	36.2	34.3
Prepayments to suppliers		7.1	23.8	23.0
Trade accounts receivable	16	493.1	526.1	561.7
Other current assets	16	471.4	548.5	189.2
Marketable securities	15	124.7	234.8	266.1
Cash and cash equivalents	27	180.9	192.5	160.3
Current assets		**1,304.0**	**1,561.9**	**1,234.6**
Prepaid expenses		42.0	52.1	43.1
Unrealised exchange losses	21	18.4	20.0	17.2
TOTAL ASSETS		**13,948.3**	**13,617.4**	**13,136.6**

SHAREHOLDERS' EQUITY AND LIABILITIES

€ millions	Notes	12.31.2016	12.31.2015	12.31.2014
Share capital		112.4	112.6	112.2
Additional paid-in capital		2,817.3	2,654.5	2,316.8
Reserves and retained earnings		6,269.6	5,454.1	2,389.7
Net profit		3,014.4	3,055.4	4,938.0
Regulated provisions		92.2	80.7	87.1
Shareholders' equity		**12,305.9**	**11,357.3**	**9,843.8**
Provisions for liabilities and charges	**18**	**401.6**	**460.8**	**485.0**
Borrowings and debts	19	169.0	868.0	1,949.4
Trade accounts payable	20	486.8	508.9	459.2
Other current liabilities	20	574.8	407.3	392.8
Other liabilities		**1,230.6**	**1,784.2**	**2,801.4**
Unrealised exchange gains	21	10.2	15.1	6.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**13,948.3**	**13,617.4**	**13,136.6**

5.3. CHANGES IN SHAREHOLDERS' EQUITY

The share capital comprises 561,855,741 shares with a par value of €0.2 each following transactions carried out in 2016:

- subscription to 2,073,868 shares following the exercise of options, and grant of 1,025 free shares;
- cancellation of 3,202,500 treasury shares.

Changes in shareholders' equity are as follows:

€ millions	Share capital	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	**Total**
Balance at December 31st, 2013 before appropriation of net profit	**121.2**	**2,101.2**	**45.4**	**7,514.9**	**2,366.1**	**90.4**	**12,239.2**
Changes in share capital	0.7	215.6					216.3
Cancellation of Treasury stock	-9.7			-6,027.7			-6,037.4
Appropriation of 2013 net profit				858.8	-858.8		-
Dividends paid for 2013					-1,507.3		-1,507.3
2014 net profit					4,938.0		4,938.0
Other movements during the period			-1.7			-3.3	-5.0
Balance at December 31st, 2014 before appropriation of net profit	**112.2**	**2,316.8**	**43.7**	**2,346.0**	**4,938.0**	**87.1**	**9,843.8**
Changes in share capital	1.0	337.7					338.7
Cancellation of Treasury stock	-0.6			-362.2			-362.8
Appropriation of 2014 net profit				3,426.6	-3,426.6		0
Dividends paid for 2014					-1,511.4		-1,511.4
2015 net profit					3,055.4		3,055.4
Other movements during the period						-6.4	-6.4
Balance at December 31st, 2015 before appropriation of net profit	**112.6**	**2,654.5**	**43.7**	**5,410.4**	**3,055.4**	**80.7**	**11,357.3**
Changes in share capital	0.4	162.8					163.2
Cancellation of Treasury stock	-0.6			-497.9			-498.5
Appropriation of 2015 net profit				1,313.5	-1,313.5		0.0
Dividends paid for 2015					-1,741.9		-1,741.9
2016 net profit					3,014.4		3,014.4
Other movements during the period						11.5	11.5
BALANCE AT DECEMBER 31ST, 2016 BEFORE APPROPRIATION OF NET PROFIT	**112.4**	**2,817.3**	**43.7**	**6,226.0**	**3,014.4**	**92.2**	**12,306.0**

Reserves include an amount of €14.2 million in 2016 corresponding to unpaid dividends on treasury shares, compared with €12.8 million in 2015 and €16 million in 2014.

Accelerated tax-driven depreciation at December 31st, 2016 amount to €91.9 million compared with €74.3 million at December 31st, 2015 and €75.1 million at December 31st, 2014.

Details of option plans and free share plans are provided in note 17.

5.4. STATEMENTS OF CASH FLOWS

€ millions	Notes	12.31.2016	12.31.2015	12.31.2014
Operating activities				
Net profit		**3,014.4**	**3,055.4**	**4,938.0**
Depreciation and amortisation	12	106.1	95.1	91.4
Charges to provisions (net of reversals)		131.7	-119.6	256.8
Gains and losses on disposals of non-current assets		-10.4	1.6	-2,596.9
Other non-cash transactions (1)		126.3	118.0	0.9
Gross cash flow		**3,368.1**	**3,150.5**	**2,690.2**
Changes in working capital	25	148.6	-314.8	-25.8
Net cash provided by operating activities		**3,516.7**	**2,835.7**	**2,664.4**
Investing activities				
Investments in non-current assets		-1,372.4	-577.3	-7,234.1
Changes in other financial assets	26	11.9	-25.2	490.3
Disposals of non-current assets		110.9	21.8	2,659.7
Net cash from (used in) investing activities		**-1,249.6**	**-580.7**	**-4,084.1**
Financing activities				
Capital increase		163.2	338.6	216.3
Dividends paid		-1,741.9	-1,511.4	-1,507.3
Changes in financial debt		-103.5	-1,733.8	1,814.5
Net cash from (used in) financing activities		**-1,682.2**	**-2,906.6**	**523.5**
Cash acquired or sold in the period (complete transfer of assets and liabilities)		-1,0	34.1	-17.8
Change in cash and cash equivalents		**583.9**	**-617.5**	**-914.0**
Net Cash and cash equivalents at beginning of year		-557.5	60.0	974.0
NET CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**27**	**26.4**	**-557.5**	**60.0**

(1) Relating mainly to the value of free shares vested under the 2012 plan which matured in 2016 for €99.3 million and the value of the free shares vested under the 2011 plan which matured in 2015 for €77.8 million.

5.5. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

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NOTE 1 Accounting principles

The Company's annual financial statements are prepared in accordance with French law and regulations (French Chart of Accounts) and with French generally accepted accounting principles.

1.1. Sales

These are comprised of sales of goods (net of rebates and discounts) and services (including technological assistance fees).

1.2. Advertising and promotion expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses for the year in which the advertisement or promotional initiative takes place.

1.3. Research and development costs

Research and development costs are recognised in expenses in the period in which they are incurred.

1.4. Income tax

The Company has opted for the French tax group regime. French companies included in the scope of tax consolidation recognise an income tax charge in their own accounts on the basis of their own taxable profits and losses.

L'Oréal, as the parent company of the tax group, recognises as tax income the difference between the aggregate tax charges recognised by the subsidiaries and the tax due on the basis of consolidated taxable profit or loss of the tax group.

1.5. Intangible assets

Intangible assets are recorded in the balance sheet at purchase cost, including acquisition costs.

Pursuant to Regulation No. 2015-06 issued by the French accounting standards-setter (*Autorité des Normes Comptables* – ANC), technical merger losses were allocated to the corresponding underlying assets, reclassified to special-purpose accounts at January 1st, 2016 and amortised where appropriate.

The value of newly acquired trademarks is calculated based on a multi-criteria approach taking into consideration their reputation and their future contribution to profits.

In accordance with regulation No. 2004-06 on assets, certain trademarks have been identified as amortisable in accordance with their estimated useful life.

Non-amortisable trademarks are tested for impairment at least once a year on the basis of the valuation model used at the time of their acquisition. An impairment is recorded where appropriate. Initial trademark registration costs are recorded as expenses.

Patents are amortised over a period ranging from two to ten years.

Business goodwill is not amortised. It is written down whenever the present value of future cash flows is less than the book value.

Software of material value is amortised using the straight-line method over its probable useful life, generally between five and seven years. It is also subject to accelerated tax-driven amortisation, which is recognised over a 12-month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

1.6. Tangible assets

Tangible assets are recognised at purchase cost, including acquisition expenses.

The useful lives of tangible assets are as follows:

	Useful lives
Buildings	20-50 years
Fixtures and fittings	5-10 years
Industrial machinery and equipment	10 years
Other tangible assets	3-10 year

Both straight-line and declining-balance depreciation is calculated over the actual useful lives of the assets concerned. Exceptionally, industrial machinery and equipment is depreciated using the straight-line method over a period of ten years, with all additional depreciation classified as accelerated tax-driven depreciation.

1.7. Financial assets

1.7.1. Investments

These items are recognised in the balance sheet at purchase cost excluding incidental expenses.

Their value is assessed annually by reference to their value in use, which is mainly based on the current and forecast profitability of the subsidiary concerned and the share of equity owned. If the value in use falls below the net book value, an impairment is recognised.

1.7.2. Other financial assets

Loans and other receivables are valued at their nominal amount. Loans and other receivables denominated in foreign currencies are translated at the exchange rate prevailing at the end of the financial year. If necessary, impairments are recognised against these items to reflect their value in use at the end of the financial year.

Treasury stock acquired in connection with buyback programmes to be cancelled is recognised in other long-term investments.

At the end of the financial year, other long-term investments are compared with their probable sale price and a provision for impairment recognised where appropriate.

1.8. Inventories

Inventories are valued using the weighted average cost method.

An impairment is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

1.9. Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recorded at their nominal value. Where appropriate, an impairment is recognised based on an assessment of the risk of non-recovery.

1.10. Marketable securities

Marketable securities are recognised at purchase cost and are valued at the end of the financial year at their probable sale price.

Treasury stock held that is specifically allocated to employee stock option and free shares plans is recognised in marketable securities.

No discount is granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no impairment is required. However, an impairment is recognised in the event of a decline in the market price, representing the difference between the book value of the Treasury stock and the average share price in the month preceding the reporting date.

A provision for liabilities and charges in respect of shares of Treasury stock allocated to free share plans for L'Oréal parent company employees is recognised over the period during which the rights to the free shares vest. Shares of Treasury stock allocated to free share plans for employees of Group subsidiaries are written down in full. However, the subsidiaries concerned will bear most of the cost of granting these free shares.

1.11. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised to cover probable outflows of resources to third parties, without receipt of equivalent consideration by the Company. They relate mainly to commercial and financial contingencies and litigation (subsidiaries…) and to Administration and employee-related contingencies.

These provisions are estimated on the basis of the most likely assumptions or by using statistical methods, depending on their type.

1.12. Accounting for foreign currency transactions and exchange rate hedges

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are contracted to hedge transactions recognised in the balance sheet or future transactions that are considered to be highly probable. Gains and losses generated by these instruments are recognised symmetrically with the gains and losses arising on the hedged items.

Translation differences on assets and liabilities and related hedging instruments are recognised in the balance sheet as *Unrealised exchange losses* or *Unrealised exchange gains*. A provision is recognised if the sum of these unrealised exchange gains and losses shows a potential exchange loss based on the overall exchange position of all currencies taken together.

Hedges have already been taken out in respect of forecasted operating transactions for the next financial year. The impact of such hedges on profit or loss will be recorded during the same accounting period as the transactions hedged.

1.13. Accounting for interest rate instruments

Gains and losses arising on interest rate swaps and caps hedging financial liabilities exposed to interest rate risk are recorded on a time-proportion basis symmetrically with the gains and losses on the items hedged.

1.14. Employee retirement obligations and related benefits

L'Oréal S.A. operates pension, early retirement and other benefit schemes for employees and retired employees in accordance with local legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefit schemes.

These obligations are partially funded by an external scheme where the funds are gradually built up through contributions paid. The contributions are expensed as incurred under the *Other purchases and external charges* caption.

The related obligations are measured using an actuarial valuation method based on final salaries. The method takes account of length of service, life expectancy, turnover by category of personnel and economic assumptions such as inflation and discount rates.

No provision is recognised in the balance sheet for net unfunded obligations, which are shown in off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards is no longer recognised as an off-balance sheet commitment; instead, a provision is recognised in the balance sheet based on an actuarial valuation of the obligation.

NOTE 2 Sales

€ millions	12.31.2016	12.31.2015	12.31.2014
Sales of Goods	873.4	905.7	893.2
Services (1)	1,929.3	1,781.5	1,628.4
Other revenues	250.4	280.4	297.0
TOTAL	**3,053.1**	**2,967.6**	**2,818.6**

(1) Including invoicing of technological assistance.

The Company generated €1,467.6 million of its sales in France in 2016, compared with €1,411.8 million in 2015 and €1,397.4 million in 2014.

NOTE 3 Other revenue

This account mainly includes trademark royalties.

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NOTE 4 Average headcount

Average headcount can be broken down as follows:

	2016	2015	2014
Executives	3,902	3,671	3,534
Supervisors	1,968	1,958	1,956
Administrative staff	249	234	226
Manual workers	201	219	214
Sales representatives	333	303	290
TOTAL	**6,653**	**6,385**	**6,220**
Apprentices	196	211	193

Pursuant to ANC Regulation No. 2015-06, the method used to calculate average headcount for 2016 was changed: in particular, the calculation no longer includes personnel made available.

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	12.31.2016	12.31.2015	12.31.2014
Depreciation and amortisation	-103.2	-93.8	-90.9
Impairment of non-current assets (1)	-43.0	-	-0.6
Impairment of current assets	-2.7	-6.9	-4.1
Provisions for liabilities and charges	-56.7	-46.6	-43.8
TOTAL	**-205.6**	**-147.3**	**-139.4**

(1) In 2016, this item relates to the write-down of the business goodwill of Clarisonic.

NOTE 6 Net financial income

Net financial income amounts includes the following items:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Dividends received	3,139.1	2,796.0	2,516.3
Revenues on other receivables and marketable securities	0.4	0.4	1.9
Interest expense on borrowings and financial debt	-2.2	-1.7	-6.1
Losses settled at the level of partnership entities (SNCs)	-	-	-4.1
Other (1)	-127.8	-122.8	-11.5
TOTAL	**3,009.5**	**2,671.9**	**2,496.5**

(1) Including in 2016 mainly the net carrying amount of free shares vested under the 2012 plan which matured in 2016. This should be looked at in conjunction with the reversal of the impairment loss on treasury shares.

Additions to provisions net of reversals and expense transfers chiefly concern:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Impairment of financial investments (1)	-245.0	0.3	-17.2
Impairment of other financial assets	-	39.8	0.3
Impairment of Treasury stock	100.5	79.6	5.9
Provisions for liabilities and charges relating to financial items	51.7	-7.2	-27.3
Other movements	-3.3	5.9	-0.9
TOTAL	**-96.1**	**118.4**	**-39.2**

(1) In 2016, this item concerns the write-down of shares in Magic for €218.8 million.

NOTE 7 Exceptional items

Exceptional items represented €5.8 million in 2016, compared to €42.0 million in 2015 and €2,431.3 million in 2014.

In 2014, exceptional items chiefly reflect the €2,601.7 million capital gain on the disposal of Galderma shares and the €189.5 million fine handed down against L'Oréal S.A. by the competition authority ruling in the first instance on December 18th, 2014. A provision was set aside for the full amount of this fine.

NOTE 8 Income tax

The income tax breaks down as follows:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Tax on profit before tax and exceptional items	105.5	18.3	1.8
Tax on exceptional items and employee Profit Sharing	7.6	5.0	-114.7
INCOME TAX	**113.1**	**23.3**	**-112.9**

In 2016, the income tax gain recognised by L'Oréal includes the additional 3% tax on dividends (€52.3 million) and saving of €173.1 million resulting from tax consolidation. It also includes income of €57 million relating to claims filed in order to recover the share of costs and expenses levied on certain dividends paid to tax-consolidated companies by companies based in the European Union.

In 2015, the income tax gain recognised by L'Oréal includes the additional 3% tax on dividends (€45.3 million) and saving of €144.9 million resulting from tax consolidation.

In 2014, the income tax charge recognised by L'Oréal includes the tax on the capital gain arising on the disposal of the Galderma shares (€118.1 million), the additional 3% tax on dividends (€45.2 million) and a tax consolidation deficit (€26.5 million).

The application of tax legislation led to an increase of € 53.0 million in net profit for 2016, chiefly reflecting the net charge to regulated provisions along with research and corporate sponsorship tax credits among others.

The temporary 10.7% tax surcharge was abolished in 2016. This is reflected in the income tax figures for 2015 and 2014.

The CICE (*Crédit d'Impôt Compétitivité Emploi*) tax credit is recognised as a deduction from personnel costs in an amount of €5.1 million *versus* €4.8 million in 2015 and €4.7 million in 2014. The CICE tax credit represents 6% of eligible salaries paid in respect of 2016, 2015 and 2014, and was allocated to investments in premises, mainly the Clichy, Aulnay and Saint-Ouen sites.

NOTE 9 Increases or reductions in future tax liabilities

€ millions	12.31.2014		12.31.2015		Changes		**12.31.2016**	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences								
Regulated provisions	-	25.9	-	25.6	8.2	14.2	-	31.6
Temporarily non-deductible charges	92.6	-	66.6	-	30.3	41.4	55.5	
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	-	3.7	-	1.7	1.7	2.8		2.8
Temporarily non-taxable revenue	-	-	-	-	-	-	-	-
Deductible items								
Tax losses, deferred items	-	-	-	-	-	-	-	-
Potentially taxable items								
Special reserve for long-term capital gains	-	188.6	-	182.7	-	-		182.7

NOTE 10 Research costs

Expenses booked in Research activities in 2016 totalled €858.1 million compared with €825.7 million in 2015 and €761.4 million in 2014.

NOTE 11 Intangible assets

€ millions	12.31.2014	12.31.2015	Allocation of technical merger losses*	Acquisitions/ Amortisation	Disposals/ Reversals	Other movements	**12.31.2016**
Patents and trademarks	510.3	512.6	-	43.6	-	0.2	556.4
Business goodwill (1)	475.0	806.2	-113.2	189.6	-	8.8	891.4
Software	282.7	291.6	-	46.8	-7.3	16.6	347.7
Other intangible assets (2)	280.4	70.0	30.3	-	-	86.2	186.5
Intangible assets in progress	59.8	73.8	-	57.5	-19.6	-21.6	90.1
Gross value	**1,608.2**	**1,754.2**	**-82.9**	**337.5**	**-26.9**	**90.2**	**2,072.1**
Patents and trademarks	80.1	91.5	-	11.5	-	0.1	103.1
Business goodwill	0.3	0.3	-	-	-	-	0.3
Software	205.9	218.3	-	29.8	-7.3	0.6	241.4

€ millions	12.31.2014	12.31.2015	Allocation of technical merger losses*	Acquisitions/ Amortisation	Disposals/ Reversals	Other movements	12.31.2016
Other intangible assets	45.5	48.8	-	3.6	-	-	52.4
Amortisation	**331.8**	**358.9**	**-**	**44.9**	**-7.3**	**0.7**	**397.2**
Patents and trademarks	51.4	51.4	-	-	-	-	51.4
Business goodwill (3)	41.6	41.6		43.0	-	-	84.6
Other intangible assets	3.9	3.5	-	-	-0.3	0.3	3.5
Depreciation	**96.9**	**96.5**	**-**	**43.0**	**-0.3**	**0.3**	**139.5**
NET VALUE	**1,179.5**	**1,298.8**	**-82.9**	**249.6**	**-19.3**	**89.2**	**1,535.4**

* *Pursuant to ANC Regulation No. 2015-06, technical merger losses were allocated to the corresponding underlying assets, reclassified to special-purpose accounts at January 1st, 2016. Technical merger losses allocated to business goodwill that were already recorded in this caption have a gross value of €478.3 million and are written down in an amount of €41.6 million.*

(1) *In 2016, the increase in business goodwill relates to the acquisition of IT Cosmetic.*
In 2015, the increase in business goodwill comes from the complete transfer of assets and liabilities of YSL Beauté and a new allocation of the Other intangible assets.

(2) *Other movements comes from the complete transfer of assets and liabilities of Decléor*

(3) *Impairment concerns the business goodwill relating to Clarisonic.*

NOTE 12 Tangible assets

€ millions	12.31.2014	12.31.2015	Allocation of technical merger losse	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements	12.31.2016
Land	78.5	78.6	-	0.3	-1.5	-	77.4
Buildings	607.9	624.8	-	17.7	-39.4	16.5	619.6
Industrial machinery and equipment	191.1	182.0	-	8.3	-4.5	0.9	186.7
Other tangible assets	158.0	157.4	0.7	30.3	-35.6	35.2	188.0
Tangible assets in progress	15.3	45.0	-	19.3	-	-38.9	25.4
Advances and prepayments	0.6	0.4	-	10.3	-	-	10.7
Gross value	**1,051.4**	**1,088.2**	**0.7**	**86.2**	**-81.0**	**13.7**	**1,107.8**
Land	0.3	0.5	-	0.2	-	-	0.7
Buildings	377.3	388.7	-	23.7	-29.3	-	383.1
Industrial machinery and equipment	153.0	142.6	-	8.9	-4.5	0.1	147.1
Other tangible assets	97.8	100.5	-	28.3	-32.6	3.1	99.3
Amortisation	**628.4**	**632.3**	**-**	**61.1**	**-66.4**	**3.2**	**630.2**
Industrial machinery and equipment	0.2	0.3	-	-	-	-	0.3
Depreciation	**0.2**	**0.3**	**-**	**-**	**-**	**-**	**0.3**
NET VALUE	**422.8**	**455.6**	**0.7**	**25.1**	**-14.6**	**10.5**	**477.3**

Depreciation and amortisation recognised in 2016 against tangible and intangible assets included:

- a charge of € 100.1 million on a straight-line basis;
- a charge of € 3.0 million on a declining-balance basis;
- a charge of € 2.9 million relating to exceptional depreciation and amortisation.

NOTE 13 Non-current assets held under finance leases

€ millions	Non-current assets held under finance leases at 12.31.2016				Balance sheet total including non-current assets held under finance leases		
	Cost on initial recognition (1)	Depreciation (2)		Net book value	Gross value	Depreciation	Net book value
Balance sheet captions		Period	Accumulated				
Land and buildings	9.2	-0.4	-3.3	5.9	706.3	-387.2	319.1
TOTAL AT 12.31.2016	**9.2**	**-0.4**	**-3.3**	**5.9**	**706.3**	**-387.2**	**319.1**
Total at 12.31.2015	9.2	-0.5	-2.9	6.3	712.6	-392.1	320.5
Total at 12.31.2014	9.2	-0.5	-2.4	6.8	695.6	-380.1	315.5

(1) Value of the assets on the date the leases were signed.
(2) Depreciation charge for the year and accumulated depreciation that would have been recognised for these assets had they been purchased outright – Depreciation method on a straight-line basis over 20 years.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year-end				Residual purchase price under the lease
Balance sheet captions	Period	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	
Land and buildings	1.1	7.9	1.1	1.6	-	2.7	-
TOTAL AT 12.31.2016	**1.1**	**7.9**	**1.1**	**1.6**	**-**	**2.7**	**-**
Total at 12.31.2015	1.1	6.8	1.1	2.7	-	3.8	-
Total at 12.31.2014	1.1	5.7	1.1	3.8	-	4.9	-

NOTE 14 Financial assets

€ millions	12.31.2014	12.31.2015	Allocation of technical merger losse	Acquisitions/ Subscriptions	Disposals/ Reductions	Other movements	12.31.2016
Investments (1)	10,122.0	10,460.2	82.2	513.0	-134.9	-21.7	10,898.8
Loans and other receivables	146.5	100.7	-	83.5	-36.4	-76.4	71.4
L'Oréal shares (2)	362.8	0	-	498.6	-498.6	-	-
Other (3)	10.7	28.6	-	10.0	-	135.9	174.5
Gross value	**10,642.0**	**10,589.5**	**82.2**	**1,105.1**	**-669.9**	**37.8**	**11,144.7**
Investments (4)	361.7	359.6	-	260.9	-53.3	5.5	572.7
Loans and other receivables	40.7	0.8	-	0.8	-0.8	-	0.8
Other	0.1	0.1	-	0.1	-	-	0.2
Impairment	**402.5**	**360.5**	**-**	**261.8**	**-54.1**	**5.5**	**573.7**
NET VALUE	**10,239.5**	**10,229.0**	**82.2**	**843.3**	**-615.8**	**32.3**	**10,571.0**

(1) Subscriptions chiefly concern L'Oréal USA and the acquisition of the Atelier Cologne.
(2) On February 11th, 2016, the Board of Directors approved the buyback of L'Oréal shares for a maximum amount of €500 million. The shares were cancelled in accordance with the decision by the Board of Directors on April 20th, 2016.
(3) Mainly include the cash-collateral agreements granted to the bank of the Group.
(4) The increase mainly concerns shares in Magic.

The detailing subsidiaries and affiliates is presented at the end of the present notes.

