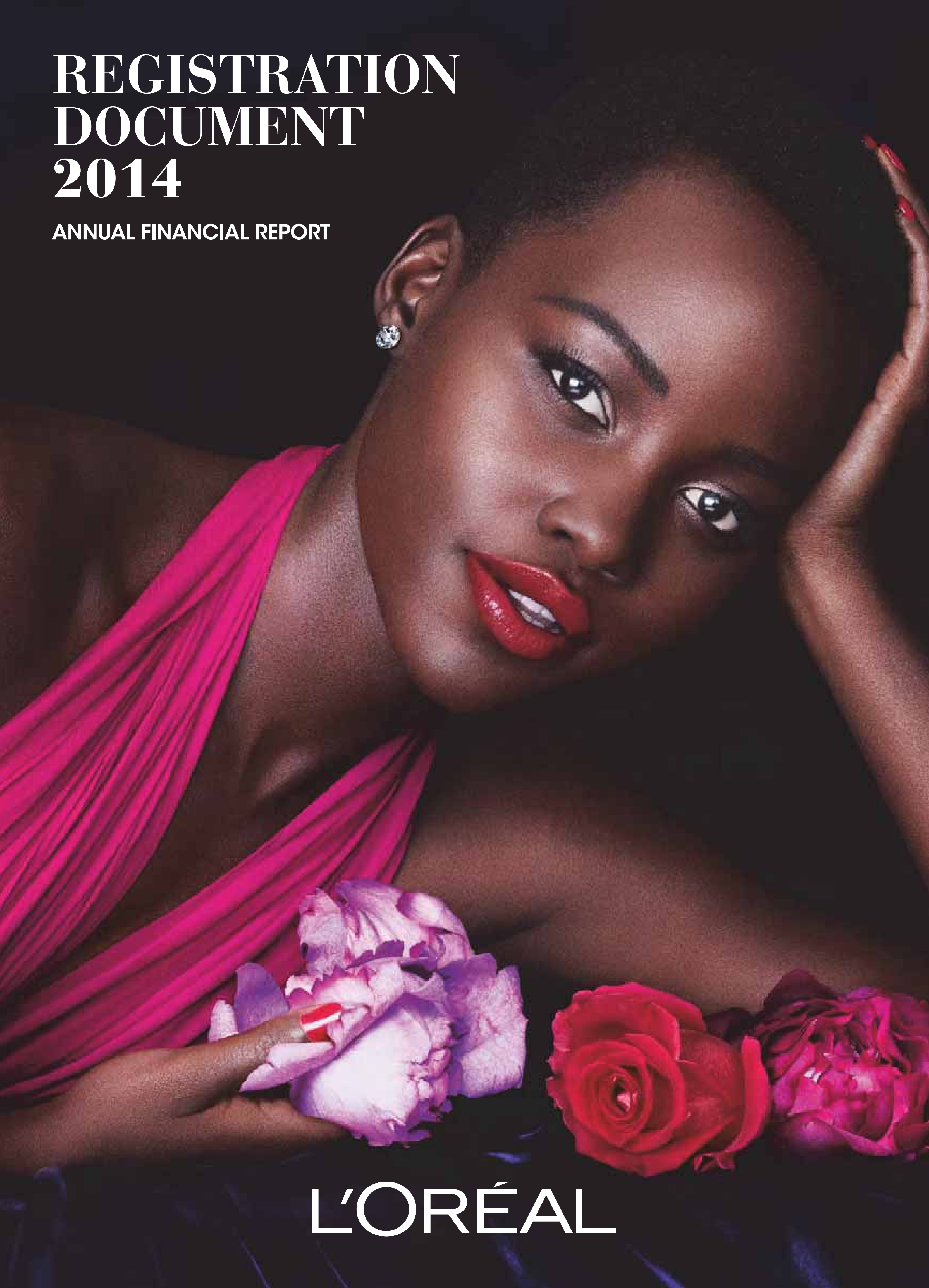
REGISTRATION DOCUMENT 2014

ANNUAL FINANCIAL REPORT



L'ORÉAL

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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.*

REGISTRATION DOCUMENT 2014

ANNUAL FINANCIAL REPORT

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 17th, 2015

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This is a free translation into English of the L'Oréal 2013 Registration Document issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

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INTERVIEW

INVENTING THE NEW L'ORÉAL: UNIVERSAL, DIGITAL AND SUSTAINABLE

MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Jean-Paul AGON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

"THE GROUP'S PERFORMANCE WAS VERY SOLID. WE FURTHER STRENGTHENED OUR POSITIONS IN THREE OF OUR FOUR DIVISIONS"

What kind of a year was 2014 for L'Oréal?

It can be summed up in two words: "progress" and "transformation". Progress first of all, because the year was marked by major launches and market share gains. In a volatile economic context and a less dynamic market, L'Oréal posted growth across all its Divisions and geographic zones. But 2014 was also a year of profound transformation for L'Oréal, to further strengthen the group and adapt to a rapidly changing world.

Could you tell us more about the group's performance in 2014?

The Active Cosmetics Division and L'Oréal Luxe substantially outperformed their markets in all regions. The Professional Products Division grew faster than its market. The Consumer Products Division meanwhile saw a temporary slowdown in its growth, mainly reflecting its weaker performance in the United States, where – after three years of increasing its market share – it marked a pause.

In geographic terms, the Group strengthened its positions in all parts of the world, except North America. Our progress was especially good in Western Europe, a zone that is strategically important for the group. Profitability there is strong, and there are bright prospects for increasing our market shares, which are already high in this region. We also made progress in the New Markets, our number one zone since 2012, where once again we increased our market shares and recorded high growth.

And in terms of results?

2014 was once again a year of very solid financial results. The Group significantly raised its profitability, which reached a record level at 17.3%. Its net profit increased, as did net earnings per share and the dividend proposed at the Annual General Meeting, which is up by +8%.

Was 2014 an important year of transformation?

Yes, L'Oréal has undergone substantial strategic transformations this year to reinforce our competitive advantage in the beauty market. We have made major strategic acquisitions that ideally complement our unique portfolio of brands. The integration of Decléor and Carita means that our Professional Products Division is moving into a new market: professional skincare. The acquisitions of Magic, Niely and NYX are adding to the presence and potential of the Consumer Products Division in markets of great strategic importance: skincare in China and Asia for Magic, hair colour in Brazil and Latin America for Niely, and make-up in America and the rest of the world for NYX. Lastly, the acquisition of Carol's Daughter will underpin our beauty expertise in order to best serve multicultural customers.

You have also stepped up digital initiatives. Is this another kind of transformation?

It certainly is. 2014 was an important year for L'Oréal's digital transformation, with the appointment of Lubomira Rochet as Chief Digital Officer and a member of the Group's Executive Committee. I am fully convinced that digitalization will profoundly transform the relationship between our brands and consumers in a positive way. We strongly believe that digitalisation is a very important factor in the group's success. What is more, our decentralized organisation, entrepreneurial spirit, and multi-brand and multi-channel approach

are ideally adapted to the digital world. It thus represents a major opportunity and we intend to be trailblazers and leaders in the field of "digital beauty".
In 2014, we made major advances across all our Divisions and in strategic countries: these pages will give you a glimpse, and you can find out more in our online Annual Report.

Were there any other strategic transformations?

2014 was the first year in the roll-out of our major corporate social responsibility project: "Sharing Beauty With All". Its objective is to make L'Oréal into a model company that is exemplary in terms of sustainable innovation, production and consumption, and shared growth by 2020. This is a vital challenge, because sustainable development is, and increasingly will be, an essential driver for the durable success of companies in the 21st century. As you will see in our Progress Report, we have already made significant advances in a number of fields, especially sustainable innovation and production. For instance, at the end of 2014 we achieved a 50% reduction in CO_2 emissions from our factories and distribution centres compared with 2005. As for social issues, 2014 marked the roll-out of the "L'Oréal Share & Care" programme, an unprecedented project aimed at universalising optimum social protection for all Group employees worldwide. Moreover, several strategically important internal transformations also took place this year.

> "WE WANT TO BE A LEADER WITH THE SPIRIT OF A CHALLENGER, AND A LARGE COMPANY WITH THE SPIRIT OF A START-UP"

What are these internal transformations and what are your objectives?

We have started a huge simplification initiative. I am quite convinced that the more complex the world becomes, the more we need to simplify our approach, so as to be fast, agile, responsive, and capable of seizing up-and-coming trends and taking advantage of all opportunities. The aim of these transformations is to adapt the group to a fast-changing world, and to prepare it for future success.

So this is the driving force for 2015 and the years to come?

Yes, but that's not all. We will keep on course to conquer the beauty market, through all our Divisions, driven by our brands in all regions of the world. We are confident that the worldwide cosmetics market will continue to grow, and we believe in our ability to outperform the market in terms of organic growth. We will also take advantage of the favourable impact of the monetary environment. We will rely, as always, on strong ethical principles and on talented and committed L'Oréal teams, which are totally dedicated to continuing our great adventure: in other words, pursuing our "Beauty for All" mission, our Universalisation strategy and our goal of attracting one billion new consumers. At the same time, we will keep on inventing the New L'Oréal of the 21st century: universal, digital and sustainable.

1

PRESENTATION OF THE GROUP

1.1. MISSION

Beauty for all

For more than a century, L'Oréal has devoted itself solely to one business: beauty. It is a business rich in meaning, as it enables all individuals to express their personalities, gain self-confidence and open up to others.

Beauty is a language

L'Oréal has set itself the mission of offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety. It pursues this goal by meeting the infinite diversity of beauty needs and desires all over the world.

Beauty is universal

Since its creation by a researcher, the Group has been pushing back the frontiers of knowledge. Its unique Research arm enables it to continually explore new territories and invent the products of the future, while drawing inspiration from beauty rituals the world over.

Beauty is a science

Providing access to products that enhance well-being, mobilising its innovative strength to preserve the beauty of the planet and supporting local communities are exacting challenges, which are a source of inspiration and creativity for L'Oréal.

Beauty is a commitment

By drawing on the diversity of its teams, and the richness and the complementarity of its brand portfolio, L'Oréal has made the universalisation of beauty its project for the years to come.

L'Oréal, offering beauty for all

1

1.2. HISTORY

- **1909** Creation of *Société Française de Teintures Inoffensives pour Cheveux* by Eugène Schueller
- **1929** Imédia, the first quick oxidation hair colour
- **1935** Ambre solaire, the first sun protection oil with filtering
- **1954** Cosmair is named as L'Oréal's agent in the United States
- **1957** Launch of Elnett hair lacquer
- **1963** L'Oréal enters the Paris Stock Market
- **1964** Acquisition of Lancôme
- **1965** Acquisition of Laboratoires Garnier
- **1970** Acquisition of Biotherm
- **1973** Acquisition of Gemey, an open door to the consumer make-up market
- **1979** The first model of a reconstructed epidermis from L'Oréal Research
- **1981** Creation of Laboratoires dermatologiques Galderma
- **1989** Acquisition of La Roche-Posay
- **1993** Acquisition of Redken 5th avenue in the United States
- **1994** Acquisition of American agents Cosmair
- **1996** Acquisition of Maybelline in the United States
- **1998 2000** Acquisition of Softsheen and Carson in the United States and in South Africa
- **2000** Acquisition of Matrix and Kiehl's since 1851 in the United States
- **2003** L'Oréal becomes the majority shareholder in Shu Uemura in Japan
- **2004** Takeover of the Gesparal holding company
- **2006** Acquisition of The Body Shop
- **2007** Creation of the L'Oréal Corporate Foundation
- **2008** Acquisition of YSL Beauté
- **2009** L'Oréal celebrates its centenary
- **2010** Acquisition of Essie Cosmetics in the United States
- **2011** Acquisition of Clarisonic
- **2012** Acquisition of Urban Decay in the United States
- **2013** Acquisition by The Body Shop of 51% of Emporio Body Store in Brazil
- **2014** Strategic Transaction agreed between L'Oréal and Nestlé. Acquisition of Magic Holdings in China, NYX in the United States and Niely Cosmeticos[1] in Brazil

(1) Acquisition under completion

1.3. BUSINESS ACTIVITIES AND STRATEGIC ORIENTATIONS

1.3.1. The foundations of a winning strategy

1.3.1.1. ONLY ONE BUSINESS, BEAUTY

For over 105 years, L'Oréal has continually devoted itself to the same business: beauty, in which it is the world's leading company. This 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.

With an international portfolio of 32 diverse and complementary brands, the Group is committed to responding to all beauty aspirations worldwide. With a presence in all distribution channels, L'Oréal generated sales amounting to €22.53 billion in 2014 thanks to the efforts made by its 78,611 employees worldwide.

1.3.1.2. ONE MISSION, BEAUTY FOR ALL

Our mission: to offer women and men all over the world the best of cosmetics in terms of quality, efficacy and safety, to satisfy all their needs and their beauty desires in their infinite diversity.

1.3.1.3. COUNTING ON RESEARCH, INNOVATION AND QUALITY: INVENTING THE FUTURE OF BEAUTY

With 3,782 researchers and a budget representing 3.4% of its sales, L'Oréal has the largest Research and Innovation team in the cosmetics industry. The Group is continuing to develop its innovation capabilities through its research centres in France and increases its research budget very regularly. L'Oréal invests in all fields, from Advanced Research to formulation. The cosmetics market is a supply-led market, driven by innovation, where consumers are always looking for novel products and improved performances. More than ever, it is the products which are "new, different, better" which make for success and lead to growth, which proves the validity of L'Oréal's business model based on the excellence of Research and creative marketing.

Turning to innovation enables L'Oréal to always remain one step ahead.

1.3.1.4. THE PORTFOLIO OF COSMETICS BRANDS: OFFERING THE BEST OF BEAUTY IN EACH DISTRIBUTION CHANNEL

The Group has the most varied, richest and most powerful brand portfolio in the cosmetics industry. This abounding portfolio enables it to meet the beauty expectations of consumers all over the world.

The brands are reinvented all the time so that they always match consumer demand perfectly.

In addition, new acquisitions regularly provide valuable additions to this unique portfolio.

Some of these are brands with a global vocation, like the recently acquired American Urban Decay make-up brand, which makes a tremendous contribution to our L'Oréal Luxe brands; NYX Cosmetics, an affordable, makeup artist-inspired brand or Decléor and Carita, which expand growth potential in Professional Products in the field of professional skincare.

Other acquisitions are aimed at extending the Group's geographical coverage: in Colombia with the make-up brand Vogue, in Kenya with Interbeauty, or in Brazil with Niely Cosméticos[1] and Emporio Body Store, and in China with Magic Holdings, the leading specialist in cosmetics facial masks. These newly acquired companies are accelerating the Group's penetration of their markets in a spectacular manner and contribute to boosting future organic growth.

1.3.1.5. ONE DEVELOPMENT STRATEGY, UNIVERSALISATION

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

The Group's research and marketing teams pay heed to all consumers from everywhere in the world. The laboratories on all continents study their specificities. The Group's innovation policy is based on accessibility and adaptation of products to the beauty habits and rituals of all men and women in their infinite diversity.

To make Universalisation a really powerful strategy, the global market has been organised into eight homogeneous strategic regions, even more attentive to consumers and closer to their expectations. 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 the Research and marketing activities. Research thus has 5 hubs all over the world, led by the central teams and fuelled by the Group's core expertise and fundamental knowledge.

1.3.1.6. GIVING PRIORITY TO HUMAN RESOURCES AND AN UNSWERVING CORPORATE CULTURE

L'Oréal has always been guided by humanist values that have caused it to place the individual and talent at the heart of its organisation.

These strategic intangible assets are one of the Group's main competitive advantages in the long term, alongside the brands, governance or 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, social performance.

In this field, L'Oréal has launched the global *Share & Care* programme, with the objective of guaranteeing security, protection and well-being for all the Group's employees, wherever they may be located in the world.

This programme aims at attracting and fostering the loyalty of the best talents in all the countries of the world, as has been the case in France for a number of years.

1.3.1.7. A STRATEGY OF CONSTANT, SUSTAINABLE, SHARED GROWTH

Supported by loyal shareholders, vigilant governance and stable management, 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 in all regions:

- the products offered to consumers meet the highest quality standards;
- the Group's commitments in social matters 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 suppliers of factories and distribution centres;

(1) Acquisition under completion

- each subsidiary participates, as far as its resources allow, in the large corporate philanthropy programmes of the L'Oréal Foundation such as "For Women In Science", "Hairdressers against AIDS" and "Beauty for a Better Life".

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 footprint on the planet. In October 2013, L'Oréal launched its new commitment to sustainability by 2020: "Sharing beauty with all". This programme concerns all the Group's impacts, and covers four areas: innovating sustainably, producing sustainably, consuming sustainably and sharing growth. (Details of the commitments under this programme are set out in chapter 6, on pages 212 to 215).

1.3.1.8. A GROUP THAT CONSTANTLY ADAPTS

L'Oréal relies on great continuity in its strategy. But continuity does not prevent renewal. L'Oréal transforms its business to adapt to changes in the world in order to consolidate its leadership and increase its chances of success in the future. The challenge is twofold: it is necessary both to pursue the strategy which has enabled L'Oréal to be successful over the last hundred years and, at the same time, to invent the new L'Oréal of the 21st century, perfectly matched and in tune with a profoundly changing world.

1.3.2. An organisation that serves the Group's development

1.3.2.1. L'ORÉAL S.A.

L'Oréal S.A. is a French company with its registered office in France, which carries out a commercial business specific to that country. In parallel, 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 of 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 connection, they manufacture or have produced and commercialise the products that they decide to sell on their market.

Almost all the subsidiaries are owned by L'Oréal S.A., which has a holding or control percentage equal to or close to 100%.

The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements on pages 174 to 177 and pages 201 to 203.

1.3.2.2. COSMETICS DIVISIONS

The Cosmetics Divisions represented over 96% of consolidated sales in 2014 and are organised into four operating Divisions present in every zone and in every country, each corresponding to a specific marketing channel. Each Division fully intergrates all the opportunities arising from increased digitalisation.

- The Professional Products Division: Offering the best of professional beauty.

In all its historical categories (haircare, hair colours, styling and shaping), the Division has built a unique brand portfolio: luxury hair care (Kérastase, Shu Uemura Art of Hair), general premium brands (L'Oréal Professionnel, Redken), an affordable professional brand (Matrix), and a handful of specialist brands.

In order to strengthen its brand leadership further, develop markets, and accelerate the conquest of new professional hair salons, the strategy is organised:

- by region: accelerating growth in the New Markets (promotion of the profession through education, development of a customised offering of both products and services, leveraging complementary distribution channels), revitalising growth in mature countries by making the hair salon experience more engaging (e-motion concept, exclusive new professional services, development of expert fashion assistance provided by hairdressers);
- by category: enlarging its professional expertise to two new segments (nail care and colour, Decléor and Carita skincare): these new activities, which are highly complementary to the profession of hairdresser, will make it possible to enhance the authority of the Division over the professional beauty business as a whole, in hair salons and beauty institutes.

- The Consumer Products Division: Innovations in cosmetics that are affordable to all.

The Consumer Products Division has built its development around the deployment of its three main brands (L'Oréal Paris, Garnier, Maybelline), accompanied by several specialist or regional brands (Magic, Essie, Dark and Lovely, Nice & Lovely, Vogue, LaScad brands: Dop, Narta, Mixa, etc.).

With the aim of accelerating its growth, the Consumer Products Division rolls out its strategy in all countries:

- by region: defending and increasing its already strong positions in Western Europe, pursuing the winning momentum in North America, speeding up growth in the New Markets;
- by category: accentuating its development and leadership in hair care, skin care, make-up and hair colours, to achieve the necessary critical mass thresholds in every location where the Division is present, and developing the growth driver categories (men's cosmetics, deodorants) to prepare for its future growth.

- L'Oréal Luxe: Creating exceptional experiences.

L'Oréal Luxe orchestrates in a large number of countries a unique portfolio of 17 prestigious brands: emblematic general brands, aspirational designer brands and alternative or specialist brands. L'Oréal Luxe's strategy revolves around a vision:

- by region: accelerating in Asia and in Travel Retail, the leading growth drivers for L'Oréal Luxe, consolidation of its leadership in Western Europe, strengthening of the positions in the United States, and development of new growth areas (Russia, Middle East);

- by category: developing to skincare with three multi-category brands and four specialist brands, developing in make-up with, in particular, global deployment of the recently acquired specialist Urban Decay brand, and optimisation of growth in fragrances by winning major positions in women's perfumes and consolidation of its leadership in the men's category.

- The Active Cosmetics Division: Helping everyone in their quest for skin's beauty and health.

With a portfolio of very complementary brands, strongly anchored in science and working closely with healthcare professionals all over the world, the Active Cosmetics Division is the leader in dermocosmetics.

In a perfect position to respond to the growing demand for advice, efficacy and safety from consumers, the Division deploys its global brands: Vichy, La Roche-Posay, and SkinCeuticals.

The Division implements its strategy by adapting its business model to the realities and opportunities of the healthcare channels in each of the major regions:

- pharmacies and chemists in Western Europe;
- drugstores in North America and in the New Markets;
- Personalised advice to customers on all markets.

The Group leadership of the Selective Divisions (L'Oréal Luxe, Active Cosmetics, Professional Products, The Body Shop), created in 2013, aims to accelerate the Group's development in all these distribution channels, by using its know-how in each of its selective sales networks.

Travel retail: the "travellers channel" is a booming channel that conveys an image. Already the leader in this channel, the Group decided to create the Group Travel Retail Division Worldwide, including multi-division activities. This Division's ambition is to continue to widen the gap, with a "global shopper" strategy: a personalised, custom-tailored approach, according to languages, cultures and beauty rituals, which makes it possible to respond to the aspirations of this new generation of travellers.

The Body Shop

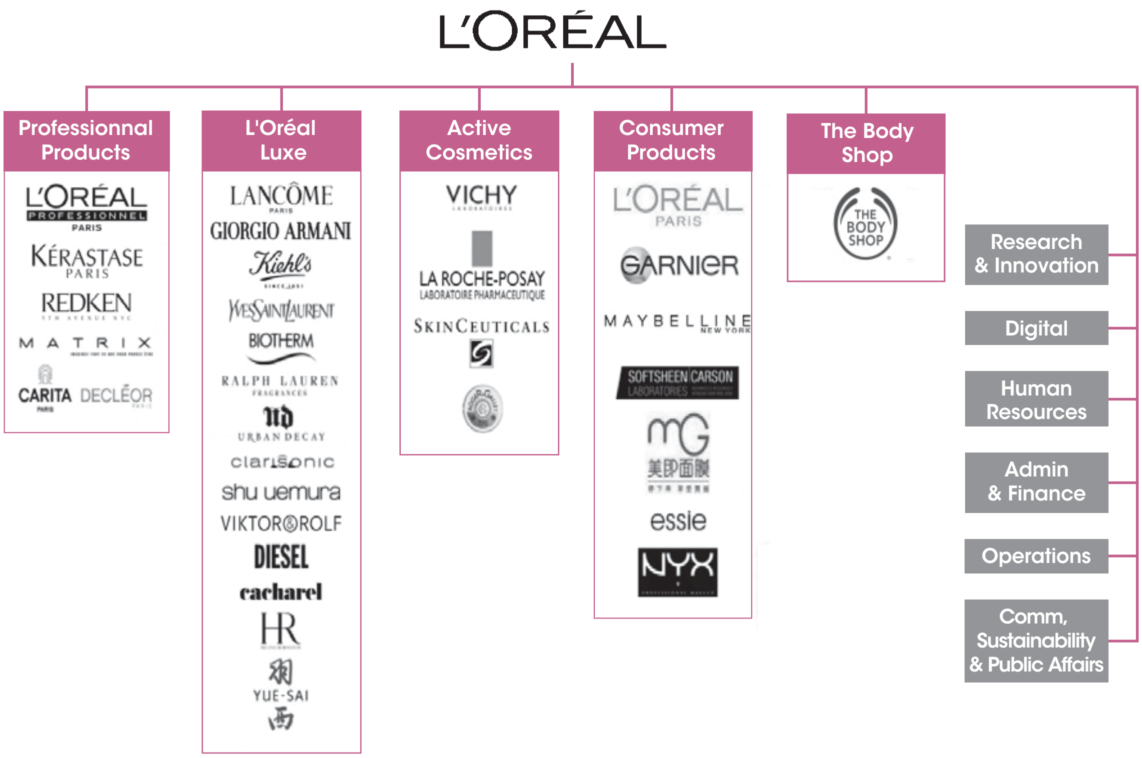
Founded in 1976 in Great Britain by Dame Anita Roddick, The Body Shop Branch represents nearly 4% of consolidated sales in 2014. The mission of this strongly committed brand is to have a positive impact on the life of men and women of all origins. A growing number of consumers, in all countries, are looking for products that combine efficacy with the natural inspiration, proposed by brands with an ethical business model. The Body Shop's deployment strategy combines:

- pioneering, innovative products based on the highest quality natural ingredients;
- a tone of communication with a strong personality;
- a personalised purchasing experience in stores or online.

On the New Markets where the Brand has a particular resonance, the launch of The Body Shop through the acquisition of Emporio Body Store in Brazil is a tremendous opportunity for development in a market in tune with its vision of beauty, its sensorial products and its values.