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NOTE 15 Marketable securities

This account can be broken down as follows:

€ millions	12.31.2016	12.31.2015	12.31.2014
L'Oréal shares	133.6	233.3	319.6
Financial instruments/Premiums paid on options	35.4	100.6	94.8
Gross value	**169.0**	**333.9**	**414.4**
L'Oréal shares	-44.3	-99.1	-148.3
Financial instruments/Premiums paid on options		-	-
Impairment	**-44.3**	**-99.1**	**-148.3**
NET VALUE	**124.7**	**234.8**	**266.1**

L'Oréal shares of Treasury stock acquired in connection with employee stock purchase option plans and free share plans had a net value of €89.3 million at December 31st, 2016 against €134.2 million at December 31st, 2015 and €171.3 million at December 31st, 2014.

During 2016, stock options were exercised on 6,255 shares, and 1,231,570 free shares were granted.

Stock purchase options expiring in 2016 represent a total of 755,540 shares, for a gross value (equal to the net value) of € 55.3 million.

In 2016, the total market value of Treasury stock amounted to €294.2 million based on the average share price in December and to €304.7 million based on the closing share price on December 31st.

In 2015, the total market value of Treasury stock amounted to €474.2 million based on the average share price in December and to €465.1 million based on the closing share price on December 31st.

In 2014, the total market value of Treasury stock amounted to €558.4 million based on the average share price in December and to €568.8 million based on the closing share price on December 31st.

NOTE 16 Maturity of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Impairment	Net
Loans and other receivables	**64.0**	**7.4**	**71.4**	**-0.8**	**70.6**
Other financial assets	**164.3**	**-**	**164.3**	**-**	**164.3**
Trade accounts receivable	**494.4**	**-**	**494.4**	**-1.3**	**493.1**
Other current assets, of which	**473.2**	**-**	**473.2**	**-1.8**	**471.4**
Tax and employee-related receivables (1)	414.9	-	414.9	-	414.9
Receivable from Group and shareholders	-	-	-	-	-
Other receivables	58.3	-	58.3	-1.8	56.5
Prepaid expenses	**42.0**	**-**	**42.0**	**-**	**42.0**

(1) Including an income tax receivable amounting to €111.7 million and the fine paid to the French competition authority on April 28th, 2015 for €189.5 million and also includes income of €57 million relating to claims filed in order to recover the share of costs and expenses levied on certain dividends paid to tax-consolidated companies by companies based in the European Union.

Accrual accounts included in receivables amount are as follow:

€ millions	12.31.2016	12.31.2015	12.31.2014
Trade accounts receivable	**41.9**	**89.9**	**134.2**
Other receivables	**23.8**	**22.6**	**29.4**
TOTAL	**65.7**	**112.5**	**163.6**

NOTE 17 Stock purchase or subscription options – Free shares

17.1. Share subscription or purchase options

The table below sets out data concerning option plans in force at December 31st, 2016.

Grant date	Number of options	Number of options not yet exercised	Exercise period From	Exercise period To	Exercise price
04.25.2006	2,000,000	-	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	-	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	614,650	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	696,333	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	1,745,795	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	741,273	04.23.2016	04.22.2021	83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee). The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and; in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2016, the performance conditions for plans of April 22nd 2011, April 27th, 2010 and March 25th, 2009 were deemed to have been met.

The share price used as the basis for calculating the 10% social contribution for the April 22nd, 2011 plan was €18.58.

17.2. Free shares

The table below summarises data relating to the free share plan.

Grant date: Share subscription plans	Grant date: Share purchase plans	Vesting date	Number of shares granted	Number of shares issued/allotted	Number of shares not definitively vested
04.27.2010		04.28.2014	450,000	390,100	
	04.22.2011	04.23.2015	1,038,000	939,300	
	04.17.2012	04.18.2016	1,325,050	1,233,900	
	04.26.2013	04.27.2017	1,057,820	1 960	1,001,805
04.17.2014		04.18.2018	1,068,565	1 050	1,028,565
04.22.2015		04.23.2019	860,150	425	840,875
04.20.2016		04.21.2020	906,100		902,675

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For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold, for plans 2010 to 2015.

The performance conditions concern:

- April 20th 2016, April 22nd 2015, April 17th, 2014, April 26th, 2013, and April 17th, 2012 plans:
  - for 50% of shares granted, the increase in comparable Cosmetics revenues for the 2017, 2018 and 2019 fiscal years under the 2016 plan; for the 2016, 2017 and 2018 fiscal years under the 2015 plan; for the 2015, 2016 and 2017 fiscal years under the 2014 plan; for the 2014, 2015 and 2016, fiscal years under the 2013 plan, and the 2013, 2014 and 2015, fiscal years under the 2012 plan in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2017, 2018 and 2019 fiscal years under the 2016 plan, in the 2016, 2017 and 2018 fiscal years under the 2015 plan; in the 2015, 2016 and 2017 fiscal years under the 2014 plan; in the 2014, 2015 and 2016 fiscal years under the 2013 plan and in the 2013, 2014 and 2015 years under the 2012 plan, and will use a predefined allocation scale based on the performance percentage achieved.

No performance condition applies below a block of 200 shares.

At December 31st, 2016, the performance conditions were deemed to have been met.

A rebilling agreement concerning the cost of free shares has been set up between L'Oréal S.A. and the subsidiaries concerned for the plans 2011, 2012, 2013.

The share price used as the basis for calculating the social contribution is €154.32 for the April 20th 2016 plan , €161.49 for the April 22nd, 2015 plan, €104.58 for the April 17th, 2014 plan, €112.37 for free shares for the April 26th, 2013 plan and €77.07 for the April 17nd, 2012 plan, and € 70.36 for the April 22nd, 2011 plan.

NOTE 18 Provisions for liabilities and charges

€ millions	12.31.2014	12.31.2015	**Charges**	**Reversals (used)**	**Reversals (not used)**	**Other**	**12.31.2016**
Provisions for litigation (1)	204.7	202.5	1.9	-3.1	-1.6	-4.3	195.4
Provisions for foreing exchange losses	10.8	4.9	8.2	-4.9	-	-	8.2
Provisions for expenses	133.3	118.4	58.2	-76.4	-3.8	10.9	107.3
Other provisions for liabilities (2)	136.2	135.0	25.5	-70.2	-5.1	5.5	90.7
TOTAL	**485.0**	**460.8**	**93.8**	**-154.6**	**-10.5**	**12.1**	**401.6**

(1) L'Oréal S.A. was ordered to pay a fine of €189.5 million following the decision handed down in first instance by the French competition authority on December 18th, 2014. L'Oréal appealed against this decision. On October 27th, 2016, the Paris Court of Appeal upheld the first instance decision. L'Oréal subsequently lodged an appeal in cassation. It should be noted that since the appeal and appeal in cassation do not entail a stay in the judgment, the fine provisioned at the end of 2014 was paid on April 28th, 2015. At December 31st, 2016, the provision was maintained in liabilities and the payment recognised in "Other current assets" (see note 16).

(2) This item mainly includes provisions set aside to cover tax risks and other risks related to government bodies, commercial and financial risks, and personnel-related costs.

The changes in provisions for liabilities and charges impact the 2016 income statement as follow:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	56.7	-45.8	-6.3
Net financial income	25.4	-106.4	-2.1
Exceptional items	11.7	-2.4	-2.1
TOTAL	**93.8**	**-154.6**	**-10.5**

NOTE 19 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans and issues short-term marketable instruments in France. The amount of the programme is €4,000 million. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

Liquidity on the short-term marketable instruments issues is provided by confirmed short-term credit facilities with banks, which amounted to €3,727 million at December 31st, 2016 (€3,813 million at December 31st, 2015 and €3,300 million at December 31st, 2014).

All borrowings and debt are denominated in euros and can be broken down as follows:

BREAKDOWN BY TYPE OF DEBT

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Bonds	-	-	-
Short-term marketable instruments	-	100.0	1,825.0
Bank overdrafts and financing with the Group's cash pool	154.5	750.3	100.5
Other borrowings and debt	14.5	17.7	23.9
TOTAL	**169.0**	**868.0**	**1,949.4**

BREAKDOWN BY MATURITY DATE

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Less than 1 year	154.7	850.5	1,926.0
1 to 5 years	13.0	16.2	22.1
More than 5 years	1.3	1.3	1.3
TOTAL	**169.0**	**868.0**	**1,949.4**

EFFECTIVE INTEREST RATE AND AVERAGE INTEREST RATE ON BORROWINGS AND DEBT

The fall in euro interest rates is now reflected by drawdowns of short-term marketable instruments with negative interest rates.
The average interest rate on short-term marketable instruments was -0,33% in 2016, compared with 0.04% in 2015 and 0.37% in 2014.

NOTE 20 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**486.8**	**-**	**486.8**
Other current liabilities, of which	**534.0**	**40.8**	**574.8**
Tax and employee-related payables	290.7	-	290.7
Payables related to non-current assets (1)	65.4	40.8	106.2
Other payables	177.9	-	177.9

(1) Non-current payables relate to earn-out clauses on acquisitions.

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Trade accounts payable	**279.2**	**266.5**	**276.7**
Payables related to non-current assets	**65.2**	**49.3**	**36.7**
Tax and employee-related payables, of which	**251.6**	**234.9**	**158.2**
Provision for employee Profit Sharing	20.3	18.3	19.3
Provision for incentives	80.1	74.2	68.4
Other payables	**28.4**	**26.6**	**23.7**
TOTAL	**624.4**	**577.3**	**495.3**

NOTE 21 Unrealised exchange gains and losses

The revaluation of foreign currency receivables and payables at the exchange rates prevailing at December 31st, taking account of the related hedging instruments, led to the recognition of the following unrealised exchange gains and losses:

	Unrealised exchange losses			Unrealised exchange gains		
€ millions	**12.31.2016**	12.31.2015	12.31.2014	**12.31.2016**	12.31.2015	12.31.2014
Financial receivables	9.2	8.1	6.0	0.1	-	-
Trade accounts receivable	1.8	4.0	4.0	3.1	0.5	2.1
Borrowings and debt	-	-	0.1	-	-	-
Trade accounts payable	1.7	1.4	3.1	0.5	2.1	0.5
Derivative financial instruments	5.7	6.5	4.0	6.5	12.5	3.8
TOTAL	**18.4**	**20.0**	**17.2**	**10.2**	**15.1**	**6.4**

The overall foreign exchange position at December 31st, 2016 is an unrealised loss of €8.2 million. This loss is recognised through profit and loss. At December 31st, 2015, the overall foreign exchange position was an unrealised loss of €4.9 million compared with an unrealised loss of €10.8 million at December 31st, 2014.

NOTE 22 Derivative financial instruments

Derivative financial instruments can be broken down as follows:

€ millions	Notional			Market value		
	12.31.2016	12.31.2015	12.31.2014	**12.31.2016**	12.31.2015	12.31.2014
Purchase of EUR						
against foreign currencies						
EUR/CNY	256.7	224.0	189.9	- 2.1	- 7.9	- 11.0
EUR/RUB	218.2	227.6	135.7	- 44.1	26.0	52.3
EUR/KRW	61.4	46.0	36.0	0.0	- 0.5	- 2.0
EUR/BRL	56.2	57.3	75.0	- 14.8	6.6	- 1.2
EUR/GBP	49.9	55.3	40.1	2.9	- 0.8	- 1.7
EUR/USD	43.8	5.3	25.5	- 3.8	2.7	- 3.5
EUR/THB	35.8	31.1	29.3	- 1.9	- 0.7	- 1.9
EUR/TWD	35.2	37.0	28.0	- 2.1	0.3	- 0.8
EUR/IDR	31.6	26.6	18.8	- 3.0	- 1.5	- 1.1
EUR/ZAR	27.6	27.0	26.8	- 3.5	4.1	- 0.6
EUR/CAD	25.2	21.8	19.5	- 0.8	1.4	- 0.7
EUR/AUD	18.6	18.9	17.5	- 0.5	- 0.1	0.1
EUR/MYR	14.6	13.9	12.9	0.4	1.0	- 0.1
EUR/INR	13.0	14.2	10.3	- 1.7	- 0.8	- 0.8
EUR/CLP	10.9	10.0	8.9	- 1.0	0.3	- 0.2
EUR/TRY	9.1	6.7	7.5	0.5	- 0.1	- 0.3
EUR/PLN	8.7	9.6	8.2	0.1	0.1	0.0
EUR/SEK	7.2	6.7	5.6	0.1	- 0.1	0.1
EUR/RSD	7.1	7.3	2.9	- 0.2	- 0.3	- 0.1
EUR/CHF	7.0	9.1	8.6	- 0.1	0.2	- 0.1
EUR/HKD	6.3	0.0	0.0	- 0.4	0.0	0.0
EUR/NOK	5.8	5.3	5.6	- 0.2	0.4	0.5
EUR/PHP	5.3	5.8	4.2	- 0.1	- 0.1	- 0.3
EUR/DKK	5.3	5.3	4.6	0.0	- 0.1	0.0
EUR/Other currencies	30.9	25.8	21.4	- 1.4	0.1	0.3
Sale of EUR against foreign currencies						
EUR/JPY	24.5	27.2	22.7	- 0.5	0.9	- 1.2
EUR/SGD	11.2	15.9	15.0	0.0	- 0.2	0.4
EUR/Other currencies	0.0	2.9	2.3	0.0	0.2	0.2
Purchase of USD against foreign currencies						
USD/BRL	70.3	67.4	63.1	- 9.8	9.3	6.3
USD/THB	57.7	55.9	35.1	0.7	1.3	- 0.1
USD/KRW	30.8	25.7	22.5	1.7	0.7	1.0
USD/MYR	21.8	21.8	17.4	1.7	2.1	0.9
USD/TWD	20.2	21.2	22.4	0.2	0.9	1.0
USD/PEN	20.1	19.0	12.8	- 0.5	0.8	0.0
USD/PHP	18.0	12.0	7.5	0.7	0.2	0.1
USD/INR	17.4	18.3	11.3	- 0.7	- 0.1	- 0.1
USD/RUB	12.1	11.3	3.3	- 1.6	1.4	2.0
USD/ZAR	6.4	5.1	0.0	- 0.4	0.8	0.0
Sale of USD against foreign currencies						
USD/CNY	57.3	57.1	29.4	- 3.9	- 2.0	- 0.5
USD/IDR	3.2	3.7	3.3	0.1	0.1	- 0.3
Other currencies pairs						
JPY/CNY	20.1	17.4	13.0	- 0.5	0.1	- 0.5
RUB/PLN	13.7	13.0	6.8	- 2.9	1.5	2.2
JPY/KRW	8.4	5.9	0.0	- 0.3	0.2	0.0
JPY/TWD	6.1	6.6	6.4	- 0.6	0.4	0.0
Other currencies	13.0	8.4	2.7	- 0.3	0.2	0.0
Currency futures total	**1 423.7**	**1 313.4**	**1 039.8**	**- 94.6**	**49.0**	**38.3**

€ millions	Notional 12.31.2016	Notional 12.31.2015	Notional 12.31.2014	Market value 12.31.2016	Market value 12.31.2015	Market value 12.31.2014
Currrency options						
EUR/RUB	39.5	35.6	60.9	0.2	10.4	24.8
EUR/CNY	17.5	44.0	52.9	0.3	0.9	1.1
EUR/USD	14.9	68.7	51.7	0.1	0.4	0.5
USD/BRL	7.8	14.8	11.8	0.0	3.5	1.6
EUR/BRL	7.5	13.6	17.7	0.0	3.2	2.2
EUR/CAD	0.0	2.6	8.6	0.0	0.2	0.1
Other currencies	5.9	4.9	17.0	0.4	0.6	0.6
Currencies options total	**93.1**	**184.2**	**220.6**	**1.0**	**19.2**	**30.9**
◆ Of which total options purchased	93.1	184.2	221.9	1.0	19.2	31.1
◆ Of which total options sold	0.0	0.0	- 1.3	0.0	0.0	- 0.2
TOTAL INSTRUMENTS	**1 516.8**	**1 497.6**	**1 260.4**	**- 93.6**	**68.2**	**69.2**

NOTE 23 Transactions and balances with related entities and parties

All material related-party transactions were entered into on an arm's length basis.

NOTE 24 Off-balance sheet commitments

24.1. Lease commitments

Operating lease commitments amount to €74.9 million due in less than one year, €246.8 million due between 1 and 5 years and €184.4 million due after 5 years.

The breakdown of finance lease commitments is provided in note 13.

24.2. Other off-balance sheet commitments

Confirmed credit facilities are set out in note 19.

Other off-balance sheet commitments can be broken down as follows:

€ millions	12.31.2016	12.31.2015	12.31.2014
Commitments granted in connection with employee retirement obligations and related benefits (1)	74.1	297.3	926.4
Commitments to buy out non-controlling interests	9.3	8.7	7.7
Guarantees given (2)	1,977.8	797.2	714.2
Guarantees received	4.2	8.5	10.7
Capital expenditure orders	69.7	62.0	56.4
Documentary credits	-	-	-

(1) The discount rate used to measure these commitments at December 31st, 2016 is 1,50% for plans providing for payment of capital and 2.00% for annuity plans, compared with respectively, 2.25% and 2.50% at end-2015, and 2.00% and 2.25% at end-2014.
An agreement for the pooling of employee-related liabilities was set up in 2004. Pursuant to this agreement, commitments are allocated among the French companies in the Group and their financing is organised in proportion to their respective payroll costs (customised for each plan) so that the companies are joint and severally liable for meeting the aforementioned commitments within the limit of the collective funds built up.

(2) This caption includes miscellaneous guarantees and warranties, including €1,937.3 million at December 31st, 2016 on behalf of direct and indirect subsidiaries (€788.0 million at December 31st, 2015 and €696.2 million at December 31st, 2014). Seller's warranties are also included in this amount as appropriate.

24.3. Contingent liabilities

In the ordinary course of its operations, L'Oréal is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Company sets aside a provision when a risk is found to exist and the related cost can be reliably estimated.

No exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the Company.

NOTE 25 Changes in working capital

Changes in working capital can be broken down as follows:

€ millions	12.31.2016	12.31.2015	12.31.2014
Inventories	11.2	-3.0	5.0
Accounts Receivable (1)	146.1	-349.1	8.8
Accounts Payable	-8.7	37.3	-39.6
TOTAL	**148.6**	**-314.8**	**-25.8**

(1) In 2015 this item mainly includes changes in the income tax receivable amounting to €178.8 million and the fine handed down by the French competition authority for €189.5 million.

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NOTE 26 Changes in other financial assets

This line primarily includes cash flows relating to financial instruments, classified in marketable securities, and cash flows arising on collateral posted with the Group's bank, classified in long-term investments.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents can be broken down as follows:

€ millions	**12.31.2016**	12.31.2015	12.31.2014
Cash	180.9	192.5	160.3
Accrued interest receivable	-	-	-
Bank overdrafts and financing with the Group's cash pool (see section 19)	-154.4	-750.3	-100.5
Accrued interest payable	-0.1	0.3	0.2
CASH AND CASH EQUIVALENTS	**26.4**	**-557.5**	**60.0**

NOTE 28 Other disclosures

Statutory audit fees are presented in the note 15 to the *Consolidated financial statements.*

NOTE 29 Subsequent events

No event occurred between the balance sheet date and the date when the Board of Directors authorised the financial statements for issue.

NOTE 30 Table of subsidiaries and holdings

TABLE OF SUBSIDAIARIES AND HOLDINGS AT DECEMBER 31ST, 2016 (€ THOUSANDS)

DETAILED INFORMATION

I. Detailed information	Share capital	Other equity	% holding	Book value of investment		Profit or loss in last year	Dividends (1) booked during the year
				Gross	Net		
A. Main French subsidiaries (Holdings of over 50%)							
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	109,141	100.00	75,675	75,675	39,974	34,627
Beauté, Recherche & Industries	1,069	8,936	100.00	9,495	9,495	11,494	8,286
Chimex	1,958	11,014	100.00	21,501	21,501	4,605	22,201
Cosmétique Active France	24	70	61.97	130	130	31,613	31,999
Cosmétique Active International	19	13,947	88.97	15,100	15,100	30,184	27,216
Cosmétique Active Production	186	16,644	80.13	5,081	5,081	8,121	4,591
EpiSkin	13,609	7,331	99.89	17,978	17,978	467	0
Exclusive Signatures International	10	0	100.00	200	200	5,140	4,021
Fapagau & Cie	15	4,530	79.00	12	12	6,771	3,939
Faprogi	15	5,055	59.90	9	9	3,616	1,820
Finval	2	0	99.00	2	2	3,697	1,813
Gemey Maybelline Garnier	50	471	66.61	34	34	27,746	24,783
Gemey Paris – Maybelline New York	35	7,129	99.96	46	46	16,334	15,794
H.B.D.F.	5	0	100.00	5	5	51	51
Helena Rubinstein	30	1	99.95	46,661	46,661	4,042	4,393
Holdial	1	0	98.00	1	1	802	589
L & J Ré	1,500	14,673	100.00	1,500	1,500	-3,281	0
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	29,571	18,422
Nutricos Technologies	535	-76	50.00	38,125	0	-51	0
Laboratoire Sanoflore	10	1,147	100.00	5,197	1,697	982	628
Lancôme Parfums & Beauté & Cie	1,192	0	100.00	3,235	3,235	54,302	58,053
LaScad	20	0	99.26	12,796	12,796	56,635	75,262
Lehoux et Jacque	39	-507	100.00	263	263	288	0
L'Oréal Produits de Luxe France	84	56,284	92.75	53,612	53,612	6,836	12,465
L'Oréal Produits de Luxe International	98	75,253	99.38	73,872	73,872	23,963	36,464
LOA3	90,402	-392	100.00	90,400	90,400	-66	0
LOA5	103	1,698	100.00	1,803	1,803	-289	0
LOA6	3	-1	100.00	3	3	-1	0
LOA7	3	-1	100.00	3	3	-6	0
LOA8	5	0	100.00	5	5	-4	0
Parfums Cacharel & Cie	1	1	99.00	2	2	354	436
Parfums Guy Laroche	332	54	100.00	1,656	1,656	145	269
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	20	46
Parfums Ralph Lauren	2	-418	99.00	2	0	7	0
Prestige & Collections International	76	92,601	52.12	25,290	25,290	82,415	14,440
Magic Holdings International Limited	9,765	85,688	100.00	615,198	396,398	-5,073	0
Sicôs & Cie	375	8,091	80.00	999	999	10,314	4,977
Soprocos	8,250	8,964	100.00	11,904	11,904	4,497	5,846
Soproréal	15	3,984	99.90	15	15	2,440	2,607
Sparlys	5,477	1,837	100.00	8,553	8,553	3,958	0
Thermes De Saint Gervais Les Bains Le Fayet	500	-169	100.00	12,558	12,558	-123	0
Viktor & Rolf Parfums	2	0	99.00	1	1	574	602
B. Main French investments (Holdings of over 50%)							
Sanofi (2)	2,584,045		9.15	423,887	423,887		346,406

(1) The SNCs (general partnership), and Sociétés civiles (non trading companies), that are not tax consolidated, distribute.
(2) Sanofi: listed company – At the end of 2016 L'Oréal owns 118,227,307 share. The market value amounts to €9,091,680 thousand.