See segment information on page 133.

/ THE GROUP'S SIMPLIFIED ORGANISATION CHART



Almost all subsidiaries are directly held by L'Oréal parent company with a holding or control percentage equal to or close to 100%. The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements on pages 174 *et seq.* and pages 201 *et seq.*

NB: On July 8th, 2014, L'Oréal sold all its holdings in the companies of the Galderma group to Nestlé.

1.3.2.3. SUPPORT DIVISIONS

Several specialist Divisions provide their expertise and support to the operational Branches and Divisions and to the other business activities:

- the Research and Innovation Division, in charge of fundamental and applied research;
- the Digital Division, which has the mission of accelerating the Group's digital transformation by helping the brands to create new territories for expression and the teams to build more interactive, more personalised, closer relationships with consumers, while taking advantage of the business development opportunities offered by Digital as a distribution channel;
- the Operations Division, in charge of coordination of production and the supply chain;
- the Human Resources Division, in charge of recruitment, training and talent development policies and co-ordination of social policy;
- the Administration and Finance Division, in charge of the Group's financial policy, controlling and consolidation, information systems and legal and tax co-ordination, as well as financial communications and relations with shareholders and investors and strategic prospective;
- the Communication, Sustainability and Public Affairs Division, in charge of co-ordination of corporate communication, co-ordination of communication by the Divisions and brands and Sustainable Development.

1.3.2.4. GEOGRAPHIC ZONES

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

Thus, various geographical zones have been created, each with operational responsibility for the subsidiaries in the countries of its region:

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

1.3.2.5. EXECUTIVE COMMITTEE

Members of L'Oréal's Executive Committee

First name/Last name	Position
Jean-Paul Agon	Chairman and Chief Executive Officer
Laurent Attal	Executive Vice-President Research and Innovation
Nicolas Hieronimus	President – Selective Divisions
Barbara Lavernos	Executive Vice-President Operations
Brigitte Liberman	President Active Cosmetics Division
Marc Menesguen	President Consumer Products Division
Christian Mulliez	Executive Vice-President Chief Financial Officer
Alexis Perakis-Valat	Executive Vice-President Asia-Pacific Zone
Alexandre Popoff	Executive Vice-President Eastern Europe Zone
Sara Ravella	Executive Vice-President Communications, Sustainability and Public Affairs
Lubomira Rochet	Chief Digital Officer
Frédéric Rozé	Executive Vice-President Americas Zone
Geoff Skingsley	Executive Vice-President Africa, Middle East Zone
Jérôme Tixier	Executive Vice-President Human Relations and Advisor to the Chairman
An Verhulst-Santos	President Professional Products Division
Jochen Zaumseil	Executive Vice-President Western Europe Zone

1.4. INTERNATIONALIZATION AND THE COSMETICS MARKET

1.4.1. A historical presence in developed markets

L'Oréal is present in 130 countries in all 5 continents. Founded in France in 1909, the Group developed rapidly in Western Europe. In 2014, it made 35.1% of its cosmetics sales in this territory in which the Group is long established.

In the first half of the 20th century, L'Oréal gained a foothold in North America. Initially, the Group entrusted distribution companies with commercializing its products, these companies being united in 1953 around an exclusive agent, Cosmair. Following the Company's takeover in 1994, it ensured the Group's development on the North American continent with the status of subsidiary. The acquisition of brands like Maybelline (1996), Matrix and Kiehl's (2000), or more recently Clarisonic (2011) Urban Decay (2012) and NYX (2014) have firmly anchored the Group in North America. In 2014, its sales on that continent increase d by 1.1% like-for-like to reach 24.9% of world cosmetic sales.

1.4.2. Rapid development outside Western Europe and North America

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

Present in Japan for nearly 50 years, L'Oréal has developed its presence in that 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 the fall of the Berlin wall which gave the brands access to the markets in Eastern European countries.

L'Oréal was among the first foreign groups to obtain an authorisation from the Indian government in 1994 for the creation of 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 100% of the capital of its entity.

The Africa and Middle East zone, where the Group had a weak presence, is a new frontier for development in the New Markets: the number of subsidiaries in that region has increased from 7 to 12 over the last six years.

The mid 2000s were the turning point: the strong acceleration of the development of the New Markets has led to a shift of the point of gravity in the economic world.

In all, the percentage of cosmetics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 39.6% in 2014. The weight of the New Markets in the Group's sales has increased by nearly 60% between 2005 and 2014. This progression is expected to continue.

The Group's business footprint is well-balanced across the main markets in the world.

In September 2013, the Group has presented the Sharing Beauty with All program and had detailed its commitments for 2020 to redure its environmental impact while confirming its growth ambitions. A thorough presentation of these commitments appears in chapter 6 pages 212 to 215.

1.4.3. Immense development potential

Besides the major countries known as the BRIMC countries (Brazil, Russia, India, Mexico and China), L'Oréal has notably identified among its "growth markets" the following countries: Poland, Ukraine, Turkey, Argentina, Colombia, Indonesia, Thailand, Philippines, Egypt, Saudi Arabia, Pakistan, Kazakhstan, South Africa and Nigeria.

In some of these countries, the consumption of cosmetics products per inhabitant is 10 to 20 times lower than in mature countries. Several tens of millions of inhabitants have access every year throughout the world to levels of revenues which make them part of the "middle classes" and allow them to consume modern cosmetics products.

The marketing teams, in particular in large countries, pay heed to these new consumers. The laboratories on all continents study their specificities. The Group's innovation policy is based on the accessibility and adaptation of products to the beauty habits and rituals of all men and women in their infinite diversity. These form the basis for the universalisation of beauty.

NORTH AMERICA

24.9%
OF GROUP COSMETICS SALES
+ 1.1%
Sales growth in 2014 (1)
+ 2.8%
Market growth in 2014 (2)

SALES
€5,389.4 M

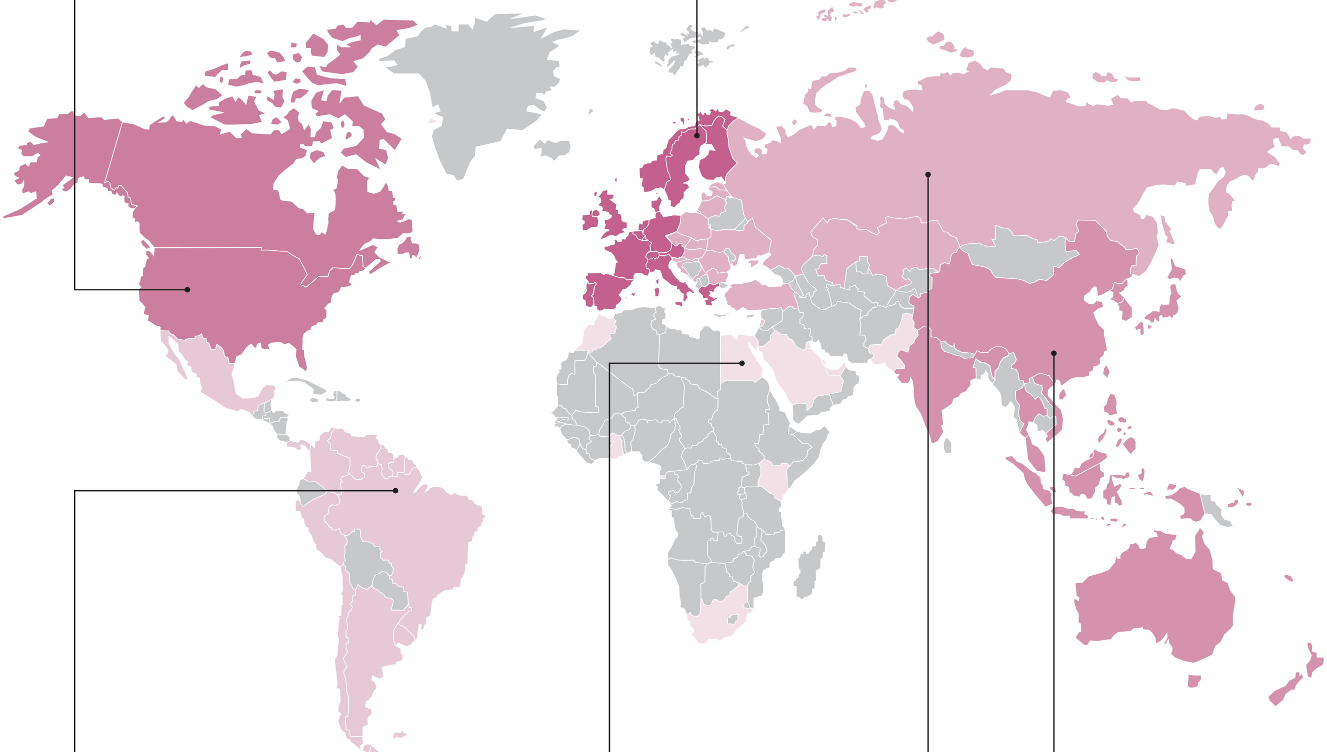
OPERATING PROFIT (3)
18.7% (% of sales)

WESTERN EUROPE

35.5%
OF GROUP COSMETICS SALES
+ 2.4%
Sales growth in 2014 (1)
+ 0.3%
Market growth in 2014 (2)

SALES
€7,697.7 M

OPERATING PROFIT (3)
22.7% (% of sales)



LATIN AMERICA

8.6%
OF GROUP COSMETICS SALES
+ 10.0%
Sales growth in 2014 (1)
+ 10.0%
Market growth in 2014 (2)

SALES
€1,853.7 M

AFRICA, MIDDLE EAST

2.6%
OF GROUP COSMETICS SALES
+ 13.5%
Sales growth in 2014 (1)
+ 7.0%
Market growth in 2014 (2)

SALES
€568.4 M

EASTERN EUROPE

7.3%
GROUP COSMETICS SALES
+ 6.0%
Sales growth in 2014 (1)
+ 3.1%
Market growth in 2014 (2)

SALES
€1,585.4 M

ASIE, PACIFIQUE

21.1%
GROUP COSMETICS SALES
+ 5.3%
Sales growth in 2014 (1)
+ 4.1%
Market growth in 2014 (2)

SALES
€4,563.6 M

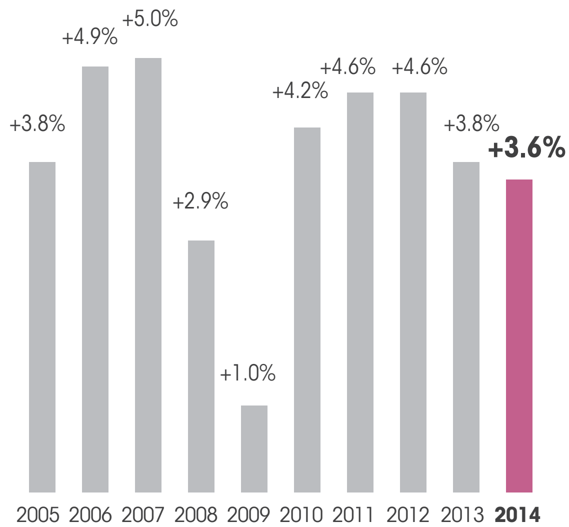
NEW MARKETS

39.6%	*OF GROUP COSMETICS SALES*
+ 6.9%	*Sales growth in 2014* (1)
+ 5.3%	*Market growth in 2014* (2)
€8,571.1 M	*Sales*
19.6%	*Operating profit (% of sales)* (3)

(1) *Like-for-like*
(2) *Source: L'Oréal estimates of worldwide cosmetics market based on net manufacturing prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations*
(3) *Operating profit before «non-allocated». See chapter 3, page 109.*

/ WORLDWIDE COSMETICS MARKET FROM 2005 TO 2014 (1)

(Annual growth rate as %)

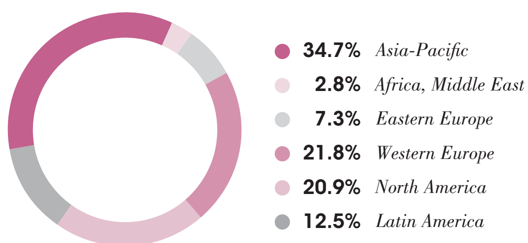


The worldwide cosmetics market represents approximately €181 billion, and grew by an estimated +3.6% (1) in 2014. It is a particularly robust market, which is steadily expanding, while proving very resilient when economic conditions are at their most difficult. The cosmetics consumer's behaviour has not changed since the crisis. There has been no devaluation, banalisation or massification of the market. On the contrary, consumers' aspirations for quality are higher than ever, and they are always eager for technology and new ideas. The cosmetics market remains a supply-led market, driven by innovation, where consumers are always looking for quality, performance and perceived results.

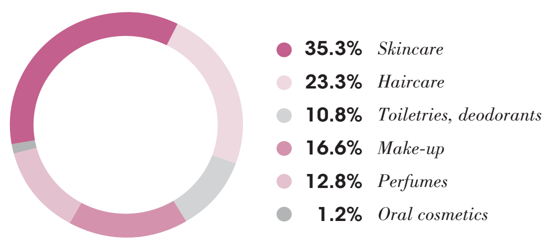
/ BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2014 (1)

(As %)

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



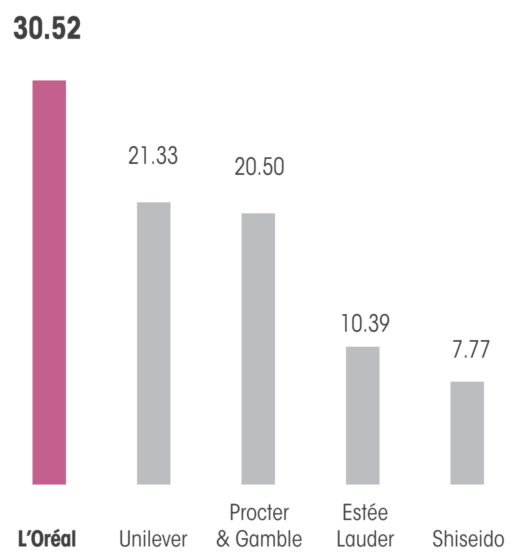
For the second year running, in 2014, the dermocosmetics market was the most dynamic with growth of +5.1%. The market was buoyant on all continents, even in Western Europe with growth of nearly +3%. With growth of +5.2%, the selective market continued to grow at a steady pace in 2014; bolstered by Asia, the United States and e-commerce, it contributes 29% of global growth (1) . With growth of +3.5%, mass market sales tailed off particularly due to mature countries and Asia.

From a geographic viewpoint, the New Markets continue to attain increasing levels of growth: excluding Japan, they represent 80% of worldwide market growth this year (1) , due in half to Asia-Pacific

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

/ MAIN WORLDWIDE PLAYERS (1)

(2013 Sales in billions of US$)



(1) Source: Beauty's top 100 WWD, August 2014, in data for 2013.

Competitive positions and market share held by the Group's Divisions and brands mentioned in this report 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.

1.5. RESEARCH & INNOVATION: EXCELLENCE STEP-BY-STEP

1.5.1. Research, in the Group's genes

Over a century ago, a scientist called Eugène Schueller founded L'Oréal by launching a major innovation: a harmless hair dye. Research thus became one of the components of the Group's DNA, and very quickly one of the keys to its success. To invent beauty and accommodate the aspirations of millions of men and women, L'Oréal is continuing to push back the boundaries of science. This commitment to innovation remains unwavering: offering everyone, everywhere in the world, the best of cosmetics in terms of quality, efficacy and safety. The work conducted and the ingredients used respect consumers, the environment and biodiversity.

To win over a billion new consumers, the Group constantly increases its investments, with a budget of €761 million in 2014, up by 1.6% as compared to the previous year.

THE SCIENTIFIC ADVISORY BOARD IS CONTINUING ITS WORK WITH REGARD TO SENIORS

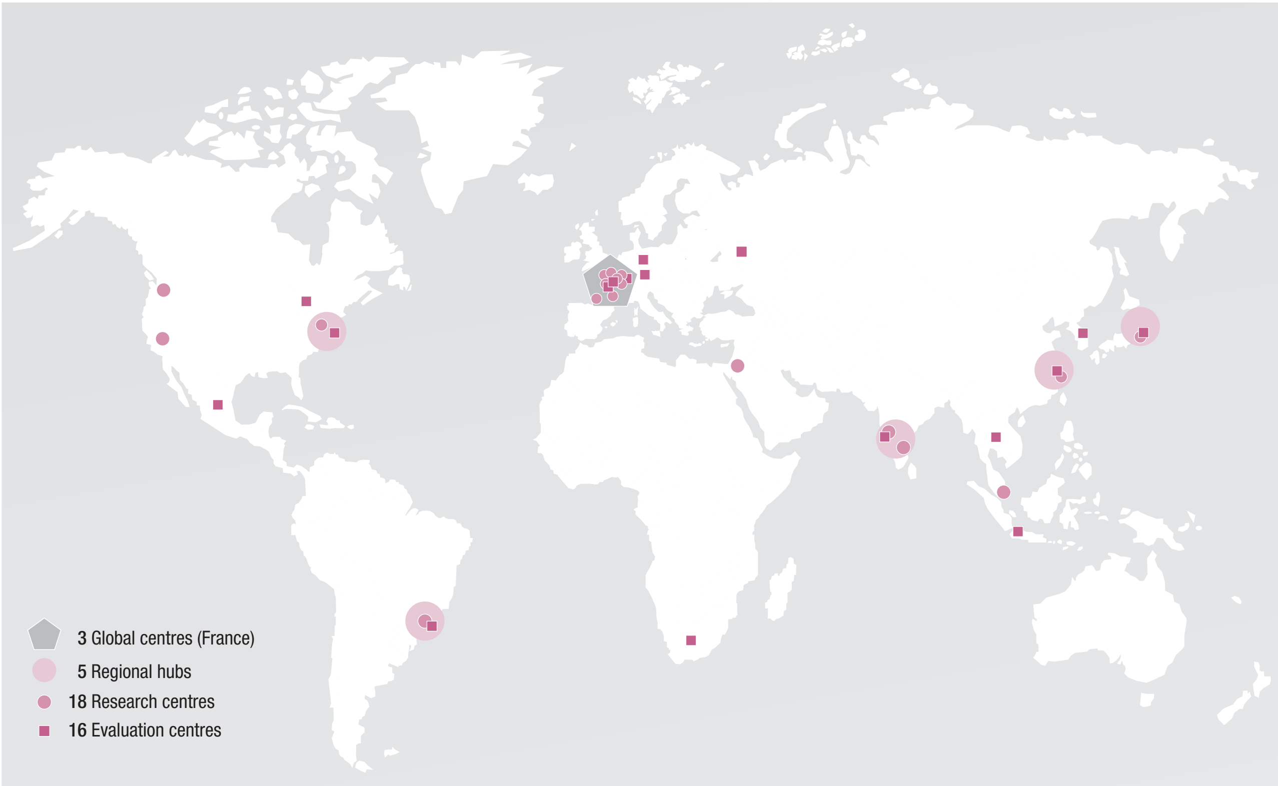
Created in 2013 to explore the future boundaries of beauty, and chaired by the Global Scientific Director, the Scientific Advisory Board, which brings together nine prominent external experts with diverse research backgrounds, devoted its reflections in 2014 to beauty for seniors (aged 65 and older), this rapidly growing silver generation with a wide array of aspirations.

Its recommendations to conduct several fundamental studies to better understand skin and hair ageing provide added confirmation for certain actions already in progress, and encourage further initiatives. The Board's experts are convinced that relatively unexplored territories like those of the microbiome or of intelligent materials bear the promise of fruitful cosmetic innovations for the future.

1.5.2. *The multi-hub organisation has shown results*

The implementation of an international organisation, with its six hubs, is beginning to show its results. Due to their close proximity with consumers, the hubs innovate with genuine local relevance and nourish the flow of innovations.

In order to succeed in the changeover from a highly centralised system to one of a matrix, multi-hub organisation, the roles and responsibilities in each of the main functions have been clarified. The international dimension is reinforced through global management of the project portfolio.



LOCAL RESEARCH AND ADAPTATION OF PRODUCTS

To adapt to consumers all over the world, L'Oréal's Research teams are present in all geographic zones through its **18 cosmetics research centres and 16 evaluation centres.** The R&I teams draw on the local ecosystem: consumers, universities, suppliers. The research centres are grouped together in 3 global centres in France (Advanced Research, Hair *métiers* and Cosmetic *métiers*) and 5 regional hubs: in the United States, China, Japan, Brazil and India. These regional hubs identify consumer needs and cosmetic practices. The richness of their scientific ecosystem promotes cooperation and partnerships for excellence. The data collected then enables the researchers to develop new products that are perfectly in tune with local expectations and aspirations. The innovations developed are also shared in a coordinated manner to promote the fluidity of exchanges.

Research and Innovation budget (€ millon)

2012	680
2013	748
2014	**761**

Research and Innovation budget (€ million)

2012	3,416
2013	3,590
2014	**3,782**

Number of patents

2012	551
2013	564
2014	**501**

1.5.3. *Revisiting active principles*

L'Oréal's Advanced Research Department was set up in 1963 to extend the knowledge of skin and hair in order to think up new concepts which will lead to the synthesis of new molecules. The Group thereafter multiplied the number of patent filings (501 in 2014) and developed a large number of active principles, the main ones being at the source of the Group's flagship products.

Among these major molecules, it is possible to cite **Ionène G** (1978) which respects the integrity of the hair in hair colours; **Mexoryl SX** (1993) and **Mexoryl XL** (1995) sun filters which protect against UVA and UVB rays; **Pro-Xylane** (2006) to treat deep wrinkles and **LR2412** (2011) which reduces wrinkles while giving a more even skin tone; **Stemoxydine** (2012) which favours follicular regrowth or finally, **Filloxane** (2013), which revitalises fine, limp hair.

THE ART OF MAXIMISING

As progress is made in science, the research teams are accustomed to revisiting the properties and interactions of captive molecules, and studying the synergy effects that could enable them to make the most of their knowledge of hair and skin.

In hair care, they combined four molecules which had already proven themselves separately to take care of damaged, weakened hair in one and the same range, SERIOXYL by L'Oréal Professionnel. Each of them targets a specific problem: fragility, thinning, lack of density and vigour. Céramide R repairs hair fibre, SP94 favours cuticle cohesion and improves the anchoring of hair in the scalp, while Stemoxydine contributes to renewal of the hair follicle and Intracylane really fortifies hair.

1.5.4. Animal testing: balancing ethics and innovation

To respond to the essential requirements of harmlessness of their innovations, the Research team embarked in the 1980s on developing alternative methods to animal testing for the evaluation of the safety of its products and active principles. Major progress has been made thanks to tissue engineering: reconstructing the first human epidermis in 1979 and then the first complete skin (epidermis and dermis) in 1996.

Twelve reconstructed skin and corneal tissue models have been developed to date. These models are fabulous tools to predict the safety and efficacy of products and make it possible to reduce the time-to-market. Thanks to these models, L'Oréal was able to stop testing finished products on animals in 1989 and develop predictive evaluation strategies to satisfy the European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after March 11th, 2013. This law has not had any impact on the innovation efforts made by the Group, which has no longer conducted animal testing anywhere in the world since March 2013 and which does not delegate this responsibility to anyone.

EPISKIN IN CHINA

In four decades of international scientific cooperation, the Group has built genuine expertise in this area. This ethical commitment led to validation of several alternative methods before it shifted into the era of predictive evaluation. This led to the creation of a subsidiary, Episkin, which produces and sells validated skin models in Lyon. Its engagement became international, following the changes in the legislation and regulations in Brazil, India, China, and so on. It is with this objective in mind that production of restructured Asian skin in China started in 2008; the marketing of these skins by the recently formed company, Shanghai Episkin Biotechnology Co. Ltd can now be envisaged.

VALIDATIONS IN PROCESS

L'Oréal is participating in the validation of several alternative methods. In Europe, for ocular sensitisation and irritation and in Japan, for ocular corrosivity and irritation. In China, in partnership with the authorities, L'Oréal is participating in pre-validation of an alternative method for skin irritation using a Chinese Episkin model.

1.5.5. A new research territory: the microbiome

Each square centimetre of skin is normally colonised by millions of microorganisms which form the skin microflora. It educates the immunity system and protects the body against the invasion of more dangerous organisms: responsible both for skin health and beauty, there are over 500 different specifies of microflora.

Thanks to the progress made in the recent genomics technologies, several research teams are now seeking to characterise the skin microbiome, *i.e.* to identify all the genomes of these micro-organisms colonising a precise area of the skin. This knowledge is essential to understanding both how to preserve the natural ecosystem of the skin and also how the disturbance of this balance can lead to skin disorders or infections.

In collaboration with certain of these teams, L'Oréal's researchers have obtained their first results with regard to mapping of the microbiome of skins affected by atopic dermatitis, characterised by a loss of diversity of the microbiome. They have shown that treatment with Lipikar Baume AP by La Roche-Posay makes it possible to restore a good balance. The knowledge contributed by this study opens up new perspectives in the diagnosis and treatment of this skin disease and in the development of new treatments.