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	Share capital	Other equity	% holding	Book value of investment Gross	Book value of investment Net	Profit or loss in last year	Dividends (1) booked during the year
A. Main Foreign subsidiaries (Holdings of over 50%)							
Atelier Cologne (Luxembourg)	1,210	7,788	100.00	105,300	105,300	9,337	0
Beautycos International Co. Ltd (China)	52,482	52,200	73.46	46,195	46,195	8,652	6,006
Beautylux International Cosmetics (Shanghai) Co.Ltd (Chine)	5,629	-767	100.00	16,871	3,822	271	0
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,653	6,052
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,451	18,062	100.00	30,290	30,290	2,225	3,039
Cosmelor Ltd (Japon)	3,554	6,257	100.00	35,810	10,810	4,501	0
Cosmephil Holdings Corporation (Philippines)	171	-136	100.00	400	14	0	0
Egyptelor LLC (Egypt)	6	98	99.80	7	7	67	0
Elebelle (Proprietary) Ltd (South Africa)	806	28,067	100.00	61,123	46,783	3,519	2,999
Erwiton S.A. (Uruguay)	739	3,553	100.00	17	17	8,509	6,882
Kosmepol Sp. z.o.o. (Poland)	38,844	50,746	99.73	48,965	48,965	6,164	0
L'Oréal Adria d.o.o. (Croatia)	131	1,094	100.00	1,503	1,503	7,331	6,286
L'Oréal Argentina SA (Argentina)	24,234	25,429	95.00	148,602	102,688	36,048	74,058
L'Oréal Australia Pty Ltd	2,711	17,551	100.00	33,867	33,867	47,340	41,842
L'Oréal Balkan d.o.o. (Serbia)	1,283	-452	100.00	1,285	1,285	1,434	1,270
L'Oréal Baltic SIA (Latvia)	387	1,196	100.00	529	529	3,626	2,647
L'Oréal Bangladesh (Bangladesh)	154	13	100.00	154	154	177	0
L'Oréal Brasil	315,133	71,306	90.82	287,833	287,833	12,486	11,538
L'Oréal Belgilux S.A. (Belgium)	16,124	18,173	98.93	77,150	77,150	31,862	39,503
L'Oréal Brasil Pesquisas	38,932	3,104	99.99	38,932	38,932	939	0
L'Oréal Bulgaria EOOD	102	709	100.00	102	102	3,426	3,553
L'Oréal Canada Inc.	3,979	7,242	100.00	146,517	146,517	81,485	65,646
L'Oréal Central America (Panama)	8	-522	100.00	8	8	54	0
L'Oréal Central West Africa (Nigeria)	3,443	-3,610	99.91	18,106	0	177	0
L'Oréal Ceska Republika s.r.o (Czech Republic)	2,268	1,459	100.00	4,983	4,983	8,238	7,151
L'Oréal Chile S.A. (Chile)	6,173	7,137	100.00	43,784	43,784	33,018	38,564
L'Oréal China Co Ltd (China)	43,498	84,480	100.00	345,733	345,733	260,948	275,342
L'Oréal Colombia S.A. (Colombia)	10,688	48,940	96.57	72,547	72,547	-918	0
L'Oréal Cosmetics Industry S.A.E (Egypt)	58,382	-43,262	100.00	58,363	42,563	7,567	0
L'Oréal Côte D'Ivoire	100	31	100.00	100	100	-287	0
L'Oréal Danmark A/S (Denmark)	270	5,045	100.00	8,336	8,336	9,939	12,434
L'Oréal Deutschland Gmbh (Germany)	12,647	277,547	100.00	76,855	76,855	178,177	122,845
L'Oréal East Africa Ltd (Kenya)	439	17,761	99.90	29,785	10,785	-4,433	0
L'Oréal Espana S.A. (Spain)	59,911	19,345	63.86	299,154	299,154	76,623	29,235
L'Oréal Finland Oy (Finland)	673	-33	100.00	1,280	1,280	10,156	9,700
L'Oréal Guatemala S.A.	1,044	1,247	100.00	2,162	2,162	1,151	1,621
L'Oréal Hellas S.A. (Greece)	9,736	6,725	100.00	35,307	35,307	11,440	11,800
L'Oréal Hong-Kong Ltd	-77	28,791	99.97	24,276	24,276	68,742	278,846
L'Oréal India Private Ltd (India)	48,691	15,762	100.00	75,987	75,987	3,512	0
L'Oréal Investments B.V. (Netherlands)	18	-1	100.00	18	18	0	0
L'Oréal Israel Ltd	4,137	14,110	92.97	38,497	38,497	8,211	5,232
L'Oréal Italia Spa	1,680	54,194	100.00	226,469	226,469	77,328	70,618
L'Oréal Kazakhstan Llp (Kazakhstan)	422	783	100.00	422	422	7,288	2,901
L'Oréal Korea Ltd (Korea)	1,991	-1,732	100.00	20,794	20,794	14,363	8,451
L'Oréal Liban SAL (Lebanon)	3,139	993	99.98	7,700	7,700	11,931	20,891
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	428	-208	100.00	787	787	3,227	3,261
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	7,124	100.00	6,762	6,762	8,261	8,454
L'Oréal Mexico S.A. de C.V. (Mexico)	2,349	98,102	100.00	8,443	8,443	32,129	31,615
L'Oréal Middle East (United Arab Emirates)	7,761	-1,432	100.00	54,379	54,379	37,415	68,780
L'Oréal Nederland B.V. (Netherlands)	1,178	-623	100.00	22,014	22,014	27,149	20,311
L'Oréal New Zealand Ltd (New Zealand)	44	2,922	100.00	6,110	6,110	7,684	6,816
L'Oréal Norge A/S (Norway)	1,384	2,616	100.00	4,050	4,050	16,020	13,731
L'Oréal Osterreich Gmbh (Austria)	2,915	1,245	100.00	3,818	3,818	13,490	13,764
L'Oréal Pakistan Private Ltd	16,910	-17,529	100.00	16,929	0	1,212	0

	Share capital	Other equity	% holding	Book value of investment Gross	Net	Profit or loss in last year	Dividends [1] booked during the year
L'Oréal Panama S.A.	159	2,785	100.00	168	168	5,580	10,080
L'Oréal Peru S.A.(Peru)	2,322	-830	100.00	3,739	3,739	865	0
L'Oréal Philippines Inc.	14,196	-11,301	99.53	39,107	4,107	-648	0
L'Oréal Polska Sp. Z.O.O. (Poland)	405	226	100.00	707	707	30,156	28,929
L'Oréal Portugal Lda	495	750	100.00	6,459	6,459	15,683	13,412
L'Oréal Romania SRL (Romania)	799	376	100.00	974	974	6,978	5,559
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	1,561	74.63	4,260	4,260	-758	803
L'Oréal Singapore Pte Ltd (Singapore)	1,165	6,187	100.00	18,991	18,991	7,130	12,357
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	383	100.00	856	856	671	516
L'Oréal Slovensko s.r.o. (Slovakia)	98	803	100.00	173	173	3,027	2,507
L'Oréal Suisse S.A. (Switzerland)	346	9,001	100.00	160,311	160,311	31,120	28,558
L'Oréal Sverige AB (Sweden)	2,038	1,357	100.00	2,247	2,247	21,055	15,872
L'Oréal Taiwan Co Ltd (Taiwan)	187	1,551	100.00	17,881	17,881	25,910	22,488
L'Oréal Thailand Ltd	3,992	3,281	100.00	5,238	5,238	32,915	25,923
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	39,142	-10,313	100.00	55,093	51,093	13,389	5,122
L'Oréal UK Ltd (United Kingdom)	121,150	-162,055	100.00	145,573	145,573	190,329	165,667
L'Oréal Ukraine	3,033	-813	100.00	2,990	2,990	11,187	12,291
L'Oréal Uruguay S.A.	485	8,875	100.00	5,435	5,435	4,993	3,810
L'Oréal USA Inc. [4]	4,402	3,843,119	100.00	4,165,199	4,165,199	421,099	570,231
L'Oréal Venezuela C.A.	179	2,318	100.00	26,953	0	2,028	0
L'Oréal Vietnam Co Ltd	9,645	-17,203	100.00	9,754	4	-756	0
L'Oréal West Africa (Ghana)	8	-5,723	100.00	0	0	-4,625	0
Masrelor LLC (Egypt)	17,686	-10,126	100.00	17,573	2,073	2	0
Nihon L'Oréal KK (Japan)	-17,697	161,130	100.00	351,504	332,763	18,856	10,540
Oomes B.V. (Netherlands)	6,354	55,958	100.00	144,312	144,312	16,520	16,517
Parbel of Florida Inc. (USA)	40	-5,499	100.00	100,317	100,317	32,200	32,847
Procosa Productos de Beleza Ltda (Brasil)	154,342	94,804	100.00	223,938	223,938	7,660	7,336
P.T. L'Oréal Indonesia	1,510	3,686	99.00	2,305	2,305	9,708	1,293
P.T. Yasulor Indonesia	73,931	2,571	99.99	110,022	79,022	273	0
Scental Limited (Hong Kong)	5	211	100.00	8	8	0	0
The Body Shop International PLC (United Kingdom) [3]	13,302	952,431	100.00	992,445	992,445	33,301	47,017
Venprobel (Venezuela)	0	-1	100.00	2,722	0	0	0
B. Main Foreign investments (Holding of less than 50%)							
	n/s	n/s	n/s	n/s	n/s	n/s	n/s

For foreign subsidiaries and investments, the capital reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchanges rates, while profits and losses have been translated at average rate.
It is specified that the list above is not exclusive.

(3) The Body Shop: Consolidated figures for the sub-group.
(4) Figures from the sub-consolidation of L'Oréal USA Inc

GLOBAL INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

	Subsidiaries French	Subsidiaries Foreign	Other Investments French	Other Investments Foreign
Book value of shares held				
◆ gross (after revaluation)	1,176,553	9,216,210	423,887	1
◆ net	916,127	8,904,020	423,887	1
Amount of loans and advances granted	1,248	57,861		
Amount of guarantees and security granted	12,898	1,924,386		
Amount of dividends booked	416,698	2,373,358	346,406	1

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5.6. OTHER INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF L'ORÉAL PARENT COMPANY

5.6.1. EXPENSES AND CHARGES FALLING UNDER ARTICLE 223 QUATER OF THE FRENCH TAX CODE

It is stipulated that the total amount of expenses and charges falling under Article 223 *quater* of the French Tax Code and the amount of tax applicable to such expenses and charges are as follows:

Expenses and charges	€1.6 million
Corresponding tax amount	€0.6 million

5.6.2. TRADE ACCOUNTS PAYABLE

In accordance with the French law on the Modernisation of the Economy of August 4th, 2008 and the resulting Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the breakdown of the balance of trade accounts payable by L'Oréal parent company at year-end is as follows:

€ millions	**2016**	2015	2014
Trade accounts payable not yet due	**192.4**	**180.1**	**175.6**
including:			
at 30 days	117.8	100.0	118.2
between 30 days and 45 days	74.6	80.1	57.4
more than 45 days	-	-	-
TRADE ACCOUNTS PAYABLE DUE	**9.0**	**7.4**	**6.1**

5.6.3. NET SALES (EXCLUDING TAXES)

Net *sales € millions*	**2016**	2015	Variation in %
1st quarter	809.4	783.3	3.34
2nd quarter	802.6	773.3	3.78
3rd quarter	706.9	685.5	3.12
4th quarter	734.2	725.5	1.20
TOTAL	**3,053.1**	**2,967.6**	**2.88**

N.B.: This includes sales of goods net of any rebates and discounts granted, along with services provided and technology royalties.

5.7. FIVE-YEAR FINANCIAL SUMMARY

L'ORÉAL PARENT COMPANY (EXCLUDING SUBSIDIARIES)

€ millions (except for earnings per share, shown in euros)	2012	2013	2014	2015	2016
I. Financial position at financial year-end					
• a) Share capital	121.8	121.2	112.2	112.6	112.4
• b) Number of shares	608,810,827	605,901,887	561,230,389	562,983,348	561,855,741 (1)
• c) Number of convertible bonds	0	0	0	0	0
II. Overall results of operations					
• a) Net pre-tax sales	2,606.8	2,777.0	2,818.6	2,967.6	3,053.1
• b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and Profit Sharing reserve)	2,517.5	2,562.0	5,418.1	3,024.7	3,158.0
• c) Income tax	11.4	-9.7	112.9	-23.3	-113.1
• d) Net profit	2,408.0	2,366.1	4,938.0	3,055.4	3,014.4
• e) Amount of distributed profits	1,380.6	1,507.3	1,511.4	1,741.9	1,867.7 (2)
III. Results of operations per share					
• a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions	4.09	4.22	9.42	5.38	5.79
• b) Net profit	3.96	3.91	8.80	5.43	5.36
• c) Dividend paid on each share(not including tax credit)	2.30	2.50	2.70	3.10	3.30 (2)
IV. Personnel					
• a) Number of employees	6,097	6,163	6,220	6,385	6,653
• b) Total salaries	489.5	515.6	541.7	560.9	569.8
• c) Amount paid for welfare benefits (social security, provident schemes, etc.)	208.6	261.3	253.5	265.0	257.2

(1) The share capital comprises 561,855,741 shares with a par value of €0.2, following the subscription of 2,073,868 shares following the exercise of options and grant of 1,025 of free shares, as well as cancellation of 3,202,500 treasury shares.
(2) The dividend will be proposed to the Annual General Meeting of April 20th, 2017.

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5.8. INVESTMENTS (MAIN CHANGES INCLUDING SHAREHOLDING THRESHOLD CHANGES)

INVESTMENTS

(Main changes including shareholding threshold changes >5%)

€ millions	Situation at 12.31.2015 Including revaluation		Acquisitions	Subscriptions	Others		Situation at 12.31.2016 € millions	
Headings	Amount	%	Amount	Amount	Amount		Amount	%
Atelier Cologne	0.0		105.3				105.3	100.00
Beauté Créateurs	31.6	100.00			-31.6	(2)	0.0	
Beauté Recherche & Industries	19.1	100.00			-9.6	(4)	9.5	100.00
Decléor	116.7	100.00			-116.7	(1)	-	
IT Cosmetics Limited	0.0		6.5		-6.5	(3)	0.0	100.00
LOA5	0.0	100.00		1.8			1.8	100.00
L'Oréal Bangladesh NC	0.0		0.2				0.2	99.99
L'Oréal Brasil Pesquisa	21.3	99.98		17.6			38.9	99.99
L'Oréal Central West Africa	3.1	99.91		15.1			18.1	99.91
L'Oréal Ceska	8.7	100.00			-3.7	(4)	5.0	100.00
L'Oréal Cosmetics Industry	56.1	100.00		2.3			58.4	100.00
L'Oréal East Africa	0.2	99.90		29.6			29.8	99.90
L'Oréal Hong-Kong	0.6	99.97		23.7			24.3	99.97
L'Oréal India	78.6	100.00			-2.6	(4)	76.0	100.00
L'Oréal Japan	1.9	100.00			-1.9	(2)	0.0	
L'Oréal Philippines	27.2	99.46		11.9			39.1	99.53
L'Oréal Romania	5.9	100.00			-4.9	(4)	1.0	100.00
L'Oréal Slovensko	1.7	100.00			-1.5	(4)	0.2	100.00
L'Oréal USA	3,797.4	100.00		367.8			4,165.2	100.00
Nihon L'Oréal	415.2	100.00			-63.7	(4)	351.5	100.00
Sparlys	3.8	100.00		4.7			8.6	100.00
Thermes De Saint-Gervais Les-Bains Le Fayet	0.0		12.6				12.6	100.00
TOTAL	**4,589.1**		**124.5**	**474.4**	**-242.7**		**4,945.3**	

(1) Complete transfer of assets and liabilities.
(2) Liquidation.
(3) Disposal.
(4) Reduction in capital.

5.9 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31, 2016)

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of L'Oréal;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Without qualifying our opinion, we draw your attention to the matter set out in Notes 1.5, 11, 12 and 14 to the financial statements which describe the impact on the balance sheet items as of January 1, 2016 deriving from regulation 2015-06 of the French Accounting Standards Authority (*Autorité des Normes Comptables* – ANC) relating to the accounting treatment of "merger deficits" (intangibles assets).

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matter:

Investments have been valued in accordance with the accounting methods described in Note 1.7.1 "Accounting policies – Financial Assets – Investments" to the Company's financial statements. As part of our audit, we reviewed whether these accounting methods were appropriate and evaluated the assumptions used.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Neuilly-sur-Seine, February 20, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit
Gérard Morin

Deloitte & Associés
Frédéric Moulin

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

L'Oréal is a French "société anonyme" (*limited* company) listed in Paris.

This chapter sets out the information relating to its share capital and the main details of its legal form and its Articles of Association.

All the information on the L'Oréal share and L'Oréal share market are also included in this chapter.

6.1. INFORMATION RELATING TO THE COMPANY

6.1.1. LEGAL FORM

L'Oréal is incorporated in France as a *société anonyme*.

6.1.2. LAW GOVERNING THE ISSUER

French law.

6.1.3. BUSINESS ACTIVITY

L'Oréal S.A. is a French company, with its head office in France. It performs a sales activity that is specific to France. L'Oréal parent company also functions as a holding company and has a role of strategic coordination as well as scientific, industrial and marketing coordination for the L'Oréal Group on a global basis. The Group's subsidiaries develop the Group's business in their respective territory. In this role, they manufacture or commission and commercialize the products they decide to sell on their market.

L'Oréal wholly owns the vast majority of its subsidiaries. It also has substantial investments in non-consolidated companies, details of which are set out in paragraph 4.7 of this document.

6.1.4. DATE OF INCORPORATION AND TERM OF THE COMPANY (ARTICLE 5 OF THE ARTICLES OF ASSOCIATION)

"The Company's term shall be ninety-nine years, which began to run on January 1st, 1963 and which shall thus expire on December 31st, 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association."

6.1.5. PURPOSE OF THE COMPANY (EXTRACTS FROM ARTICLE 2 OF THE ARTICLES OF ASSOCIATION)

"The Company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows:

- the manufacturing and the sale of cosmetics products in general; of all devices intended for the same uses as the products listed above; of all household maintenance products; of all products and articles relating to feminine and/or child hygiene and to the embellishment of human beings; the demonstration and advertising of such products; the manufacturing of packaging articles;
- the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution;
- all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the Company's interest, under any form whatsoever;
- the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies, the contribution to pre-existing companies, the merger or the alliance with such companies."

6.1.6. COMPANY REGISTRATION NUMBER

632 012 100 Paris Trade and Companies Registry.

6.1.7. CONSULTATION OF DOCUMENTS RELATING TO THE COMPANY

The Articles of Association, financial statements, reports and information for shareholders can be consulted, in the conditions provided for by law, at 41, rue Martre, 92117 Clichy Cedex, France, preferably by appointment. See also the www.loreal-finance.com website.

6.1.8. GENERAL MANAGEMENT (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)

1. "In accordance with legal provisions, the General Management of the Company is assumed, under its responsibility, either by the Chairman of the Board of Directors, or by another natural person appointed by the Board of Directors and bearing the title of Chief Executive Officer.

The choice between these two modes of exercising General Management is made by the Board of Directors each time a Chairman of the Board of Directors or a Chief Executive Officer is appointed or has his tenure renewed. The Board of Directors must inform shareholders and third parties of this choice in accordance with the statutory provisions.

The choice of the Board of Directors concerning the mode of exercise of the General Management is made on the basis of a majority vote of the Directors present or represented.

Changing the mode of exercise of the General Management does not involve a modification of the Articles of Association.

2. Depending on the choice made by the Board of Directors in accordance with the provisions of § 1 above, the General Management is carried out either by the Chairman, or by a natural person, appointed by the Board of Directors and bearing the title of Chief Executive Officer.

3. The Chief Executive Officer is granted the most extensive powers to act in all circumstances on behalf of the Company. He exercises these powers within the limitations of the object of the Company, and subject to the powers expressly granted by law to Shareholders' Meetings.

The Chief Executive Officer represents the Company in its relations with third parties. The Company is bound even by actions of the Chief Executive Officer which are outside the object of the Company, unless the Company can prove that the third party was aware that the action was outside the object of the Company, or that the third party could not be unaware of this in view of the circumstances, it being stated however that the mere publication of the Articles of Association does not constitute such proof.

4. On the proposal of the Chief Executive Officer, whether this office is assumed by the Chairman of the Board of Directors or by another person, the Board of Directors may appoint one or more natural persons in charge of assisting the Chief Executive Officer, with the title of Deputy Chief Executive Officer.

In agreement with the Chief Executive Officer, the Board of Directors determines the extent and duration of the powers granted to the Deputy Chief Executive Officers."

6.1.9. FISCAL YEAR (ARTICLE 14 OF THE ARTICLES OF ASSOCIATION)

"Each fiscal year shall have a duration of twelve months, to begin on January 1st and to end on December 31st of each year."

6.1.10. STATUTORY DISTRIBUTION OF PROFITS (ARTICLE 15 OF THE ARTICLES OF ASSOCIATION)

A. "From the distributable profits, the following amounts shall be withheld, in the following order:

1. The amount required to pay the "primary dividend" to the shareholders equal to five percent (5%) of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.

2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next fiscal year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds. Such reserve fund(s), which shall not bear any interest, may be distributed to the shareholders, or allocated to complete the 5% primary dividend for the shareholders, in the event of insufficient results during one or more fiscal years, or to acquire and to cancel shares in the Company, or to redeem in whole or in part such shares.

3. The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

However, any shareholder who can prove at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of payment of the dividend paid for such financial year, will be entitled to a preferential dividend on the shares that are thus registered, equal to 10% of the dividend (initial dividend and additional dividend) paid on the other shares, including in the event of payment of the dividend in new shares, the preferential dividend thus paid being rounded down to the nearest lower cent, if necessary.

Similarly, any shareholder who can prove, at the end of a financial year, that shares have been registered in his

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name for at least two years and that they continue to be registered in his name at the date of completion of an increase in capital carried out through capitalisation of reserves, profits or share premiums by the distribution of bonus shares, shall be entitled to an increase in the number of bonus shares to be distributed to him, equal to 10%, this number being rounded down to the nearest lower unit in the event of fractional share rights.

The new shares created in this manner will be identical, for the purposes of calculating the rights to the preferential dividend and to the increased share allocations, to the old shares from which they result.

The number of shares eligible for these preferential dividends may not exceed 0.5% of the share capital at the closing date of the past financial year, for the same shareholder.

B. The losses (if any) shall be charged to the retained earnings from preceding fiscal years or to the reserve funds, and the balance shall be booked into a special 'carry forward' account."

6.1.11. SHAREHOLDERS' GENERAL MEETING

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection. It is specified that, in accordance with Article 12 of the Company's Articles of Association, if the Board of Directors decides when the General Meeting is called, any shareholder may take part in the meeting by videoconference or by any other telecommunication or remote transmission means including the Internet, under the conditions stipulated by the applicable regulations at the time it is used. If this decision is taken, it is communicated in the meeting notice published in the *Bulletin des Annonces Légales Obligatoires* (B.A.L.O). In 2012, the shareholders updated the Company's Articles of Association pursuant to the new regulations aimed at simplifying the participation of shareholders at Annual General Meetings.

Since the Annual General Meeting of April 29th, 2004, double voting rights have been eliminated. Applying the provisions of French law No. 2014-384 of March 29th, 2014, the General Meeting of April 22nd, 2015 confirmed that each share entitles the holder to only one vote at General Meetings.

6.1.12. STATUTORY SHARE OWNERSHIP THRESHOLD

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or a multiple of this percentage lower than 5%, is required to inform the Company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association). This provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, of thresholds relating to one-twentieth, one-tenth, three-twentieths, one-fifth, one-quarter, three-tenths, one-third, one-half, two-thirds, eighteen-twentieths or nineteen-twentieths of share capital or of voting rights" (Article L. 233-7 of the French Commercial Code).

"If not disclosed in accordance with the conditions stipulated by law or by the Articles of Association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' Meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital so request during the meeting" (Article 7, paragraph 3 of the Articles of Association).

See also the complete text of the Company's Articles of Association on the www.loreal-finance.com website, *Financial information* section.

6.2. INFORMATION CONCERNING THE SHARE CAPITAL*

6.2.1. STATUTORY REQUIREMENTS GOVERNING CHANGES IN THE SHARE CAPITAL AND SHAREHOLDERS' RIGHTS

None.

6.2.2. ISSUED SHARE CAPITAL AND AUTHORISED UNISSUED SHARE CAPITAL

The share capital amounted to €112,371,148.20 as of December 31st, 2016, it was divided into 561,855,741 shares with a par value of €0.20 each, all of the same class and ranking *pari passu.*

The table set out below which summarises (particularly in application of Articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code) the currently valid authorisations granted to the Board of Directors by the Annual General Meeting of shareholders concerning the capital. It shows the use made of such authorisations over the financial year and presents the authorisations which are to be put to the vote at the Annual General Meeting on April 20th, 2017.

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

	Authorisations in force				Authorisations proposed to the Annual General Meeting of April 20th, 2017		
	Date of AGM (resolution No.)	Length (expiry date)	Maximum authorised amount	Use made of the authorisation in 2016	**Resolution No.**	**Length**	**Maximum ceiling**
Share capital increases							
Capital increase through the issue of shares with maintenance of preferential subscription rights	April 22nd, 2015 (8th)	26 months (June 22nd, 2017)	An increase in the share capital to €157,144,508	None	11th	26 months (June 20th, 2019)	An increase in the share capital to €157,319,607 (1)
Capital increase *via* the capitalisation of share premiums, reserves, profits or other amounts	April 22nd, 2015 (8th)	26 months (June 22nd, 2017)	An increase in the share capital to €157,144,508	None	12th	26 months (June 20th, 2019)	An increase in the share capital to €157,319,607
Capital increase reserved for L'Oréal employees savings plan (PEE)	April 20th, 2016 (16th)	26 months (June 20th, 2018)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,629,833 shares at December 31st, 2015)	None	13th	26 months (June 20th, 2019)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,618,557 shares at December 31st, 2016) (2)
Capital increase reserved for employees of foreign subsidiaries	N/A	NLA	N/A	N/A	14th	18 months (October 20th , 2018)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,618,557 shares at December 31th, 2016) (2)
Buyback by the Company of its own shares							
Buyback by the Company of its own shares	April 20th, 2016 (13th)	18 months (October 20th, 2017)	10% of share capital on the date of the buybacks (*i.e.*, as an indication, 56,298,334 shares at December 31st, 2015)	3,202,500 (3)	9th	18 months (October 20th, 2018)	10% of share capital on the date of the buybacks Annual General Meeting (i.e., as an indication, 56,185,574 shares at December 31st, 2016)
Reduction in the share capital *via* cancellation of shares							
Cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code	April 20th, 2016 (14th)	26 months (June 20th, 2018)	10% of share capital on the date of cancellation per 24-month period (*i.e.*, as an indication, 56,298,334 shares at December 31st, 2015)	3,202,500			
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	April 20th, 2016 (14th)	26 months (June 20th, 2018)	750,000 shares	None			
Stock options and free grants of shares							
Grant of existing free shares or shares to be issued to the employees	April 20th, 2016 (15th)	26 months (June 20th, 2018)	0.6% of share capital on the date of the decision to grant the shares	906,100			

(1) This is a overall ceiling for increases in capital. It corresponds to a maximum increase of 40% of the capital. The increases that may be carried out pursuant to the 15th resolution voted by the Annual General Meeting on April 20th, 2016 and the 12th, 13th and 14th resolutions put to the vote of the General Meeting will also be charged against this ceiling.

(2) The cumulative amount of the increases in share capital that may be carried out pursuant to the 13th and 14th resolutions may not exceed the maximum amount of 1% of the share capital which constitutes a ceiling which applies jointly to these two resolutions.

(3) It is specified that the share buyback transactions carried out in February and March 2016 were carried out within the scope of the authorisation granted by the Annual General Meeting on April 22nd, 2015 which expired on October 22nd, 2016.

Since June 22nd, 2013, the Board of Directors no longer has an authorisation to allocate stock options to purchase or subscribe for shares.

At December 31st, 2016, 3,798,051 share subscription options had been allocated and not yet exercised. All these options are exercisable on the basis of one new share per option, and are therefore liable to lead to the creation of the same number of shares. Furthermore, 3,773,920 conditional shares had been granted to Group employees, and not yet delivered to them. Out of these, 2,772,115 shares will be created when necessary and, where applicable, by capitalisation of reserves.

Accordingly, the potential share capital of the Company amounts to €113,685,181.40, divided into 568,425,907 shares with a par value of €0.20 euro.

The Company has not issued any securities which grant indirect entitlement to shares in the capital.

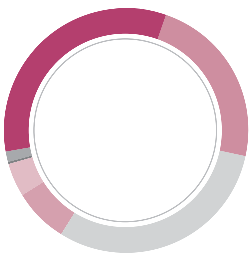
The Chairman, on the delegation of the Board of Directors at its meeting on February 11th, 2016, recorded the amount of the share capital at December 31st, 2016, which was €112,371,148.20 divided into 561,855,741 shares.

6.2.3. CHANGES IN THE SHARE CAPITAL OVER THE LAST FIVE YEARS

Date	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of the share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
12.31.2011				€120,596,816.40		602,984,082
01.01 to 12.31.2012	Exercise of share subscription options	€1,165,349.00	€407,590,294.85	€121,762,165.40	5,826,745	608,810,827
01.01 to 02.10.2013	Exercise of share subscription options	€115,508.80	€48,046,701.36	€121,877,674.20	577,544	609,388,371
02.11.2013	Cancellation of shares	- €1,015,450.00		€120,862,224.20	-5,077,250	604,311,121
02.11 to 03.25.2013	Exercise of share subscription options	€154,620.00	€62,560,063.50	€121,016,844.20	773,100	605,084,221
03.26.2013	Conditional grant of shares	€47,560.00		€121,064,404.20	237,800	605,322,021
03.26 to 05.26.2013	Exercise of share subscription options	€105,598.00	€42,689,529.48	€121,170,002.20	527,990	605,850,011
05.27.2013	Conditional grant of shares	€80.00		€121,170,082.20	400	605,850,411
05.27 to 11.29.2013	Exercise of share subscription options	€422,853.40	€132,489,663.04	€121,592,935.60	2,114,267	607,964,678
11.29.2013	Cancellation of shares	-€806,278.20		€120,786,657.40	-4,031,391	603,933,287
11.30 to 12.31.2013	Exercise of share subscription options	€393,720.00	€136,453,362.00	€121,180,377.40	1,968,600	605,901,887
01.01 to 04.27.2014	Exercise of share subscription options	€160,065.40	€47,381,984.35	€121,340,442.80	800,327	606,702,214
04.28.2014	Conditional grant of shares	€77,860.00		€121,418,302.80	389,300	607,091,514
04.29 to 07.07.2014	Exercise of share subscription options	€243,377.00	€74,294,609.14	€121,661,679.80	1,216,885	608,308,399
07.08.2014	Cancellation of shares	- €9,700,000.00		€111,961,679.80	-48,500,000	559,808,399
07.09 to 12.31.2014	Exercise of share subscription options	€284,398.00	€93,932,388.88	€112,246,077.80	1,421,990	561,230,389
01.01 to 03.01.2015	Exercise of share subscription options	€197,786.40	€63,711,066.62	€112,443,864.20	988,932	562,219,321
03.02.2015	Conditional grant of shares	€90.00		€112,443,954.20	450	562,219,771
03.02 to 04.21.2015	Exercise of share subscription options	€62,240.80	€20,382,327.94	€112,506,195.00	311,204	562,530,975
04.22.2015	Cancellation of shares	- €581,000.00		€111,925,195.00	-2,905,000	559,625,975
04.22 to 12.31.2015	Exercise of share subscription options	€671,474.60	€253,534,790.22	€112,596,669.60	3,357,373	562,983,348
01.01 to 06.30.2016	Exercise of share subscription options	€226,538.40	€89,132,049.59	€112,823,208.00	1,132,692	564,116,040
06.30.2016	Cancellation of shares	- €640,500.00		€112,182,708.00	-3,202,500	560,913,540
07.01.2016 to 07.12.2016	Exercise of share subscription options	€9,974.00	€3,995,962.20	€11,192,682.00	49,870	560,963,410
07.13.2016	Conditional grant of shares	€205.00		€112,192,887.00	1,025	560,964,435
07.14.2016 to 12.31.2016	Exercise of share subscription options	€178,261.20	€69,671,555.92	€112,371,148.20	891,306	561,855,741

6.3. SHAREHOLDER STRUCTURE*

SHAREHOLDER STRUCTURE AT DECEMBER 31ST, 2016



(1) *Concerns the employees and former employees of L'Oréal. Pursuant to the French law of 08/06/2015, the percentage also includes, in 2016, the free shares granted in accordance with the scheme provided for under Article L. 225-197-1, of which 0.76% in the L'Oréal employee savings plan (PEE) as defined by Article L. 225-102 of the French Commercial Code.*

6.3.1. LEGAL ENTITIES OR INDIVIDUALS ACTING IN CONCERT OVER THE COMPANY TO THE COMPANY'S KNOWLEDGE

The Bettencourt Meyers family, on the one hand, and Nestlé S.A., on the other hand, are shareholders of the Company and have declared that they are acting in concert (see the sections 6.3.2 and 6.3.5 below "*Changes in allocation of the share capital and voting rights*" and "*Shareholders' agreements relating to shares in the Company's share capital*").

6.3.2. CHANGES IN ALLOCATION OF THE SHARE CAPITAL AND VOTING RIGHTS OVER THE LAST THREE YEARS

Over the last three years, the allocation of the share capital and the voting rights has changed as follows:

	12.31.2016			12.31.2015			12.31.2014		
	Number of shares	**% of capital**	**% of voting rights (4)**	Number of shares	% of capital	% of voting rights (4)	Number of shares	% of capital	% of voting rights (4)
Bettencourt Meyers family (1)	185,704,089	33.05	33.05	185,704,089	32.99	32.99	185,704,089	33.09	33.09
Nestlé S.A.	129,881,021	23.12	23.12	129,881,021	23.07	23.07	129,881,021	23.14	23.14
Concert party (2)	315,585,110	56.17	56.17	315,585,110	56.06	56.06	315,585,110	56.23	56.23
Employees (3)	6,714,399	1.20	1.20	4,628,294	0.82	0.82	4,530,801	0.81	0.81
Public	237,798,887	42.32	42.32	239,774,774	42.59	42.59	234,125,967	41.71	41.71
Treasury stock	1,757,345	0.31	0.31	2,995,170	0.53	0.53	6,988,511	1.25	1.25
TOTAL	**561,855,741**	**100.0**	**100.0**	**562,983,348**	**100.0**	**100.00**	**561,230,389**	**100.0**	**100.0**

(1) *Including 185,654,833 L'Oréal shares held in absolute or beneficial ownership by Téthys, a French Société par actions simplifiée (simplified joint-stock company) controlled by the Bettencourt Meyers family group. Mrs. Françoise Bettencourt Meyers holds 33,141,389 L'Oréal shares in bare ownership, the beneficial ownership of which is held mainly by Téthys of which she is the Chairwoman.*
(2) *The Bettencourt Meyers family and Nestlé S.A. act in concert (see Shareholders' agreements relating to shares in the Company's share capital below).*
(3) *Concerns the employees and former employees of L'Oréal. Pursuant to the French law of 08/06/2015, the number of shares also includes, in 2016, the free shares granted in accordance with the scheme provided for under Article L. 225-197-1, of which 0.76% in the L'Oréal employee savings plan (PEE) as defined by Article L. 225-102 of the French Commercial Code.*
(4) *Calculated in accordance with Article 223-11 of the General Regulation of the Autorité des Marchés Financiers.*

To the Company's knowledge, at December 31st, 2016, the members of the Executive Committee held less than 1% of the share capital.

The number of shares held by each of the members of the Board of Directors is shown in the information sheets on the Directors set out in chapter 2 of this document.

The Company is authorised to trade in its own shares on or off the Stock Exchange in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, within the limits and in accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting.

At December 31st, 2016, the Company held, on this basis, 1,757,345 of its own shares (representing 0.31% of the share capital), which, valued at their purchase price, represented €133.6 million in L'Oréal's parent company financial statements. None of these shares is allocated to covering the stock option plans for the purchase of shares allocated to employees and executive officers of Group companies that have not yet expired. Furthermore, 1,001,805 of these shares were allocated to covering a plan for the conditional grant of shares to employees.

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

6.3.3. EMPLOYEES SHARE OWNERSHIP

The employees and former employees of L'Oréal and its affiliates held 6,714,399 shares as at December 31st, 2016 representing 1.20% (1) of the share capital, of which 0.76% in the employee savings plan. At that date, this stake in the capital is held by 10,736 employees participating in the Group employee savings plan as defined by Article L. 225-102 of the French Commercial Code.

6.3.4. DISCLOSURES TO THE COMPANY OF LEGAL THRESHOLDS CROSSED

Mrs. Françoise Bettencourt Meyers declared that, on June 16th, 2016, she individually crossed downward the threshold of 10% of the capital of L'Oréal and that she individually holds at that date 38,467,332 L'Oréal shares (2) representing 25,943 voting rights, namely 6.82% of the capital [6]. The French *société par actions simplifiée* (joint-stock company) Téthys (3) declared that, on June 16th, 2016, it individually crossed upward the thresholds of 20% and 25% of the capital of L'Oréal and that it individually holds at that date 147,214,292 L'Oréal shares representing 185,654,833 (4) voting rights, namely 26.11% of that company's capital and 32.93% of its voting rights (6).

These thresholds were crossed due to the transaction involving the contribution in kind by Mrs. Françoise Bettencourt Meyers of the bare ownership of 38,000,000 L'Oréal shares in favour of Téthys which already held the beneficial ownership thereof.

On this occasion, the Bettencourt Meyers family (5) did not cross any threshold and holds, on June 16th, 2016, 185,704,089 L'Oréal shares representing the same number of voting rights, namely 32.94% of that company's capital and voting rights (6).

6.3.5. SHAREHOLDERS' AGREEMENTS RELATING TO SHARES IN THE COMPANY'S SHARE CAPITAL

The Company is not aware of any shareholders' agreements relating to shares in its share capital other than the agreement described below.

A memorandum of agreement was signed on February 3rd, 2004 between Mrs. Liliane Bettencourt and her family, and Nestlé, providing for the merger of Gesparal into L'Oréal (merger completed on April 29th, 2004) and it contains the following clauses:

6.3.5.1. Clauses relating to the management of the L'Oréal shares held

Clause limiting the shareholding

The parties agreed not to increase their shareholdings or their voting rights held in L'Oréal, either directly or indirectly, in any manner whatsoever, for a minimum period of three years as from April 29th, 2004, and in any case not until six months have elapsed after the death of Mrs. Bettencourt (7).

Lock-up clause
(clause expired on April 29th, 2009)

The parties agreed not to transfer any or all of their L'Oréal shares either directly or indirectly, for a period of five years as from April 29th, 2004.

Exceptions to the undertaking to limit the shareholding and the lock-up clause

a) The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the Company of its own shares, or the suspension or removal of the voting rights of a shareholder.

b) The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision (*avis de recevabilité*) and up until the day after the publication of the notice of results (*avis de résultat*).

c) In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe for new shares, in order to maintain their holding at the percentage existing prior to the said transaction.

d) The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital and voting rights.

(1) Concerns the employees and former employees of L'Oréal. Pursuant to the French law of 08/06/2015, the percentage also includes, in 2016, the free shares granted in accordance with the scheme provided for under Article L. 225-197-1.
(2) Including 25,943 shares held in absolute ownership and 38,441,389 shares held in bare ownership.
(3) Controlled by the Bettencourt Meyers family group.
(4) Of which the voting rights to the 38,440,541 shares held in beneficial ownership.
(5) Consisting of Mrs. Liliane Bettencourt and Mrs. Françoise Bettencourt Meyers, Mr. Jean-Pierre Meyers, Mr. Jean-Victor Meyers and Mr. Nicolas Meyers, and Téthys SAS.
(6) On the basis of share capital at May 31st, 2016 consisting of 563,786,516 shares, representing the same number of voting rights (including 4,960,385 treasury shares) pursuant to Article 223-11 of the General Regulation of the AMF
(7) See the amendment entered into on February 10th, 2014, section 6.3.5.

Pre-emption clause (clause expired on April 29th, 2014)

The parties have reciprocally granted each other a pre-emption right concerning the L'Oréal shares they hold since the date of the merger, and those they will hold after such date.

This pre-emption right, that came into force on expiry of the lock-up clause for a period of five years, expired on April 29th, 2014.

"No concert party" provision (clause expired on April 29th, 2014)

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right with regard to the shareholding of the party having committed such breach, for a price per share equal to the average of the share prices for the last thirty trading sessions prior to notification of exercise of the pre-emption right.

6.3.5.2. Board of Directors

The memorandum of agreement did not provide for any change to the composition of the Board of Directors as compared to its composition at the date of signing, but did stipulate an undertaking by the parties to vote in favour of the appointment as Directors of three members proposed by the other party.

The Bettencourt family and Nestlé also agreed to vote in favour of the appointment of two Vice-Chairmen of the Board of Directors, one proposed by the Bettencourt family, and the other by Nestlé.

The parties provided for the creation on the Board of Directors of L'Oréal of a committee called the Strategy and Implementation Committee which has six members, and is chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt family, two members proposed by Nestlé and one other independent Director. The committee meets six times a year.

6.3.5.3. Term

Unless otherwise stipulated, the memorandum of agreement will remain in force for five years from April 29th, 2004, and in all cases until a period of six months has elapsed after the death of Mrs. Bettencourt.

6.3.5.4. Concerted action between the parties

The parties declared that they would act in concert for a period of five years from April 29th, 2004. On April 9th, 2009, the Bettencourt family and Nestlé published the following press release:

"On February 3rd, 2004, the Bettencourt family and Nestlé signed an agreement organising their relationship and the management of their stakes within the L'Oréal Company.

The agreement is public and remains unchanged. It foresees the non-transferability of their respective stakes in the capital of L'Oréal until April 29th, 2009, the other clauses (in particular, limitation on the shareholding, pre-emption, escrow, prohibition on constituting a concert party with any third party, composition of the Board of Directors and of the Strategy and Implementation Committee) continue to be effective until the expiry date mentioned in the 2004 deed.

The Bettencourt family and Nestlé will continue to act in concert with regard to the L'Oréal Company beyond April 29th, 2009."

6.3.5.5. Amendment agreement signed on February 10th, 2014

In meetings held on February 10th, 2014, the respective Boards of Directors of Nestlé and L'Oréal approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal would buy 48.5 million of its own shares (8% of its share capital) from Nestlé. L'Oréal and Nestlé's joint news release of February 11th, 2014, describes this transaction in detail.

The buyback was subject to fulfilment of a condition precedent, namely the closing of the acquisition by Nestlé of all the shares held by L'Oréal in the companies of the Galderma group. The condition was fulfilled and all the L'Oréal shares purchased by L'Oréal were cancelled; following the transaction, Nestlé's stake in L'Oréal's capital was reduced from 29.4% to 23.29% while the Bettencourt Meyers family's stake increased from 30.6% to 33.31% of the capital at December 31st, 2013.

In order to reflect the change in the stake held by Nestlé in their agreements, on February 10th, 2014, the Bettencourt Meyers family and Nestlé signed an amendment agreement to their memorandum of agreement of February 3rd, 2004.

Ownership ceiling clause

Subject to closing of the transaction and as from the date thereof, the clause limiting the respective shareholdings of the Bettencourt Meyers family and Nestlé both in terms of capital and voting rights will continue to apply under the same conditions, for the term of the memorandum of agreement, namely until the expiry of a period of six months after the death of Mrs. Liliane Bettencourt, and on the basis of their respective stakes in terms of capital and voting rights resulting from the transaction.

Board of Directors

Subject to closing of the transaction and as from the date thereof, it is provided that for the remaining term of the memorandum of agreement, the undertaking by the Bettencourt Meyers family to vote in favour of the appointment on L'Oréal's Board of Directors of members proposed by Nestlé will from now on only concern two members, as against three previously.

The reciprocal undertaking by Nestlé to vote in favour of the appointment on L'Oréal's Board of Directors of members proposed by the Bettencourt Meyers family will continue to concern three members.

Escrow agreement

The escrow agreement for the L'Oréal shares respectively held by the Bettencourt Meyers family and by Nestlé was terminated prior to its expiry date.

Agreement by the parties to act in concert

The parties stated that they would continue to act in concert for the remaining term of the memorandum of agreement.

The other provisions of the memorandum of agreement still in force that have not been expressly amended by the amendment agreement will remain unchanged.

Joint press release issued by the Bettencourt Meyers family and Nestlé on February 11th, 2014.

"Nestlé and L'Oréal announced today the buyback by L'Oréal of L'Oréal shares sold by Nestlé. Subject to completion of the transaction, Nestlé's ownership in L'Oréal will decrease from 29.4% to 23.29%, and the Bettencourt Meyers Family's ownership will increase from 30.6% to 33.31%.

The Bettencourt Meyers Family and Nestlé have amended the shareholders' agreement of February 3rd, 2004 to take into account the new shareholding structure, once the transaction is completed.

The number of Nestlé representatives on the Board of Directors of L'Oréal will be brought down from 3 to 2. The ownership ceiling provisions of the agreement will continue to apply to the new levels of ownership in the same conditions.

This amendment will be communicated to the Autorité des Marchés Financiers.

The Bettencourt Meyers family and Nestlé will continue to act in concert with respect to L'Oréal for the remaining duration of the shareholders' agreement."

6.3.5.6. Collective lock-up agreements within the scope of Articles 787 B and 885 I bis of the French Tax Code

The members of the Bettencourt Meyers family group, consisting of Mrs. Liliane Bettencourt, Mrs. Françoise Bettencourt Meyers, Director, Mr. Jean-Pierre Meyers, Vice-Chairman of the Board of Directors, Mr. Jean-Victor Meyers, Director, Mr. Nicolas Meyers and Téthys SAS, as well as Mr. Jean-Paul Agon, Chairman and Chief Executive Officer, for 100 shares, signed lock-up agreements under the Dutreil law on December 16th, 2016.

These lock-up agreements were concluded in application of Articles 787 B and 885 I bis of the French Tax Code for a period of two years, tacitly renewable for one-year periods. The L'Oréal shares which are the subject of these agreements represent 33.065% of the capital and of the voting rights at December 16th, 2016. These lock-up agreements do not include any preferential rights for sales or acquisitions for the benefit of the signatories and do not constitute a concerted action.

6.3.6. BUYBACK BY THE COMPANY OF ITS OWN SHARES

6.3.6.1. Information concerning share buybacks during the 2016 financial year

In 2016, the Company bought back 3,202,500 of its own shares, in accordance with the authorisations voted by the Annual General Meeting of April 22nd, 2015.

The table set out below summarises the transactions carried out within this framework, and the use made of the shares bought back:

Date of authorisation of the Annual General Meeting	(7th resolution of April 22nd, 2015)
Expiry date of the authorisation	October 22nd, 2016
Maximum amount of authorised buybacks	10% of capital on the date of the share buybacks (*i.e.*, as an indication, 56,298,334 shares at December 31st, 2015)
Maximum purchase price per share	€230
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meeting that decided on the buybacks	February 11th, 2016
Purpose of buybacks	Cancellation
Period of buybacks made	From February 15th, 2016 to March 18th, 2016
Number of shares purchased	3,202,500*
Average purchase price per share	€155.68**
Use of shares purchased	Cancellation

* *These shares were cancelled on June 30th, 2016.*
** *Before costs.*

6.3.6.2. Transactions carried out by L'Oréal with respect to its shares in 2016

Percentage of share capital held by the Company directly and indirectly at December 31st, 2016 of which:	0.313%
◆ those intended to cover existing share purchase option plans	0.000% (1)
◆ those intended to cover conditional shares	0.178%
◆ those intended for cancellation	0.000%
Number of shares cancelled during the last 24 months	6,107,500
Number of shares held in the portfolio at 12.31.2016	1,757,345
Net book value of the portfolio at 12.31.2016	€133.6 million
Portfolio market value at 12.31.2016	€304.7 million

(1) Pursuant to Article L. 225-183 3° of the French Commercial Code.

	Total gross transactions	
	Purchases	Sales/Transfers*
Number of shares	-	6,255
Average transaction price	-	
Average exercise price	-	€62.94
Amounts	-	€0.39 million

* *Exercises and cancellations of share purchase options granted to employees and executive officers of Group companies.*

No use was made of derivatives to make the share buybacks. There is no open purchase or sale position at December 31st, 2016.

6.3.6.3. Renewal by the Annual General Meeting of the authorisation given to the Board to trade in the Company's shares

By voting a new resolution, the Annual General Meeting could give the Board of Directors the means to enable it to continue with the buyback policy.

This authorisation would be given for a maximum period of 18 months as from the date of the Annual General Meeting and the purchase price per share could not exceed €230 (excluding expenses), it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

The Company would be able to buy its own shares for the following purposes:

- their cancellation;
- their sale within the scope of employee share ownership programmes and their allocation to free grants of shares for the benefit of employees and executive officers of the L'Oréal Group;
- liquidity provision through a liquidity agreement;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The authorisation would concern up to 10% of the share capital, *i.e.* for information purposes at December 31st, 2016, 56,185,574 shares for a maximum amount of €12,922,682,020 it being stipulated that the Company may at no time hold over 10% of its own share capital. The price and number of shares previously indicated will be adjusted, where applicable, in the event of financial transactions with regard to the capital that justify it, in particular the division of the par value provided for in the tenth resolution.

The purchase, sale, exchange or transfer of these shares may be carried out by any means on one or more occasions, on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include the use of all financial instruments and derivatives (see resolution 9, chapter 7, section 7.7.1.1).

6.4. LONG-TERM INCENTIVE PLANS*

6.4.1. PRESENTATION OF THE STOCK OPTION PLANS FOR THE PURCHASE OR SUBSCRIPTION OF SHARES AND PLANS FOR THE CONDITIONAL GRANTS OF SHARES TO EMPLOYEES (ACAS)

Policy

For several years, L'Oréal has set up long-term incentive plans in favour of its employees and executive officers in an international context.

It pursues a dual objective:

- motivating and associating those who make big contributions with the future evolution of the Group's results;
- increasing solidarity and helping to instil a group spirit among its managers by seeking to foster their loyalty over time.

Until 2009, L'Oréal's Board of Directors exclusively granted stock options to the senior managers and executive officers whom L'Oréal wished to reward for their performance and their important role in business development and in the Group's current and future projects, wherever they might be located.

In 2009, L'Oréal's Board of Directors enlarged its policy by introducing a mechanism for the conditional grants of shares to employees (ACAs).

The objective was:

- to provide a long-term incentive offering greater motivation to all those who only received stock options occasionally or in limited numbers;
- to reach out to a broader population of potential beneficiaries, particularly internationally, in a context of increased competition with regard to talents.

In 2011, L'Oréal's Board of Directors decided to make ACAs the primary tool for its long-term incentive policy by extending the grant of shares to the main senior managers of the Group who until then had only received stock options: thus, except for the Chairman and Chief Executive Officer who received stock options only, the main senior managers of L'Oréal, including the members of the Executive Committee, received a mix of stock options and conditional grants of shares in order to encourage both their spirit of enterprise and to reward their performance in the medium to long term. Other eligible employees were stimulated by conditional grants of shares only.