1.5.6. Connected beauty entrusted to the incubator

The digital revolution is profoundly changing beauty product consumption. This is why L'Oréal R&I decided, at the end of 2012, to create a Connected Beauty Incubator in the United States within a short distance of the campus of the University of California in San Francisco: this consists of a cross-functional team of researchers tasked with looking beyond what exists to imagine the future of beauty. They work in collaborative mode and integrate the development of science and technology, the power of data and new consumption patterns. Their mission is to increase collaboration with centres of excellence in biology, biophysics or biotechnology.

Its first innovation: Makeup Genius an application for tablets and smartphones at L'Oréal Paris, the first stage of a dream enabling women to test make-up virtually, with perfect colour rendering, as if it had been applied by a professional makeup artist, then buy the corresponding products.

1

1.6. OPERATIONS

1.6.1. A powerful ally of brands and markets

The Operations Division develops, produces on an industrial scale and distributes the products, permanently adapting to each brand and market specificity. Operations thus guarantee commercial entities the highest performing, the most responsible and the most suitable solutions.

This Division consists of seven areas of expertise: purchasing, packaging, production, quality, supply chain, environment, health and safety, and real estate. Three support functions complete the Division's resources: Information Systems, Finance and Human Resources.

1.6.2. Three major fundamental responsibilities

The Operations Division has three major formal responsibilities for L'Oréal throughout the world.

1.6.2.1. PROTECTION OF HUMAN RESOURCES AND ASSETS

The Operations Division guarantees the right for each L'Oréal employee to work in a safe environment.

The Group has the obligation to guarantee the best conditions in terms of health and safety at work for all its employees. Exhaustive programmes have been implemented to reduce the risks and ensure ongoing improvement.

A managerial safety culture, the setting-up of a safety system and the monitoring of procedures through audits have been deployed for several years on all the Group's sites: administrative sites, Research & Innovation centres, factories and distribution centres. It defines high standards and involves the staff at all levels.

Through the powerfulness of its systems and the ongoing improvements in its results, the Group is today one of the most high-performing companies in the world in the area of safety.

1.6.2.2. PROTECTION OF QUALITY

The excellence of quality management across the value chain (design and development, production, distribution) is world-famous and enables the L'Oréal brands to affirm the supremacy of their products and to strengthen the bond with consumers. This demanding quality system mainly aims to guarantee the integrity of products with the same stringent requirements all over the world, while complying with local regulations.

1.6.2.3. ENVIRONMENTAL PROTECTION

Operations make a major contribution to the L'Oréal Group's strategic sustainability programme: "Sharing Beauty with All", in 3 areas in particular: "Innovating sustainably", "Producing sustainably" and "Sharing growth".

The environmental engagement by Operations, with significant progress in reducing CO2, water consumption, waste discharges and implementation of the CSR Index for new products developed, make 2014 and 2015 pivotal years which will enable L'Oréal to attain an exemplary level.

1.6.3. A major contribution across the value chain

1.6.3.1. PRODUCT DESIGN AND DEVELOPMENT

Contributing to innovation

Operations play a major role in helping the brands to differentiate their products for consumers.

In terms of product innovation, the responsibility of the Operations Division is mainly exercised in the areas of packaging and development, functional design, design to cost and processes. In 2014, L'Oréal filed 94 patents for packaging and processes.

In order to speed up the innovation process, the Purchasing Department created an internal trade fair dedicated to innovation, called *Cherrypack,* in 2010. The third edition of this fair was held in November 2013, enabling ten strategic suppliers [(1)] from Asia, Europe and the Americas, to unveil their latest innovations with regard to finished product packaging and Point-of-Sale (POS) advertising exclusively to all the Group's brands and to the Research & Innovation teams. This event demonstrates L'Oréal's intention to reinforce its links with its suppliers by gambling on collaborative intelligence. It was organised in the presence of Jean-Paul Agon and Executive Committee members and was attended by around 800 employees who were thus able to discover these innovations.

Long-term partnerships with suppliers

L'Oréal's success can also be accounted for by the Group's exacting standards in the choice of its suppliers and the longstanding relationships that it sets up with them.

2014 was marked by an acceleration of the process to obtain a 360° view of supplier performance. L'Oréal's strategic suppliers [(1)] are thus regularly assessed using a scorecard consisting of 5 areas of performance of equal importance: innovation, quality, competitiveness, the supply chain and CSR & Sustainability. Each of these areas is broken down into a series of precise indicators which have been formally laid down in order to make it easier to rate them and give guidance.

(1) Strategic suppliers are those who bring significant value added to the Group by contributing, through their weight, their innovations, their strategic alignment and their geographic deployment, to accompanying L'Oréal's strategy on a durable basis.

Durable links with suppliers also require the development of local sourcing in strong growth zones. Since 2010, the Group has implemented the wall-to-wall programme, which consists in setting up a production unit for packaging operated by a supplier within the plant itself. This partnership develops responsiveness and industrial flexibility, while reducing the transportation of packaging items and the generation of waste related to their packaging. It is aimed at plants with highly specialised technologies that produce very large volumes and have ongoing needs for external resources, such as the Rambouillet factory in France, the Settimo Torinese factory in Italy or the São Paulo factory in Brazil which source their plastic bottles in this manner.

Strong commitments in the field of corporate social responsibility

The Operations Division plays a crucial role in the field of corporate social responsibility and is a big contributor to the "Sharing Beauty with All" programme. L'Oréal incites its suppliers to be more socially responsible and ensures rigorous monitoring of their commitments through a large number of social audits carried out throughout the world; 6,129 social audits have been carried out since 2006. The objective is to provide them with support in improving their safety standards and in their environmental and social performances (see chapter 6, section 6.4.4, page 250)

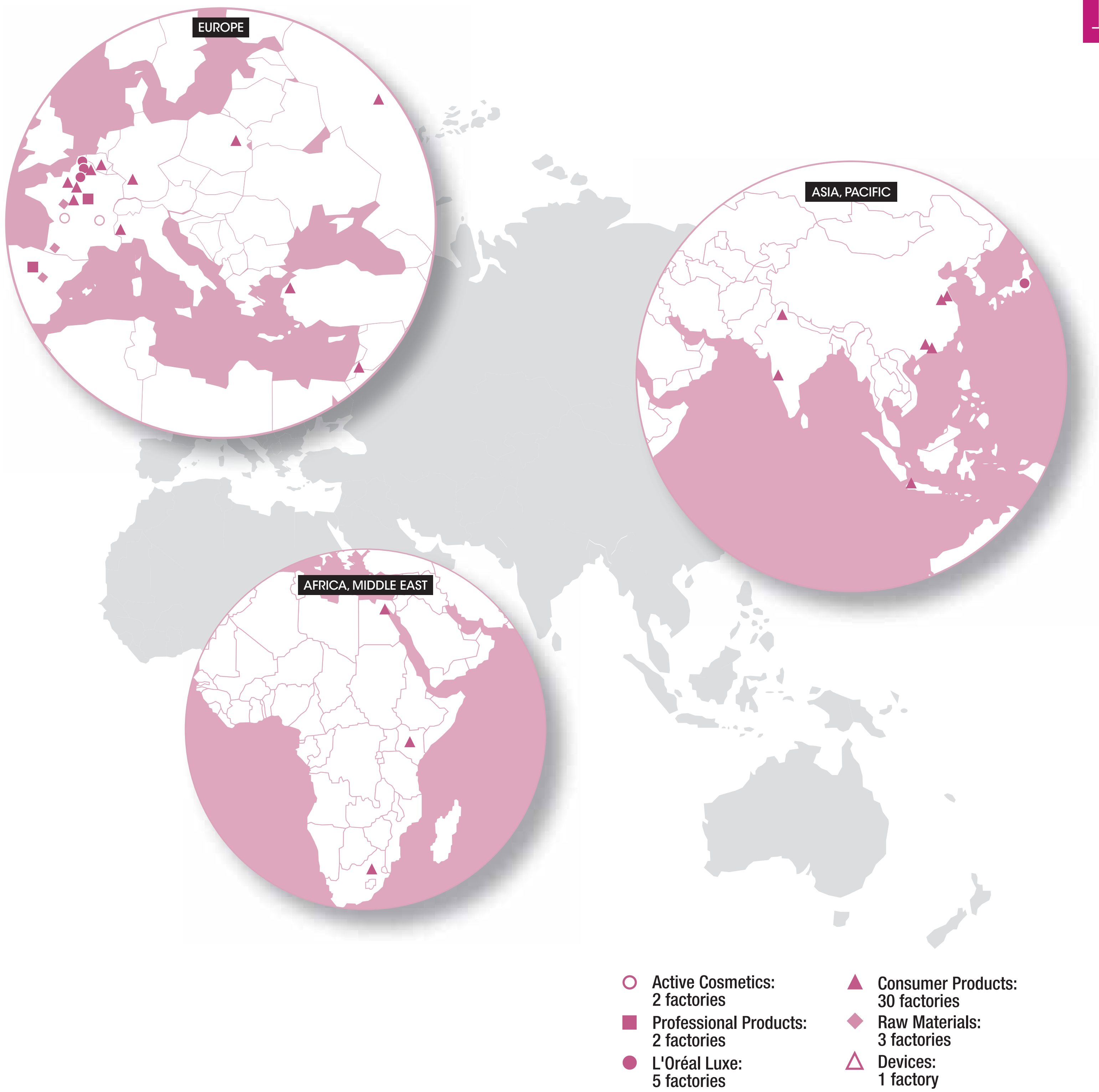
Furthermore, by creating the *Solidarity Sourcing* programme in 2010, a highly original programme that is unique on the market, the Group took the initiative of using the Purchasing function as a driver for social inclusion. This programme consists in making some of its purchases from local suppliers who make commitments in favour of minorities, disabled workers or workers from underprivileged communities. It may also involve very small suppliers or fair trade players that L'Oréal calls on to contribute through its suppliers. In 2014, the *Solidarity Sourcing* programme provided access to employment for over 27,000 people in a vulnerable situation all over the world, as compared to 22,000 in 2013. Based on the "cascading" concept, L'Oréal wants to enlarge this approach to include the suppliers of its suppliers. This programme was officially launched in 2012 for the L'Oréal Group's suppliers in order to incite them, in turn, to develop this same approach with their own suppliers.

1.6.3.2 PRODUCTION

Regionalised production

L'Oréal's 43 factories are located in order to supply all the countries in which the Group is present. The strong growth of products in the Consumer Products Division, particularly in the New Markets, accounts for the number and geographical breakdown of this Division's factories. Furthermore, in order to support the drive to win over another billion consumers in the New Markets, the Group opened its new production site in Egypt in 2013 and integrated two new industrial entities following acquisitions: Vogue in Colombia and Interbeauty in Kenya. In 2014, four new factories were added to this industrial network: two factories in China, with the acquisition of Magic Holdings, one in France with the acquisition of Decléor and Carita and one in India.

43 industrial sites worldwide




NORTH AMERICA
LATIN AMERICA
Active Cosmetics:
2 factories
Professional Products:
2 factories
L'Oréal Luxe :
5 factories
Consumer Products:
30 factories
Raw Materials:
3 factories
Devices:
1 factory

Factory specialisation

Factories are generally dedicated to the production of one Operational Division, specialise in particular major industrial technologies and are located close to the markets that they serve. The rotation of brands on the packaging lines is furthermore assisted by the increased standardisation of industrial processes. This industrial model helps to improve performances year on year in terms of output, quality and control over safety.

Cost and quality management

L'Oréal has set itself the target of continually improving production costs. In 2014, particular emphasis was placed on the management and reduction of raw material losses in the plants. In addition to economic savings, this reduction contributes to the sustainability commitments made by our industrial facilities.

After the Best Practices award from the AFQP *(Association France Qualité Performance)* obtained by L'Oréal in 2013, the Rambouillet factory won the Trophy for industrial excellence (a competition organised by the Usine Nouvelle magazine in partnership with INSEAD, a leading graduate business school) in 2014.

In 2014, the set-up of the System of Operational Excellence was stepped up in all the factories. This continuous improvement process, based on the close involvement of employees, was pursued in a number of areas such as safety, environmental impact, ergonomics and production quality and capacity at the industrial sites, while improving costs.

Environmental protection at the heart of production

In the field of sustainable production, the Group's environmental policy is aimed both at rolling out the best practices with regard to energy efficiency, efficient resource consumption and waste reduction and the best possible waste treatment and at implementing breakthrough projects in an ongoing quest for operational performance combined with environmental performance.

Through the "Commitments for 2020" made with the *Sharing Beauty with All* programme, the Group carries on with the approach initiated in 2009 aimed at reducing the environmental footprint of its factories and distribution centres. The pledge to reduce by 50% its CO2 emissions in absolute terms (both direct and indirect), water consumption and waste generation per finished product (FP) by 2015 from a 2005 baseline, has now become a pledge to reduce them by 60% by 2020 from a 2005 baseline (see chapter 6). Furthermore, the environmental impacts related to packaging and transportation are also taken into consideration.

Initiatives to choose the alternative energy sources that are most suited to the local ecosystem are being introduced at all of the Group's sites: geothermal energy in Vichy (France), photovoltaic panels in Mexico, biomethanation in Belgium, phytorestoration in Mourenx (France), a new biomass facility in Burgos in 2014, to name a few. In 2014, L'Oréal obtained from the Carbon Disclosure Project very high scores of A for performance and 98 for transparency (its score was A 93 in 2013) and received a prize for the *Best performer in Climate Change Leadership*. Details of these scores are set out in chapter 6, p. 243)

1.6.3.3. DISTRIBUTION

L'Oréal's supply chain covers all information flows and "end-to-end" physical flows: from the supplier to the point of sale. It ensures that the right product is delivered at the right time in accordance with the requests made by distributor customers while controlling costs. In 2014, L'Oréal's supply chain achieved a record level in its rate of service in the world.

The supply chain is continuing to modernise to respond to the complexity of the cosmetics market. Distribution is now multi-channel: in addition to the traditional channels – selective, mass market, pharmacies and hair salons –use is now made of e-commerce and a multitude of points of sale extending over the New Markets.

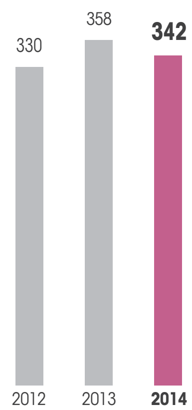
For five years, the L'Oréal Group has invested significantly in revamping the information systems of its supply chain in order to synchronise all the stages of the supply chain and adjust production to fit as closely as possible with market needs. After Western and Eastern Europe for the Consumer Products Division, the deployment of these solutions all over the world continued in 2014 in Asia, Pacific and also in Latin America where the first pilot projects were launched. In 2015, the deployment of these solutions will be extended to the Group's Selective Divisions. The geographical location of the distribution centres enables L'Oréal to be as close as possible to the 450,000 delivery points of its distributor customers. The modernisation of tools and practices in these distribution centres, and permanent synchronisation between our distribution network and changes in customer needs per country, per channel, makes it possible to adjust our physical distribution network on an ongoing basis in order to increase agility.

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

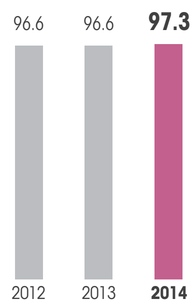
The Operations Division carries great economic responsibility for the brands and markets and this has an impact on the total cost of products.

The Operations Division therefore carries out combined actions with regard to cost to source (cost of packaging and raw materials), cost to produce (value added by the factories) and cost to serve (all the supply chain costs up to the final point of sale).

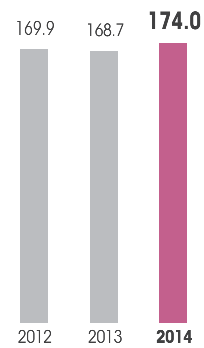
/ **COSMETICS INVESTMENT COMMITMENTS**
(production and supply chain commitments in € millions)



/ **COMPARABLE ANNUAL PRODUCT PURCHASING PRICE INDEX**
(index base: 100: year n-1)

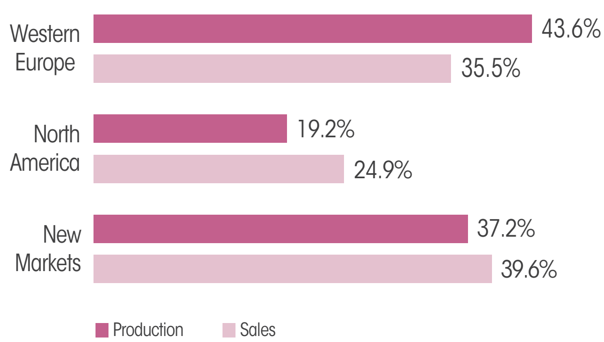


/ **COSMETICS FACTORIES WORKFORCE: CUMULATED PRODUCTIVITY INDEX** (1)
(index base:100 in 2002, acquisitions included)



(1) Ratio calculated for cosmetics factors, excluding device factories - 2014 acquisitions are not included in the 2014 figure.

/ **COSMETICS DIVISIONS PRODUCTION AND SALES BY GEOGRAPHIC ZONE IN 2014**



1.7. INVESTMENT POLICY

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

L'Oréal is an industrial company whose development is governed by two types of investment in particular:

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see, in particular, section 1.5. on page 17 and section 1.6. on page 24);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities, particularly in the cosmetics industry. Indeed, in order to win New Market share, thorough research has to be conducted all over the world, and advertising and promotional expenses need to be modulated depending on the familiarity of the brands and their competitive position; finally, 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 2014, the Group's investments amounted to €1,008 million *i.e.* 4.5% of its sales, a percentage close to the record levels before the financial crisis. This evolution reflects the constant efforts made by the Group, in particular in the fields of improvement of industrial efficiency, the performance of research teams and enhancement of the value of brands.

The €1,008 million that were invested in 2014 can be broken down as follows:

- production and physical distribution represent approximately 33% of total investments;
- marketing investments, including moulds, POS advertising materials and stores account for 42%;

- the remainder concerns Research and the head offices in different countries;
- IT investments spread over all these categories represented 19% of total investments
- For all these investments, (see note 13 on page 147, note 15 on page 150 and note 28 on page 170 in chapter 4 – Consolidated Financial Statements).

Despite their strategic nature, each of these investments, when taken individually, is not of a sufficient amount, at the scale of the Group, to justify specific information.

1.8. 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. This chapter presents the main risks to which the Group considers that it is exposed: those specific to the business activities of L'Oréal, then the legal, industrial and environmental risks, and finally the risks of an economic and financial nature.

Faced with these risks, L'Oréal has set up an Internal Control system to prevent and control them better. The Internal Control and risk management procedures are thus described in section 2.5, as provided for by Article L. 225.37 of the French Commercial Code (see pages 89 et *seq.*).

However, it is not possible to guarantee total absence of risk. Furthermore, other risks of which the Group is not currently aware or which it does not consider as material at the date of this report could have a negative effect.

The risks which the Group considers it is exposed to are set out below:

1.8.1. Business risks

1.8.1.1. IMAGE AND REPUTATION

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. The circulation in the media of detrimental information, whether founded or not, which has been facilitated by the introduction of new technologies and development of the social networks, could also affect the Company's reputation and its brand image.

In order to reduce the risks that may arise from events of this kind, L'Oréal has set up an ongoing monitoring system of English- and French-language websites. The subsidiaries deploy their own social media and web monitoring system under the responsibility of their Director of Communications and share a report on monitoring with the Corporate Communications Department. Furthermore, L'Oréal has set up a crisis management procedure, whose global task is to prevent, manage and limit the consequences of undesirable events on the Company. The Group crisis management officer reports directly to the General Management. Furthermore, the deployment of the Code of Ethics throughout the whole Group aims at reinforcing the spreading of the rules of good conduct which ensure L'Oréal's integrity and strengthen its ethics. The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee. In addition, L'Oréal has implemented a Code of Good Practice for use of social media by its employees.

1.8.1.2. PRODUCT QUALITY AND SAFETY

Consumer safety is an absolute priority for L'Oréal. The principles governing the Group's quality and safety policy are:

- satisfaction of customer needs;
- compliance with safety requirements and legislation; and
- product quality and conformity across the supply chain.

The International Safety Assessment Department specifically evaluates the safety of raw materials and finished products. It establishes the toxicological profile of the ingredients which are used and the tolerance of the formulas before they are launched on the market.

L'Oréal goes one step further in the safety evaluation by monitoring the potential adverse effects that may arise when the product is marketed. This makes it possible to take the appropriate corrective measures, where necessary.

Faced with the questions that civil society may ask regarding certain substances and their effects on health and the environment, L'Oréal's position may be summed up in three points:

- vigilance with regard to any new scientific data;
- cooperation with the relevant authorities;
- precautions leading to substitution of ingredients in the event of a proven risk or a strongly suspected risk.

The measures taken in favour of consumer health and safety are described in further detail in chapter 6 on p. 249-250.

1.8.1.3. RESPONSIBLE COMMUNICATION

L'Oréal provides consumers with innovative products, and the success of these products is based on their quality and performance. The resulting benefits are highlighted in the Group's communications. In spite of all the 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 challenges of this kind being made, the International Product Communication Evaluation Department makes sure of 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.

1.8.1.4. SEASONAL NATURE OF THE BUSINESS

The pace of sales may, in certain cases, and for specific products, be linked to climate conditions, such as for example suncare products. The products and brands sought after by consumers as gifts are reliant on a strong concentration of sales at year-end and during holiday periods. This is the case in particular for fragrances and The Body Shop products. Any major disruption in either of these factors could affect L'Oréal's sales.

L'Oréal endeavours to mitigate these risks through the diversity and enrichment of its product offerings and by arranging product launches and special product promotional events throughout the entire year.

1.8.1.5. GEOGRAPHIC PRESENCE AND ECONOMIC AND POLITICAL ENVIRONMENT

L'Oréal has subsidiaries in 69 countries, with 64.5% of its sales being generated outside Western Europe. Global growth in the cosmetics market has led L'Oréal to develop its activities in countries of the "New Markets" Zone, which represent over 39.69% of its cosmetic sales in 2014. The breakdown and changes in L'Oréal's sales are given in chapter 3 – Financial highlights on pages 103 *et seq.*

Besides the currency risks mentioned in chapter 4 in note 26.1 *Hedging of currency risk* on page 166 and in the paragraph on currency risk on page 31, 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 global presence helps to maintain a balance in sales and enables results to be offset between countries and geographic regions. In periods of major economic slowdown or in sovereign debt crisis situations in certain countries, growth in the Group's sales may however be affected (see chapter 3, page 104,...).

1.8.1.6. DISTRIBUTION NETWORK

To sell its products, L'Oréal uses independent distribution channels, except for a limited number of stores which are owned by the Company. The concentration or disappearance of distribution chains and changes in the regulations with regard to selective distribution could have an impact on 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 to attenuate any potential negative effect.

1.8.1.7. COMPETITION

Due to its size and the positioning of its brands, L'Oréal is subject to constant pressure from local and international competitors in all countries.

This competition is healthy; it leads the Group's teams, all over the world, to always do their best to serve the interests of consumers and the Group's brands. In the context of a constant struggle to obtain the best positions and launch the most attractive and most effective product ranges, with an optimal price/quality ratio, winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge. To win over a billion new consumers, the Group has rethought its innovation model and constantly increases its investments with regard to research. L'Oréal's research teams innovate to respond to beauty aspirations all over the world in their infinite diversity. This ability to implement long-term research programmes now enables L'Oréal to maintain its advance over its competitors (see chapter 1.5 Research & Innovation on page 16).

1.8.1.8. INNOVATION AND CONSUMER EXPECTATIONS

The development of innovative products and their adaptation to market requirements is an ongoing priority for the Group. If the Group fails to anticipate or interpret changes in consumer behaviour and new trends, its sales could be affected.

The Consumer & Market Insights Department, which is part of the Innovation Division, constantly watches for changes in consumers' cosmetic expectations by product category and major regions of the world. This work enables the Group's researchers to develop new products that are in line with market needs as mentioned in the paragraph on *Local research and adaptation of products* on page 17. The development of digital communication and e-commerce creates greater proximity between L'Oréal and its consumers, by setting up decision-making aid services with regard to product purchases and their use. Consumer expectations with regard to Sustainable Development are moreover at the heart of the "Commitments for 2020" published in 2013 (see chapter 6, page 212 *et seq.)*.

1.8.1.9. EXTERNAL GROWTH TRANSACTIONS

Within the scope of its development strategy, L'Oréal has made, and may have occasion to make acquisitions or sign licence agreements.

Implementation of this strategy nevertheless requires that L'Oréal is able to find development opportunities at an acceptable cost and under acceptable conditions.

The Group has introduced a process for the upstream oversight of these transactions which includes:

- the setting-up of multidisciplinary teams for the preparation of projects and "due diligence" work;
- a review by the Strategy and Sustainable Development Committee of the Board of Directors, then by the Board of Directors, of the opportunities for acquisitions or for equity investment for a significant amount or falling outside the scope of the Group's usual business activities, and the conditions for their implementation.

These operations may have a negative impact on the Group's results if the Group does not succeed in integrating the activities of the companies that have been purchased, their personnel, their products and their technologies under the anticipated conditions, in achieving the expected synergies and in handling liabilities which have not been anticipated at the time of completion of the transaction and for which L'Oréal has little or no protection from the seller.