In 2012, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, went one step further in this policy and decided to replace the grant of stock options by conditional grants of shares (ACAs) for all beneficiaries including the Chairman and Chief Executive Officer.

Since 2013, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, has continued this policy to make conditional grants of shares (ACAs), to the exclusion of any other long-term incentive instrument.

The plans are proposed by General Management to the Board of Directors which decides, after receiving the opinion of the Human Resources and Remuneration Committee, with regard to the opening of these plans and the applicable conditions and rules.

Since 2009, these grants are made after publication of the financial statements for the previous financial year, in accordance with the AFEP-MEDEF recommendation.

The decision with regard to each individual grant is, in every case, contingent on the quality of the performance rendered at the time of implementation of the plan with particular attention being paid to the main talents for the future. According to the eligibility criteria linked to the position held by the beneficiary and the size of the entity or the country in which the beneficiary works, in a concern for equity on an international scale, these grants are made every year, every two years or every three years.

The General Management and the Board of Directors stress the importance that is given to bringing together the interests of the beneficiaries of stock options and conditional grants of shares and those of the shareholders themselves.

The employees and executive officers who are the beneficiaries share with the shareholders the same confidence in the strong steady growth of the Company with a medium and long-term vision. This is why stock options were granted for a period of 10 years including a 5-year lock-up period, and conditional grants of shares for a period of 4 years followed, for France up until 2015, by a 2-year waiting period during which these shares cannot be sold.

Nearly 3,200 employees representing 11% of the managers throughout the world, 61% of whom are in international subsidiaries, benefit from at least one stock option plan or one conditional grant of shares plan (ACAs). 48% of the beneficiaries of the April 20th, 2016 plan are women.

The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside information". The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of Ethics which is attached to the regulations for the stock option plans or the plans for the conditional grant of shares from which they benefit and to comply with the provisions thereof.

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

CHANGE IN THE NUMBER OF BENEFICIARIES OF STOCK OPTIONS AND ACAS SINCE 2007

6.4.2. STOCK OPTION PLANS FOR THE SUBSCRIPTION AND PURCHASE OF L'ORÉAL PARENT COMPANY SHARES

No stock options for the purchase or subscription of shares were granted in 2016, as the Board of Directors has decided since 2012, on the proposal of the Human Resources and Remuneration Committee, to replace the grant of stock options with ACAs for all beneficiaries including the Chairman and Chief Executive Officer.

6.4.2.1. Currently existing L'Oréal parent company share subscription option plans (1)

The main features of the plans that existed at December 31st, 2016, are included in the tables set out hereafter:

AGM authorisation date	04.24.2007	04.24.2007	04.16.2009	04.22.2011
Date of Board of Directors' meeting	**11.30.2007**	**03.25.2009**	**04.27.2010**	**04.22.2011**
Total number of beneficiaries	839	634	815	89
Total number of shares that may be subscribed	4,000,000	3,650,000	4,200,000	1,470,000
Of which may be subscribed by the executive officer (2):				
◆ *Mr. Jean-Paul Agon*	*350,000*	*(0) (3)*	*400,000*	*200,000 (4)*
Start date for exercise of the options	12.01.2012	03.26.2014	04.28.2015	04.23.2016
Date of expiry	11.30.2017	03.25.2019	04.27.2020	04.22.2021
Subscription price (euros)	91.66	50.11	80.03	83.19
Number of stock options exercised at 12.31.2016	2,912,750	2,749,667	2,228,005	494,727
Total number of options for subscription of shares that have been cancelled or lapsed	472,600	204,000	226,200	234,000
Number of option shares remaining to be subscribed at year-end	**614,650**	**696,333**	**1,745,795**	**741,273**

(1) There are no share subscription option plans at subsidiaries of L'Oréal.
(2) This is the number of stock options granted to the executive officer during his term of office within the scope of each of the above-mentioned plans. Mr. Jean-Paul Agon has been an executive officer since April 2006.
(3) As Mr. Jean-Paul Agon informed the Board of Directors that he did not wish to be granted any share subscription options with respect to 2009, he did not receive any stock option under the plan dated March 25th, 2009.
(4) The Board of Directors' meeting of April 22nd, 2011 allocated 400,000 share subscription options to Mr. Jean-Paul Agon. Mr. Jean-Paul Agon waived the right to 200,000 of such options. He therefore benefits from 200,000 stock options under the plan decided by the Board of Directors at its meeting on April 22nd, 2011.

There were 3,798,051 outstanding options granted by the Board of Directors within the scope of the authorisations voted by the Annual General Meetings and not yet exercised at December 31st, 2016, at an average price of €77.04, namely 0.68% of the 561,855,741 shares making up the share capital at such date.

6.4.2.2. Stock options to purchase or subscribe for shares granted to employees other than executive officers of L'Oréal or exercised by them during the 2016 financial year

	Total number of options granted	Weighted average price
Options granted by L'Oréal parent company to the ten employees (1) to whom the largest number of stock options was granted	No stock options granted in 2016	N/A

(1) Employees other than executive officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

	Total number of shares subscribed or purchased	Weighted average price	Plan of 12/01/06 (S)	Plan of 11/30/07 (S)	Plan of 03/25/09 (S)	Plan of 04/27/10 (S)	Plan of 04/22/11 (S)
Options held with regard to L'Oréal parent company exercised by the ten employees (1) who have thus purchased or subscribed for the largest number of options	381,155	€79.61	50,725	79,600	40,830	135,000	75,000

(1) Employees other than executive officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

6.4.3. PLANS FOR THE CONDITIONAL GRANTS OF SHARES (ACAS)

6.4.3.1. Authorisation of the Ordinary and Extraordinary General Meeting of April 20th, 2016

The Ordinary and Extraordinary General Meeting of April 20th, 2016 gave the Board of Directors the authorisation to carry out free grants of existing shares and/or shares to be issued of the Company to employees and executive officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code.

The Ordinary and Extraordinary General Meeting set the period of validity of the authorisation, which may be used on one or more occasions, at 26 months.

The total number of free shares granted in this manner may not represent more than 0.6% of the share capital recorded on the date of the Board of Directors' decision.

The number of free shares granted to the Company's executive officers may not represent more than 10% of the total number of free shares granted during a financial year pursuant to such resolution.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares and the number of free shares granted to each of them as well as the conditions to be met in order for the shares to finally vest, and in particular the performance conditions.

These performance conditions will take into account:

- partly, growth in L'Oréal's comparable cosmetics sales as compared to those of a panel of its biggest direct competitors;
- partly, growth in L'Oréal's consolidated operating profit.

The Board of Directors indeed considers that these two criteria, assessed over a long period of 3 financial years and applied to several plans, are complementary, in line with the Group's objectives and suitable to its specificities and should make it possible to promote balanced, continuing growth over the long term.

The grant of such shares to their beneficiaries, for all or part of the shares granted, will become final and binding subject to satisfaction of the other conditions set at the time of grant, at the end of a minimum vesting period of four years.

The grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (*Code de la sécurité sociale*) and such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code.

The Board of Directors will be able to provide for vesting and holding periods which are longer than the minimum periods set above.

The mechanism for the Conditional Grant of Shares to employees complies with the AFEP-MEDEF Code of Corporate Governance and in particular:

- any conditional grants of shares to the executive officers will be decided by the Board of Directors after assessment of their performance;
- the final vesting of all or part of the shares will be linked to performance conditions to be met that are set by the Board;
- the executive officers will be obliged to retain 50% of the shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties;
- an executive officer may not be granted any shares at the time of his departure.

6.4.3.2. Conditional Grants of Shares granted within the framework of the authorisation of April 20th, 2016 (ACAs plan of April 20th, 2016)

On the basis of the proposals made by the General Management and examined by the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on April 20th, 2016, to make a conditional grant of shares within the scope of the authorisation granted by the Annual General Meeting on April 20th, 2016.

The share capital at April 20th, 2016 consisted of 563,446,116 shares, which gave the possibility to distribute 3,380,676 shares.

The Board of Directors used this authorisation at its meeting of April 20th, 2016 by granting 906,100 free shares to 2,079 beneficiaries.

This is a free grant of shares to be issued.

Vesting of the shares is subject to a dual condition:

- of presence: the shares granted will only finally vest after a period of 4 years at the end of which the beneficiary must still be an employee of the Group (save the exceptions provided for by law or the plan regulations);
- of performance:
  - vesting of all or part of 50% of the shares granted will depend on the growth in comparable cosmetics sales for financial years 2017, 2018 and 2019 as compared to those of a panel of L'Oréal's biggest direct competitors consisting of Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty;
  - vesting of all or part of 50% of the shares granted will depend on growth in the Group's consolidated operating profit, over the same period.

The calculation will be made on the basis of the arithmetic mean of the performances for the 2017, 2018 and 2019 financial years.

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

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

The Human Resources and Remuneration Committee is responsible for communicating to the Board of Directors the level of indicators recorded for the years to be used for the calculation of the performance conditions. The Board of Directors records, at the appropriate time, the level of performance achieved on which the number of shares that finally vests depends.

The data recorded year after year to determine the levels of performance achieved are published in § 6.4.3.5 and 6.4.3.6.

The vesting of the first 200 conditional shares (ACAs) is not subject to fulfilment of the performance conditions except for the members of the Executive Committee, including the Chairman and Chief Executive Officer.

6.4.3.3. Shares granted to the ten employees other than executive officers to whom the largest number of shares have been granted

The total number of shares granted in 2016 to the ten employees other than corporate officers who received the largest number of shares amounts to 128,600 shares.

6.4.3.4. Existing Conditional Grants of shares at December 31st, 2016

Date of authorisation by the Extraordinary General Meeting	04.26.2013	04.26.2013	04.22.2015	04.20.2016
Date of grant by the Board of Directors	**04.26.2013**	**04.17.2014**	**04.22.2015**	**04.20.2016**
Total number of shares conditionally granted	**1,057,820**	**1,068,565**	**860,150**	**906,100**
Of which the ten employees other than executive officers granted the largest number of shares (1)	*146,700*	*153,400*	*126,100*	*128,600*
Number of beneficiaries	2,092	1,978	1,943	2,079
Performance conditions	◆ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors (2) ◆ 50% growth in the L'Oréal Group's consolidated operating profit			
Date of final vesting for French tax residents at the date of grant	04.26.2017	04.17.2018	04.22.2019	04.20.2020
Date of final vesting for non-French tax residents at the date of grant	04.26.2017	04.17.2018	04.22.2019	04.20.2020
End of the waiting period for French tax residents at the date of grant	04.26.2019	04.17.2020	04.22.2021	N/A

(1) *Employees who are not executive officers of L'Oréal parent company or employees of companies included within the scope of the grant of shares.*
(2) ***For the 2012, 2013, 2014 plans**, the panel consists of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*
***For the 2015 and 2016 plans**, the panel consists of the following companies: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty.*

6.4.3.5. Shares that have finally vested within the scope of the April 26th, 2013 plan for the conditional grant of shares

The Board of Directors recorded at its meeting on February 9th, 2017 that the performance levels achieved during the three years taken into consideration within the scope of the April 26th, 2013 plan, namely 2014, 2015 and 2016, exceeded the levels set for the grant of all the shares (ACAs).

Accordingly, the beneficiaries who fulfil the conditions under the plan on April 26th, 2017 and, in particular, the condition of presence in the Company, will receive all the shares that were granted to them.

For information purposes, 40,000 shares were granted to the executive officer.

TABLE MONITORING THE PERFORMANCE CONDITIONS OF THE ACAS PLAN OF APRIL 26TH, 2013

ACAs plan of April 26th, 2013	2014	2015	2016	Arithmetical average of performances for financial years 2014/2015 and 2016
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	**+ 1.2 point** (+ 3.8 %/+ 2.6 %)	**+ 0.8 point** (+ 4.1 %/+ 3.3 %)	**+ 1.2 point** (+ 4.9 %/+ 3.7 %)	**+ 1.07 point**
50% increase in the Group's operating profit	**+ 3.47 %** (3,760.4/3,890.7)**	**+ 12.80 %** (3,890.7/4,387.7)	**+ 3.5 %** (4,387.7/4,539.9)	**6.59 %**

* *Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*
** *Data has been restated to reflect exclusion of Galderma and Innéov.*

6.4.3.6. Tables monitoring performance conditions for the ACAs plans that are currently in progress

ACAs plan of April 17th, 2014	2015	2016	2017
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	**+ 0.8 point** (+ 4.1 %/+ 3.3 %)	**+ 1.2 point** (+ 4.9 %/+ 3.7 %)	to come
50% growth in the Group's operating profit	**+ 12.80 %** (3,890.7/4,387.7)	**+ 3.5 %** (4,387.7/4,539.9)	to come

* *Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*

ACAs plan of April 22nd, 2015	2016	2017	2018
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	**+ 1.8 point** (+ 4.9 %/+ 3.1 %)	to come	to come
50% growth in the Group's operating profit	**+ 3.5 %** (4,387.7/4,539.9)	to come	to come

* *Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty.*

ACAs plan of April 20th, 2016	2017	2018	2019
50% growth in comparable cosmetics sales as compared to that of a panel of competitors*	to come	to come	to come
50% increase in the Group's operating profit	to come	to come	to come

* *Panel of competitors: Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty.*

6.5. THE L'ORÉAL SHARE/L'ORÉAL SHARE MARKET

6.5.1. THE L'ORÉAL SHARE

6.5.1.1. Information on the L'Oréal share

ISIN code: FR0000120321.

Loyalty Bonus codes:

- Shares that already benefit from the preferential dividend: FR0011149590.
- Dividend + 10% in 2017: FR0012332245.
- Dividend + 10% in 2018: FR0013053097.
- Dividend + 10% in: FR0013217056.

Minimum lot: 1 share.

Par value: €0.20.

Trading on the spot market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

Unsponsored "American Depositary Receipts" are freely traded in the United States through certain banks operating in the United States.

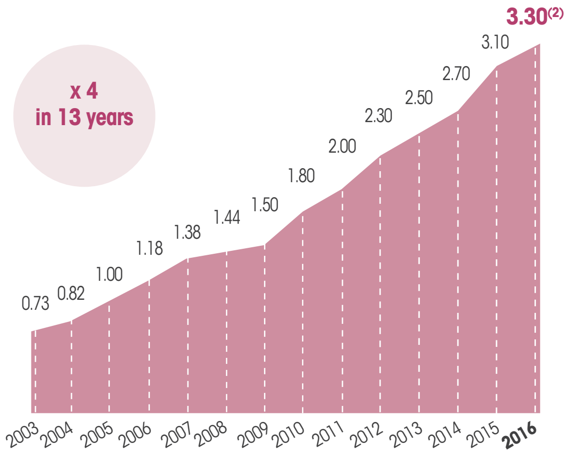
6.5.1.2. Stock market data

Price at December 30th, 2016	**€173.40**
Average of last 30 days' closing prices for 2016	€165.27
Low	€142.65 January 20th, 2016
High	€177.90 July 27th, 2016
Annual share price increase at December 31st, 2016	
◆ L'Oréal	+11.65%
◆ CAC 40	+4.86%
◆ Euronext 100	+3.04%
◆ DJ Euro Stoxx 50	+0.70%
◆ Stoxx Europe 600 Personal and Household Goods	+2.01%
Market capitalisation at December 31st, 2016	€97.4 billion (1)
At December 31st 2016, the L'Oréal share weighed:	
◆ in the CAC 40	4.11%
◆ in the Euronext 100 (2)	4.13%
◆ in the DJ Euro Stoxx 50	1.91%
◆ in the Stoxx Europe 600 Personal and Household Goods	6.59%

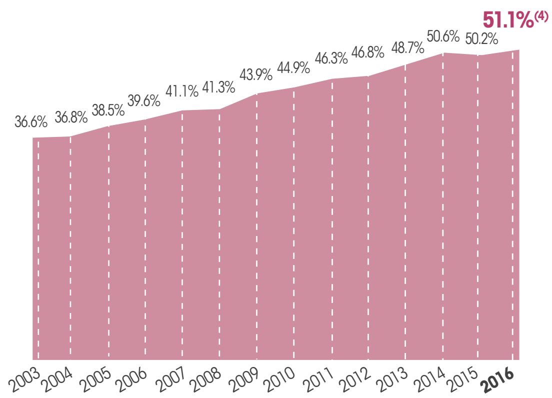
(1) Out of the number of shares at December 31st, 2016, i.e. 561,855,741 shares.
(2) Based on the total number of shares for the Euronext 100 index.

6.5.1.3. Dynamic shareholder return policy

- Net earnings per share: €6.46 (1)
- Dividend per share: €3.30 (2)
- A regular increase in the dividend per share (in euros):



- Share of profits dedicated to dividends (3)(as %): 51.1% (4)



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(1) Diluted net profit excluding non-recurring items, group share, per share from continuing operations.
(2) Dividend proposed to the Annual General Meeting of April 20th, 2017.
(3) Dividend distribution rate based on diluted net profit excluding non-recurring items, group share, per share. Taking into account Sanofi not consolidated in 2003.
(4) On the basis of the dividend proposed to the Annual General Meeting of April 20th, 2017.

6.5.2. L'ORÉAL SHARE MARKET

6.5.2.1. Trading volumes and change in the price of the Company's share

According to Euronext data, the only stock market for which reliable retrospective statistics could be collected.

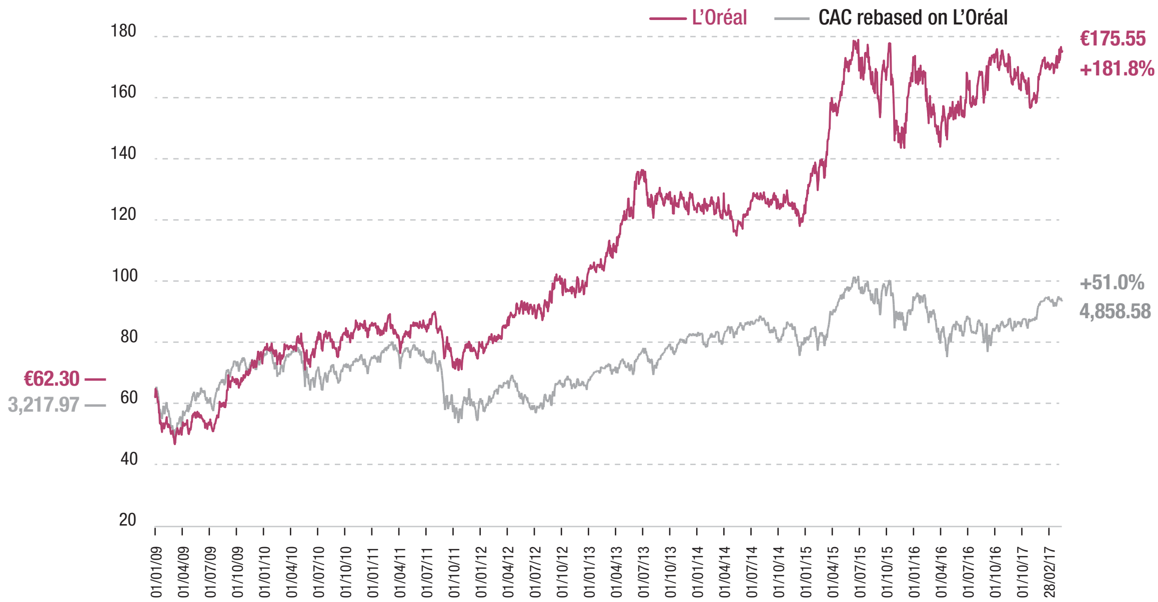
Date	Price (€) High	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2014				
January	129.2	119.25	124.21	90.06
February	134.75	120.15	123.09	121.84
March	123.4	114.55	118.6	90.1
April	124.6	116.35	120.6	86.16
May	129.65	123.15	127.09	77.66
June	129.85	125.25	127.57	74.31
July	129.25	124.55	126.76	66.53
August	128.6	123.2	125.62	80.23
September	130.25	123.3	125.96	88.92
October	126.25	117.05	121.73	107.22
November	137.6	120.4	130.99	109.07
December	140.4	127.7	136.74	99.11

Date	Price (€) High	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2016				
January	157.55	142.65	150.16	121.95
February	160.4	146.2	153.8	138.04
March	162.2	151.2	156.48	128.73
April	169.45	151.3	159.81	105.04
May	169	155.65	161	78.92
June	172.7	155.2	165.88	123.3
July	177.9	166.1	173.6	88.4
August	177.25	167.7	172.03	65.06
September	175.55	163.95	168.46	84.69
October	170.65	160.7	165.99	84.54
November	170	156.5	160.72	104.85
December	173.4	156.85	167.4	95.03

Date	Price (€) High	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2015				
January	160.2	133.4	146.59	133.35
February	162.7	152.05	157.69	131.55
March	174.25	160	168.78	122.43
April	181.3	167.25	175.68	116.54
May	178	164.9	171.81	112.59
June	175.2	159.65	166.55	122.26
July	173.6	153.8	165.62	105.82
August	178.95	140.4	164.13	130.81
September	156.3	142.35	148.18	125.65
October	175.35	152.15	165.58	139.35
November	171	162.65	167.36	102.22
December	171.85	152	158.31	105.10

Date	Price (€) High	Price (€) Low	Price (€) Average	Average daily trading volume (€ millions)
2017				
January	174.00	168.35	170.75	91.80
February	177.25	167.75	173.18	119.22

CHANGE IN THE L'ORÉAL SHARE PRICE COMPARED TO THE CAC 40 INDEX FROM JANUARY 1ST, 2009 TO FEBRUARY 28TH, 2017



6.5.2.2. Total Shareholder Return

Amongst the various economic and financial indicators used to measure value creation, L'Oréal has chosen to apply the criterion of Total Shareholder Return (TSR). This indicator is a synthetic measurement that takes into account not only the value of the share but also the dividend income received (excluding tax credits before January 1st, 2005).

6.5.2.2.1. 5-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends

Date of transaction	Nature of transaction	Investment *(€)*	Income *(€)*	Number of shares after the transaction
12.30.2011	Purchase of 186 actions, at €80.70	15,010.20		186
05.03.2012	Dividend: €2.00 per share		372.00	186
	Reinvestment: purchase of 5 shares at €92.84	464.20		191
05.10.2013	Dividend: €2.30 per share		439.30	191
	Reinvestment: purchase of 4 shares at €134.05	536.20		195
05.05.2014	Dividend: €2.50 per share		487.50	195
	Reinvestment: purchase of 4 shares at €123.90	495.60		199
05.07.2015	Dividend: €2.70 per share		537.30	199
	Reinvestment: purchase of 4 shares at €168.60	674.40		203
05.03.2016	Dividend: €3.10 per share		629.30	203
	Reinvestment: purchase of 4 shares at €157.80	631.20		207
TOTAL		**17,811.80**	**2,465.40**	
TOTAL NET INVESTMENT		**15,346.40**		

Portfolio value at 12.31.2016 (207 shares at €173.40, share price at 12.30.2016): €35,893.80.

The initial capital has thus been multiplied by 2.4 over 5 years (5-year inflation rate = 2.91% – Source INSEE) and the final capital is 2.3 times the total net investment.

The Total Shareholder Return of the investment is thus 18.66% per year (assuming that the shares are sold on December 30st, 2016, excluding tax on capital gains).

NOTA: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.5.2.2.2. 10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.29.2006	Purchase of 198 shares, at €75,90	15,028.2		198
05.03.2007	Dividend: €1.18 per share		233.64	198
	Reinvestment: purchase of 3 shares at €86.67	260.01		201
04.30.2008	Dividend: €1.38 per share		277.38	201
	Reinvestment: purchase of 4 shares at €76.21	304.84		205
04.24.2009	Dividend: €1.44 per share		295.2	205
	Reinvestment: purchase of 6 shares at €52.02	312.09		211
05.05.2010	Dividend: €1.50 per share		316.5	211
	Reinvestment: purchase of 5 shares at €76.77	383.85		216
05.04.2011	Dividend: €1.80 per share		388.8	216
	Reinvestment: purchase of 5 shares at €85.79	428.95		221
05.03.2012	Dividend: €2.00 per share		442	221
	Reinvestment: purchase of 5 shares at €92.84	464.2		226
05.10.2013	Dividend: €2.30 per share		519.8	226
	Reinvestment: purchase of 4 shares at €134.05	536.2		230
05.05.2014	Dividend: €2.50 per share		575	230
	Reinvestment: purchase of 5 shares at €123.90	619.5		235
05.07.2015	Dividend: €2.70 per share		634.5	235
	Reinvestment: purchase of 4 shares at €168.60	674.4		239
05.03.2016	Dividend: €3.10 per share		740.9	239
	Reinvestment: purchase of 5 shares at 157.80 €	789		244
TOTAL		**19,801.24**	**4,423.72**	
TOTAL NET INVESTMENT		**15,377.52**		

Portfolio value at 12.31.2016 (244 shares at €173.40, share price at 12.30.2016): €42,309.60.