Acquisitions that have been decided by the Board of Directors are regularly monitored by the Board of Directors which is informed of the conditions of integration and the performances achieved.

1.8.1.10. RISKS RELATED TO HUMAN RESOURCES MANAGEMENT

One of the keys to the success of L'Oréal lies in the talent of its staff. Should L'Oréal not succeed in identifying, attracting, keeping and training competent employees who behave responsibly, the development of its activities and its results could be affected.

The Group therefore develops a motivating, engaging professional environment, and encourages the attachment to its values, including those put forward by the Code of Business Ethics. L'Oréal's Human Resources policy is moreover described in the Report of the Chairman on Internal Control (paragraph on Internal Control organisation and environment, page 90 and in chapter 6, paragraph 6.2. on page 216 *et seq.*).

1.8.1.11. SECURITY

The Group's presence at more than 426 sites (excluding our own shops and the sales outlets of our distributor customers) exposes it to risks with regard to events of diverse origins – geopolitical risks, malicious acts, natural disasters. The consequences of these risks may adversely affect the Group's assets: people, tangible and intangible property.

For the permanent protection of these items of property (or Group assets) against malicious acts, the Security Department contributes in particular to preventive implementation of technical and Human Resources 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 making business trips abroad with a monthly report on "travel risks".

Since 2010, concerning 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 zones. At the same time, the Information Systems Department ensures that the seismic risk is taken into consideration in the IT continuity plans of the countries that are the most at risk.

1.8.1.12. INFORMATION SYSTEMS

The day-to-day management of activities which notably include purchasing, production and distribution, invoicing, reporting and consolidation operations as well as exchanges of internal data and access to internal information relies on the proper functioning of all the technical infrastructures and IT applications. The risk of a malfunction or breakdown in these systems for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) cannot be precluded.

In order to minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-ups, protection and access to confidential data and security with regard to both computer hardware and software applications. In order to adapt to the evolution of new communication methods, L'Oréal has introduced an Information and Communication Technologies Charter. These measures are described in the Report of the Chairman on Internal Control (see chapter 2, paragraph 2.5.2.4. on page 92). To deal with the growing threats in the field of cybercrime, L'Oréal takes continuous steps to strengthen the means dedicated to information system security. This plan relies in particular on anti-intrusion equipment, securing sensitive equipment and overall supervision to detect irregularities.

1.8.1.13. RISK OF AN INTERNAL CONTROL FAILURE

L'Oréal has set up an Internal Control system which, even though adequate, can only provide a reasonable assurance and not an absolute guarantee of achievement of the Company's objectives due to the inherent limitations of any control. Thus, the Group cannot rule out the risk of an Internal Control failure that may expose it to an act of fraud in particular.

Deployment to all the Management Committees of the Group's subsidiaries of a programme to raise awareness of the risk of fraud (presenting the main operational scenarios that could occur, the alert systems and the existing procedures and controls) is intended to reduce the Group's exposure to this risk. In addition, the Group has published a corruption prevention guide which completes the commitments and principles set out in L'Oréal's Code of Ethics and which are described in the chapter on "Corporate social, environmental and societal information" (chapter 6).

1.8.2. Legal risks

1.8.2.1. INTELLECTUAL PROPERTY: TRADEMARKS AND MODELS

L'Oréal is the owner of the major intangible assets on behalf of the Group's companies, to which it grants licences in exchange for the payment of royalties. Thus, L'Oréal is the owner of most of its brands, which are a strategic asset for the Group, in particular the major international brands described in the paragraph on Cosmetics Divisions on pages 9 to 11, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used 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.

Special care is given to the protection of the trademarks and models belonging to L'Oréal, and is entrusted to a special section of the Group's Legal Department, which has responsibility for registering trademarks in all countries. This department also keeps a close watch on the market and launches the necessary actions against infringers and counterfeiters.

The L'Oréal Group is also an active member of the organisations who have set themselves the task of combating counterfeiting and promoting good commercial practice. This is the case, in particular, of the French Manufacturers' association (namely *Union des Fabricants*), the International Chamber of Commerce and Business Europe.

Before any trademark and model registration, prior rights searches are conducted.

In light of the large number of countries in which the products are sold and the multiple potential prior rights that may exist in each of these countries, one cannot rule out the possibility that third parties may claim prior rights with regard to certain L'Oréal trademarks and models.

This is a potential risk which has to be cited in order to be exhaustive even though the likelihood of its occurrence is low due to the care taken when conducting prior rights searches.

1.8.2.2. INDUSTRIAL PROPERTY: PATENTS

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.

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 a specific structure, the International Industrial Property Department as part of the Research and Innovation Division; this 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.

1.8.2.3. CHANGES IN THE REGULATIONS

L'Oréal is subject to the laws which apply to all companies and strives to adopt an attitude beyond reproach. L'Oréal asks its subsidiaries to comply with the regulations of the countries in which the Company operates. Being an active member of professional associations in the countries where its industry is represented, L'Oréal plays an active role in the ongoing dialogue with the national or regional authorities in charge of the specific regulations governing the products in its industrial sector in order to prevent or accompany any risks that may result from changes in regulations.

The European REACH regulations (Registration, Evaluation and Authorisation of Chemicals) that came into force in June 2007 are 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 the substances manufactured or imported by its European legal entities concerned. Within the framework of national and European associations, L'Oréal contributes to the analysis and drafting of practical guides for 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 conception and the methods of evaluation of the safety of raw materials. This plan is being implemented on an accelerated basis in order to make the best possible preparations 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 satisfy the recent European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after March 11th, 2013. See paragraph on "Animal testing: balancing ethics and innovation" on page 18.

1.8.2.4. OTHER LEGAL RISKS AND LITIGATION

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 29.2 *Provisions for liabilities and charges* on page 171 in chapter 4 *Consolidated financial statements*).

In order to better prevent these risks, the Group's Legal Department has introduced a training session on competition law for the employees concerned. Since 2011, it has also distributed an ethical and legal guide on the conditions of fair competition, called "The way we compete".

A provision is set aside in the parent company and consolidated financial statements whenever the Group has an obligation towards another party and will have to face a probable 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.

1.8.3. 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 43 factories, each specialising in a specific type of technology.

1.8.3.1. PRODUCTION AND SUPPLY CHAIN

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 distribution in a cosmetics market that requires companies to be more and more responsive.

Therefore, a major stoppage of activity in a factory or a distribution centre could have an adverse effect on the achievement of commercial objectives.

In order to prevent this risk, business continuity plans exist for each operational site. They aim at anticipating the unavailability of part of the Group supply chain as far as possible and at restarting activities as quickly as possible.

1.8.3.2. SUPPLIER DEPENDENCE

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 disruption as the result of a default by an important supplier.

In order to prevent these risks, L'Oréal has prepared business continuity plans for production which aim notably at looking for replacement solutions (for example: supplier back-up, availability of several moulds for articles for strategic products).

1.8.3.3. ENVIRONMENT AND SAFETY

The cosmetics industry has a limited environmental risk profile. However, as it is the case for any production, distribution, research and general administration operation, L'Oréal is exposed to safety and environmental issues (relating, for example, 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 faced in the Group's industrial sites is fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals.

The Group's Environment, Health and Safety (EHS) policy aims to minimise the impact on the environment and to guarantee the health and safety of employees, customers and the communities in which L'Oréal performs its activities. This policy systematically leads to identifying the risks inherent in our business activities, and to bringing them under control. Furthermore, under the *Sharing beauty with all* programme, the Group is pursuing its actions aimed at reducing its environmental footprint by setting itself ambitious, concrete targets (see chapter 6 pages 233 *et seq.*).

This rigorous EHS policy has been implemented throughout the Group for many years. It was updated in 2010 as described in "Environmental Information" in the previous paragraph.

The Operations Division issues Internal Rules providing for the principles of L'Oréal's EHS policy. An EHS representative is appointed at each site. Training programmes are systematically organised. EHS performance indicators are collected monthly from all production sites, all distribution centres and all research centres. The collection is carried out on a quarterly basis for most of the administrative sites. The fire risk is dealt with in the framework of very strict fire prevention standards (National Fire Protection Association standards).

L'Oréal Group operates 105 manufacturing sites, of which two are classified as "Seveso high threshold" and are therefore 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.

1.8.3.4. EHS RISK MAP AND AUDITS

Within the scope of this EHS policy, for the industrial sites, prevention is based on the SHAP (Safety Hazard Assessment Procedure) programme involving the assessment of risks by employees at grassroots level under the responsibility of the Site Manager. This programme contributes to identifying the dangers overall and for each workstation and assessing the corresponding risks. The SHAP method thus makes it possible to prepare a risk mapping for the sites, to evaluate the level of risks and to put in place the necessary means of control. It is supported by dialogue between persons in charge, thus contributing to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly depending on changes at sites and experience on the ground. EHS audits are conducted every three or four years in each factory and distribution centre. The site risk map is reviewed within the scope of this audit. In 2014, an EHS risk audit was carried out at 16 factories and 20 distribution centres.

1.8.3.5. CONSTANT CONCERN FOR THE SAFETY OF EMPLOYEES

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 rests on the evaluation and prevention of professional risks in the Company as described in detail in chapter 6, page 233. 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 legal provisions and the regulations relating to health and safety in the various countries where it operates. 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 located in the world. L'Oréal wants its geographical development to be accompanied by the provision of social protection for L'Oréal employees all over the world. L'Oréal's employees will benefit from healthcare coverage in line with the best practices in the country in which they are based. Financial protection will be provided for all L'Oréal employees should unforeseen life events such as permanent invalidity occur.

1.8.4. Counterparty risk

The Group enters into financial relations in priority with international banks and insurance companies given the best ratings by the three main specialised rating agencies.

When the Group makes financial investments, in the form of either bank deposits or marketable securities (see note 21 *Cash and cash equivalents* page 153 in chapter 4 *Consolidated financial statements and note 1.20 on page 129*), it gives priority to short-term transferable instruments from first-rate financial institutions.

The Group therefore considers that its exposure to the counterparty risk is weak (see note 26.4. *Counterparty risk* on page 168 in chapter 4).

1.8.5. Customer risk

The customer risk may result from non-collection of receivables due to cash problems encountered by customers or due to the disappearance of customers.

However, this risk is limited by Group policy which is to take out customer insurance cover inasmuch as this is permitted by local conditions. The risk associated with credit insurance is mentioned below in paragraph 1.8.8. "Insurance".

Furthermore, due to the large number and variety of distribution channels at worldwide level, the likelihood of occurrence of significant damage on the scale of the Group remains limited. The 10 largest distributor customers represent 19.3% of the Group's sales. The amount considered as posing a risk of non-collection for which a provision for liability is therefore booked is set out in note 19 *Trade accounts receivable* page 152 in chapter 4. It does not exceed 2% of gross accounts receivable.

1.8.6. Liquidity risk

The Group's Financial Services Department centralises all the subsidiaries' financing needs and also negotiations with financial institutions in order to have better command over financing conditions. Any transactions that may be carried out directly by subsidiaries are closely supervised.

The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.

To this effect, the Group has unused confirmed credit lines from several first-rate banks totalling €3,300 million. Their terms all exceed 1 year, with a term ranging between 1 and 3 years for 2,300 million and a term of over 3 years for 1,000 million (see note 25.9. *Confirmed Credit lines* page 165 in chapter 4).

These credit lines are not subject to any conditionality clause based on financial criteria. Furthermore, the Group uses the financial markets, on a very regular basis, to meet liquidity needs through the use of short-term papers in France and short-term commercial paper in the United States. None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants) (see note 25.1. *Debt by type* and 25.2. *Debt by maturity date*, on page 164 and note 26.5. *Liquidity risk* on page 168 in chapter 4).

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 October 2014 by Standard & Poor's;
- Prime 1, awarded in October 2014 by Moody's; and
- F1+, awarded in October 2014 by FitchRatings.

These ratings are unchanged compared to those assigned in 2013.

1.8.7. Financial and market risks

Financial risks include interest rate risk, currency risk, the risk relating to the impairment of intangible assets, equity risk, risks with regard to the assets hedging employee commitments, the risk relating to changes in tax regulations and the core commodity risk.

1.8.7.1. INTEREST RATE RISK

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term papers. The Group mainly refinances at floating rates, as mentioned in note 25.4. *Breakdown of fixed rate and floating rate debt* on page 165 in chapter 4. Other details with regard to debt and interest rates are also provided in notes 25.5. *Effective interest rates* 25.6. *Average debt interest rates* and 25.7. *Fair value of borrowings and debts* on page 165 in chapter 4.

None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants).

In order to limit the negative impact of interest rate variations, the Group has a non-speculative interest rate management policy using derivatives, as described in notes 26.2. *Hedging of interest rate risk* and 26.3. *Sensitivity to changes in interest rates* on page 168 in chapter 4.

1.8.7.2. CURRENCY RISK

Due to its international presence, L'Oréal is naturally exposed to currency variations. The fluctuations between the main currencies may therefore have an impact on the Group's results, at the time of translation into Euro of the non-Euro financial statements of subsidiaries, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows involving the purchase and sale of items and products are carried out between subsidiaries in different countries. Procurement by subsidiaries is mainly made in the currency of the supplier's country.

In order to limit currency risk, the Group adopts a conservative approach of hedging at year-end a significant portion of annual requirements for the following year through forward purchases or sales contracts or through options. 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 benefit from better visibility of the flows generated, currency risk management is centralised with the Treasury Department at head office (Financial Services 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 26.1. *Hedging of currency risk* on pages 166 to 169 in chapter 4.The breakdown of consolidated sales for 2014 by currency is specified in chapter 3 Financial highlights, page 107.

Significant changes in the monetary environment could have an impact on the Group's results and on its shareholders' equity. The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 22.4. *Other Comprehensive Income* on page 157 in chapter 4. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 7 *Foreign exchange gains and losses* on page 137 in chapter 4.

1.8.7.3. RISK RELATING TO THE IMPAIRMENT OF INTANGIBLE ASSETS

As stated in the paragraph relating to legal risks, L'Oréal's brands are a strategic asset for the Group.

As described in note 1.15. *Intangible assets* on page 126 in chapter 4, goodwill and brands with an indefinite life span are not subject to depreciation but to periodic impairment tests which are carried out at least once a year. Where the recoverable value of the brand is lower than its net book value, an impairment loss is recognised. Similarly, any variance between the recoverable value of each Cash Generating Unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the income statement. The amounts for the last 3 financial years are provided in note 8 *Other operational income and expenses* on page 138 in chapter 4.

The data and assumptions used in the impairment tests for the Cash Generating Units with significant goodwill and non-depreciable brands are described in note 14 *Impairment tests on intangible assets* of this document on page 149 in chapter 4.

1.8.7.4. EQUITY RISK

L'Oréal does not invest its cash in shares. For L'Oréal, the main equity risk lies in the 8.96% stake held in Sanofi as of December 31st, 2014, for an amount described in note 16 *Non-current financial assets* of this document, page 151 in chapter 4.

If the Sanofi share price were to fall below the initial share price significantly or on a prolonged basis, this would potentially expose L'Oréal to impairing its assets through the income statement as explained in note 26.6. *Shareholding risk* on page 168 in chapter 4.

1.8.7.5. RISKS WITH REGARD TO THE ASSETS HEDGING EMPLOYEE COMMITMENTS

The assets used as financial hedges for employee commitments are, by nature, exposed to the fluctuations on the markets on which such assets are invested.

Pursuant to the provisions of the Internal Charter on the Management of assets dedicated to the hedging of the Group's employee commitments, the allocation by category of assets is subject to limits aimed in particular at reducing volatility risks and correlation risks between these different categories of assets. A Supervisory Committee for the pension and benefit schemes offered by the Group's subsidiaries, ensures that these principles are implemented and monitored, as described in the section under "Social information" on *Benefit* and *Pension schemes and other benefits,* chapter 6 on page 221. However, a large, lasting fall in the financial markets could have an impact on the value of the portfolios set up (see note 23 Post-employment benefits, termination benefits and other long-term employee benefits on pages 158 *et seq.* in chapter 4). Furthermore, the Group chooses insurers and custodians with robust ratings from the three main specialist rating agencies.

1.8.7.6. RISK RELATING TO THE CHANGE IN TAX REGULATIONS

The Group is exposed to risks of an increase in existing taxes, the introduction of new taxes, or double taxation concerning in particular corporate income tax, customs duties, and import taxes, the repatriation of dividends or social levies, which could have an adverse impact on the Company's results.

1.8.7.7. CORE COMMODITY RISK

The production of cosmetics depends on the purchase of raw materials, at fluctuating prices. These raw materials or components enter into the composition of products or their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally large 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. It is nevertheless estimated that the impact of this rise on gross margin would remain limited.

In order to anticipate the effect 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 makes ongoing efforts by carrying out projects to cut costs and actions to improve industrial productivity. Furthermore, the pooling of responsibility for purchases has made it possible to reinforce these measures.

1.8.8. Insurance

1.8.8.1. 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 structuring is not permitted.

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;
- in a local context, subsidiaries have to implement mandatory insurance cover, in order to meet their local regulatory obligations and supplement the Group's worldwide programmes for any specific risks, where applicable.

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.

1.8.8.2. INTEGRATED WORLDWIDE PROGRAMMES

Third party liability

The Group has had an integrated global programme covering all its subsidiaries for several years. This programme covers the financial consequences of the third party liability of Group entities. It covers several aspects of third party liability, and notably operating liability, product liability and sudden and accidental environmental damage.

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. The health and safety of consumers and employees is a constant priority at all levels of Group operations.

Property damage and interruption of operations

The purpose of this policy is to protect the Group's assets on the basis of the cover and capacity available on the insurance market. It covers claims related to the following events in particular: fire, lightning and explosion.

The Group has set up an integrated global programme to cover all the property (fixed assets and inventories) of its subsidiaries. This programme also covers operating losses directly resulting from an insured property loss or damage.

The level of insurance cover takes into account the prevention and protection measures implemented at the Group's manufacturing sites together with the business continuity plans.

As the capacity of the insurance market is limited for certain types of events, this programme includes aggregate sublimits, particularly in the event of natural disasters. This programme includes the performance, by the insurer's engineers, of loss prevention audits for the Group's locations. These audits form part of the Group's general safety management system.

Transport

The Group has set up an insurance programme to cover the transportation of all its products by road, sea and air. All subsidiaries subscribe to this worldwide programme, which ensures optimum transport insurance for all flows of goods.

Customer credit risk

Group subsidiaries are encouraged to purchase credit insurance, with the assistance of head office and under terms and conditions negotiated by it, in addition to their own credit management procedures, 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, a reduction of commitments by major insurance companies could be noted 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

CORPORATE GOVERNANCE*

** This information forms an integral part of the Annual financial Report as provided for an article L451-1-2 of the French Monetary and Financial Code.*

This chapter describes the way in wich 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 in 2014.

The internal control procedures implemented by the company are also described. 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

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 the 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, 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 representation of men and women 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 specific terms and conditions of participation by shareholders in the Annual General Meeting;
- 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;
- the limitations imposed by the Board of Directors on the powers of the Chief Executive Officer.

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 7, page 270.

Pursuant to the Article L. 225-37 of the French Commercial Code, the Board of Directors of L'Oréal approved this chapter at its meeting on February 12th, 2015.

In accordance with the updated recommendations of the AFEP-MEDEF Code, this chapter identifies in a summary table (page 87), those provisions of the code which were not applied and explains the reasons for that choice.

2.2. THE BOARD'S COMPOSITION AND THE WAY IN WHICH THE BOARD'S WORK IS PREPARED AND ORGANISED

"The quality of governance relies on an open, strongly committed Board of Directors, enriched by the experience and diversity of its members. The Board of provides the General Management with valuable support and assistance when it comes to strategic thinking and implementation. The balance of powers is ensured by a very precise sharing of the tasks to be carried out by everyone."

Jean-Paul Agon - Chairman and Chief Executive Officer

The balance of powers at L'Oréal in a Board of Directors that is independent, highly committed and vigilant

The organisation of L'Oréal's Board of Directors is adapted to the Company's specificities and constant progress is always sought.

In 2006, the duties of Chairman of the Board of Directors were separated from those of Chief Executive Officer, at the time when Sir Lindsay Owen-Jones had announced that he wanted to hand over some of his responsibilities to devote some time to the position of Chairman of the Board of Directors. This separation of the duties, which lasted for five years, made it possible to completely ensure a smooth transition with Jean-Paul Agon, appointed as Chief Executive Officer.

In 2011, L'Oréal's Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and appointed Mr. Jean-Paul Agon to this office.

In 2014, following the renewal of the tenure as Director of Mr. Jean-Paul Agon by the Annual General Meeting on April 17th, the Board of Director, at its meeting held the same day, decided that the combination of the roles would continue and to appoint Mr. Jean-Paul Agon as Chairman and Chief Executive Officer, considering that this method of organisation of the General Management corresponded the best to the specificities of L'Oréal.

Within this general framework, the *modus operandi* of the Board of Directors was subject to particular attention to make certain that the Board is in a position to fully carry out its role and the balance of powers on the Board is ensured.

THE BALANCE OF POWERS

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 at their disposal, within the framework of the Internal Rules of the Board, with well-structured, specialised Committees and remits that have been added to since their creation.

WELL-INFORMED, INDEPENDENT DIRECTORS

L'Oréal's Directors are kept regularly informed of all the aspects of the state of the Company's business and its performances.

Beyond the presence of strongly committed Directors with complementary experience (financial, industrial or business expertise, etc.), some of whom carry the memory of the Company's history, as they have longstanding in-depth knowledge of the Company and its environment, the Directors all attend meetings regularly and are vigilant. The Board's work is carried out and deliberations are made perfectly independently of the operational commitments by the General Management.

THE BOARD OF DIRECTORS HAS A WIDE ARRAY OF MEANS AT ITS DISPOSAL

The Board has the means to enable it to handle the questions that concern it with complete freedom, particularly when this involves determining the Company's strategic orientations, ensuring and monitoring their implementation and overseeing good management of the Company. The General Management communicates transparently and has the support of the Board of Directors in the strategic choices that it proposes and which are finally decided by the Board. The Chairman conducts the Board's work to build this cohesion without which General Management and its Executive Committee would not be able to commit themselves completely and ensure the Company's development with complete confidence and tranquillity. It is naturally in the interest of all the shareholders but also of all the stakeholders for the Chairman to lead the debates and encourage discussions on the Board of Directors. It can hold meetings at any time depending on topical issues that may arise.

THE BOARD OF DIRECTORS' ACTION IS FULLY ORGANISED

The Board acts in all circumstances in the Company's corporate interests. From this perspective, the Board has adopted rules with regard to conduct and has formally provided for the means available to it to fully perform its role, for example, by deciding to handle any issue with regard to the smooth running of the Company, within the framework of the law.

REGULARLY UPDATED INTERNAL RULES

In order to provide for a formal framework and organise its actions, L'Oréal's Board of Directors has adopted Internal Rules reaffirming the guidelines for its mission and the means at its disposal to carry out such actions.

The Internal Rules cover both the formal aspects of the Board's missions and the rights and obligations of the Directors (knowledge of, and compliance with, the regulatory provisions, recommendations and obligations, respect for the Company's interests, a duty of diligence and provision of information, confidentiality and secrecy, responsible conduct in the field of insider trading, etc.). They are updated by the Board in order to take account of the changes in the laws and regulations, good corporate governance practices and its own *modus operandi,* in particular, within the scope of the annual evaluation of its work. The Internal Rules were last updated on February 10th, 2014.They are published in full in this report, on pages 63 et *seq.*

CAREFUL MANAGEMENT OF CONFLICTS OF INTEREST

The Internal Regulations specify that the Directors are required to act in all circumstances in the interest of the Company and in the interests of all the shareholders. Each Director has a formal obligation to notify the Board of potential conflicts of interest that may concern him/her and, in any event, in such case, the Director must refrain from participating in the corresponding discussions and deliberations.

WELL-STRUCTURED, SPECIALISED BOARD COMMITTEES, WHOSE REMITS HAVE BEEN ADDED TO

The setting up of the Board Committees, their composition and the enlargement of their roles and responsibilities contribute to a good balance of powers and are a point to which the Board of Directors pays attention, in particular within the scope of the annual evaluation of the way it operates. The Board of Directors has clearly defined the remits of the Committees in its Internal Rules.

Only the Strategy and Sustainable Development Committee is chaired by the Chairman and Chief Executive Director, who does not serve on any other Committee.

All the Committees include independent Directors, 60% for the Audit Committee and half of the members for the Human Resources and Remuneration Committee and the Appointments and Governance Committee, including the Chairman of each of these Committees. These Committees are completely free to define their respective agendas. They report regularly on their work to the Board of Directors, prepare for its meetings and make proposals to it. Within the scope of the review of its own work at the end of 2014, the Board once again appreciated the quality of the contributions made by its Committees in relation with the decisions that it takes, with increasing detailed work.

A BOARD WHICH PERIODICALLY EVALUATES THE QUALITY OF ITS ORGANISATION AND ITS WORK

Within the framework of the annual evaluation of its functioning, on the basis of the best corporate governance practices, the Directors set themselves new targets for improvement of the quality of their organisation and their deliberations every year, for example by enlarging the agenda for their meetings and those of their committees. They seek to adopt the best possible *modus operandi* and ensure that they have all the necessary assets to successfully perform their tasks, with complete freedom.

2.2.1. Composition of the Board of Directors

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 dealt with 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, 2014, the Board of Directors comprises 15 members:

- the Chairman and Chief Executive Officer, Mr. Jean-Paul Agon;
- five Directors appointed by the main 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. Christiane Kuehne, (the two Vice-Chairmen of the Board being chosen from among these members);

- seven independent Directors: Mrs. Belén Garijo (since April 17th, 2014), Mrs. Virginie Morgon, Mrs. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel and Mr. Louis Schweitzer;
- two Directors representing the employees, Mrs. Ana Sofia Amaral and Mr. Georges Liarokapis, since July 2014.

The changes in the Board of Directors in 2014 and 2015 are described later in this chapter, on page 56.

Following the appointment of the 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, 2014 is included in chapter 7 of this document.

2.2.1.1. METHOD OF GENERAL MANAGEMENT CHOSEN

In 2011, after a period of 5 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 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.

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 this method of governance is particularly suited to the specificities of L'Oréal. L'Oréal has always had senior managers and executive officers who are loyal to the Company, they have a clear vision of the Group's future prospects based on their precise knowledge of the commercial entities and the businesses. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times.

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

Within this framework, the *modus operandi* of the Board of Directors was subject to particular attention to make certain that the Board is in a position to fully carry out its role and the balance of powers on the Board is ensured.

The Board of Directors considered that the balance of powers was satisfactory.

This balance of powers is principally based on:

- **a well-structured composition of the Board of Directors,** alongside of Mr. Jean-Paul Agon, strongly committed and vigilant Directors, regardless of whether they are the 5 Directors appointed by the main shareholders, who include the 2 Vice-Chairmen of the Board, the 7 independent Directors who are in the majority (7 out of 13 Board members excluding the employee Directors) and the 2 Directors representing the employees;
- **the relations organised between the Board and the General Management,** formally provided for in the Internal Rules of the Board, which specify in particular the obligation of provision to each of the Directors of all the documents and information required for the accomplishment of their assignment at any time during the life of the Company, and which also offers the Board the possibility to meet with the senior managers of L'Oréal at the time of presentations or sessions dedicated to strategy;
- **a limitation on the operational powers of the General Management,** transactions for a significant amount or outside the normal course of business of the Company are submitted to the Board;
- **active, effective Board Committees** that are free to define their respective agendas, reporting on their work and making recommendations to the Board of Directors, in order to give the Board all the necessary information to make its decision;
- **the independence and quality of the preparatory work of the Appointments and Governance Committee** with regard to the composition and governance of the Board;
- **a regular evaluation of the method of organisation and the *modus operandi* of the Board:** in this way, at the end of 2014, within the scope of the evaluation of its work and in particular its relations with the executive, the Board of Directors confirmed that the current method of governance was well-balanced and effective. The decision-making processes are clear, as is the allocation of powers.

2.2.1.2. DIRECTORS

The composition of the Board of Directors is in compliance with the recommendations of the June 2013 AFEP-MEDEF Code of Corporate Governance.

At December 31st, 2014, the 15 members of the Board of Directors were as follows:

2.2.1.2.1. List of corporate offices and directorships held by Directors at December 31st, 2014

Jean-Paul Agon

French.

Age: 58.

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, 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 also Chairman of the L'Oréal Coprorate Foundation and Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also a director of Air Liquide.

Expiry date of term of office: 2018

Director since 2006
Chairman and Chief Executive Officer
Chairman of the Strategy and Sustainable Development Committee
Professional address: L'Oréal – 41, rue Martre – 92117 Clichy Cedex – France
Holds 145, 500 L'Oréal shares

Other corporate offices and directorships held		
French company		
L'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	July 2014
L'Oréal USA Inc. (United States)	Director	June 2014
Galderma Pharma S.A. (Switzerland)	Chairman of the Board of Directors	April 2012
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director	March 2012

* *Listed company.*
** *50% owned by L'Oreal until July 8th 2014*

Françoise Bettencourt Meyers

French.
Age: 61.
Daughter of Mrs. Liliane Bettencourt and granddaughter of the founder of L'Oréal, Eugène Schueller. She has been the Chairwoman of the family-owned holding company Théthys since January 31st, 2012 and is the Chairwoman of the Bettencourt Schueller Foundation. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since April 2012.

Expiry date of term of office: 2017

Director since 1997
Member of the Strategy and Sustainable Development Committee
Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 25,943 L'Oréal shares in absolute ownership and 76,441,389 shares in bare ownership

Other corporate offices and directorships held

French companies	
Téthys SAS	Chairwoman Chairwoman of the Supervisory Board
Financière l'Arcouest SAS	Chairwoman
Société Immobilière Sebor SAS	Chairwoman
Other	
Bettencourt Schueller Foundation	Chairwoman 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	June 2012

Peter Brabeck-Letmathe

Austrian.
Age: 70.
Holds the main position outside L'Oréal of Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal and Vice-Chairman of the Board of Directors since 1997. He has been a member of the Strategy and Sustainable Development Committee since 2005, and is a member of the Appointments and Governance Committee and the Human Resources and Remuneration Committee.

Expiry date of term of office: 2017

Director since 1997
Vice-Chairman of the Board of Directors
Member of the Appointments and Governance Committee
Member of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
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)	Chairman of the Board	
Exxon Mobil (USA)*	Director	
Nestlé Health Science S.A. in Lutry (Switzerland)	Director and Chairman of the Board	
Other		
World Economic Forum (Switzerland)	Vice-Chairman	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign companies		
Credit Suisse Group (Switzerland)*	Vice-Chairman of the Board Director	May 2014
Table Ronde des Industriels Européens (Belgium)	Member of the Executive Committee Chairman of the Working Group on External Economic Relations	2013
Roche Holding S.A. (Switzerland)*	Director	March 2010
Others		
Uprona Ltd (Canada)	Director and Chairman	February 2011
World Economic Forum (Switzerland)	Chairman of IBC (Internat. Business Council)	November 2010

* *Listed companies.*

Jean-Pierre Meyers

French.

Age: 66.

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. He is Vice-Chaiman of the Supervisory Board and Chief Executive Officer of the family-owned holding company Téthys and Vice-Chairman of the Bettencourt Schueller Foundation.

Expiry date of term of office: 2016

Director since 1987
Vice-Chairman of the Board of Directors
Member of the Audit Committee until April 17th, 2014
Member of the Appointments and Governance Committee
Member of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 15,332 L'Oréal shares

Other corporate offices and directorships held		
French company		
Téthys SAS	Vice-Chairman of the Supervisory Board Chief Executive Officer	
Other		
Bettencourt Schueller Foundation	Vice-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 company		
Nestlé S.A. (Switzerland)*	Director	April 2014
French company		
Clymène SAS	Chief Executive Officer	June 2012

* *Listed company.*

Ana Sofia Amaral

Portuguese.
Age: 49.
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.

Expiry date of term of office: 2018

Director representing the employees since 2014
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 SA	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	

Charles-Henri Filippi

French.

Age: 62.

Spent his career within the HSBC Group, in which he was notably Chariman 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 (President until February 2013) and the Human Resources and Remuneration Committee and of the Appointments and Governance Committee since 2014. He is a Director of Orange and Chairman of Citigroup for France.

Expiry date of term of office: 2015

Director since 2007
Member of the Audit Committee
Member of the Human Resources and Remuneration Committee
Member of the Appointments and Governance Committee since 2014
Professional address: Citigroup France – 1-5, rue Paul-Cézanne – 75008 Paris – France
Holds 2,000 L'Oréal shares

Main corporate office held outside L'Oréal		
Citigroup France	Chairman	
Other corporate offices and directorships held		
French companies		
Femu Qui SA	Member of the Supervisory Board	
Orange*	Director	
Piasa S.A	Director	
Foreign company		
ABERTIS*	Member of the International Advisory Board (since July 2013)	
Others		
ADIE (Association pour le Droit à l'Initiative Économique)	Director	
Association des Amis de l'Opéra-Comique	Chairman	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Nexity*	Non-voting member of the Board of Directors	July 2014
Euris	Member of the Supervisory Board	March 2014
Viveris Reim SA	Member of the Supervisory Board	July 2012
Octagones (parent company) and Alfina (subsidiary)	Chairman	May 2012
CVC Capital Partners ("CVC")	Senior Advisor	December 2010
Other		
Centre National d'Art et de Culture Georges Pompidou	Director	March 2013

* *Listed companies.*

Xavier Fontanet

French.
Age: 66.
Former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012) and member of the Supervisory Board of Schneider Electric, Xavier Fontanet has been a Director of L'Oréal since 2002 and has been the Chairman of the Appointments and Governance Committee since 2011.

Expiry date of term of office: 2018

Director since May 2002
Chairman of the Appointments and Governance Committee
Professional address: 41, rue Martre – 92117 Clichy Cedex – France
Holds 1,050 L'Oréal shares

Other corporate offices and directorships held

French companies	
Essilor International S.A.*	Director
Schneider Electric S.A.*	Director
Other	
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		
Crédit Agricole S.A.*	Director	May 2012
Essilor International S.A.*	Chairman of the Board of Directors	January 2012
Fonds Stratégiques d'Investissement S.A.	Director	June 2011
Essilor International S.A.*	Chairman and Chief Executive Officer	January 2010
Foreign companies		
Essilor Amico (L.L.C) (United Arab Emirates)	Director	December 2011
Nikon and Essilor International Joint Research Center Co. Ltd.	Chairman and Director	December 2011
Nikon Essilor Co. Ltd (Japan)	Director	December 2011
EOA Holding Co. Inc. (United States)	Chairman and Director	October 2010
Essilor India PVT Ltd (India)	Director	June 2010
Essilor Manufacturing India PVT Ltd (India)	Director	June 2010
Transitions Optical Holding B.V. (Netherlands)	Director	May 2010
Transitions Optical Inc. (United States)	Director	May 2010
Shanghai Essilor Optical Company Ltd (China)	Director	April 2010
Essilor of America Inc. (United States)	Director	March 2010

* *Listed companies.*

Belén Garijo

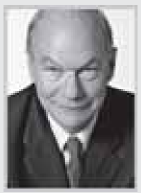
Spanish.
Age: 54.
She is Chief Executive Officer of Merck Healthcare, a company bringing together the pharmaceutical businesses of German Group Merck. She is also a member of the company's Executive Committee and has been a Director of L'Oréal since 2014. She is also a Director of BBVA (Spain).

Expiry date of term of office: 2018

Director since 2014
Professional address: Merck KGAA – Frankfurter STR 250
Postcode F131/614 – 64293 Darmstadt – Germany
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal		
Merck Healthcare (Germany)	Chairman 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		**Expiry date of term of office**
None		

* *Listed company.*



Bernard Kasriel

French.
Age: 68.
He is a former Chief Executive Officer of Lafarge. He has been a Director of L'Oréal since 2004, the Chairman of the Human Resouces and Remuneration Committee since 2007 and is a member of the Strategy and Sustainable Development Committee. He is also a Board member of Arkema and Nucor (United States).

Expiry date of term of office: 2016

Director since 2004
Chairman of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: 1, rue Saint-James – 92200 Neuilly-sur-Seine – France
Holds 1,290 L'Oréal shares

Other corporate offices and directorships held		
French company		
Arkema S.A.*	Director	
Foreign company		
Nucor (United States)*	Director	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
LBO France	Partner	September 2011
Lafarge S.A.*	Director	May 2010
LBO France	Member of the Management Committee	January 2010

* *Listed companies.*

Christiane Kuehne

Swiss.

Age: 59.

She is the Head of the Food Strategic Business Unit at Nestlé which she joinded in 1977. Christiane Kuehne has been a member of L'Oréal's Board of Directors and a member of the Audit Committe since 2012.

Expiry date of term of office: 2016

Director since 2012
Member of the Audit Committee
Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal	
Nestlé S.A. (Switzerland)*	Head of Food Strategic Business Unit
Other corporate offices and directorships held	
Fondation Wetter pour les enfants de l'Indochine	Member of the Board
Corporate offices and directorships over the last five years that have expired	
None	

* *Listed company.*

Georges Liarokapis

French and Greek.

Age: 52.

Coordinator of Sustainability for L'Oréal Western Europe, Georges Liarokapis was appointed in 2014 by the CFE-CGC as a Director representing the employees.

Expiry date of term of office: 2018

Director representing the employees since 2014
Professional address: 41, rue Martre – 92117 Clichy Cedex – France
Holds 900 L'Oréal shares

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: 28.
He has been a member of the Supervisory Board of the family holding company Téthys since January 2011. He has been a Director of L'Oréal since February 2012 and member of its Audit Committee since April 2014.

Expiry date of term of office: 2016

Director since 2012
Member of the Audit Committee since April 2014
Professional address: Téthys – 27-29, rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 1,500 L'Oréal shares

Other corporate offices and directorships held

French companies	
Téthys 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: 45.

She is the Chief Executive Officer of Eurazéo (Chief Investment Offcier) which she joined in 2008 after working for 16 years at Lazard. She has been a Director of L'Oréal since 2013 and is a member of the Audit Committee. She is also a Board member of Accor and Vivendi.

Expiry date of term of office: 2017

Director since 2013
Member of the Audit Committee
Professional address: 32, rue de Monceau – 75008 Paris – France
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal		
Eurazeo*	Chief Executive Officer and Member of the Management Board	
Other corporate offices and directorships held		
French companies		
Accor*	Director	
Vivendi*	Member of the Supervisory Board	
Eurazeo PME	Chairwoman of the Supervisory Board	
Elis	Chairwoman of the Supervisory Board	
LH APCOA (holding company for investment in APCOA)	CEO	
Legendre Holding 33	Chairwoman of the Supervisory Board	
Foreign companies		
APCOA Group GmbH (Germany)	Managing Director	
Broletto 1 Srl (holding company with an investment in Intercos) (Italy)	Chairwoman of the Board of Directors	
Euraleo Srl (Italy)	Managing Director	
Moncler SpA (Italy)*	Vice-Chairwoman 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		
Holdelis	Chairwoman of the Management Board	September 2014
Legendre Holding 33	Chairwoman	January 2014
Edenred*	Director	March 2013
OFI Private Equity Capital (now Eurazeo PME capital)	Chairwoman of the Supervisory Board	March 2012
LT Participations (holding company with an investment in IPSOS)	Permanent representative of Eurazeo on the Board of Directors	August 2011
Foreign companies		
APCOA Parking AG (Germany)	Chairwoman of the Supervisory Board	December 2014
APCOA Parking Holdings GmbH (Germany)	Chairwoman of the Advisory Board	December 2014
Intercos SpA (Italy)	Director	May 2014
Sportswear Industries Srl (Italy)	Director	November 2013
Other		
Women's Forum (WEFCOS)	Member of the Management Board	August 2014

* *Listed companies.*

Annette Roux

French.
Age: 72.
Chairperson and Managing Director of Bénéteau from 1976 to 2005, then Vice-Chairperson of the Supervisory Board, Annette Roux has been a member of L'Oréal's Board of Directors since 2007. She is also Chairperson of the Bénéteau Corporate Foundation.

Expiry date of term of office: 2015

Director since 2007
Professional address: Les Embruns – 16, boulevard de la Mer – 85800 Saint-Gilles-Croix-de-Vie – France
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal		
Bénéteau S.A. (1) (2)	Vice-Chairperson of the Supervisory Board	
Other corporate offices and directorships held		
French companies		
Beri 21 S.A.	Chairwoman of the Supervisory Board	
BH S.A.S. (2)	Director	
Construction Navale Bordeaux S.A.S (2)	Director	
O'Hara S.A. (2)	Director	
SPBI S.A. (2)	Director	
Foreign company		
Bénéteau España (2)	Chairperson	
Other		
Bénéteau Corporate Foundation	Chairperson	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Beri 3000 S.A.	Chairperson and Chief Executive Officer	August 2010

(1) Company listed on compartment B of Eurolist.
(2) Companies controlled by Beri 21 S.A.

Louis Schweitzer

French.

Age: 72.

Chairman and Chief Executive Officer of Renault from 1992 to 2005, Chairman of the Board of Directors until 2009. Louis Schweitzer has been a Director of L'Oréal since 2005, is a member of the Audit Committee and Chairman of that Committee since February 2013, and a member of the Strategy and Sustainable Development Committee. He is also General Commissioner for Investment.

Expiry date of term of office: 2017

Director since 2005
Chairman of the Audit Committee
Member of the Strategy and Sustainable Development Committee
Professional address: Commissariat Général à l'investissement – Hôtel de Cassini – 32, rue de Babylone – 75007 Paris – France
Holds 2,000 L'Oréal shares

Other corporate offices and directorships held

French company	
Veolia Environnement*	Vice-President
Others	
Commissariat-General for investment	General Commissioner
Comité d'Échanges franco-japonais (CEFJ)	Special Advisor
Comité des Salons	Chairman
Festival d'Avignon	Chairman
Fondation Nationale des Sciences Politiques	Member of the Board
Initiative France	Chairman
Maison de la Culture MC93	Chairman
Musée du Quai Branly	Director
Société des Amis du Musée du Quai Branly	Honorary Chairman Director
Institut Français des Relations Internationales	Vice-President

Corporate offices and directorships over the last five years that have expired		Expiry date of terms of office
French companies		
BNP Paribas*	Director	May 2013
Le Monde (ILPA, LMSA, SEM)	Chairman of the Supervisory Board	December 2010
Foreign companies		
Allianz S.E. (Germany)*	Member of the Advisory Board	June 2014
Bosch (Germany)*	Member of the Advisory Board	May 2014
AstraZeneca (United Kingdom)*	Director Chairman of the Board	June 2012
AB Volvo (Sweden)*	Chairman of the Board	April 2012
Others		
Institut d'Études Politiques de Paris	Member of the Board	2014
Haute Autorité de Lutte contre les Discriminations et pour l'Égalité	Chairman	March 2010
Banque de France	Member of the Advisory Board	

* *Listed companies.*

2.2.1.2.2. 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.

2.2.1.2.3. Two Directors representing the employees since July 2014

Since July 2014, the composition of the Board has been enlarged with the appointment of two Directors representing the employees.

Mrs. Ana Sofia Amaral was appointed by the *Instance Européenne de Dialogue Social*/European Works Council (IEDS/EWC) and 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 and holds the duties of Coordinator of Sustainability for L'Oréal Western Europe.

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.

The Directors representing the employees have the same roles and responsibilities and duties as the other Directors. Like any new Director, they benefit from a personalised training programme adapted to the performance of their new term of office, in order to ensure that they take up their duties under the best possible conditions. Their tenure covers a period of four years and they receive attendance fees according to the same rules of allocation as the other Directors. The components of their remuneration as employees are not published.

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

It is usual practice at L'Oréal for new Directors to serve on Committees after an integration period enabling them to learn how the Board works and about the major issues facing the Company.

At the Board meeting on February 12th, 2015, on the proposal of the Appointments and Governance Committee, it was decided that Mrs. Ana Sofia Amaral and Mr. Georges Liarokapis would join the Human Resources and Remuneration Committee and the Audit Committee respectively after the Annual General Meeting on April 22nd, 2015.

2.2.1.2.4. Representation of women and men that complies with the provisions of the French Law of January 27th, 2011

At December 31st, 2014, out of a total of 13 Directors (excluding the 2 Directors representing the employees), five women have seats on L'Oréal's Board of Directors, representing a proportion of female Directors of 38.5%.

The Board is thus in advance of the French Law of January 27th, 2011 relating to the balanced representation of men and women, which provided initially for a minimum proportion of 20% of Directors of each gender to be reached by 2014.

The Appointments and Governance Committee is continuing its selection process in order to make proposals of candidates to the Board of Directors. In any event, in 2017, the composition of the Board will be in compliance with the French law which requires a minimum proportion of 40% of Directors of each gender.

The changes in the Board of Directors in 2014 are described later, on page 56.

2.2.1.2.5. Independent Directors

ALL THE DIRECTORS OF L'ORÉAL EXERCISE 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 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 General Management which may interfere with his/her freedom of judgement.

In this spirit, 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 corporate officer of the Company, employee or Director of its parent company or a company which it consolidates in its financial statements, and must not have held any of these positions during the previous five years **(criterion 1);**
- the member must not be a corporate 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 a corporate officer of the Company (either currently or having performed such duties within the last five years) holds an office as Director **(criterion 2);**

- the member must not be a customer, supplier, investment banker or financial banker **(criterion 3):**
  - which is important for the Company or its group; or
  - for which the Company or its group represents a significant portion of activities;
- the member must not have any close family links with a corporate officer **(criterion 4);**
- the member must not have been the Company's auditor over the five previous years **(criterion 5);**
- the member must not have been a Director of the Company for more than twelve years **(criterion 6).**

At its meeting on November 28th, 2014, 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.

	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Criterion 6	Classification adopted
Mrs. Belén Garijo	yes	yes	yes	yes	yes	yes	Independent
Mrs. Virginie Morgon	yes	yes	yes	yes	yes	yes	Independent
Mrs. Annette Roux	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	yes	Independent
Mr. Louis Schweitzer	yes	yes	yes	yes	yes	yes	Independent

(1) On the basis of the work carried out by the Appointments and Governance Committee, the Board of Directors analysed, 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. It appears that the nature of these business relationships is not significant.

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 or with regard to their nature. They mainly involve currency hedging fees. Furthermore, the possibility for L'Oréal to use a panel of banks, in a competitive context, rules out all relationship of dependence. Furthermore, Mr. 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 decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal.

(2) The Board of Directors carefully examined the situation of Mr. Xavier Fontanet whose tenure exceeded 12 years after its renewal, on April 17th, 2014. The Board of Directors took into account the objectiveness that Mr. Xavier Fontanet has always shown at the time of the debates and decisions of the Board and his ability to express his convictions and make a balanced judgment in all circumstances with regard to the General Management. It considered that his personality, his leadership and his commitment, recognised by the shareholders of L'Oréal, 98.28% of whom approved the renewal of his tenure on April 17th, 2014, were all guarantees of his independent-mindedness.

The Board also considered that the experience of Mr. Xavier Fontanet with regard to governance and the attention he has always paid to the due and proper functioning of the Board in his capacity as Chairman of the Appointments and Governance Committee are essential in light of the recent, significant 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 discussions 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 criterion of 12 years, defined by the AFEP-MEDEF Code in addition to five other criteria, was not sufficient in and of itself for Mr. Xavier Fontanet to mechanically lose the status of independent Director.

In sum, at December 31st, 2014, 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. Belén Garijo;
- Mrs. Virginie Morgon;
- Mrs. Annette Roux;
- Mr. Charles-Henri Filippi;
- Mr. Xavier Fontanet;
- Mr. Bernard Kasriel;
- Mr. Louis Schweitzer.

2.2.1.2.6. 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 14.1 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 14.1 of the Annex)

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

Potential conflicts of interest between the duties of the corporate officers and Directors with regard to L'Oréal, and their private interests and/or other duties (Articles 14.2 and 18.3 of the Annex)

Paragraph 2.2.1.2.5 reviews the situation of each of the Directors with regard to the independence criteria provided for in the AFEP-MEDEF Code. 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 7 concerning agreements relating to shares in the Company's capital.

Information on services contracts with members of the administrative bodies (Article 16.2 of the Annex)

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

STOCK MARKET ETHICS

The Board took cognizance of the rules to be applied to prevent insider trading, in particular regarding the periods during which it is prohibited to trade in shares. It decided to amend its Internal Rules accordingly and issued recommendations to General Management to update L'Oréal's Stock Market Code of Ethics and the Fundamentals of Internal Control.

On the basis of the legal provisions, regulations and recommendations, this code 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 growth strategy; 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 point out specifically that a Director, who has permanent insider status, is requested to refrain from trading in L'Oréal shares precisely in certain periods and when he/she has access to inside information.

Lastly, Directors are required to notify the *Autorité des Marchés Financiers* (AMF) of each transaction carried out by them or their close relatives and friends related to L'Oréal shares. The Company reminds them regularly of this obligation (see Summary of trading by Directors and corporate officers in L'Oréal shares in 2014 – see § 2.4 page 89).

2.2.1.2.7. Corporate offices and duties of the Directors

EVOLUTIONS IN 2014

- **Renewal of the tenure as Directors of M. Jean-Paul Agon and M. Xavier Fontanet**

  The Annual General Meeting held on April 17th, 2014 has renewed the tenures of Mr. Jean-Paul Agon and Mr. Xavier Fontanet for four years.

- **Appointment of Mrs. Belén Garijo as Director**

  The Annual General Meeting held on April 17th, 2014 has appointed Mrs. Belén Garijo for a four-year tenure.

- **Resignation of Mr. Paul Bulcke as Director**

  Mr. Paul Bulcke has resigned as Director on July 8th, 2014, as the number of administrators from Nestlé on the Board was adjusted from three to two in order to reflect the change in the stakeholding of Nestlé in the governance of L'Oréal following the strategic transaction signed between L'Oréal and Nestlé on February 10th, 2014 and finalized on July 8th, 2014.

- **Nominations of Mrs. Ana Sofia Amaral and Mr. Georges Liarokapis** as Directors representing the employees in July 2014.