The initial capital has thus been multiplied by 2.8 over 10 years (10-year inflation rate = 12.19% – Source INSEE) and the final capital is 2.75 times the total net investment.

The Total Shareholder Return of the investment is thus 10.75% per year (assuming that the shares are sold on December 30st, 2016, excluding tax on capital gains).

NOTA: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.5.2.2.3. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends and share attribution rights

Date of transaction	Nature of transaction	Investment *(€)*	Income *(€)*	Number of shares after the transaction
12.31.1996	Purchase of 50 shares at €297.89	14,894.27		50
07.01.1997	Dividend: €2.13429 per share, excluding tax credit		106.71	50
	Reinvestment: purchase of 1 share at €393.93	393.93		51
06.12.1998	Dividend: €2.43918 per share, excluding tax credit		124.4	51
	Reinvestment: purchase of 1 share at €473.05	473.05		52
06.15.1999	Dividend: €2.82031 per share, excluding tax credit		146.66	52
	Reinvestment: purchase of 1 share at €586.50	586.5		53
06.15.2000	Dividend: €3.40 per share, excluding tax credit		180.2	53
	Reinvestment: purchase of 1 share at €825.00	825		54
07.03.2000	Ten-for-one share split			540
06.08.2001	Dividend: €0.44 per share, excluding tax credit		237.6	540
	Reinvestment: purchase of 4 shares at €78.15	312.6		544
06.04.2002	Dividend: €0.54 per share, excluding tax credit		293.76	544
	Reinvestment: purchase of 4 shares at €74.95	299.8		548
05.27.2003	Dividend: €0.64 per share, excluding tax credit		350.72	548
	Reinvestment: purchase of 6 shares at €61.10	366.6		554
05.14.2004	Dividend: €0.73 per share, excluding tax credit		404.42	554
	Reinvestment: purchase of 7 shares at €63.65	445.55		561
05.11.2005	Dividend: €0.82 per share		460.02	561
	Reinvestment: purchase of 9 shares at €56.50	508.5		570
05.10.2006	Dividend: €1.00 per share		570	570
	Reinvestment: purchase of 8 shares at €72.65	581.2		578
05.03.2007	Dividend: €1.18 per share		682.04	578
	Reinvestment: purchase of 8 shares at €86.67	693.36		586
04.30.2008	Dividend: €1.38 per share		808.68	586
	Reinvestment: purchase of 11 shares at €76.21	838.31		597
04.24.2009	Dividend: €1.44 per share		859.68	597
	Reinvestment: purchase of 17 shares at €52.02	884.26		614
05.05.2010	Dividend: €1.50 per share		921	614
	Reinvestment: purchase of 12 shares at €76.77	921.24		626
05.04.2011	Dividend: €1.80 per share		1,126.8	626
	Reinvestment: purchase of 14 shares at €85.79	1,201.06		640
05.03.2012	Dividend: €2.00 per share		1,280.00	640
	Reinvestment: purchase of 14 shares at €92.84	1,299.76		654
05.10.2013	Dividend: €2.30 per share		1,504.2	654
	Reinvestment: purchase of 12 shares at €134.05	1608.6		666
05.05.2014	Dividend: €2.50 per share		1,67	666
	Reinvestment: purchase of 14 shares at €123.90	1,734.6		680
05.07.2015	Dividend: €2.70 per share		1,84	680
	Reinvestment: purchase of 11 shares at €168.60	1,854.6		691
05.03.2016	Dividend: €3.10 per share		2,142.1	691
	Reinvestment: purchase of 14 shares, at €157.80	2,209.2		705
TOTAL		**32,931.98**	**15,699.99**	
TOTAL NET INVESTMENT		**17,231.98**		

Portfolio value at 12.31.2016 (705 shares at €173.40, share price at 12.30.2016): €122,247.00.

The initial capital has thus been multiplied by 8.21 over 20 years (20-year inflation rate = 30.48% – Source INSEE) and the final capital is 7.09 times the total net investment.

The Total Shareholder Return of the investment is thus 10.54% per year (assuming that the shares are sold on December 30st, 2016, excluding tax on capital gains).

NOTA: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.5.2.3. Dividends

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the *Caisse des Dépôts et Consignations*.

6.6. INFORMATION POLICY

L'Oréal is committed to improving the quality of its financial information and takes steps to ensure it maintains a regular dialogue with its shareholders and with French and international investors. Beyond its legal obligations, a whole range of tools: printed and digital media, events and meetings, investor conferences and roadshows, are made available to all those in contact with us to enable them to get a better understanding of L'Oréal's business model and the potential of the beauty market.

6.6.1. COMPLEMENTARY COMMUNICATIONS MEDIA

Keen on transparency and accessibility of information, in 2016, L'Oréal's Financial Communications Department shared a wealth of information with the entire financial community via a whole r*ang*e of communication tools, using digital media to a great extent.

L'Oréal makes available two exhaustive annual, highly complementary publications, the Activity Report – discover the entire report online at www.loreal-finance.com/fr/rapport-activite-2016 - and the Registration Document.

The www.loreal-finance.com website contains a complete set of all financial and extra-financial information. Its content and its ergonomics evolve regularly to provide ever quicker, easier access to information.

The L'Oréal Finance mobile application, available on App Store and Google Play, makes it possible to keep L'Oréal Finance news close to hand. Downloaded nearly 30,000 times, it is greatly appreciated by professionals and individual shareholders.

The shareholders' newsletters and L'Oréal Finance News make it possible to keep subscribers regularly informed of all major events in the life of the Group.

In 2016, the Shareholder Brochure was revamped, and presents both the "5 reasons to take part in the L'Oréal adventure" and describes the advantages of registered shares to answer the questions that shareholders may have with regard to this method of holding shares.

6.6.2. A LARGE NUMBER OF SHAREHOLDER EVENTS FOR A REGULAR AND DETAILED DIALOGUE

- Every year, the Financial Communications Department organises a financial information meeting and telephone conferences intended for analysts and institutional investors, to which journalists specialising in the cosmetics sector are invited. The presentations of the L'Oréal Group's financial results and the business activities of the Operational Divisions are broadcast live online on the financial website www.loreal-finance.com. All the information presented is made available on this website, on the same day as their publication, both for the annual results and the half-year results.
- Ten meetings with shareholders, organised in different forms in several large provincial cities in France and also in the Paris region, in collaboration with the French Individual Investor and Investment Club Federation (*Fédération des Investisseurs Individuels et des Clubs d'Investissement* – F2iC), the Society of Investor Relation Managers in France (*Cercle de Liaison des Informateurs Financiers en France* – CLIFF), shareholder associations and financial newspapers brought together nearly 2.000 participants. In 2016, the Individual Shareholder Relations Department successfully organised various site visits (to the Group's stores and plants) and Shareholder meetings.
- Participation in the Actionaria Stock Market Fair for the thirteenth year running offered an opportunity to meet over 400 people who attended a presentation by Mr. Christian Mulliez, L'Oréal's Executive Vice-President Chief Financial Officer. Many shareholders were also able to meet representatives of the Group directly at the L'Oréal stand and obtain information on registering their shares.

Through all these events, the Individual Shareholder Relations Department team had the opportunity to meet nearly 4,000 individual shareholders in 2016.

- Testifying to the loyalty of the shareholders who accompany the Group's development over the long term, more and more shareholders are showing an interest in becoming registered shareholders. Thanks to the preferential dividend and the numerous advantages related to this method of shareholding, becoming a registered shareholder enables the Group's shareholders to be known to the Group, to have systematic, privileged access to information, and to be closely involved in the Group's development.
- A real forum for consultation and dialogue with the individual shareholders, the Shareholder Consultation Committee consists of 18 shareholders appointed for three years. Representative of L'Oréal's individual shareholders, they actively participate, through their reflections and their work, in developing and enriching the Group's financial communication on themes such as: the Annual General Meeting and digital communication. In 2016, the Shareholder Consultation Committee met four times.
- The Investor Relations Department (IRD) organises numerous meetings throughout the year with institutional investors of the main international financial marketplaces. Like it does every year, the IRD invited analysts and investors to *Capital Market Days* which were devoted this year to the British market. In all, in 2016, they thus met over 600 investors.
- Finally, a freephone service is available to L'Oréal shareholders calling from France (0 800 66 66 66) or other countries (+33 1 40 14 80 50). An interactive vocal server gives shareholders round-the-clock access to information on the share price and key dates or provides them with a summary of the latest press release. The Shareholder Services Department is also available on this number during opening hours (8.45 a.m. – 6 p.m. Paris time).

6.6.3. FINANCIAL CALENDAR FOR 2017

02.09.2017	**2016 Annual results**
04.18.2017	First quarter 2017 sales
04.20.2017	Annual General Meeting
July 2017*	First-half 2017 sales and results
October 2017*	Sales at September 30th, 2017

* *The precise date will be indicated on the www.loreal-finance.com website.*

6.6.4. FINANCIAL NEWS RELEASES IN 2016

01.04.2016	L'Oréal USA announces the acquisition of Raylon Corporation key assets
02.11.2016	**Annual Results 2015**
03.16.2016	Annual General Meeting on April 20th, 2016/2015 Reference Document
04.18.2016	First-quarter 2016 Sales
04.20.2016	Annual General Meeting and Board of Directors' meeting
06.30.2016	L'Oréal signs agreement to acquire Atelier Cologne
07.22.2016	L'Oréal signs agreement to acquire IT Cosmetics in the United States
07.28.2016	First-Half 2016 results
08.03.2016	2016 Half-year Financial Report
08.31.2016	L'Oréal finalizes the acquisition of IT Cosmetics
11.03.2016	Sales at September 30th, 2016
12.26.2016	The members of the Bettencourt Meyers family group, and Mr. Jean-Paul Agon for 100 shares, signed lock-up agreements under the Dutreil law.

7

Annual General Meeting

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7.2.1. Statutory Auditors' Report on the issue of shares and securities giving access to the company's share capital reserved for employees of the company 347

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This chapter sets out the draft resolutions which will be submitted to L'Oréal's Ordinary and Extraordinary General Meeting, the Board of Directors' Report ("statement of reasons") on these resolutions and the Statutory Auditors' Reports referred to by some of these resolutions.

This meeting will be held on April 20th, 2017 at the Palais des Congrès, in Paris.

7.1. DRAFT RESOLUTIONS AND REPORT OF THE BOARD OF DIRECTORS (STATEMENT OF REASONS) TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING TO BE HELD ON APRIL 20TH, 2017 (ADOPTED ON FEBRUARY 9TH, 2017)

ORDINARY PART

1. Approval of the 2016 parent company financial statements
2. Approval of the 2016 consolidated financial statements
3. Allocation of the Company's net income for 2016 and declaration of the dividend
4. Appointment of Mr. Paul Bulcke as Director
5. Renewal of the tenure as Director of Mrs. Françoise Bettencourt Meyers
6. Renewal of the tenure as Director of Mrs. Virginie Morgon
7. Approval of the principles and criteria for determination, allocation and distribution of the components of the total remuneration and the benefits of all kinds, that may be granted to the Chairman and Chief Executive Officer
8. Advisory vote by the shareholders on the components of remuneration due or allocated to the Chairman and Chief Executive Officer in respect of the 2016 financial year
9. Authorisation for the Company to buy back its own shares

EXTRAORDINARY PART

10. Division of the par value of the Company's shares by two
11. Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of the shareholders' preferential subscription rights
12. Delegation of authority to the Board of Directors to increase the share capital *via* the capitalisation of share premiums, reserves, profits or other amounts
13. Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right
14. Delegation of authority to the Board of Directors in order to enable it to carry out a capital increase reserved for categories of beneficiaries consisting of employees of foreign subsidiaries, with cancellation of the shareholders' preferential subscription right, within the scope of an employee share ownership programme
15. Harmonisation of the Articles of Association with Article 787 B of the French Tax Code
16. Powers for formalities

7.1.1. ORDINARY PART

RESOLUTIONS 1, 2 AND 3: APPROVAL OF THE ANNUAL (PARENT COMPANY AND CONSOLIDATED) FINANCIAL STATEMENTS FOR 2016, ALLOCATION OF THE COMPANY'S NET INCOME AND DECLARATION OF THE DIVIDEND

STATEMENT OF REASONS

Having reviewed the Reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- the parent company financial statements, with an income statement which shows net income of €3,014,442,845.08 for 2016, compared with €3,055,444,351.60 in 2015;
- the 2016 consolidated financial statements.

The details of these financial statements are set out in the 2016 Annual Financial Report and the main data included in the file for calling this Annual General Meeting.

The Board of Directors proposes to the Annual General Meeting:

- An ordinary dividend of €3.30 per share, representing an increase of +6.45% compared with the dividend for the previous year.

  The rate of distribution of the ordinary dividend (ordinary dividend paid/net income from continuing operations excluding non-recurring items, diluted, attributable to owners of the company, per share) would be 51.1% in 2016:

Year	2011	2012	2013	2014	**2015**
Rate of distribution	46.3%	46.8%	48.7%	50.6%	50.2%

- A preferential dividend of €3.63.

  The preferential dividend will be granted to the shares held in registered form since December 31st, 2014 at the latest, and which continuously remain in registered form until the dividend payment date in 2017. The number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder.

If the Annual General Meeting approves this proposal, the ex-dividend date for the dividends (both ordinary and preferential) will be April 28th, 2017 at zero hour (Paris time) and they will be paid on May 3rd, 2017.

The amount of the ordinary dividend and the preferential dividend is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

First resolution: approval of the 2016 parent company financial statements

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the Report of the Board of Directors and the 2016 parent company financial statements, as presented, and the transactions included in these financial statements and summarised in these Reports, showing net income of €3,014,442,845.08 compared with €3,055,444,351.60 for 2015.

Second resolution: approval of the 2016 consolidated financial statements

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the 2016 consolidated financial statements and the transactions included in these financial statements and summarised in these Reports.

Third resolution: allocation of the Company's net income for 2016 and declaration of the dividend

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, on the proposal of the Board of Directors, decides to allocate the net income for the 2016 financial year amounting to €3,014,442,845.08 as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	–
Amount allocated to the shareholders as a dividend* (including preferential dividend)	€1,867,663,984.89
Balance that will be allocated to the "*Other reserves*" item	**€1,146,778,860.19**

* *Including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. the total amount of the share capital.*

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This amount is calculated on the basis of the number of shares forming the capital at December 31st, 2016 and will be adjusted to reflect:

- the number of shares issued between January 1st, 2017 and the date of payment of this dividend following the exercise of stock options or the final vesting of new free shares granted and giving entitlement to such dividend;
- the final number of shares eligible for the preferential dividend, taking into account sales or transfer to a bearer account between January 1st, 2017 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid of €3.30 per share, the preferential dividend entitling eligible holders to a total of €3.63 per share. The preferential dividend will be granted to the shares held in registered form since December 31st, 2014 at the latest, and which continuously remain in registered form until the dividend payment date, it being specified that the number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder. The ex-dividend date for the dividends (both ordinary and preferential) will be April 28th, 2017 at zero hour (Paris time) and they will be paid on May 3rd, 2017.

In the event that, at the time of payment of the dividend, the Company holds treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of such shares would be allocated to the "*Other reserves*" item.

It is specified that, as the law currently stands, for natural persons who have their tax residence in France, the dividend is liable for personal income tax on the basis of the progressive scale of tax rates and is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

The table set out below gives the amounts of the dividends distributed, that were fully eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code, for the last three financial years:

	2013	2014	2015
Ordinary dividend per share	€2.50	€2.70	€3.10
Preferential dividend per share	€0.25	€0.27	€0.31

RESOLUTIONS 4, 5 AND 6: TENURES OF DIRECTORS

STATEMENT OF REASONS

The appointment of a new Director is put to the vote of the Annual General Meeting as well as the renewal of two Directors whose tenure expires at the close of this Annual General Meeting.

1. Composition of L'Oréal's Board of Directors at December 31st, 2016

The Directors of L'Oréal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

The Directors have a duty of acting with due care and exercise complete freedom of judgement. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its Committees.

Jean-Paul Agon, age 60, joined the L'Oréal Group in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, General Manager of the Asia Zone, President and 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 also the Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also the Chairman of the L'Oréal Corporate Foundation and a Director of Air Liquide.

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

Peter Brabeck-Letmathe, age 72, of Austrian nationality, is 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.

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

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

Sophie Bellon, age 55, is Chairwoman of the Board of Directors of 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. She is Chairwoman of the Appointments and Governance Committee and member of the Audit Committee.

Charles-Henri Filippi, age 64, is 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.

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

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

Béatrice Guillaume-Grabisch, age 52, is 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.

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

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

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

Virginie Morgon, age 47, is the Deputy Chief Executive Officer of Eurazeo which she joined in 2008 and President and CEO of Eurazeo North America Inc. (USA), after working for sixteen years at Lazard. Virginie Morgon has been a Director of L'Oréal since 2013 and is the 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.

Eileen Naughton, age 59, of American nationality, is Vice President People Operations in the 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.

2. Appointment of a new Director in 2017

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.

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 for a term of four years to the Annual General Meeting.

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 from 2012 until July 2014 and a member of the Strategy and Sustainable Development Committee of L'Oréal 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 Chapter 6 paragraph 3.5 of the Registration Document).

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

3. *Renewal of the tenure of two Directors in 2017*

As the tenures as Director of Mrs. Françoise Bettencourt Meyers and Mrs. Virginie Morgon are due to expire in 2017, the renewal of their tenures for a term of four years is submitted to the Annual General Meeting.

- 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, and is Chairwoman of the Supervisory Committee 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, to which she is extremely attached. She actively contributes to the quality of the Board's strategic discussions. She has been a member of the Strategy and Sustainable Development Committee since 2012.

She participated in all the Board and Committee meetings 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 the Deputy Chief Executive Officer of Eurazeo and President and CEO of Eurazeo North America Inc. 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.

Highly committed, exercising freedom of judgement, 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.

4. *Independence of the Directors*

The Appointments and Governance Committee proposes to the Board of Directors every year to review on a case-by-case basis the situation of each of the Directors with regard to their independence according to the criteria set out in the AFEP-MEDEF Code.

The review of the independence of these Directors was carried out by the Appointments and Governance Committee at the end of 2016 on the basis, in particular, of a study of the relationships existing between the Company and the companies in which the Directors hold offices. The Directors have no conflicts of interest. The other corporate offices, duties and directorships held, their availability, their personal contributions and their participation in the work and discussions of the Board and its Committees in 2016 were taken into consideration by the Appointments and Governance Committee to evaluate the composition and functioning of the Board. The Board of Directors considered that a term of office of over 12 years was not sufficient in and of itself for Mr. Fontanet and Mr. Kasriel to automatically lose the status of independent Director.

As the two Directors representing the employees were not taken into account pursuant to the AFEP-MEDEF Code, the number of independent Directors is 7 out of 13, representing an independence rate of 54%.

If the General Meeting votes in favour of the appointment and renewals proposed to it by the Board of Directors, this rate of independence would be 54%.

5. *Balanced gender representation on the Board of Directors*

At December 31st, 2016, as the two Directors representing the employees are not taken into account pursuant to the AFEP-MEDEF Code, the number of women on the Board of Directors was 6 out of 13 Directors appointed by the Annual General Meeting, namely a percentage representation of women of 46%.

It is pointed out that, pursuant to French law, the proportion of Directors of each gender may not be lower than 40% at the end of the first Annual General Meeting after January 1st, 2017.

If the Annual General Meeting votes in favour of the appointment and renewals proposed to it, the number of women on the Board of Directors would be 6 out of 13 Directors appointed by the Annual General Meeting, namely a percentage representation of women of 46%.

6. *Length of tenure and minimum number of shares held*

The length of the terms of office of the Directors appointed by L'Oréal's Annual General Meeting is set at four years in the Articles of Association, or a shorter period in order to provide for staggered renewal of the Directors' terms of office. The term of office of a Director who is not appointed by the Annual General Meeting is four years. The Directors appointed by the Annual General Meeting each hold a minimum of 1,000 L'Oréal shares. On the date of his/her appointment by the Annual General Meeting, every Director must hold at least 500 shares, with the remainder to be acquired at the latest within the next 24 months. This number of shares will be adjusted in the event of a division of the par value of the share. The full list of the offices, duties and directorships held by the Directors is set out on pages 47 *et seq.* of the Registration Document.

7. Expiry dates of terms of office

For information purposes, if the Annual General Meeting votes in favour of the renewals and appointment proposed to it in 2017, the expiry dates of the terms of office of the 15 Directors of L'Oréal would be as follows:

			Board Committees			
	Independence	Expiry date of current term of office	Strategy and Sustainable Development	Audit	HR and Remuneration	Appointments and Governance
Mr. Jean-Paul Agon		2018	P			
Mrs. Françoise Bettencourt Meyers		2021	●			
Mr. Paul Bulcke		2021	●		●	●
Mr. Jean-Pierre Meyers		2020	●		●	●
Mrs. Ana Sofia Amaral	Employee Director	2018			●	
Mrs. Sophie Bellon	◆	2019		●		P
Mr. Charles-Henri Filippi	◆	2019		●	P	●
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	◆	2021		P		
Mrs. Eileen Naughton	◆	2020				

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

P Committee Chairman/Chairwoman

● Committee Member

Fourth resolution: appointment of Mr. Paul Bulcke as Director

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, appoints Mr. Paul Bulcke as Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2021 to review the financial statements for the previous financial year.

Fifth resolution: renewal of the tenure as Director of Mrs. Francoise Bettencourt Meyers

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, renews the tenure of Mrs. Françoise Bettencourt Meyers as Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2021 to review the financial statements for the previous financial year.

Sixth resolution: renewal of the tenure as Director of Mrs. Virginie Morgon

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, renews the tenure of Mrs. Virginie Morgon as Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2021 to review the financial statements for the previous financial year.

RESOLUTION 7: APPROVAL OF THE PRINCIPLES AND CRITERIA FOR DETERMINATION, ALLOCATION AND DISTRIBUTION OF THE COMPONENTS OF THE TOTAL REMUNERATION AND THE BENEFITS OF ALL KINDS, THAT MAY BE GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

STATEMENT OF REASONS

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 is called every year upon to approve the principles and criteria for determination, allocation and distribution of the fixed, variable and exceptional components making up the total remuneration and benefits of all kinds that may be granted to the executive officers, due to their corporate office.

These principles and criteria are presented in the Report of the Board of Directors and are set out in chapter 2.5.1 of the Registration Document, on pages 82 to 87.

Seventh resolution: approval of the principles and criteria for determination, allocation and distribution of the components of the total remuneration and the benefits of all kinds, that may be granted to the Chairman and Chief Executive Officer

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors pursuant to Article L. 225-37-2 of the French Commercial Code, approves the principles and criteria for determination, allocation and distribution of the fixed, variable and exceptional components making up the total remuneration and the benefits of all kinds, that may be granted to Mr. Jean-Paul Agon in his capacity as Chairman and Chief Executive Officer.

RESOLUTION 8: ADVISORY VOTE BY THE SHAREHOLDERS ON THE COMPONENTS OF THE REMUNERATION DUE OR ALLOCATED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER IN RESPECT OF THE 2016 FINANCIAL YEAR

STATEMENT OF REASONS

In accordance with the AFEP-MEDEF Code to which L'Oréal refers, the components of the remuneration due or allocated by the Board of Directors on the proposal of the Human Resources and Remuneration Committee to the Chairman and Chief Executive Officer, Mr. Jean-Paul Agon, with respect to the 2016 financial year, are presented to the Annual General Meeting for an advisory vote.

SUMMARY TABLES OF THE COMPONENTS OF REMUNERATION

Components of the remuneration due or allocated in respect of 2016 put to the vote

	Amount	Description
Fixed remuneration Change/2015	€2,200,000 0%	At its meeting on February 11th, 2016, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to maintain the fixed gross annual remuneration of Mr. Jean-Paul Agon at €2,200,000.
Annual variable remuneration Ceiling 100% of the fixed remuneration	€1,992,100	The annual variable remuneration is designed to align the remuneration allocated to the Chairman and Chief Executive Officer with the Group's annual performance and to promote the implementation of its strategy year after year. It is expressed as a percentage of fixed remuneration and this percentage may reach a maximum of 100% of fixed remuneration. CRITERIA FOR ASSESSMENT OF THEPERFORMANCE FOR 2016 ◆ **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 2015 10% • Growth in net earnings per share as compared to 2015 10% • Growth in cash flow as compared to 2015 10% ◆ **EXTRA-FINANCIAL AND QUALITATIVE CRITERIA (40%)** • RSE (*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 • Qualitative criteria: Management, Image, the Company's reputation, Dialogue with stakeholders. The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria. A limit was set on the qualitative portion, which may not exceed a maximum of 15% of the total ceiling on annual variable remuneration. A summary of achievements in 2016 is available on pages 93 and 94 of the Registration Document. ASSESSMENT FOR 2016 BY THE BOARD OF DIRETORS ON FEBRUARY 9TH, 2017: On the basis of the above-mentioned assessment criteria, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to award gross variable remuneration of €1,992,100 for 2016, namely 90.6% of the maximum objective, with a level of achievement of the financial and extra-financial criteria of 89.6% and 92% respectively. For confidentiality reasons, L'Oréal does not communicate on the breakdown by criterion of the amounts paid; the elements used for assessment are described on pages 93 and 94 of the Registration Document.
Multi-annual variable remuneration	€0	N/A
Exceptional remuneration	€0	N/A
Attendance fees	€0	At its meeting on November 28th, 2014, the Board of Directors took due note of the wish expressed by Mr. Jean-Paul Agon to no longer receive attendance fees in his capacity as Chairman and Chief Executive Officer.

Components of the remuneration due or allocated in respect of 2016 put to the vote

	Amount	Description
Performance shares (and any other component of long-term remuneration)	**32,000** performance shares valued at €4,938,240 (the estimated fair value according to the IFRS applied to prepare the consolidated financial statements)	Within the scope of the authorisation of the Ordinary and Extraordinary General Meeting of April 20th, 2016 (resolution No. 15), the Board of Directors decided on the same day, on the proposal of the Human Resources and Remuneration Committee, to make a conditional grant of 32,000 shares ("ACAs") to Mr. Jean-Paul Agon. The estimated fair value of one performance share (ACAs) under the April 20th, 2016 plan according to the IFRS applied for the preparation of the consolidated financial statements is €154.32, giving, for the 32,000 ACAs granted to Mr. Jean-Paul Agon in 2016, a fair value of €4,938,240. For the April 22nd, 2015 plan, the fair value of one ACAs amounted to €161.49. Final vesting of these shares is subject to achievement of performance conditions which will be recorded at the end of a 4-year vesting period as from the date of grant. Half of the number of shares that finally vests will depend on growth in comparable cosmetics sales as compared to those of a panel of competitors, such panel consisting of Unilever, Procter & Gamble, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Coty; the other half will depend on the growth in L'Oréal's consolidated operating profit. The calculation will be based on the arithmetic average for the three full financial years of the vesting period. The first full year taken into account for evaluation of the performance conditions relating to this grant is 2017. Monitoring of the performance conditions year after year is described in detail on pages 95 and 96 of the Registration Document. With respect to the criterion relating to sales, in order for all the free shares granted to finally vest for the beneficiaries at the end the vesting period, L'Oréal has to outperform the average growth in sales of the panel of competitors. Below that level, the grant decreases. The Board defines a threshold, which is not made public for confidentiality reasons, below which no share finally vests pursuant to this criterion. Concerning the criterion related to operating profit, a level of growth, defined by the Board, but not made public for confidentiality reasons, must be met or exceeded in order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period. Below that level, the grant decreases. If the operating profit does not increase in absolute value over the period, no share will finally vest pursuant to this criterion. The grant of shares from which Mr. Jean-Paul Agon benefited in 2016 represents 3.53% of the total number of ACAs granted to the 2,079 beneficiaries of this same plan. In accordance with the authorisation granted by the Annual General Meeting on April 20th, 2016, this grant of shares does not exceed 0.6% of the share capital, it being understood that the maximum amount granted to the executive officers may not represent more than 10% of the total number of free shares that may be granted. No stock option to purchase or subscribe for shares or other long-term incentive was granted to Mr. Jean-Paul Agon in 2016.
Benefits additional to remuneration	**€0** €8,443	◆ 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: employee benefit, healthcare and defined contribution 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 to these different schemes amounted to €8,443 in 2016, €5,985 of which related to the defined contribution pension scheme, it being noted that the amount due in this respect will be deducted from the pension due in respect of the defined benefit pension in accordance with the provisions of this collective scheme. The continuation of this treatment was approved by the Annual General Meeting on April 27th, 2010.
Indemnity for entry into office	€0	Not applicable in as much as Mr. Jean-Paul Agon has been Chief Executive Officer since 2006 and Chairman and Chief Executive Officer since 2011.

Components of remuneration due or allocated in respect of 2016 which have previously been voted by the Annual General Meeting under the regulated agreements and commitments procedure

	Amount	Description
Termination indemnity and non-competition indemnity	N/A	No indemnity is due in respect of termination of the corporate office. Payment of the indemnities due under the suspended employment contract was approved by the Annual General Meeting on April 27th, 2010. Remuneration under the employment contract, to be used to calculate all the rights attached thereto, is established on the basis of the remuneration at the date of suspension of the contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2017, the fixed remuneration amounts to €1,672,500 and variable remuneration to €1,393,750. In the event of departure, and depending on the reasons, Mr. Jean-Paul Agon would 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. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining Agreement for the Chemical Industries and the company-level agreements applicable to all L'Oréal's managers, are due in any event pursuant to the public policy rules of French labour law. They are not subject to any condition other than those provided for by the 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. Pursuant to the schedule of indemnities under the National Collective Bargaining Agreement for the Chemical Industries, in the event of dismissal, except in the event of gross misconduct or gross negligence, the indemnity would be capped, in light of Mr. Jean-Paul Agon's length of service, at 20 months' remuneration under the suspended employment contract. In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for 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 an executive officer.
Supplementary pension scheme	N/A	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. The main features of this scheme, which falls under Article L. 137-11 of the French Social Security Code, are as follows: ◆ around 120 senior managers (active or retired) are concerned; ◆ the minimum length of service requirement was 10 years at the time of closure of the scheme on December 31st, 2000; ◆ the Pension Cover may not exceed 40% of the calculation basis, plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the remuneration for the three years used for the calculation basis out of the seven years prior to the end of the beneficiary's career in the Company. For information purposes, the estimated amount of the pension that would be paid to Mr. Jean-Paul Agon, under L'Oréal's *Garantie de Retraite des Membres du Comité de Conjoncture* scheme, had he been able to apply for a full-rate pension from the French social security scheme on December 31st, 2016, after 38 years' length of service at L'Oréal, would represent €1.56 million, *i.e.* around 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 L'Oréal's *Garantie de Retraite des Membres du Comité de Conjoncture* scheme will in fact only be calculated on the date when he applies for all his pensions. As a reminder, the rights to the defined benefit pension are uncertain and conditional on the beneficiary ending his career in the Company. The funding of this scheme by L'Oréal cannot be broken down individually by employee. Benefit from this scheme pursuant to the suspended employment contract was approved by the Annual General Meeting on April 27th, 2010. 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.

Eighth resolution: advisory vote by the shareholders on the components of the remuneration due or allocated to the Chairman and Chief Executive Officer in respect of the 2016 financial year

The Annual General Meeting, consulted pursuant to the recommendation in § 26 of the AFEP-MEDEF Code of Corporate Governance, which is the Company's reference code pursuant to Article L. 225-37 of the French Commercial Code, voting in accordance with the quorum and majority requirements for Ordinary General Meetings, issues a favourable advisory vote on the components of remuneration due or allocated to Mr. Jean-Paul Agon in his capacity as Chairman and Chief Executive Officer in respect of the 2016 financial year, as set out in the statement of reasons for this resolution.

RESOLUTION 9 : AUTHORISATION FOR THE COMPANY TO BUY BACK ITS OWN SHARES

STATEMENT OF REASONS

As the existing authorisation is due to expire in October 2017, it is proposed that the Annual General Meeting give the Board a new authorisation, it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

The Company would be able to buy its own shares for the following purposes:

- their cancellation by a reduction in its capital;
- their sale within the scope of employee share ownership programmes and their allocation to free grants of shares for the benefit of employees and executive officers of the L'Oréal Group;
- liquidity provision through a liquidity agreement entered into with an investment services provider in accordance with the Code of Ethics recognised by the *Autorité des Marchés Financiers*;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase, sale, exchange or transfer of these shares may be carried out by any means, on one or more occasions, in particular on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include, where applicable, the use of all financial instruments and derivatives.

The authorisation would expire at the end of a period of 18 months as from this Annual General Meeting and would come into force on October 21st, 2017, namely upon the expiry of the current authorisation for the Company to buy back its own shares which will expire on October 20th, 2017.

The purchase price per share could not exceed €230 (excluding expenses). The authorisation would concern a maximum of 10% of the share capital, namely, for information purposes, at December 31st, 2016, 56,185,574 shares for a maximum amount of €12,922,682,020, it being specified that the Company could not at any time hold more than 10% of its own capital. In the event of any financial transactions affecting the capital that justify it and, in particular, the division of the par value provided for in the tenth resolution, the prices and numbers of shares indicated above will be adjusted, where applicable.

Ninth resolution: authorisation for the Company to buy back its own shares

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors, authorises the Board of Directors, with the possibility for it to delegate to the Chairman and Chief Executive Officer, to purchase shares of the Company, in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code and EU Regulation No. 596/2014 of the European Parliament and of the Council of April 16th, 2014 and subject to the following conditions:

- the purchase price per share may not be greater than €230 (excluding expenses);
- the number of shares that may be bought by the Company may not exceed 10% of the number of shares forming the capital of the Company at the time the shares are bought back, that is, for information purposes, at December 31st, 2016, 56,185,574 shares for a maximum amount of €12,922,682,020, it being stipulated that the Company may at no time hold over 10% of its own share capital. These percentages apply to a number of shares adjusted, where applicable, on the basis of the transactions that may affect the share capital after this General Meeting.

In the event of any financial transactions affecting the Company's capital that justify it and, in particular, the division of the par value provided for in the tenth resolution, the prices and numbers of shares indicated above will be adjusted, where applicable.

The Company may buy its own shares for the following purposes:

- their cancellation by a reduction in its capital;
- their allocation or sale to employees and corporate officers of the Company and affiliates, under the terms and conditions provided for by French or foreign law, and in particular within the scope of employee profit sharing schemes, free grants of shares or all employee share

ownership programmes as well as for the purpose of carrying out any transaction to cover the above-mentioned employee share ownership programmes;

- liquidity provision through a liquidity agreement entered into with an investment services provider in accordance with the Code of Ethics recognised by the *Autorité des Marchés Financiers*;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase, sale, exchange or transfer of these shares may be carried out by any means, on one or more occasions, in particular on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include, where applicable, the use of all financial instruments and derivatives.

These transactions may be carried out at any time, in accordance with the regulations in force at the time of the transactions concerned, it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

The Annual General Meeting decides that this authorisation will expire at the end of a period of 18 months following this Annual General Meeting and will come into force on October 21st, 2017, namely upon the expiry of the current authorisation for the Company to buy back its own shares which will expire on October 20th, 2017.

The Board of Directors will have the possibility of allocating and reassigning to any of these objectives all the treasury shares currently held by the Company. Full powers are granted to the Board of Directors, with the possibility for it to delegate, for the implementation of this resolution and more generally do anything that may be necessary.

7.1.2. EXTRAORDINARY PART

RESOLUTION 10: DIVISION OF THE PAR VALUE OF THE COMPANY'S SHARES BY TWO

STATEMENT OF REASONS

The price of the L'Oréal share is among the 3 highest of the CAC 40 index (it amounts to €173.40 at the end of the 2016 financial year). Since the last decision with regard to the division of the par value on May 30th, 2000, effective as of July 3rd, 2000, the share price has been multiplied by 2, thereby reflecting the Group's financial performance.

On the recommendation of the Strategy and Sustainable Development Committee, the Board of Directors decided to propose to this Annual General Meeting that it divide the par value of the Company's shares by two in order to enable L'Oréal to continue to diversify and enlarge its shareholder base, in particular with regard to individual shareholders, and to increase the liquidity of the share while maintaining the premium positioning of the L'Oréal share, the price of which will remain in the top third of the listed securities.

This transaction consists, in practice, in reducing the par value of each of the Company's shares by dividing it by two and, in parallel, in multiplying the number of shares making up the share capital by this same figure. In this type of purely technical transaction, the amount of the share capital remains unchanged. In application of the new rules relating to market transactions, the shares created as a result of this division of the par value will bear a new ISIN code. This code will be communicated to financial intermediaries.

Tenth resolution: division of the par value of the Company's Shares by two

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors:

1) decides to divide the par value of each of the Company's shares by two in order to reduce the par value of each share from twenty euro cents to ten euro cents, with the amount of the share capital remaining unchanged;

2) decides that each share with a par value of twenty euro cents making up the Company's share capital on the effective date of the division of the par value, scheduled on May 19th, 2017, will be automatically replaced, without any formalities being required, by two new shares with a par value of ten euro cents each;

3) delegates full powers to the Board of Directors, with the possibility to delegate further under the conditions provided for by law, in order to:

- implement and complete the division of the par value of the shares,
- determine the exact number of new shares of the Company to be issued on the basis of the number of shares making up the Company's share capital on the effective date of the division of the par value and carry out the exchange of the new shares for such shares,
- make all adjustments that are necessary due to the division of the par value, and in particular (i) the adjustments in the number of shares that may be obtained by the beneficiaries of share subscription options granted prior to the division of the par value, as well as the exercise price of such options, (ii) the adjustment of the number of free shares granted prior to the division of the par value (whether these are free shares or free performance shares) and (iii) the automatic adjustments that are necessary in connection with the Company's share buyback programme,
- amend accordingly Article 6 of the Company's Articles of Association with regard to the total number of shares making up the share capital,
- carry out all actions and formalities and make all declarations as a result of this decision, and, more generally, do everything that will be useful or necessary for the implementation of this resolution.

RESOLUTION 11: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL THROUGH THE ISSUE OF ORDINARY SHARES WITH MAINTENANCE OF THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT

STATEMENT OF REASONS

It is proposed that the Annual General Meeting delegate to the Board of Directors its authority to increase the share capital through the issue of ordinary shares with maintenance of preferential subscription rights.

The total amount of the capital increases that may be carried out for this purpose may not lead to the share capital, which amounts to €112,371,148.20 as of December 31st, 2016, being increased to an amount of over €157,319,607.

The increases that may be carried out pursuant to the fifteenth resolution voted by the Annual General Meeting on April 20th, 2016 and the twelfth, thirteenth and fourteenth resolutions put to the vote of this General Meeting will also be charged against this ceiling. It corresponds to a maximum increase of 40% of the capital.

No overallocation option is provided for.

This delegation of authority would be valid for a period of 26 months as from the date of the Annual General Meeting it being specified that, in the event of the filing of a public offer by a third party with regard to the Company's shares, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

Eleventh resolution: delegation of authority to the Board of Directors to increase the share capital through the issue of ordinary shares with maintenance of the shareholders' preferential subscription rights

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors and in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, and in particular Article L. 225-129-2 of the French Commercial Code:

1) delegates to the Board of Directors its authority to decide on one or more increases in the share capital through the issue of ordinary shares of the Company. The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months as from the date of this Annual General Meeting;

2) decides that the total amount of the capital increases that may be carried out in this respect may not lead to the share capi6tal, which amouts to €112,371,148.20 as of December 31st, 2016, being increased to an amount of over €157,319,607. The increases that may be carried out pursuant to the fifteenth resolution voted by the Annual General Meeting on April 20th, 2016 and the twelfth, thirteenth and fourteenth resolutions put to the vote of this General Meeting will also be charged against this ceiling, it being specified that this total nominal amount does not take into account adjustments that may be made in accordance with the applicable provisions of the laws and regulations, and where applicable, the contractual provisions providing for other cases of adjustment, to preserve the rights of holders of free shares or stock options for the subscription and purchase of shares. It corresponds to a maximum increase of 40% of the capital;

3) decides, if the Board of Directors uses this delegation of authority, that the shareholders will have a preferential subscription right to the shares issued pursuant to this resolution, in proportion to the amount of their shares. If subscriptions made by shareholders by way of right and, where applicable, for excess shares on the basis of the shares they hold have not covered the full number of shares issued, the Board of Directors will be able to offer to the public some or all of the shares not subscribed or limit the increase in capital to the amount of the subscriptions on condition that it reaches at least three-quarters of the increase in capital decided;

4) decides that the transactions involving an increase in the share capital may be carried out any time, in compliance with the regulations in force on the date of the transactions in question. However, in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to implement this delegation of authority during the public offer period without the prior authorisation of the Annual General Meeting;

5) decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions set by law, to implement this delegation of authority within the limits and under the conditions set out above in order to set the terms and conditions of the increases in capital and, in particular, in general, to carry out all actions and formalities, take all decisions and enter into all agreements that are useful or necessary to successfully carry out the share issues made pursuant to this delegation of authority and to record the final completion of the increase(s) in capital carried out pursuant to this delegation of authority and amend the Articles of Association accordingly;

6) records that this delegation of authority renders ineffective any prior delegation for the same purpose.

RESOLUTION 12: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL VIA THE CAPITALISATION OF SHARE PREMIUMS, RESERVES, PROFITS OR OTHER AMOUNTS

STATEMENT OF REASONS

It is proposed that the Annual General Meeting delegate to the Board of Directors its authority to increase the share capital *via* the capitalisation of share premiums, reserves, profits or other amounts.

The maximum nominal amount of the capital increases that may be carried out for this purpose will be equal to the total amount of the sums that may be capitalised and will be charged against the amount of the total ceiling provided for in the eleventh resolution of this General Meeting.

In the event of a free share issue, the rights of allotment representing fractional shares will not be negotiable or transferable. The corresponding shares will be sold and the amounts resulting from the sale will be allocated to the holders of such rights.

This delegation of authority would be valid for a period of 26 months as from the date of the Annual General Meeting, it being specified that, in the event of the filing of a public offer by a third party with regard to the Company's shares, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

Twelfth resolution: delegation of authority to the Board of Directors to increase the share capital via the capitalisation of share premiums, reserves, profits or other amounts

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the Report of the Board of Directors and in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, and in particular Article L. 225-130 of the French Commercial Code:

1) delegates to the Board of Directors, with the possibility to delegate further, its authority to decide on one or more increases in the share capital *via* the capitalisation of share premiums, reserves, profits or other amounts that may be capitalised in the form of the allotment of free shares or an increase in the par value of the existing shares or by the joint use of both these processes. The delegation of authority granted in this manner to the Board of Directors is valid for a period of 26 months as from the date of this Annual General Meeting;

2) decides that the maximum nominal amount of the capital increases that may be carried out for this purpose will be equal to the total amount of the sums that may be capitalised and will be charged against the amount of the total ceiling provided for in the eleventh resolution of this General Meeting. This total nominal amount does not take into account adjustments that may be made in accordance with the applicable provisions of the laws and regulations, and where applicable, the contractual provisions providing for other cases of adjustment to preserve the rights of holders of free shares or stock options for the subscription and purchase of shares;

3) decides, if the Board of Directors uses this delegation of authority, that, where applicable, in accordance with the provisions of Article L. 225-130 of the French Commercial Code, the rights representing fractional shares will not be negotiable or transferable and that the corresponding shares will be sold; the amounts resulting from the sale will be allocated to the holders of the rights under the conditions and within the time periods provided for by the applicable regulations;

4) decides that the transactions involving an increase in the share capital may be carried out any time, in compliance with the regulations in force on the date of the transactions in question. However, in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to implement this delegation of authority during the public offer period without the prior authorisation of the Annual General Meeting;

5) decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions set by law, to implement this delegation of authority within the limits and under the conditions set out above in order to set the terms and conditions of the increases in capital and, in particular, in general, to carry out all actions and formalities, take all decisions and enter into all agreements that are useful or necessary to successfully carry out the share issues made pursuant to this delegation of authority and to record the final completion of the increase(s) in capital carried out pursuant to this delegation of authority and amend the Articles of Association accordingly;

6) records that this delegation of authority renders ineffective any prior delegation for the same purpose.

RESOLUTIONS 13 AND 14: DELEGATIONS OF AUTHORITY TO THE BOARD OF DIRECTORS IN ORDER TO ENABLE IT TO CARRY OUT A CAPITAL INCREASE RESERVED FOR EMPLOYEES AND CERTAIN CATEGORIES OF EMPLOYEES INTERNATIONALLY, WITH CANCELLATION OF THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT

STATEMENT OF REASONS

The delegation of authority granted to the Board of Directors to carry out increases in the share capital provided for in the eleventh resolution gives rise to a corresponding obligation to submit to the Annual General Meeting a draft resolution enabling a potential capital increase to be carried out reserved for employees who are members of an employee savings scheme.

It is accordingly proposed to the General Meeting, pursuant to the thirteenth resolution, to delegate to the Board of Directors the authority to decide on an increase in capital in favour of the Group's employees who are members of an employee savings scheme.

This resolution, valid for a period of 26 months, would enable the employees of Group companies to subscribe for L'Oréal shares within the scope, in France, of the employee savings schemes.

In order for the Board to be able to deploy, where applicable, a world employee share ownership programme under the best possible conditions, it is proposed to the Annual General Meeting pursuant to the fourteenth resolution to delegate to the Board of Directors the authority to decide on the increase in capital in favour of Group employees or categories of Group employees outside France.

This resolution, valid for a period of 18 months, would make it possible to propose the subscription of L'Oréal shares to Group employees or categories of Group employees outside France, after adapting the conditions of the offer to local specificities.

In accordance with the French Labour Code, pursuant to the thirteenth resolution, the issue price may not be higher than the average of the trading prices on the Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period nor may it be over 20% lower than this average.

Pursuant to the fourteenth resolution, the issue price would be determined under similar terms and conditions to those set for the thirteenth resolution and could also be set taking into account the specific regime of an offering of shares in the Company which would be carried out within the scope of a system of share ownership governed by foreign law.

The Annual General Meeting is therefore asked to delegate to the Board of Directors, pursuant to the thirteenth and fourteenth resolutions, the authority to decide to carry out the increase in capital of the Company on one or more occasions within the limit of 1% of the share capital, namely for information purposes at December 31st, 2016 through the issue of 5,618, 557 new shares, this ceiling being applicable jointly to the thirteenth and fourteenth resolutions. The amount of the increases in capital that may be carried out on the basis of the thirteenth and fourteenth resolutions would be charged against the overall ceiling for increases in capital provided for in the eleventh resolution.

Thirteenth resolution: delegation of authority to the Board of Directors in order to enable it to carry out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right

The Annual General Meeting, having reviewed the Reports of the Board of Directors and the Statutory Auditors, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and acting in accordance with the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code:

1) delegates to the Board of Directors the authority to carry out, on one or more occasions, on its own decisions alone, in the proportions and at the times it may consider appropriate, the issue of shares or securities giving access to the Company's capital reserved for employees, executive officers and eligible former employees, of the Company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code, who are members of an employee savings scheme;

2) decides to cancel, in favour of the employees, executive officers and eligible former employees, of the Company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code, who are members of an employee savings scheme, the shareholders' preferential subscription right for the shares or securities giving access to the Company's capital, it being specified that the subscription of the shares or securities giving access to the Company's capital issued on the basis of this resolution may be carried out through any employee investment fund, and in particular a "structured" employee investment fund within the meaning of the regulations of the *Autorité des Marchés Financiers*, or any other collective body authorised by the regulations;

3) sets the period of validity of this delegation at 26 months as from the date of this Annual General Meeting; it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

4) decides to set at 1% of the share capital existing at the date of this Annual General Meeting, the increase in capital that could thus be carried out (namely, for information purposes, at December 31st, 2016, an increase in the share capital by a maximum nominal amount of €1,123,711 through the issue of 5,618,557 new shares), it being specified that the cumulative amount of the increases in share capital that may be carried out pursuant to this resolution and the fourteenth resolution may not exceed the maximum amount of 1% of the share capital existing at the date of this Annual General Meeting which constitutes a ceiling which applies jointly to the thirteenth and fourteenth resolutions;

5) decides that the amount of the increases in capital that may be carried out pursuant to this resolution will be charged against the total ceiling for increases in capital provided for in the eleventh resolution;

6) decides that the subscription price may include a discount as compared with the average of the trading prices on the Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period. Such discount may not exceed 20% of this average, it being specified that the Board of Directors, or the person to whom it delegates, if it deems it appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account legal and tax regimes applicable in the countries of residence of the beneficiaries of the capital increase;

7) decides, pursuant to Article L. 3332-21 of the French Labour Code, that the Board of Directors will be able to provide for the free grant to the beneficiaries specified above of shares that have already been issued or are to be issued, as an additional employer contribution that may be paid pursuant to the employee savings scheme regulations, and/or in respect of the discount, provided that, after taking into account their equivalent monetary value, assessed on the basis of the subscription price, this does not lead to the limits provided for in Articles L. 3332-11 and L. 3332-19 of the French Labour Code being exceeded;

8) decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions provided for by law, to implement this delegation of authority within the limits and under the conditions specified above in particular in order to:

- set the conditions that must be met by the employees and eligible former employees to be able to subscribe, individually or through an employee investment fund, for the shares issued pursuant to this delegation,
- decide on the list of the companies whose employees may benefit from the issue,
- decide on the amount to be issued, the features, where applicable, of the securities giving access to the Company's capital, the issue price, the dates of the subscription period and the terms and conditions of each issue,
- set the time period allotted to the beneficiaries to pay up their shares or securities and the payment terms,
- set the date, even with retrospective effect, as of which the new shares will carry dividend rights,
- deduct, where applicable, the costs, taxes and fees of such issues from the amount of the share premiums and deduct, where applicable, from the amounts of the share premiums, the amounts required to increase the legal reserve to the level required by the French legislation and regulations in force, and, in the event of an issue of new free shares granted in respect of the additional employer contribution and/or discount, to deduct, where applicable, the sums necessary for paying up such shares from the reserves, profits or share premiums, as it chooses,
- in general, carry out all actions and formalities, take all decisions and enter into any agreements that may be useful or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

Fourteenth resolution: delegation of authority to the Board of Directors in order to enable it to carry out a capital increase reserved for the benefit of categories of beneficiaries consisting of employees of foreign subsidiaries, with cancellation of the shareholders' preferential subscription right, within the scope of an employee share ownership programme

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Reports of the Board of Directors and the Statutory Auditors, and acting in accordance with the provisions of Articles L. 225-129-2 and L. 225-138 of the French Commercial Code:

1) delegates to the Board of Directors the authority to decide to increase the Company's share capital, on one or more occasions, in the proportions and at the times it may consider appropriate, through the issue of shares or securities giving access to the Company's capital with cancellation of the shareholders' preferential subscription right in favour of the beneficiaries defined below;

2) decides to cancel the shareholders' preferential subscription right for the shares and securities giving access to the Company's capital within the scope of this delegation of authority and to reserve the right to subscribe for them to one or several categories of beneficiaries meeting the following characteristics: (i) employees and executive officers of affiliates of the Company under the conditions of Article L. 225-180 of the French Commercial Code and Article L. 3341-1 of the French Labour Code which have their registered office outside France and/or (ii) in favour of UCITS or other entities governed by French or foreign law, whether or not they have legal personality, for employee share ownership invested in shares of the Company whose unitholders or shareholders will consist of the persons mentioned in paragraph (i) or enabling the persons mentioned in paragraph (i) to benefit, either directly or indirectly, from a system of employee share ownership or a Company employee share savings scheme;

3) sets the period of validity of this delegation of authority at 18 months as from the date of this Annual General Meeting, and records that this delegation renders ineffective the unused portion of any prior delegation for the same purpose; it being specified that in the event of filing of a public offer by a third party with regard to the shares of the Company, the Board of Directors will not be able to use this authorisation during the public offer period without the prior authorisation of the Annual General Meeting.