CHANGES SCHEDULED IN 2015

- **Tenure as Director expiring in 2015: Mrs. Annette Roux**

  After 8 years of active participation in the work of the Board, Mrs. Annette Roux will not be seeking the renewal of her tenure which expires at the end of the 2015 Annual General Meeting.

  Mrs. Roux was appointed as a L'Oréal Director in 2007. The Board warmly thanked Mrs. Roux for the quality of her contribution to the Board's debates and decisions.

- **Renewal of the tenure as Director of Mr. Charles-Henri Filippi**

  As the tenure of Mr. Charles-Henri Filippi as Director is due to expire in 2015, the renewal of such tenure for a term of four years is submitted to the Annual General Meeting.

  In 2014, Mr. Charles-Henri Filippi attended all the meetings of the Board of Directors and all the meetings of the three Committees of the Board of Directors of which he is a member (Audit Committee, Human Resources and Remuneration Committee and Appointments and Governance Committee), except for one meeting of the Appointments and Governance Committee.

  A member of the Audit Committee since 2008, he smoothly and efficiently rounds out the Board's competencies in the financial field. Also a member of the Human Resources and Remuneration Committee and the Appointments and Governance Committee, he thus has cross-functional expertise which is useful for the work of each of these Committees.

  Mr. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent.

  The business relations between L'Oréal and Citigroup France, of which he is the Chairman, are analysed in detail every year in relation with the assessment of the independence of the Directors. The Board noted that they were not significant either with regard to their nature or in terms of their volume, as they mainly involve foreign exchange commissions.

  The possibility for L'Oréal to use a panel of banks, in a competitive context, moreover 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 decisions. Furthermore, at Citigroup, he doesn't take part in the work that is liable to concern L'Oréal.

- **Appointment of a new Director in 2015: Mrs. Sophie Bellon**

  The Board will propose to the Annual General Meeting as a candidate for appointment as a new Director Mrs. Sophie Bellon, responsible for Research, Development and Innovation Strategy at Sodexo and Vice-Chairman of the Board of Directors of Sodexo.

  Mrs. Sophie Bellon, 53 years of age, a French national, is a graduate of the leading French graduate business school EDHEC and began her career in 1985 in the United States, in finance, as a Mergers and Acquisitions Advisor, then in the fashion industry as an agent for major international fashion brands.

  After this experience working in the United States for nearly 10 years, Mrs. Sophie Bellon returned to France and joined Sodexo in 1994 where, for over 20 years, she has taken part, through each of the positions she has held, in the major stages of growth of the Sodexo group: first of all in the Finance Department where she participated in important acquisition projects; she continued her career in the Sales and Marketing Department and in 2008 she became the Managing Director for Sodexo's Corporate segment in France.

  Sodexo is an international group, the world leader in quality of life services, with 420,000 employees in 80 countries.

  Since January 2013, Mrs. Sophie Bellon has been responsible for Research, Development and Innovation Strategy at Sodexo.

  In November 2013, the Board of Directors of Sodexo appointed Mrs. Sophie Bellon as Vice-Chairman of the Board of Directors, so that she succeeds Mr. Pierre Bellon, Chairman and Founder of Sodexo, as Chairman of the Board of Directors in January 2016.

Strongly committed to diversity and gender mix, Mrs. Bellon is also Co-Chair of SWIFT (Sodexo Women's International Forum for Talent), a programme aimed at increasing the representation of women in Sodexo's decision-making bodies.

Mrs. Sophie Bellon will bring to the Board her multi-disciplinary knowledge of companies at the highest level and her strategic vision, her human values and strong convictions with regard to societal responsibility, one of the L'Oréal Group's priorities for development within the scope of the "Sharing Beauty With All" programme.

The appointment of Mrs. Sophie Bellon as an independent Director for a term of 4 years is submitted to the Annual General Meeting. The percentage representation of women and the number of independent Directors would therefore remain unchanged as compared to those at December 31st, 2014.

2.2.2. The ways in which the Board's work is prepared and organised

2.2.2.1. GENERAL INFORMATION ON BOARD AND COMMITTEE MEETINGS IN 2014

Committed Directors, with in-depth knowledge of the Company

The preparation and holding of Board meetings and meetings of its Committees require increasing availability and a 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 environment.

Directors can propose, with complete independence, any topic appropriate for good long-term governance of the Company for inclusion on the agenda for the work by the Board and its Committees.

The Committees prepare for discussions and decisions by the Board. Board meetings are very often held in the presence of senior managers of the Company who are invited to attend in light of the topical issues with regard to L'Oréal's development and many aspects of its strategy. In an open and constructive dialogue, exchanges of views, in confidence, contribute to the quality of the Directors' work.

With complementary expertise, and with complete freedom of judgement, the Directors collectively ensure that the measures adopted assist in the implementation of L'Oréal's strategy. The discussions on the Board, encouraged by the Chairman, take place transparently and go into subjects in detail.

Regularity of attendance at meetings by Director

In 2014, the Board met 7 times. The average attendance rate at Board meetings was 93.5% in 2014 (as against 91.4% in 2013). The average attendance rate at Committee meetings is available pages 59 to 62.

The allocation of attendance fees, established on the basis of the regularity of attendance of each of the Directors at Board meetings and the presence on its committees, is described in detail page 73.

The rules for allocation of attendance fees in respect of the 2014 financial year take into account the recommendations of the AFEP-MEDEF Code, a predominantly variable portion overall rewarding regularity of attendance at Board and Committee meetings.

2.2.2.2. THE ACTIVITIES OF THE BOARD OF DIRECTORS

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 searches on an ongoing basis for 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 designed to supplement the legal, regulatory and statutory rules to which the Board refers. These Internal Rules were updated by the Board on February 10th, 2014 to reflect, in particular, firstly, the changes in the AFEP-MEDEF Code in June 2013 and, secondly, the French Law on Employment Security of June 14th, 2013. The Internal Rules are made public in this report and published on L'Oréal's website.

The Board's work focused on business activities and strategy

In 2014, besides the regular monitoring of the Group's business activities (markets, businesses, geographical development, competition, quantitative and qualitative objectives) the Board of Directors continued its work, as it had chosen to do, on the components of L'Oréal's strategy.

Thanks to a constructive dialogue with the General Management, the Board contributes to development of the strategy, particularly by analysing the strategic interest of acquisitions and their impact on the Company's financial structure and on its long-term development capabilities.

As an illustration, the strategic acquisitions of the following companies were completed during the financial year: Magic Holdings International Limited, whereby L'Oréal made its most important investment on the beauty market in China; NYX Cosmetics, one of the American make-up brands registering the strongest growth in the United States driven by a novel communication strategy relying on the social networks and local marketing initiatives, and Decléor and Carita, the world's No. 2 in the professional market of spas and beauty institutes.

The Board also pays a lot of attention to follow-up of the acquisitions made in previous years and asks for a regular report on transactions carried out in previous years: integration into the Group, synergies, areas of complementarity, achievement of the business plan prepared at the time of the acquisition and value creation for L'Oréal.

In order to benefit from the best possible knowledge of L'Oréal's business activities, the Board of Directors regularly meets with the senior managers. Each of their presentations gives the Directors the opportunity to take stock of an aspect that characterises its business and its organisation, enabling them to forge an opinion and to make their decisions with the benefit of all the relevant information.

Thus, in 2014, the Directors analysed the issues of logistics and the supply chain in detail in the presence of the Group's Executive Vice-President Operations.

They also had the occasion to discuss in detail L'Oréal's situation and outlook on the Group's leading market, Western Europe, with a full presentation by the Executive Vice-President for the Zone.

A full-day session was devoted to the Consumer Products Division for a concrete analysis of the developments in the highly competitive cosmetics market in the mass market segment.

Furthermore, the Group's Senior Vice-President, Chief Ethics Officer described to the Directors the progress made in this field and presented to them the 3rd edition of the Group's Code of Ethics. Among the new topics addressed in this edition, the Board noted: lobbying, money laundering, Human Rights and the introduction of more stringent requirements with regard to advertising, marketing, personal data and social media.

Finally, the Executive Vice-President Human Resources addressed the Board to present the dual challenge, both individual and collective, of Human Resources: giving the Group the talents it needs to develop on each and every continent; creating a collaborative environment in which everyone works together and in which everyone can prove himself and give the best he can.

In 2014, the Board of Directors studied and gave its prior authorisation for the strategic transaction with Nestlé, approved by the Annual General Meeting of shareholders on April 17th, 2014. This transaction consisted, firstly, in the buy-back of 48.5 million L'Oréal shares (representing 8% of its share capital) from Nestlé with a view to their cancellation and, secondly, in a sale of the 50% holding of L'Oréal in Swiss dermatology company Galderma to Nestlé (owned in equal shares by L'Oréal and Nestlé).

In 2014, the Central Works Council (CWC) was consulted and issued an opinion, pursuant to the French Law on Employment Security of June 14th, 2013, on the Company's strategic orientations, as previously defined by the Board of Directors. The Board of Directors reviewed the opinion of the Central Works Council and replied to it.

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

The financial situation and the cash position are reviewed at least twice a year at a Board meeting, 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. The balance sheet structure remains solid and the Group is not in debt.

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 he grants.

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 commitments in the environmental, social and societal fields. The Committee's work systematically gives rise to a report presented by their Chairman at Board meetings.

2.2.2.3. THE ACTIVITIES OF THE BOARD COMMITTEES

The Board's discussions 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, which were updated in this respect at the beginning of 2014.

The Committees were again given responsibility by the Board for preparing its decisions in 2014. The composition of these Committees, their remits and their work in 2014 are clarified and described in detail in this report.

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.

/ STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

Composition	Main remits	Main activities in 2014

Composition at December 31st, 2014:
• **Jean-Paul AGON (Chairman)**
• **Françoise BETTENCOURT MEYERS**
• **Peter Brabeck-LETMATHE**
• **Bernard KASRIEL**
• **Jean-Pierre MEYERS**
• **Louis SCHWEITZER**
 	
All these Directors participate in Committee meetings with complete freedom of judgment and in the interest of all the shareholders. It is specified that two members are part of the Bettencourt family and one member is from Nestlé.
The Committee met six times in 2014, with an attendance rate of 100%.
	• **Throwing light, through its analyses, on the strategic** orientations as 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 issues 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.
		• **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 all the acquisitions projects:** the following projects were, among others, presented to the Board:
		  • Magic
		  • Decleor / Carita
		  • Niely Cosmeticos
		  • NYX
		  • Carol's Daughter
		• Proposal to the Board of Directors of a summary on the **strategic orientations within the framework of consultation of the Central Works Council.**
		• **Recommendations to the Board of Directors on the choices to be made following the passing of Law No. 2014-384 of March 29th, 2014 "**aimed at reconquering the real economy" commonly referred to as the "Florange Law".

/ AUDIT COMMITTEE

Composition	Main remits	Main activities in 2014
Composition at December 31st, 2014: ◆ **Louis SCHWEITZER (Chairman)** ◆ **Charles-Henri FILIPPI** ◆ **Christiane KUEHNE** ◆ **Jean-Victor MEYERS** ◆ **Virginie MORGON** Since February 2013, the Committee has been chaired by Mr. Louis Schweitzer, an independent Director, who has been a Committee member since 2011 and who has recognised financial expertise. In April 2014, a new Director, Mr. Jean-Victor Meyers, was appointed to the Committee to replace Mr. Jean-Pierre Meyers. The Directors who are members of the Audit Committee have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures which are presented to them on a regular basis. The Chairman and Chief Executive Officer is not a member of the Audit Committee. In several instances, the Committee has heard the Vice President, Finance and Administration as well as other executive officers of the Company responsible for various areas reviewed by the Committee, in particular within the framework of risk monitoring and risk management. The Statutory Auditors attend the Committee's meetings. The Committee has met with the Statutory Auditors without the management of the Company. The Committee has not deemed it necessary to request the assistance of outside experts. The number of independent Directors is 3 out of 5, namely 60%. The Audit Committee met four times in 2014, with an attendance rate of 96%. At the Board meeting on February 12th, 2015, on the proposal of the Appointments and Governance Committee, it was decided that Mr. Georges Liarokapis would join the Audit Committee after the Annual General Meeting on April 22nd, 2015.	◆ **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 schedule of the Statutory Auditors** and review of the results of their verifications. ◆ **Monitoring of the Statutory Auditors' independence.** ◆ Monitoring of the efficiency of the **Internal Control and risk management** system. ◆ **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 systems 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.	◆ **Review of the annual and interim results and the balance sheet.** ◆ **Review of the Statutory Auditors' reports.** ◆ **Monitoring of the Internal Audit Department's 2014 activities,** review of verifications performed, recommandations given and follow-up actions, within the framework of the statutory audit of the accounts. ◆ **Examination of the audits** carried out by the Statutory Auditors with regard to **social, environmental and societal information.** This year, thanks to a broader control scope and improved reliability of the data, a reasonable assurance report was issued with respect to 16 criteria ◆ **Monitoring of the Internal audit activity**. The Committee has concluded that the Internal Audit department has performed a thorough review of all key processes, using strict compliance criteria. ◆ **Internal Control**: review of the risk factors and risk mapping, The Committee has acknowledged that risks were properly identified and operationally maintained under control, as well as reviewed by the Executive Committee on a regular basis. ◆ **Examination of the draft of the "risk factors" section of the 2014 management report** and the draft report of the Chairman relating to internal control and risk management procedures. ◆ **Monitoring of the results of the programme to raise awareness of the risk of fraud and corruption prevention**: brochures and Charters have been sent to Group employees. ◆ **Information on the legal risks** and the potential litigation and major events liable to have a significant impact on L'Oréal's financial position and on its assets and liabilities. ◆ **Information Systems Security and safety**: the Committee has acknowledged that the development of L'Oréal was conducted through a solid, stable and innovating infrastructure, in a secured environment with costs under control.

/ APPOINTMENTS AND GOVERNANCE COMMITTEE

Composition	Main remits	Main activities in 2014
Composition at December 31st, 2014: • **Xavier FONTANET (Chairman)** • **Peter BRABECK-LETMATHE** • **Charles-Henri FILIPPI** • **Jean-Pierre MEYERS** The Directors actively participate in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders. At the Board meeting on February 2014, it was decided that Mr. Charles-Henri Filippi would join this Committee. The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly. The number of independant Directors is 2 out of 4, namely 50%. The Committee met six times in 2014, with an attendance rate of 91%.	• **Reflections and recommendations to the Board with regard to the conditions 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.** • Proposal to the Board of **new Directors.** • Examination of the **classification as independent Directors** which is reviewed by the Board every year prior to publication of the Annual Report. • Verification of **the due and proper application of the Code of Corporate Governance** to which the Company refers. • **Discuss governance issues related to the functioning and organisation of the Board.** • Procedure for preparation **of succession plans for the executive officers** in the event of an unforeseen vacancy. • 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.**	• **Combination of the roles of Chairman and Chief Executive Officer:** review of the conditions for performance of the roles of Chairman and of Chief Executive Officer. • **Composition of the Board** (diversity, complementary profiles, competencies, gender balance, etc.), selection of, and meetings with candidates, and proposals to the Board for validation. • Proposal for the choice of the **appointment process of two Directors representing the employees.** • **Composition of the Board committees:** proposal for assignment of Directors to Committees. • Development of the **integration process** for new Directors. • **Examination of the independence** of each of the Directors in light of the criteria set out in the AFEP-MEDEF Code. • **Determination of the conditions of the annual evaluation of the Board.** • **Analysis of the 2014 reports** of the *Autorité des Marchés Financiers* and the High Committee on Corporate Governance *(Haut Comité de Gouvernement d'Entreprise).* • **Review of the succession plans with a view to ensuring the continuity of General Management.** • **Examination of the key positions** from the perspective of ensuring the continuity of business activities (in the short-term).

/ THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

Composition	Main remits	Main activities in 2014
Composition at December 31st, 2014: ◆ **Bernard KASRIEL (Chairman)** ◆ **Peter BRABECK-LETMATHE** ◆ **Jean-Pierre MEYERS** ◆ **Charles-Henri FILIPPI** The Directors actively participate in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders. The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly. The number of independant Directors is 2 out of 4, namely 50%. The Committee met three times in 2014, with an attendance rate of 100%. At the Board meeting on February 12th, 2015, on the proposal of the Appointments and Governance Committee, it was decided that Mrs. Ana Sofia Amaral and Mrs. Belén Garijo would join the Human Resources and Remuneration Committee after the Annual General Meeting on April 22nd, 2015.	◆ Making **proposals relating to the remuneration** of the Chairman of the Board and the Chief Executive Officer, where applicable. ◆ Setting of **the total amount of attendance fees** to be submitted to the General Shareholders' 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. ◆ Review of **Human Resources policy:** labour relations, recruitment, diversity. ◆ **Monitoring the application of the Code of Ethics** in the Company.	◆ Proposal for revision of the **2014 fixed remuneration** of the Chairman and Chief Executive Officer and proposal to change the structure of the **2014 annual variable remuneration** of the Chairman and Chief Executive Officer. ◆ In February 2014, **analysis of the performance of the Chairman and Chief Executive Officer for 2013** and provision to the Board of a recommendation with regard to setting the 2013 annual variable remuneration. ◆ **Say on Pay:** Preparation of the resolution presented to the Annual General Meeting of April 17th, 2014. Preparatory work with a view to the Say on Pay resolution to be put to the vote at the Annual General Meeting on April 22nd, 2015. ◆ **Delivery of the Long-Term Incentive (LTI) plans:** Recording of the performances for the 2009 stock option plan for the subscription of shares and the 2010 plan for the conditional grant of shares (ACAs) were conditional. ◆ **Preparation of the plan for the conditional grant of shares of April 17th, 2014 and proposal for a grant of such shares** to the Chairman and Chief Executive Officer. ◆ **Allocation of attendance fees** pursuant to the new rules, providing for a predominantly variable proportion. ◆ **Review of the 3rd edition of the Code of Ethics.**

2.2.2.4. 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 assignments, that important questions have been appropriately prepared for and discussed and to assess 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. On the basis of the summary of prior individual interviews between the Director and the Secretary of the Board of Directors, such interviews being conducted on the basis of a guide which sets out the principles provided for in the code and the recommendations, the Board considers the avenues of progress that still remain open and, at the end of the discussion that takes place, adopts the improvement measures that it considers appropriate.

The Directors again exercised their complete freedom of judgement in 2014. This freedom of judgement allowed them to participate, in total independence, in the work and collective decisions of the Board, and, where applicable, in conducting preparatory work and making proposals through the Board Committees.

The Board considered that the quality of its meetings has continued to improve, in light of what were considered as avenues of progress following the self-evaluation carried out at the end of 2013, particularly with regard to the strategic challenges faced by the Group which are regularly debated and discussed, in the presence of the senior managers who are members of the Executive Committee.

Once again this year, the strategy was examined in detail in the course of the Board's work with regard to the development of the brands, the countries and the markets on which the Group operates.

In this respect, the day devoted to the strategy of the Consumer Products Division and the presentation on the market in Western Europe, in the presence of a large number of senior managers, were particularly appreciated.

Furthermore, the Board continued with its in-depth analysis of performance, in light in particular of that of competitors, once again within the scope of the strategic orientations validated by the Board.

In 2014, the Board once again appreciated the pace, frequency and format of the information provided to it in connection with business activities in general and the main events in the life of the Group. 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, favours the quality of the debates.

The Directors made new proposals of topics to be included on the agenda for meetings in 2015.

2.2.2.5. 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 best 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 its shareholders, and those of its Committees, whose members are Directors to whom it gives preparatory assignments for its work. The Internal Rules were amended by the Board of Directors on February 10th, 2014 to take into account, in particular, firstly the changes to the AFEP-MEDEF Code in June 2013 and, secondly, the Law on Employment Security of June 14th, 2013. As was the case for previous versions, the Internal Rules are made public in full in this Management Report.

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 BOARD

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 €150,000,000, and all new transactions which are outside the normal course of business, 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 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 rules relating to the holding and use of privileged information, which are set out hereafter in point 3.6.;
- 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 duties.

He 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, the Board has set a rule that 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. RULES GOVERNING INSIDER TRADING

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. The Board complies with the Principles of Stock Market Ethics "*relating to the use and communication of privileged information*" provided for by such code.

Privileged 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, and enabling others 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 privileged 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 enable others to trade in the Company's securities.

3.6.2. Periods of abstention

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

Furthermore, it is prohibited for them, in accordance with the recommendations of the French financial markets supervisory 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 halfyear results;
- a minimum of 15 calendar days before the date of publication of the press release on quarterly financial information.

3.6.3. Insider trading

The Director has been informed of the provisions in force relating to the holding of privileged information and insider trading: Article L. 465-1 of the French Monetary and Financial Code and Articles 621-1 *et seq.* of the General Regulations of the French financial markets supervisory authority (AMF).

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

In accordance with the applicable regulations, the Directors and individuals closely related to them, as defined by decree, 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 €5,000 for the calendar year in progress.

The Directors and individuals closely related to them must submit their report to the AMF by e-mail[1] within five trading days following completion of the transaction.

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

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

3.7. 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 owns at least 1,000 shares in the Company.

The decision as to whether or not all or some of the shares held by the Director should be registered is the responsibility of the Director.

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

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

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 Board Secretary. 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 5 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.

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 FUNCTIONING 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

If the Board sets up any Committees, it will appoint the members of these Committees and determine their duties and responsibilities.

The 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 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 of the Committee.

The Chairman 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, 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 opinion 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 of the Committee whenever he or the Board considers this appropriate.

The agenda of the meetings is set by the Chairman 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 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 and exceptional operations.

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

- the process for preparation of financial information:

  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.

- the efficiency of the Internal Control and risk management systems 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 of Directors 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.

- the statutory audit of the annual and, where applicable, the consolidated accounts by the Statutory Auditors.

  It reviews the audit plan and the programme for work by the Statutory Auditors, 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;

- the Statutory Auditors' independence.

  It makes a recommendation with regard to the Statutory Auditors proposed to the Annual General Meeting for appointment.

This monitoring enables the committee to issue recommendations, if necessary, concerning the improvement of existing procedures 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 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 of the Audit Committee issues guidelines for the committee's work each year, based on his 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, whenever the Chairman or Board considers this appropriate.

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 agenda is sent to the Committee members before the meeting, together with the information which is useful for their debates.

To carry out its mission, 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 mission, 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 missions 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 missions 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 whenever the Chairman 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 missions of the Human Resources and Remuneration Committee, within the context of the work of the Board of Directors, 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, whenever the Chairman or Board considers this appropriate. 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 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 predominantly 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.

2.2.3. Specific terms and conditions of participation by shareholders in the Annual General Meeting

It is to be noted, in accordance with Article 12 of the Company's Articles of Association, that the terms and conditions of participation by the shareholders in Annual General Meetings are those provided for by the regulations in force, and that any shareholder may, if the Board of Directors so decides when calling the Annual General Meeting, participate in the meeting by videoconference or by any telecommunication or remote transmission means including the Internet, under the conditions provided for by the applicable regulations at the time of their use. Where applicable, this decision is communicated in the meeting notice published in the *Bulletin des Annonces Légales et Obligatoires* (BALO), the official French gazette.

It is specified that in 2012, the shareholders updated the Company's Articles of Association in application of the new regulations, aimed at simplifying the participation by shareholders in Annual General Meetings. A reference to the irrevocable nature of proxy forms was thus removed and a reference to the use of communication and electronic signatures was inserted.

2.2.4. Principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the executive officers

The Board of Directors defines the remuneration policy for L'Oréal's executive officers and the objectives pursued.

The Board of Directors decides on the various components which make up the remuneration while paying attention to the need to reach a balance between each of them.

Details of all the remuneration components of the executive officer are set out pages 74 to 86.

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2.3. REMUNERATION OF THE DIRECTORS AND THE EXECUTIVE OFFICERS

2.3.1. *Remuneration of the members of the Board of Directors*

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.

2.3.1.1. RULES FOR ALLOCATION IN RESPECT OF THE 2014 FINANCIAL YEAR

The amount of attendance fees divided between the Directors include a predominantly variable portion depending on the degree of regularity in attending meetings, in accordance with the provisions of the June 2013 AFEP-MEDEF Code. The Board adopted for a full year:

- for participation in Board meetings: a fixed annual sum of €30,000 and an amount of €5,000 for each Board meeting which the Director attends;
- for participation in Committee meetings:
  - Audit Committee: an amount of €25,000 for each Director who is a member. The Audit Committee's remit is indeed particularly exacting and requires a significant commitment,
  - Strategy and Sustainable Development Committee: an amount of €15,000 for each Director who is a member,
  - Human Resources and Remuneration Committee: an amount of €10,000 for each Director who is a member,
  - Appointments and Governance Committee: an amount of €10,000 for each Director who is a member.

These amounts consist of a fixed part of 40% and a variable part of 60%, depending on the degree of regularity in attending Committee meetings. The attendance fees allocated to the Chairman of each of these committees are doubled and also consist of a fixed part of 40% and a variable part of 60%.

2.3.1.2. AMOUNTS PAID IN RESPECT OF THE 2014 FINANCIAL YEAR

A total amount of €1,110,083, which falls within the total overall amount of €1,450,000 voted by the Annual General Meeting in 2014, was distributed to the Directors at the beginning of 2015 in respect of the 2014 financial year, for a total of 6 meetings of the Board of Directors (7 meetings in 2014 including 1 extraordinary meeting for which no fees were paid) and 19 Committee meetings.

The average attendance rate at Board of Directors' meetings in 2014 is 93.5%.

At its meeting on November 28th, 2014, the Board of Directors placed on record the wish expressed by Mr. Jean-Paul Agon 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.

2.3.1.3. ALLOCATION RULES IN RESPECT OF THE 2015 FINANCIAL YEAR

The Board of Directors decided to reapply the methods of allocation of attendance fees adopted for 2014 within the scope of the total amount of €1,450,000 voted by the Annual General Meeting on April 17th, 2014.

Amounts of attendance fees (€)	2014 financial year (total of 6 meetings and 19 Committee meetings)	2013 financial year (total of 5 meetings and 18 Committee meetings)
Mr. Jean-Paul Agon	0	85,000
Mrs. Françoise Bettencourt Meyers	75,000	70,000
Mr. Peter Brabeck-Letmathe	89,000	85,000
Mr. Jean-Pierre Meyers	101,250	115,000
Mrs. Ana-Sofia Amaral*	30,000	-
Mr. Paul Bulcke*	32,500	60,000
Mr. Charles-Henri Filippi	102,333	96,250
Mr. Xavier Fontanet	80,000	70,000
Mrs. Belén Garijo*	50,000	-
Mr. Bernard Kasriel	95,000	90,000
Mrs. Christiane Kuehne	85,000	80,000
Mr. Marc Ladreit de Lacharrière*	10,000	50,000
Mr. Georges Liarokapis*	30,000	-
Mr. Jean-Victor Meyers	78,750	55,000
Mrs. Virginie Morgon	76,250	62,750
Mrs. Annette Roux	50,000	50,000
Mr. Louis Schweitzer	125,000	113,750
TOTAL	**1,110,083**	**1,082,750**

* *Directors whose term of office began or ended during the 2014 financial year*

2.3.2. *Remuneration of the executive officers*

2.3.2.1. PRINCIPLES AND RULES ADOPTED BY THE BOARD OF DIRECTORS TO DETERMINE THE REMUNERATION AND BENEFITS OF ALL KINDS GRANTED TO THE EXECUTIVE OFFICERS

The Board refers to the recommendations of the June 2013 AFEP-MEDEF Code for the determination of the remuneration and benefits granted to the executive officers.

It ensures that the decisions made comply with the principles of comprehensiveness, balance, consistency, transparency and proportionality and take into account market practices.

It makes sure that the components of the remuneration are perfectly consistent with the objectives pursued by the defined policy.

Finally, it is attentive to ensuring that the decision-making procedure with regard to remuneration guarantees the due and proper application of the rules set.

2.3.2.1.1. Remuneration policy and objectives pursued

In accordance with the recommendations of the AFEP-MEDEF Code, the Board of Directors defines the remuneration policy for L'Oréal's executive officers and the objectives pursued by such policy.

COMPETITIVE REMUNERATION

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

The Board of Directors has defined a stable, coherent benchmark consisting of French and international companies which are world leaders in their sector.

They operate on similar markets, being direct competitors of L'Oréal when they are in the cosmetics industries, or on the wider market of usual consumer goods.

PERFORMANCE-RELATED REMUNERATION

The remuneration of the executive officers must be closely linked to performances in order to promote the achievement of short-and long-term objectives.

In fact, the Board of Directors constantly strives to incite the General Management both to maximise performance for each financial year and to ensure the repetition and regularity of performances year after year.

The Board of Directors considers that the remuneration of the executive officers has to consist of a significant variable part with annual and multi-annual periods for performance assessment adapted to each of these objectives.

This assessment takes account of L'Oréal's intrinsic performance, namely its progress year after year and also its relative performance as compared to its market and its competitors.

The quantitative criteria that are used to measure performance must be sufficiently varied in order to measure both long-term value creation, development in sales and the Company's profitability, the Company's cash position and investment capacity. They are re-examined periodically and their respective weight is adjusted in order to be intimately linked with the Company's strategy.

REMUNERATION ALIGNED WITH THE INTERESTS OF SHAREHOLDERS

A significant portion of the remuneration of the executive officers must consist of performance shares with the aim of involving them in the long-term value development of the Company and of the stock market price of its share.

The Board of Directors also wants to promote personal investment in the Company's shares by setting stringent rules for retaining performance shares or shares resulting from the exercise of stock options.

BALANCED REMUNERATION TAKING ACCOUNT OF STAKEHOLDER EXPECTATIONS

The remuneration must favour a measured, sustainable method of development, in line with the Group's commitments with regard to ethics and respectful of the environment in which L'Oréal operates.

It must not lead to taking inappropriate, excessive risks.

In this respect, the annual variable portion of the remuneration remains reasonable in comparison with the fixed portion. The Board of Directors defines the maximum percentage of the fixed portion that may be represented by the variable portion.

The annual variable portion of the remuneration is linked to extra-financial criteria, in particular of an environmental, societal, and human resources nature, which will be assessed year after year with a long-term perspective.

2.3.2.1.2. Remuneration components

The Board of Directors decides on the various components which make up the remuneration while paying attention to the need to reach a balance between each of them.

Each remuneration component corresponds to a clearly defined objective.

FIXED REMUNERATION

It must reflect the responsibilities of the executive officer, his level of experience and his skills.

It has been stable for several years. It serves as a basis to determine the maximum percentage of annual variable remuneration.

ANNUAL VARIABLE REMUNERATION

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.

It is expressed as a percentage of fixed remuneration. This percentage can reach 100% at most of fixed remuneration.

The remuneration is based on precise performance evaluation criteria determined at the beginning of the year by the Board of Directors, based both on operational objectives and on extra-financial and/or qualitative objectives.

The financial criteria which represent 60% of the annual variable remuneration are as follows:

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

The extra-financial criteria represent 40% of the annual variable remuneration. They make it possible to measure performance as compared to the objectives set in respect of Corporate Social and Environmental Responsibility (CSR) and Human Resources. The other criteria used to evaluate the extra-financial performance of the executive officer may be of a qualitative nature such as, for example, addressing specific priorities for the year.

This balance between financial and extra-financial criteria should make it possible to measure, at the end of each financial year, the progress made with regard to the Group's strategic objective of global growth and in light of the sustainability commitments ("Sharing Beauty With All" programme, see chapter 6).

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

AWARD OF PERFORMANCE SHARES (ACAS)

Since 2012, the Board of Directors has awarded performance shares to employees of the Group and 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 valuation creation for the shareholders. In order to do so, the final vesting of the shares is subject to performance conditions in accordance with the authorisation.

Performance condition

The performance criteria concern all the shares awarded 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 biggest direct competitors and partly 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.

In order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period pursuant to the criterion related to sales, L'Oréal's growth must be at least as good as average growth in sales of a panel of L'Oréal's biggest direct competitors. The Board defines a threshold, which is not made public for reasons of confidentiality, below which no share will finally vest pursuant to this criterion.

In order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period pursuant to the criterion related to operating profit, a level of growth defined by the Board not made public for reasons of confidentiality, 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 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.

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

Rules governing the grants made to the executive officers

The value of these grants, estimated 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 exceptional 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 allocated to him at the end of the vesting period in registered form until the termination of his duties.

No free shares may be granted to an executive officer at the time of 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.

ATTENDANCE FEES

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

BENEFITS IN KIND

For the purpose of transparency, it is not in principle planned to supplement the executive officers' fixed remuneration by granting benefits in kind.

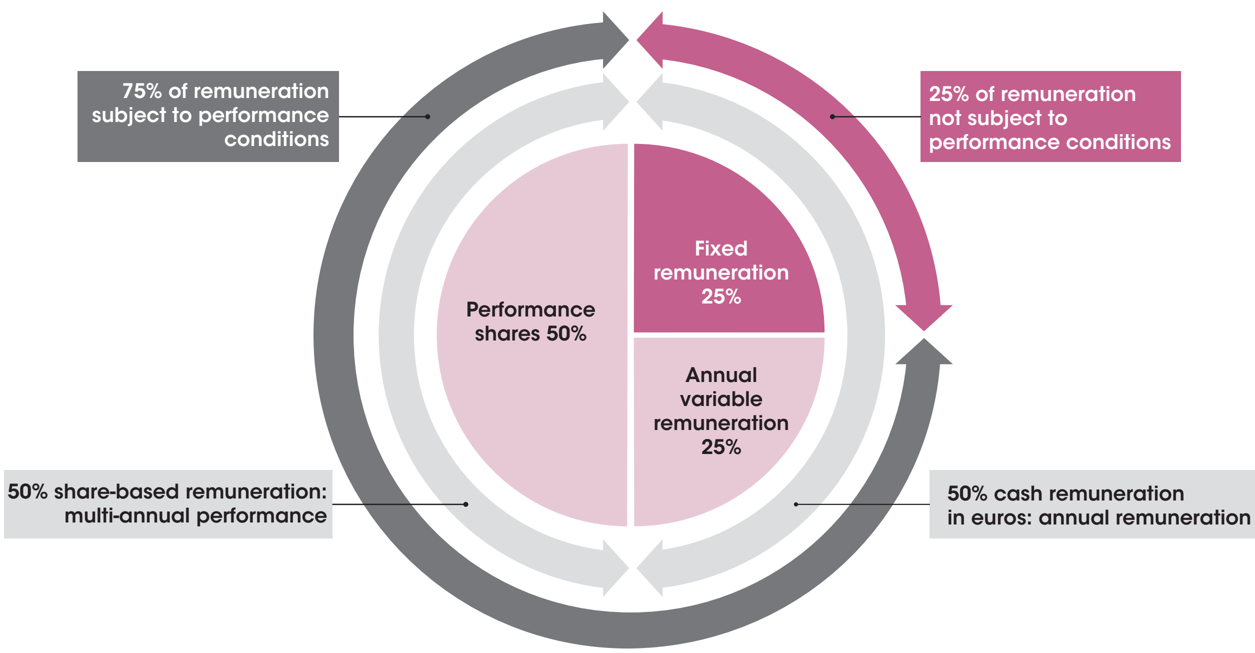
The executive officer benefits from the necessary material resources for performance of his office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, to the exclusion of all private use, are not considered as benefits in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

THE BALANCE BETWEEN THE VARIOUS COMPONENTS OF TOTAL REMUNERATION

The various components of remuneration form a balanced whole with an allocation that is approximately:

- 50/50 between annual remuneration (annual fixed and variable remuneration) and "multi-annual" remuneration (performance shares);
- 50/50 between share-based remuneration and cash remuneration in euros ;
- 75/25 between remuneration subject to performance conditions and remuneration not subject to performance conditions.

/ DIAGRAM SHOWING THE BALANCE BETWEEN THE DIFFERENT COMPONENTS OF REMUNERATION:



TERMINATION INDEMNITIES, PENSION SCHEME, ADDITIONAL SOCIAL PROTECTION

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

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 (point 22) 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 professional context in the L'Oréal Group.

The Board's intention is to use the treatment set out below for any future corporate officer appointed who has over 15 years' length of service in the Group at the time of appointment.

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

As L'Oréal's ongoing policy has been 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 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 bargaining agreement and the Company-level agreements applicable to all L'Oréal's senior managers.

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.

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, the executive officer will only be paid the dismissal 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 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.

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 as described in detail in chapter 6 of this document.

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

Approximately 400 senior managers for the pension scheme that opened on January 1st, 2001 and 120 senior managers for the scheme that closed on December 31st, 2000, either active or retired, are concerned.

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, amounting to 25 years for the scheme which is open and 40 years for the scheme that has closed.

The reference period taken into account for calculation of the benefits is 3 years; the average of the remunerations for the 3 best years out of the last 7 years is used.

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 complete them, all the other pensions such as those resulting, *inter alia,* from the French basic and supplementary pension schemes, it should be noted that the pension annuity will in fact only be calculated on the date when the beneficiary applies for all his pensions.

An evaluation of the level of the pension annuity that might be paid to the executive officer, in accordance with the recommendations of the AFEP-MEDEF, is made for information purposes (section 8.1.1. of this document page 300) with, however, all the necessary reservations due to the characteristics of the schemes described above.

Additional social protection schemes

The executive officer will continue to benefit, due to the fact that he is treated in the same way as a senior manager during the term of his corporate office, from the additional social protection schemes and in particular the employee benefit and healthcare schemes applicable to the Company's employees. These schemes are described in detail in chapter 6 of this document.

All these provisions, which are subject to the regulated agreements and commitments procedure, are approved by the Annual General Meeting deciding on the basis of the Statutory Auditors' Special Report.

2.3.2.1.3. Procedure for setting the remuneration of the executive officer

It 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.

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

THE HUMAN RESOURCES AND REMUNERATION COMMITTEE HAS COMPARATIVE STUDIES CONDUCTED BY AN INDEPENDENT FIRM

These studies enable it to measure:

- the competitiveness of the executive officer's total remuneration in comparison with an international panel of companies that are world leaders;
- the comparative results of L'Oréal and those of the same world leaders 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.

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 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 conducted are regularly presented to the Committee members or at a Board meeting by the Executive Vice-President in charge of Human Resources. Similarly, the Senior Vice-President, Chief Ethics Officer, also regularly explains the policy and the actions conducted in this field. This information contributes to evaluation of the qualitative portion of the annual variable remuneration.

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.

THE MEMBERS OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE MAY ALSO SERVE ON OTHER BOARD COMMITTEES, AND THUS HAVE INFORMATION FROM DIFFERENT SOURCES

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

In this manner, three out of the four members of the Human Resources and Remuneration Committee, including its Chairman, are members of the Strategy and Sustainable Development Committee at which the actions taken with regard to Research and Innovation and the programmes with regard to the Group's social and environmental responsibility are discussed.

Similarly, one of the four members of the Human Resources and Remuneration Committee is a member of the Audit Committee and participates in the closing of the financial statements as well as the examination of the risk prevention policy.

All this information enables the members of the Human Resources and Remuneration Committee to have all the precise data required to make a complete measurement of the various performance criteria for the 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.

2

/ BELOW IS A DIAGRAM SHOWING THE ORGANISATION OF THE WORK OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE CONCERNING THE REMUNERATION OF THE EXECUTIVE OFFICER

February 2014

Recommendations made to the Board of Directors with regard to:

- evaluation and setting of the 2013 variable remuneration after a review of the annual results for 2013 and assessment of the qualitative aspects of management;
- setting of the fixed remuneration for 2014;
- setting of the level of variable remuneration for 2014, the nature and weight of the evaluation criteria for the variable remuneration and the objectives to be met.

Studies with regard to the 2014 ACAs(1) plan

Assessment of the performance levels achieved for the ACAs and SO(2) plans which terminate

April 2014

Recommendations for the 2014 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.

June 2014

Review of the third version of the Business Code of Ethics

November 2014

Analysis of the 2013 Say On Pay vote:

- analysis of the vote;
- discussion on the project for 2014.

Preliminary analysis concerning the draft resolution on free grants of shares proposed to the 2015 AGM and the 2015 ACAs Plan:

- benchmark;
- evaluation of the policy implemented;
- possible changes.

February 2015

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

- link between performance and remuneration;
- balance and structure of the remuneration.

Recommendations made to the Board of Directors with regard to:

- evaluation and setting of the 2014 variable remuneration after a review of the annual results for 2014 and assessment of the extra-financial aspects;
- setting of the fixed remuneration for 2015;
- setting of the level of variable remuneration for 2015, the weight of the financial and extra-financial criteria, the weighting of each of the criteria and the objectives to be met for each of them.

Studies with regard to the 2015 ACAs plan

Assessment of the performance levels achieved for the ACAs and SO plans which terminate

(1) ACAs: Conditionnal Grant Of Shares (performance shares)
(2) SO: Stock options

2.3.2.2. REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICE

2.3.2.2.1 Components of remuneration due or allocated with respect to 2014

FIXED REMUNERATION

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided on February 10th, 2014 to increase the fixed gross annual remuneration of Mr. Jean-Paul Agon, in the context of renewal of his term of office, to €2,200,000, representing an increase of 4.8%.

The amount of the fixed remuneration of Mr. Jean-Paul Agon, which had been unchanged since 2008, previously totalled a gross amount of €2,100,000.

ANNUAL VARIABLE REMUNERATION

Concerning Mr. Jean-Paul Agon's annual variable remuneration for 2014, the objective was 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 11th, 2015, 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 on February 10th, 2014 for allocation of the annual variable remuneration of the Chairman and Chief Executive Officer.

/ FINANCIAL OBJECTIVES SHOWING THE COMPANY'S PERFORMANCE, MEASURED USING THE FOLLOWING INDICATORS, TAKEN INTO ACCOUNT FOR 60% OF THE TOTAL ANNUAL VARIABLE REMUNERATION:

Financial criteria	2014
Comparable sales as compared to the budget	*€22,532 million (budget not disclosed for confidentiality reasons)*
Market share as compared to the main competitors	+1.2 point
Operating profit as compared to 2013	€3,890.7 million, *i.e.* +3.5%
Net earnings per share as compared to 2013	€5.34, *i.e.* +4.1%
Cash flow as compared to 2013	€2,855.9 million, *i.e.* +6.9%

After looking at the results for 2014, the Committee assessed the performance of Mr. Jean-Paul AGON with regard to these different quantitative criteria, in light of the targets for increases set at the beginning of the year. The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria.

/ EXTRA-FINANCIAL OBJECTIVES TAKEN INTO ACCOUNT FOR 40% OF THE TOTAL ANNUAL VARIABLE REMUNERATION

CSR criteria – *"Sharing Beauty with All"* programme:	
***"Sharing Beauty With All"* programme**	*The* "Sharing Beauty With All" *programme was launched in October 2013 by Jean-Paul Agon. It illustrates the Group's CSR strategy and sets ambitious targets to be met by 2020. 2014 is therefore the first year of implementation of the project which consists of 4 pillars, for which the achievements in 2014 are described in detail in chapter 6.*
◆ **"Innovating Sustainably"**	◆ Target by 2020: Environmental or social benefit for 100% of our products. ◆ 2014 results : 67% of new products excluding make-up and fragrances.
◆ **"Producing Sustainably"**	◆ Target by 2020 : Reduction of our environmental footprint in terms of water consumption, CO_2 emissions (production and transportation) and waste reduction. ◆ 2014 results: available on page 213.
◆ **"Living Sustainably"**	◆ Target by 2020 : L'Oréal wants to give all consumers of its products the possibility to choose sustainable consumption. ◆ 2014 results : Commitment to this strategy by 5 pilot brands. Development of a new tool to assess the CSR footprint of a product on the basis of 11 criteria (4 pilot brands).
◆ **"Developing Sustainably"…**	◆ With the employees (*L'Oréal Share & Care* programme): Target by 2020: L'Oréal employees will have access to healthcare, social protection and training, wherever they are in the world. ◆ Access to health coverage which is aligned with the best practice of the country in which they are based: 85% of employees in the world covered by the end of 2014 ◆ Financial protection, particularly in case of death: 70% of employees in the world covered by the end of 2014. ◆ With suppliers: Self-assessment of sustainability policy carried out by 50% of strategic suppliers [1]. ◆ With communities: Access to work for 52,000 people.

Human Resources Criteria	
◆ **Gender Balance**	◆ Development of the balance between men and women, in particular at the level of senior management positions: ◆ in 2014, Executive Committee consisting of 33% of women and 46% of the key positions are occupied by women. ◆ L'Oréal received the 2014 Human Capital Trophy on the theme of "The place of women: a real corporate vision". ◆ Within the framework of the *L'Oréal Share & Care* programme ◆ objective of 100% of female employees benefiting from 14 weeks of paid maternity leave all over the world ◆ 2014 results: 77% of the female employees potentially concerned
◆ **Talent Development**	◆ Pursuit of the policy for hiring experienced and more junior Talents, and Talent development all over the world, in order to favour the emergence of local Talents. ◆ Development of attractive, targeted, digital Employer Communication with a strong presence on social networks (Top 10 of Linkedin corporate pages viewed the most in the world), thereby increasing even further the attractiveness of L'Oréal in the international rankings (No. 12 in Universum's global ranking).
◆ **Access to training**	◆ Global rollout of "My Learning", tool promoting access to training. ◆ 82% of the employees received training in 2014.
Qualitative criteria	
◆ **Handling of the priorities for the year**	◆ Conduct of the strategic transaction with Nestlé ◆ Acquisitions in 2014: Magic Holdings, NYX, Niely Cosmeticos[(2)] which strengthen L'Oréal's positions both geographically and in terms of brand positioning.
◆ **Company's image/reputation/dialogue with stakeholders**	◆ Acceleration of the Digital transition: creation of the Digital Division, within the Executive Committee. ◆ Strong personal involvement in the implementation of the *"Sharing Beauty With All"* and *L'Oréal Share & Care* programmes, internally and vis-à-vis international experts asked to participate in these projects. ◆ L'Oréal Disability Initiatives Trophy: 65 countries taking part with 80 initiatives. ◆ Ethical Commitment: L'Oréal was once again recognised 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. ◆ Quality of external communication.

(1) Strategic suppliers are those who bring significant value added to the Group by contributing, through their importance, their innovations, their strategic alignment and their geographic deployment, to accompanying L'Oréal's strategy on a durable basis.
(2) Acquisition under completion

The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria.

On the basis of the studies and analyses conducted by the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on February 12th, 2015, to allocate €1,760,000 to Mr. Jean-Paul Agon in respect of the annual variable remuneration, representing 80% of the maximum amount of variable remuneration that could be paid to him.

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 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.

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 Annual General Meeting of April 26th, 2013, the Board of Directors decided, at its meeting on April 17th, 2014, taking into account the performances of Mr. Jean-Paul Agon, to grant him 40,000 performance shares (ACAs – Conditional grant 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 17th, 2014 plan is €104.58 for French tax and/or social security residents, which is the case for Mr. Jean-Paul Agon. This fair value was €112.37 on April 26th, 2013.

The estimated fair value according to the IFRS of the 40,000 performance shares (ACAs) granted in 2014 to Mr. Jean-Paul Agon is therefore €4,183,200.

These shares will only finally vest, in full or in part, after satisfaction of the performance conditions described below.

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 2014 of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden; 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 2015.

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's performance must be at least as good as 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 reasons of confidentiality, 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 reasons of confidentiality, 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 1,068,565 performance shares (ACAs) to 1,978 beneficiaries.

The grant of performance shares (ACAs) which Mr. Jean-Paul Agon received in 2014 represents 3.74% of the total number of performance shares (ACAs) granted and 3.65% of their estimated value according to the IFRS.

At the end of the 4-year 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.

Mr. Jean-Paul Agon shall retain 50% of the shares which will be finally granted to 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.

In light of the significant level of the holding obligations imposed on L'Oréal's Chairman and Chief Executive Officer at the time of the exercise of stock options for the subscription of shares and the final vesting of shares, the Board of Directors has decided not to require Mr. Jean-Paul Agon to purchase an additional quantity of shares of the Company when the shares granted become available, as recommended by the AFEP-MEDEF Code.

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 2014.

2.3.2.2.2. Components of remuneration for 2015

FIXED REMUNERATION

The Board of Directors on February 12th, 2015, on the proposal of the Human Resources and Remuneration Committee, 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.

ANNUAL VARIABLE REMUNERATION

Concerning Mr. Jean-Paul Agon's annual variable remuneration, this may represent a maximum of 100% of the fixed remuneration, namely €2,200,000; the financial part is set at 60% of the total amount of the annual variable remuneration (namely a maximum of €1,320,000). The extra-financial portion represents 40% of the total amount (namely a maximum of €880,000).

For 2015, the performance assessment criteria were reapplied for the financial criteria and re-defined by the Board of Directors for part of the extra-financial criteria.

The criteria defined for the extra-financial part are based on measurable indicators adapted to the Group's Human Resources and CSR strategy. The CSR criteria should make it possible, in particular, to measure, year after year, the progress made with regard to the main commitments, "Innovating sustainably", "Producing sustainably", "Consuming sustainably" and "Sharing our growth", made within the framework of the "Sharing Beauty With" All programme to be implemented by 2020.

A "Digital Development" criterion has been added, which highlights the Group's ambition to accelerate its digital transformation.

/ PERFORMANCE CRITERIA FOR 2015:

Financial criteria (60%) reflecting the Company's performance measured on the basis of growth in the following indicators:
◆ Comparable sales as compared to the budget,
◆ Market share as compared to the main competitors,
◆ Operating profit as compared to 2014,
◆ Net earnings per share as compared to 2014,
◆ Cash flow as compared to 2014.

Extra-financial criteria (40%) aligned with the Group's strategy:
CSR criteria: *"Sharing Beauty With All"* programme and Human Resources:
"Innovating sustainably",
"Producing sustainably",
"Living sustainably",
"Developing sustainably".
Human Resources criterion:
Gender parity,
Talent development,
Access to training.
Digital Development criterion
Qualitative criteria:
The company's image/reputation/dialogue with stakeholders,
Addressing the priorities for the year.

AWARD OF PERFORMANCE SHARES

Concerning the award of performance shares in 2015, the Board of Directors reserves the possibility to decide on the implementation of a new plan within the scope of the authorisation requested from the Annual General Meeting on April 22nd, 2015.