4) decides that the issue price of the new shares, to be issued pursuant to this delegation of authority, will be set, (i) on the basis of an average of the trading prices on the Euronext Paris market for the twenty trading days prior to the date of the decision of the Board of Directors, or of the Chief Executive Officer, setting the opening date of the subscription period, with a maximum discount of 20%, and/or (ii) at the same price as decided on the basis of the thirteenth resolution at the time of a simultaneous transaction, and/or (iii) in accordance with the terms and conditions for setting the subscription price for the Company's shares taking into account the specific regime of an offering of shares in the Company which would be carried out within the scope of a share ownership scheme governed by foreign law, and in particular within the scope of a Share Incentive Plan in the United Kingdom or a 401k or 423 plan in the United States;

5) decides to set at 1% of the share capital existing at the date of this Annual General Meeting, the capital increase that could thus be carried out (namely, for information purposes, at December 31st, 2016, an increase in the share capital by a maximum nominal amount of €1,123,711 through the issue of 5,618,557 new shares), it being specified that the cumulative amount of the increases in share capital that may be carried out pursuant to this resolution and the thirteenth resolution may not exceed the maximum amount of 1% of the share capital existing at the date of this Annual General Meeting which constitutes a ceiling which applies jointly to the thirteenth and fourteenth resolutions;

6) decides that the amount of the increases in capital that may be carried out pursuant to this resolution will be charged against the total ceiling for increases in capital provided for in the eleventh resolution submitted to this Annual General Meeting;

7) decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions provided for by law, to make use of this delegation of authority on one or more occasions, in particular in order to:

- decide on the list of beneficiaries, from one or more categories of beneficiaries defined above, or the categories of employees who will be beneficiaries of each issue and the number of shares to be subscribed by each of them,
- determine the formulas and methods of subscription which will be presented to the employees in each country concerned, in light, where applicable, of the local legal constraints that apply, and select he countries chosen from those in which the Group has subsidiaries as well as such subsidiaries whose employees will be able to participate in the transaction,
- decide on the maximum number of shares to be issued, within the limits set by this resolution and record the final amount of each increase in capital and amend the Articles of Association accordingly,
- decide on the dates and any other terms and conditions of such an increase in capital under the conditions provided for by law,
- deduct the costs of such an increase in capital from the amount of the related share premiums and take from this amount the amounts necessary to increase the legal reserve to one-tenth of the new amount of the share capital resulting from such an increase,
- in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be useful or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

RESOLUTION 15: HARMONISATION OF THE ARTICLES OF ASSOCIATION WITH ARTICLE 787 B OF THE FRENCH TAX CODE

STATEMENT OF REASONS

The system of lock-up agreements entered into pursuant to Article 787 B of the French Tax Code is a tax system set up by the law of August 1st, 2003 which aims at favouring the transmission of companies in consideration of lock-up agreements, known as "Dutreil Agreements", with a view to ensuring lasting, stable family share ownership in the companies.

L'Oréal was informed that the members of the Bettencourt Meyers family group, as well as the Company's Chairman and Chief Executive Officer, Mr. Jean-Paul Agon for 100 shares, signed on December 16th, 2016 lock-up agreements concerning 185,704,189 L'Oréal shares, representing 33.065% of the Company's capital and voting rights at the date of the agreement. These lock-up agreements were concluded in application of Articles 787 B and 885 I bis of the French Tax Code for a period of two years, tacitly renewable for one-year periods. They do not include any preferential rights for sales or acquisitions for the benefit of the signatories and do not constitute a concerted action vis-à-vis the Company.

In order to enable transmissions with the reservation of beneficial ownership to be carried out in accordance with the regime of lock-up agreements concluded pursuant to Article 787 B of the French Tax Code, the law requires the beneficial owner's voting rights to be limited by the Articles of Association to decisions concerning the allocation of profits.

It is thus proposed to the Annual General Meeting that it include this legal provision in the Articles of Association. It would only apply to the exercise of the voting rights attached to the shares that are the subject of a gift with reservation of beneficial ownership within the scope of the provisions of Article 787 B of the French Tax Code without amending in any way whatsoever the current provisions of the Articles of Association concerning the rights of the other shareholders.

Fifteenth resolution: harmonisation of the Articles of Association with Article 787 B of the French Tax Code

The Annual General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the Report of the Board of Directors, decides to supplement the 5th paragraph of Article 7 in order to bring it into line with Article 787 B of the French Tax Code:

Current version	Proposed new version
For all General Shareholders' Meetings, the voting right belongs to the beneficial owner.	For all General Shareholders' Meetings, the voting right belongs to the beneficial owner. <u>However, for the shares that are the subject of a gift with reservation of beneficial ownership in accordance with the provisions of Article 787 B of the French Tax Code, the beneficial owner's voting right is limited to the decisions concerning the allocation of profits</u>.

RESOLUTION 16: POWERS FOR FORMALITIES

STATEMENT OF REASONS

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

Sixteenth resolution: powers for formalities

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

7.2. STATUTORY AUDITORS' REPORTS

7.2.1. STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND SECURITIES GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL RESERVED FOR EMPLOYEES OF THE COMPANY

(Ordinary and Extraordinary Shareholders' Meeting of April 20, 2017 - Thirteenth resolution)

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in accordance with Articles L.228-92 and L.225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present you with our report on the proposal to delegate to the Board of Directors the authority to carry out the issue of shares or securities giving access to the Company's share capital with cancellation of preferential subscription rights, such increase being reserved for employees, executive officers and eligible former employees of your Company and French and foreign affiliated companies, as defined by Article L.225-180 of the French Commercial Code and Article L.3344-1 of the French Labor Code (*Code du travail*), who are members of a L'Oréal Group corporate savings scheme, a transaction on which you are asked to vote.

This proposed share capital increase is submitted to you for approval pursuant to Articles L.225-129-6 of the French Commercial Code and Article L.3332-18 *et seq.* of the French Labor Code.

The total number of shares likely to be issued, on one or more occasions, pursuant to this delegation, cannot exceed 1% of the Company's share capital existing as of the date of this Annual General Meeting, it being specified that the cumulative amount of the increases in share capital that may be carried out pursuant to this resolution and the fourteenth resolution may not exceed the maximum amount of 1% of the share capital existing at the date of the present Annual General Meeting, and that the amount of the increases in share capital that may be carried out, either immediately or in the future, pursuant to this resolution will be charged against the total ceiling for increases in share capital provided for in the eleventh resolution of this Annual General Meeting. Générale.

On the basis of its report, the Board of Directors asks you to delegate, for a period of twenty-six months commencing the day of this Annual General Meeting, the authority to decide one or several share capital increases and to cancel your preferential share subscription rights to the shares to be issued. Where appropriate, the Board of Directors shall set the final terms and conditions of the share capital increases.

It is the role of the Board of Directors to prepare a report in accordance with Articles R.225 113 *et seq.* of the French Commercial Code. It is our role to comment on the fair presentation of financial data taken from the accounts, on the proposed cancellation of shareholders' preferential subscription rights and on certain other information concerning the issuance, presented in this report.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying the information provided in the Board of Directors' report in respect of this transaction and the terms and conditions for determining the share issue price.

Subject to a subsequent review of the terms and conditions of each of the proposed issue of shares that the Board of Directors may decide, we have no matters to report relating to the methods used to set the issue price of the shares to be issued as set forth in the Board of Directors' report.

As the final terms and conditions of the issue(s) have not been set, we do not express an opinion thereon and consequently on the proposed cancellation of preferential share subscription rights.

In accordance with Article R.225-116 of the French Commercial Code, we shall prepare an additional report if and when the Board of Directors exercises this delegation of authority to carry out the issue of shares or securities carrying rights to other securities, or the issue of securities carrying rights to securities to be issued.

Neuilly-sur-Seine, February 20, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	Frédéric Moulin

7.2.2. STATUTORY AUDITORS' REPORT ON THE ISSUE OF SHARES AND SECURITIES GIVING ACCESS TO THE COMPANY'S SHARE CAPITAL RESERVED FOR THE BENEFIT OF CATEGORIES OF BENEFICIARIES CONSISTING OF EMPLOYEES OF FOREIGN SUBSIDIARIES WITHIN THE SCOPE OF AN EMPLOYEE SHARE OWNERSHIP PROGRAMME

(Ordinary and Extraordinary Shareholders' Meeting of April 20, 2017 - Fourteenth resolution)

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in accordance with Articles L.228-92 and L.225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present you with our report on the proposal to delegate to the Board of Directors the authority to carry out the issue of shares or securities giving access to the Company's share capital with cancellation of preferential subscription rights, such increase being reserved for one or several categories of beneficiaries meeting the following characteristics: (i) employees and executive officers of affiliates of the Company under the conditions of Article L.225-180 of the French Commercial Code and Article L.3341-1 of the French Labor Code (*Code du travail*), which have their registered office outside France and/or (ii) in favor of UCITS or other entities governed by French or foreign law, whether or not they have legal personality, for employee share ownership scheme invested in shares of the Company whose unitholders or shareholders will consist of the persons mentioned in paragraph (i) or enabling the persons mentioned in paragraph (i) to benefit, either directly or indirectly, from a system of employee share ownership or a Company employee share savings scheme, a transaction on which you are asked to vote.

The total number of shares likely to be issued, on one or more occasions, pursuant to this delegation, cannot exceed 1% of the Company's share capital existing as of the date of this Annual General Meeting, it being specified that the cumulative amount of the increases in share capital that may be carried out pursuant to this resolution and the thirteenth resolution may not exceed the maximum amount of 1% of the share capital existing at the date of the present Annual General Meeting, and that the amount of the increases in share capital that may be carried out, either immediately or in the future, pursuant to this resolution will be charged against the total ceiling for increases in share capital provided for in the eleventh resolution of this Annual General Meeting.

On the basis of its report, the Board of Directors asks you to delegate, for a period of eighteen months commencing the day of this Annual General Meeting, the authority to decide one or several share capital increases and to cancel your preferential share subscription rights to the shares to be issued. Where appropriate, the Board of Directors shall set the final terms and conditions of the share capital increases.

It is the role of the Board of Directors to prepare a report in accordance with Articles R.225 113 *et seq.* of the French Commercial Code. It is our role to comment on the fair presentation of financial data taken from the accounts, on the proposed cancellation of shareholders' preferential subscription rights and on certain other information concerning the issuance, presented in this report.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying the information provided in the Board of Directors' report in respect of this transaction and the terms and conditions for determining the share issue price.

Subject to a subsequent review of the terms and conditions of each of the proposed issue of shares that the Board of Directors may decide, we have no matters to report relating to the methods used to set the issue price of the shares to be issued as set forth in the Board of Directors' report.

As the final terms and conditions of the issue(s) have not been set, we do not express an opinion thereon and consequently on the proposed cancellation of preferential share subscription rights.

In accordance with Article R.225-116 of the French Commercial Code, we shall prepare an additional report if and when the Board of Directors exercises this delegation of authority to carry out the issue of shares or securities carrying rights to other securities, or the issue of securities carrying rights to securities to be issued.

Neuilly-sur-Seine, February 20, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit Gérard Morin	Deloitte & Associés Frédéric Moulin

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8.1. STATUTORY AUDITORS

8.1.1. AUDITORS

2010, 2011, 2012, 2013, 2014, 2015 and 2016	Current appointments			
	Date of first appointment	Date of appointment	Term of office	Expiry date
Auditors				
PricewaterhouseCoopers Audit Auditor, member of the Compagnie Régionale de Versailles, represented by Gérard Morin 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 20th, 2016	6 years	
Deloitte & Associés Auditor, member of the Compagnie Régionale de Versailles, represented by Frédéric Moulin 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 20th, 2016	6 years	AGM reviewing the financial statements for 2021 to be held in 2022
Substitute auditors				
Mr. Georghiou Jean-Christophe 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 20th, 2016	April 20th, 2016	6 years	
Société BEAS 195 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 27th, 2010	April 20th, 2016	6 years	

8.1.2. FEES OF AUDITORS AND MEMBERS OF THEIR NETWORKS CHARGED TO THE GROUP

See note 15 of the *Consolidated financial statements* in chapter 4 of this document.

8.2. HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European regulation EC No. 809/2004 of April 29th, 2004, this 2016 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31st, 2015, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 193 to 253 of the 2015 Registration Document filed with the *Autorité des Marchés Financiers* on March 15th, 2016 under the number D. 16-0137, and also information extracted from the 2015 Management Report presented on pages 16 to 30 of the 2015 Registration Document;
- the consolidated financial statements for the year ended December 31st, 2014, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 117 to 177 of the 2014 Registration Document filed with the *Autorité des Marchés Financiers* on March 17th, 2015 under the number D. 15-0145, and also information extracted from the 2014 Management Report presented on pages 101 to 115 of the Registration Document 2014.

8.3. PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Mr. Christian Mulliez, Executive Vice-President Administration and Finance, on the authority of L'Oréal's Chairman and Chief Executive Officer, Mr. Jean-Paul Agon.

8.4. DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

"I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and that there is no omission likely to affect the fairness of the presentation.

I certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets and liabilities, financial position and profit or loss of the Company and all the other companies included in the scope of consolidation, and that the elements of the Management Report included in this document, as detailed in the table of concordance in section 8.8, present a fair review of the development and performance of the business and the position of the Company and all the other companies included in the scope of consolidation, together with a description of the principal risks and uncertainties that they face.

I have obtained a letter of completion of audit from the Statutory Auditors in which they state that they have verified the information relating to the financial position and the financial statements set out in this present document and have read the Registration Document in its entirety."

Clichy, March 10th, 2017

On the authority of the Chairman and Chief Executive Officer

Christian Mulliez,

Executive Vice-President Administration and Finance

8.5. REGISTRATION DOCUMENT TABLE OF CONCORDANCE

In order to facilitate the reading of this Registration Document, the following table provides the page references of the main information required by Annex 1 of European regulation No. 809/2004/EC.

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21.2.4. Changes in shareholders rights	N/A
21.2.5. Convening of and admission to Annual General Meetings	304
21.2.6. Provisions likely to differ, delay or prevent a change in control	N/A
21.2.7. Statutory declarations of threshold crossing	308
21.2.8. Conditions for change in share capital, when more restrictive than legal provisions	N/A
22. Material contracts	**N/A**
23. Third party information, statement by experts and declarations of any interest	**10, 15, 117**
24. Documents on display	**303, 324-325**
25. Information on holdings	**264-268, 293-295**

8.6. ANNUAL FINANCIAL REPORT TABLE OF CONCORDANCE

In order to facilitate the reading of Annual Financial Report *(Rapport Financier Annuel)*, the following table provides the page references of the main information required by Article L. 451-1-2 of the French Monetary and Financial Code and by Article 222-3 of the General Regulation of the *Autorité des Marchés Financiers*.

Schedule based on Article L. 451-1-2 of the French Monetary and Financial Code and on Article 222-3 of the General Regulation of the AMF	Pages
1. Annual Statements 2016	271-300
2. Consolidated Financial Statements 2016	209-270
3. 2016 Management Report of the Board of Directors	355
4. Declaration by the person responsible for the 2016 Annual Financial Report	351
5. Statutory Auditors' Report on the 2016 financial statements	299
6. Statutory Auditors' Report on the 2016 consolidated financial statements	269
7. Fees of Auditors	263
8. Report of the Chairman of the Board of Directors On Internal Control	44-106
9. Statutory Auditors' Report on the report prepared by the Chairman of the Board of Directors	121

8.7. TABLE OF CONCORDANCE WITH THE AMF TABLES ON THE REMUNERATION OF EXECUTIVE OFFICERS AND DIRECTORS

The following thematic table has been prepared in order to make it possible to look at the information provided on remuneration from the perspective of the presentation in the form of 10 tables recommended by the AMF in its recommendations of December 22nd, 2008 relating to "the information to be provided in reference documents on the remuneration of corporate officers" (see also the AFEP-MEDEF Code). It should be noted that some information is not presented in table form in light of its content (see the tables marked with an asterisk* below).

Tables with regard to Remuneration provided for in the AMF's recommendations	Pages
Table No. 1 Summary of the remuneration, stock options and performance shares granted to each executive officer	96 3rd table
Table No. 2 Summary of the remuneration of each executive officer	96 2nd table
Table No. 3 Attendance fees and other remuneration received by non-executive Directors	81
Table No. 4 Stock options for the subscription or purchase of shares granted during the financial year to each executive officer by the issuer and by any Group company*	N/A
Table No. 5 Stock options for the subscription or purchase of shares exercised during the financial year by each executive officer	97 2nd table
Table No. 6 Performance shares granted to each executive officer	97 3rd table
Table No. 7 Performance shares that have vested for each executive officer*	97 4th table
Table No. 8 History of grants of stock options for the subscription or purchase of shares	97 1st table
Table No. 9 Stock options for the subscription or purchase of shares granted to the ten employees who are not executive officers receiving the largest number of options and options exercised by them	314 section 6.4.2.2.
Table No. 10 Historical data relating to free grants of shares	316

8.8. TABLE OF CONCORDANCE OF THE MANAGEMENT REPORT

In order to review the elements of the Management Report, the following thematic table makes it possible to identify the main information provided for by Articles L. 225-100 *et seq.*, L. 232-1 and R. 225-102 *et seq.* of the French Commercial Code.

Headings of the 2016 Management Report	Pages
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Analysis of changes in the business, results and financial situation of the Company and the Group (including in particular the dividends distributed in respect of the three previous financial years and the amount of revenues eligible for the tax deduction on dividends)	23-32
Significant events that have occurred since the beginning of 2017 and prospects	32
Research and development	16-18
Operations	18-22
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L'Oréal parent company balance sheet and income statement	272-273
Expenses and charges falling under Article 223 *quater* of the French Tax Code	296
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Legal risks (challenges and constraints linked to the legislation, significant disputes…)	113-114
Industrial and environmental risks	115-116
Counterparty risk	116
Customer risks	117
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List of offices and directorships held by each of the corporate officers in any company during the financial year	47-57
Remuneration of the executive officers and Directors	82-97
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Commitments made with regard to the executive officers	88-90
Summary of trading by Directors and executive officers and their closely related parties in L'Oréal shares in 2016	99
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Information relating to employee issues and social consequences of L'Oréal's business activities	127-144
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Information concerning the share capital	
Statutory requirements governing changes in the share capital and shareholders' rights	302-304
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Disclosures to the Company of legal thresholds crossed	308
Shareholders' agreements relating to shares in the Company's share capital	308-310
Buyback by the Company of its own shares	310-311
Presentation of the L'Oréal parent company stock option plans and plans for the conditional grant of shares to employees	312-317

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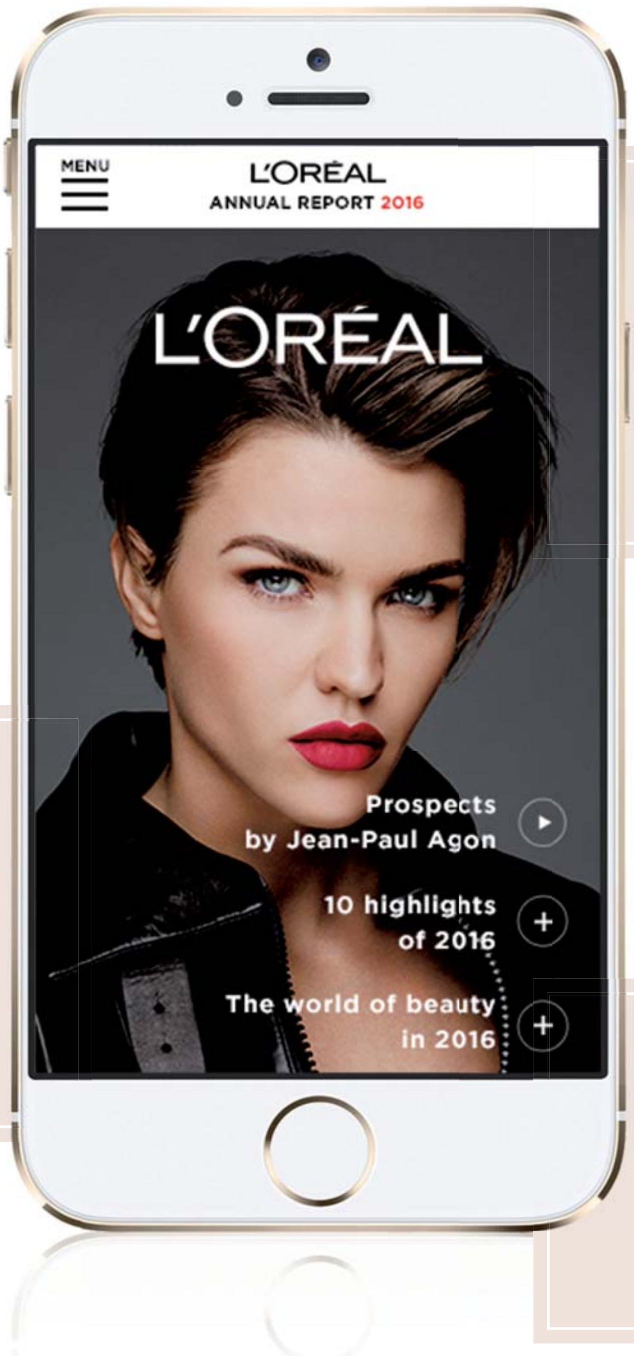
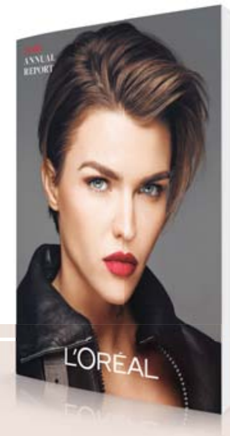
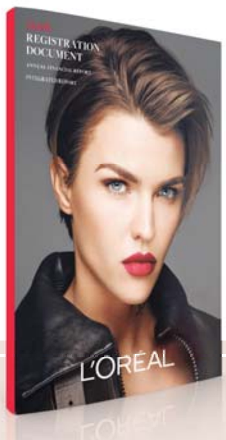




ANNUAL REPORT

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



REGISTRATION DOCUMENT

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

PROGRESS REPORT

2016 Progress Report of the "Sharing Beauty With All" sustainability programme.

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

Photo credit: Urban Decay.

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