The grant which would be decided in favour of Mr. Jean-Paul Agon would comply with the recommendations of the June 2013 AFEP-MEDEF Code of Corporate Governance and particularly that relating to the value of the shares granted which must not differ from L'Oréal's previous practices.

2.3.2.2.3. *Termination indemnities, pension scheme, additional social protection*

These components of remuneration are not linked to performance of the corporate office, but they may be due pursuant to the suspended employment contract.

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 (point 22).

As a reminder, 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 professional context in the L'Oréal Group.

The Board's intention is to use the treatment set out below for Mr. Jean-Paul Agon and, in future, for any new corporate 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 careers 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 within the Group.

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:

- **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 Board of Directors considered that the objective pursued by the AFEP-MEDEF 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.

In this manner, 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 senior managers.

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 employment contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000.

This reference 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, 2015 the fixed remuneration amounts to €1,671,000 and variable remuneration to €1,392,500.

The length of service applied will take 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, Mr. Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities due in the event of voluntary retirement or compulsory retirement on the Company's initiative 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 senior managers, are due in any event pursuant to 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 been terminated on December 31st, 2014 through dismissal, 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 2014 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 6 of this document "Employee benefit and pension schemes and other benefits".

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 twenty years, then 1% per year for the following twenty 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.

For information purposes, it can be estimated that the 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, 2014, after more than 35 years' length of service at L'Oréal, would represent **around 40% of the fixed and variable remuneration he received as an executive officer in 2014.**

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, 2014 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.

- **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.

For information purposes, the amount of the employer's contributions to these schemes totalled €5,892 in 2014.

Like for all the other senior managers of the Group, the lump-sum amount resulting from the employer's contributions under the defined contribution pension scheme will be deducted from the amount of the Pension Cover for the calculation of the life annuity that may be due within the scope of this scheme so that these benefits are not combined.

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 2014 financial year. Pursuant to new Article L. 225-40-1 of the French Commercial Code, this agreement was examined by the Board of Directors on February 12th, 2015, 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. 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. Agon has been Chairman and Chief Executive Officer since March 18th, 2011. His term of office was renewed on April 17th, 2014.
(2) Mr. Agon's employment contract is suspended throughout the entire length of his corporate office.
(3) Pursuant to his employment contract, Mr. 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 chapter 6 of this document. 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 dismissal, except in the case of gross misconduct or gross negligence, the dismissal indemnity would be capped, in light of Mr. 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. Agon were to be released from application of the clause.

/ SUMMARY TABLE OF THE REMUNERATION OF MR. JEAN-PAUL AGON, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

	2014		2013	
In €	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,200, 000	2,100,000	2,100,000	2,100,000
Annual variable remuneration[1]	1,760,000	1,837,500	1,837,500	1,785,000
Exceptional remuneration	-	-	-	-
Attendance fees [2]	0	85,000	85,000	85,000
Benefits in kind	-	-	-	-
TOTAL	**3,960,000**	**4,022,500**	**4,022,500**	**3,970,000**

(1) Variable remuneration due in respect of year N is paid in year N+1.
(2) The attendance fees for year N are paid in year N+1.

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

In €	2014	2013
Remuneration due in respect of the financial year	3,960,000	4,022,500
Value of the performance shares granted during the financial year	4,183,200 (1)	4,494,800 (2)
TOTAL	**8,143,200**	**8,517,300**

(1) Corresponding to 40,000 performance shares x €104.58 (estimated fair value on April 17th, 2014 according to the IFRS applied for the preparation of the consolidated financial statements).

(2) Corresponding to 40,000 performance shares x €112.37 (estimated fair value on April 26th, 2013 according to the IFRS applied for the preparation of the consolidated financial statements).

/ TABLE SHOWING THE STOCK OPTIONS GRANTED TO MR. JEAN-PAUL AGON SINCE HIS APPOINTMENT AS AN EXECUTIVE OFFICER THAT CAN STILL BE EXERCISED AT DECEMBER 31ST, 2014

Date of grant	Number of options granted	Number of options not yet exercised	1st possible date of exercise	Date of expiry	Subscription price (euros)
12.01.2006	500,000	500,000	12.02.2011	12.01.2016	78.06 (S)
11.30.2007	350,000	350,000	12.01.2012	11.30.2017	91.66 (S)
03.25.2009 (1)	-	-	-	-	-
04.27.2010	400,000	400,000	04.28.2015	04.27.2020	80.03 (S)
04.22.2011 (2)	200,000	200,000	04.23.2016	04.22.2021	83.19 (S)

(1) As Mr. Jean-Paul Agon informed the Board of Directors that he did not wish to be granted any subscription option with respect to 2009, he did not receive any subcription option 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 OF THE STOCK OPTIONS TO PURCHASE OR SUBSCRIBE FOR SHARES EXERCISED BY MR. JEAN-PAUL AGON DURING THE 2014 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	None	--
Stock options granted prior to the corporate office (1)		
December 1st, 2004	85,000	55.54
June 29th, 2005	100,000	60.17

(1) These stock options, granted prior to the appointment of Mr. Jean-Paul Agon as an executive officer and expiring 10 years after their grant, 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, 2014 to 145,500 shares.

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

Date of grant	Number of conditional shares granted	Number of conditional shares that have not yet finally vested	Date of final vesting of all or part of the conditional shares	1st possible date of sale of some of them (1)
April 17th, 2012	50,000	50,000	April 18th, 2016	April 18th, 2018
April 26th, 2013	40,000	40,000	April 27th, 2017	April 27th, 2019
April 17th, 2014	40,000	40,000	April 18th, 2018	April 18th, 2020

(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 as registered shares 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.

/ 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 9.4 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 whose tenure exceeded 12 years after its renewal, on April 17th, 2014. The Board of Directors took into account the objectiveness that Mr. Xavier Fontanet has always shown at the time of the debates and decisions of the Board and his ability to express his convictions and make a balanced judgment in all circumstances with regard to the General Management. It considered that his personality, his leadership and his commitment, recognised by the shareholders of L'Oréal, 98.28% of whom approved the renewal of his tenure on April 17th, 2014, were all guarantees of his independent-mindedness. The Board also considered that his experience with regard to governance and the attention he has always paid to the due and proper functioning of the Board in his capacity as Chairman of the Appointments and Governance Committee are essential in light of the recent, significant 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 discussions and help to put its decisions into perspective.
Composition of Committees **Proportion of independent members on the committees (points 16.1, 17.1 and 18.1 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). The Board of Directors considers this composition satisfactory in light of the necessary presence of two Directors from L'Oréal's main shareholders and its choice of maintaining a limited number of members in order to ensure the efficiency of the work of this Committee which requires a certain level of expertise in finance or accounting. The Appointments and Governance Committee currently consists of 50% of independent Directors. Indeed, the Board of Directors decided to change the composition of this Committee by appointing to it an additional independent Director in April 2014. The Human Resources and Remuneration Committee currently consists of 50% of independent Directors. The Board of Directors decided to change the composition of this committee by appointing an additional independent Director in 2015, thus increasing the proportion of independent Directors to 60% (see on page 62 the composition of the Human Resources and Remunerations Committee) These Committees are all chaired by an independent Director. Furthermore, the High Committee on Corporate Governance has specified in its 2014 annual 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*".

Recommendations of the AFEP-MEDEF Code	L'Oréal's practices and justifications
Director representing the employees (point 18.1): "It is advised that an employee Director be a member of this Committee."	Two Directors representing the employees have been present on the Board of Directors since July 2014. It is usual practice for new Directors to serve on Committees after an integration period enabling them to learn how the Board works and about the major issues facing the Company. At the end of this period, the Appointments and Governance Committee made proposals to the Board of Directors with regard to the participation of the new Directors in the committees. At the Board meeting on February 12th, 2015, on the proposal of the Appointments and Governance Committee, it was decided that Mrs. Ana Sofia Amaral and Mr. Georges Liarokapis would join the Human Resources and Remuneration Committee and the Audit Committee respectively after the Annual General Meeting on April 22nd, 2015.
Period for review of the accounts by the Audit Committee (point 16.2.1 of the code): The time periods for review of the accounts by the Audit Committee must be sufficient (at least two days before their review by the Board).	Within the scope of the publication of the annual and interim results, the Audit Committee's meeting relating to the review of the financial statements is held on a date close to that of their presentation to the Board of Directors. But it should be noted that the Board and its Committees are regularly given the appropriate information to carry out their supervisory assignment, in this field in particular. Furthermore, the corresponding documents are systematically sent to them prior to the meetings.
The executive officer's employment contract (point 22 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 corporate 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 careers 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 the Group. 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. (See the AMF's position.*).
Performance shares (point 23.2.4 of the code) In accordance with the terms and conditions set by the Board and made public at the time of the grant thereof, make the performance shares granted to the executive officers conditional on the purchase of a defined quantity of shares when the shares granted become available.	In light of the significant level of the holding obligations imposed on L'Oréal's Chairman and Chief Executive Officer at the time of the exercise of stock options for the subscription of shares and the final vesting of shares, the Board of Directors decided not to require Mr. Agon to purchase an additional quantity of shares of the Company when the shares granted become available, as recommended by the AFEP-MEDEF Code. The number of shares directly held by Mr. Agon was 145,500 at December 31st, 2014 as against 76,500 at December 31st, 2013.

* *Extract from the 2014 AMF Report on corporate governance and executive compensation considering that in this case this requirement was met: "The AMF states that it considers that a company complies with the AFEP-MEDEF Code when it explains the maintenance of a senior executive's employment contract in light of his length of service as an employee in the Company and his personal situation".*

2.4. SUMMARY OF TRADING BY DIRECTORS AND EXECUTIVE OFFICERS IN L'ORÉAL SHARES IN 2014

(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	7	€10,737,900.00
	Shares	Sale	3	€7,224,883.60
Individuals related to Mr. Jean-Paul AGON, Chairman and CEO	Shares	Sale	4	€5,388,241.15

2.5. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES (REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON INTERNAL CONTROL)

At the request of the Chairman and Chief Executive Officer, the Administration and Finance Division compiled the information contained in this report based on the different types of work carried out by departments working on Internal Control and management of the Group's risks and which aims at covering the main operational, legal, industrial, environmental, economic and financial risks described in chapter 1 (page 25).

For the preparation and drafting of this report and the definition of Internal Control, L'Oréal used the Reference Framework recommended by the French financial markets authority (the *Autorité des Marchés Financiers*) on July 22nd, 2010.

2.5.1. *Definition and objectives of Internal Control*

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. However, no absolute guarantee can be given that these objectives will be met.

With the aim of continually improving the system of Internal Control, the Group continued with its efforts in 2014 by notably taking the following actions:

- the corpus of standards and procedures was bolstered with, in particular :
  - the publication of new Fundamentals of Internal Control information sheets on:
    - the "prevention of payment fraud",
    - "retail",
    - the "fight against money laundering and terrorist financing",
  - renovation of the Group's Code of Ethics,
  - distribution of an "Employee Guide to gifts/invitations" which adds to the system to fight against corruption;

- the network of Internal Control managers was reinforced worldwide;
  - a specific training course was developed,
  - coordination of the community of Internal Controllers is based, in particular, on a dedicated social network;
- the Group's risk mapping analysis was updated in 2014 and presented to the members of the Executive Committee and the Audit Committee.

2.5.2. *Components of the system*

2.5.2.1. THE INTERNAL CONTROL 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 have guided its development and contributed 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 the behaviour and actions by providing simple rules and 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. Six 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 Executive Committee to whom they report) are responsible for ensuring the respect of the Code of Ethical in their Country.

Respect of these Ethical Principles is integrated in the 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 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. Employees have a dedicated intranet site which provides additional information on ethics. Employee awareness is raised in particular during an annual Ethics Day. The central event in 2014 was a live webchat with the Chairman and Chief Executive Officer, which enabled 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. More than 50% of the employees took part in this dialogue and over 4,000 questions were asked worldwide. Furthermore, employees are now able to refer matters to the Chief Ethics Officer through the L'Oréal Ethics Open Talk site which offers a secure reporting mechanism.

The Ethics Correspondents' role is to assist the Country Managers in implementing the ethics programme and enable employees in 64 countries to have a local point of contact. The Ethics Correspondents benefit every year from specific coordinating 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. As of December 31st, 2014, more than 43,000 employees had completed this course. There are also six specific modules designed in particular for 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 Chief Ethics Officer including via a secure website. All allegations are examined in detail and appropriate measures are taken, where applicable.

Finally, a practical tool for ethics risk assessment and analysis has been made available to the Group's entities. An annual reporting system makes it possible to monitor implementation of the ethics programme.

The Chief Ethics Officer regularly visits the Group's entities all over the world (head offices, factories, distribution centres and research centres) to meet employees at all levels of the Company and visit the various sites. In 2014, within this framework, he visited 21 countries and was in contact with over 7,000 employees.

The inclusion of ethical questions in Internal Audit missions completes the programme.

Responsibilities with regard to Internal Control

The Group is organised into worldwide divisions and geographical zones, which are fully responsible, with the management of each country, business unit 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 strengthen. The powers of the legal representatives of Group companies and of their delegates 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 diffuse best practices of Internal Control.

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. Management Development Centres offer technical training and personal development programmes, including helping 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

Strategic choices in terms of systems are determined by the Group Information Systems Division, which is responsible in particular for implementation of a single ERP (Enterprise Resource Planning), management software application used by the great 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" which were updated in 2013.

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.

2.5.2.2. COMMUNICATION OF INFORMATION INSIDE THE GROUP

Sharing of information

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.

The other means of internal communication

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. A newsletter gives managers regular news and passes on strong messages with regard to Internal Control. Finally, through the Internal Control Awards, which were organised for the first time in 2012, good practices are identified and shared between the Group's subsidiaries.

2.5.2.3. RISK MANAGEMENT

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 the resources to minimise the impact of the 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. These risks have been identified in chapter 1 on page 25, and the systems put in place to better anticipate and handle risks are mentioned. 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 routine and 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.

Risk mapping

The risk mapping concerning all L'Oréal's activities was updated in 2014. 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, created in 2012, to lead this process which makes it possible to prepare the appropriate action plans. The main risks to which the Group is exposed are described in chapter 1 on pages 25 *et seq.*

2.5.2.4. CONTROL ACTIVITIES

The measures recommended by the Group

In each area of activity, the recommended measures with regard to the key control points are determined by the Functional Divisions.

- In the area of Human Resources, the requirements related to personnel management specify 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.
- In the area of purchasing, the Purchasing Code of Ethics was updated in 2011: "The way we buy" is the practical and ethical guide providing guidelines for each employee in relationships with the Group's suppliers. 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 safety and quality, procedures relating to the protection of persons, property and data set out the principles for covering industrial and logistical risks relating to organisation and safety. Production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the factories are ISO 9001-certified as far as their production is concerned, ISO 14001-certified for their environmental policy and OHSAS 18001-certified (or equivalent certification) for their safety policy.
- In the area of the Supply Chain, the main assignments consist in defining and applying the sales planning, customer demand management, development processes and control of customer service, 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.
- In the field of Information Systems, the Group 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 Conduct for the correct use of social media.
- In the Legal area, 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. A training tool and practical guides concerning the issues related to competition law and participation in professional associations define the principles to be complied with and provide answers to any questions which employees may have in this area.
- In the Insurance field, the Group's choice is to only have recourse to first-rate insurers. The Insurance Charter issues a reminder that the Group mainly uses integrated worldwide programmes to cover all its entities notably against third party liability, damage to property and operating losses resulting from an insured event. With regard to insurance of its customer risk, coverage is put in place inasmuch as this is permitted by local conditions. The results of audits performed by insurance companies in factories and distribution centres are used to improve the Internal Control of these entities.
- In the area of finance and treasury, the Financial Charter 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. The standard with regard to bank powers defines the process for designating the persons empowered to sign to make payments and the rules for implementation of those powers. In addition, the Stock Market Code of Ethics, described (page 55) in the Chairman's Report concerning the way in which the Board's work is prepared and organised, is applicable to all employees.

- **In the area of consolidation and financial control,** the control activities are described below in the section on "Monitoring process for the organisation of the accounting and finance functions".

2.5.2.5. ONGOING SUPERVISION OF THE INTERNAL CONTROL

The supervision carried out by the Functional Divisions

Through their network of specialists or via regular audits, the Functional Divisions review the functioning of their respective areas of responsibility: in this way, the Purchasing Divisions are responsible for the oversight with regard to suppliers and their working conditions, the Environment, Health & Safety Division is responsible for checks related to site safety and environmental compliance while the Quality Department measures performance and the progress made by industrial entities with regard to the quality of production and finally the Information Systems Division assesses compliance with the Security Policy. Indicators and reporting procedures enable the regular monitoring of the local activities of most of these Functional Divisions.

The role of the Internal Audit Department

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, with their agreement, are included in 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 45 assignments in 2014. These audits concerned 29 commercial entities representing approximately 27% of the Group's sales and 7 factories; the audited factories represent 17% of worldwide production in units. Furthermore, 9 other assignments were carried out with regard to specific topics. Internal Audit assignments systematically lead to the preparation of a report comprising a presentation of the findings and related risks and making recommendations regarding the 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 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.

2.5.3. The players

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

- the General Management and its Management Committee (Executive Committee);
- the Audit Committee;
- the Functional Departments and Divisions, including the Risk Management and Compliance Department, the Internal Control Department and the Internal Audit Department .

GENERAL MANAGEMENT AND THE 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 ensure the correct functioning of procedures enabling the level of Internal Control required by General Management to be attained.

THE AUDIT COMMITTEE

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

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

THE FUNCTIONAL DIVISIONS

The Functional Divisions each define guidance and procedures for their own areas, which they communicate to the different 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. In order to do so, it sets the operating rules that apply to all entities in these areas 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, 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.

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

The Internal Control Department leads the Internal Control Committee which consists of managers from the Administration and Finance Division and the Risk Management and Compliance, Economic Affairs, Internal Audit and Organisation and Information Systems Departments. 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 and the revamping of the "Fundamentals of Internal Control" are some examples of this work.

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 2014, the Internal Control Department can rely on a network of nearly 100 local managers present in the Group's different entities.

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 and 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.

In addition, the Internal Control Department ensures that an assessment of the Internal Control system is carried out and also monitors compliance with regulatory Internal Control obligations on an ongoing basis.

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.

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.

THE OTHER FUNCTIONAL DIVISIONS

The following Divisions are also involved in Internal Control:

- the Human Resources Division ;
- the Research and Innovation Division which is responsible in particular for cosmetovigilance and the quality of the formulas used in product composition;
- the Communications, Sustainable Development and Public Affairs Division which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied;
- the Security Division which has defined a security policy for people, travel, property, information and data confidentiality.

2.5.4. Internal Control 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.

2.5.4.1. 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 process of accounts closings and actions of financial communication.

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 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.

2.5.4.2. 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, 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 presence of a financial controller at each level of the organisation contributes to the strengthening of the Internal Control system. This network of subsidiary financial controllers is co-ordinated 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 standard

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.

Since the major initiative undertaken between 2008 and 2010 involving a review and improvement of the management standards and the related Internal Control procedures, these 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 Information Systems Division.

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 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 French ordinance of December 2008 on the conditions of application of the 8th European Directive 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.

2.5.4.3. 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. For the preparation of the consolidated financial statements, validation procedures apply to 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 activity of the Group and 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, at a minimum, subjected 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 in which the Group operates 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 closing.

2.6. STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

(Year ended December 31st, 2014)

This is a free translation into English of the Statutory Auditors' Report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

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 31st, 2014.

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 17th, 2015

The Statutory Auditors

PricewaterhouseCoopers Audi	Deloitte & Associés
Gérard Morin	David Dupont-Noel

2.7. 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, 2014)

This is a free translation into English of the Statutory Auditors' special report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and the report does not apply to those related party agreements described in IAS 24 or other equivalent accounting standards.

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 authorized during the year to be approved by the Annual General Meeting.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE ANNUAL GENERAL MEETING

Agreements and commitments approved in prior years

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, 2015, the fixed remuneration amounts to €1,671,000 and the variable remuneration to €1,392,500.
  - 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.

Agreements and commitments approved during the last year

We have been informed about the implementation, during the last year, of the following agreements, previously approved by the Annual General Meeting of April 17, 2014 as indicated in the special reports of the Statutory Auditors dated February 21, 2014 and March 21, 2014.

Agreements with Nestlé, shareholder of more than 10% of L'Oréal and sharing common members of the Boards of Directors

- Buy-back agreement for the purchase by L'Oréal of 48.5 million of its own shares from Nestlé, representing 8% of its share capital for a total amount of €6,037,280,000.
- Selling agreement for the disposal by L'Oréal to Nestlé of its 50% investment in the Galderma group subsidiaries for an amount of €2,632,800,00.

This buy-back and this disposal have been completed on July 8th, 2014.

Neuilly-sur-Seine, February 17th, 2015

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

3

KEY FIGURES AND COMMENTS ON THE 2014 FINANCIAL YEAR

* *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.*

In 2014, in a volatile economic context and a less dynamic market, the Group posted growth in all its Divisions and regions of the world.

L'Oréal Luxe and Active Cosmetics achieved very good growth and outperformed their market significantly. The Professional Products Division continued to improve. Meanwhile, in a slowing market, the Consumer Products Division saw a temporary sag in its growth, particularly in the United States.

2014 was also a year of transformation for L'Oréal, in particular through the acceleration of our digital transformation and strategic acquisitions such as Magic, NYX, Decléor, Carita and Niely(1), which complement our brand portfolio in key categories and regions of the world.

Despite adverse currency effects, operating margin increased once again in 2014 highlighting the strength of the business model of L'Oréal. Following the capital gain realised upon the disposal of Galderma as part of the strategic transaction with Nestlé, net profit has grown strongly.

3.1. THE GROUP'S BUSINESS ACTIVITIES IN 2014*

3.1.1. *Overview of the results for 2014*

2014 sales: €22.53 billion (+1.8% based on reported figures, +3.7% like-for-like)

Operating profit: €3,891 billion, representing 17.3% of sales (+3.5%)

Net profit after non-controlling interests: €4.91 billion (+66%)

Net earnings per share (2): €5.34

Dividend: 2.70(3) euros per share (+8 %), increased by 10% to 2.97 euros, for registered shareholders

3.1.2. *Consolidated net sales*

Like-for-like, *i.e.* based on a comparable structure and constant exchange rates, the sales trend of the L'Oréal Group was +3.7%. **The net impact of changes in consolidation** amounted to +0.4%. **Currency fluctuations** had a negative impact of -2.3%. **Growth at constant exchange rates** was +4.1%. **Based on reported figures,** the Group's sales, at December 31st, 2014, amounted to €22.53 billion, an increase of +1.8%.

(1) *Acquisition under completion.*
(2) *Diluted net earnings per share based on net profit excluding non-recurring items attributable to owners of the company from continuing operations.*
(3) *Proposed to the AGM on April 22nd, 2015.*
* *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.*

/ SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

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.

				2013/2014 progression	
€ million	2012	2013	**2014**	Like-for-like	Reported figures
BY OPERATIONAL DIVISION					
Professional Products	3,002.6	2,973.8	3,032.4	2.6%	2.0%
Consumer Products	10,713.2	10,873.2	10,767.5	1.6%	-1.0%
L'Oréal Luxe	5,568.1	5,865.2	6,197.9	7.1%	5.7%
Active Cosmetics	1,499.2	1,576.3	1,660.4	8.7%	5.3%
Cosmetics Total	**20,783.1**	**21,288.5**	**21,658.2**	**3.8%**	**1.7%**
BY GEOGRAPHICAL ZONE					
Western Europe	7,382.6	7,467.6	7,697.7	2.4%	3.1%
North America	5,210.7	5,356.1	5,389.4	1.1%	0.6%
New Markets. of which:	8,189.8	8,464.7	8,571.1	6.9%	1.3%
◆ Asia. Pacific	4,287.1	4,382.2	4,563.6	5.3%	4.1%
◆ Latin America	1,816.9	1,886.2	1,853.7	10.0%	-1.7%
◆ Eastern Europe (1)	1,622.4	1,691.3	1,585.4	6.0%	-6.3%
◆ Africa, Middle-East (1)	463.4	505.1	568.4	13.5%	12.5%
Cosmetics Total	**20,783.1**	**21,288.5**	**21,658.2**	**3.8%**	**1.7%**
◆ The Body Shop	855.3	835.8	873. 8	1.6%	4.6%
GROUP TOTAL	**21,638.4**	**22,124.2**	**22,532.0**	**3.7%**	**1.8%**

(1) As of July 1st, 2013, Turkey and Israel, which were previously included in the Africa, Middle East zone, were transferred to the Eastern Europe zone. All figures for earlier periods have been restated to allow for this change.

PROFESSIONAL PRODUCTS

The Professional Products Division recorded sales growth of +2.6% like-for-like and +2.0% based on reported figures in a market that remains difficult. The Division is strengthening its positions in Western Europe and continues to develop in the New Markets.

- Haircare, the number 1 contributor to sales growth, is continuing to expand, boosted by the success of *Densifique* and *Discipline* at *Kérastase, Absolut Repair Lipidium* and *Serioxyl* at *L'Oréal Professionnel,* and *Biolage* and *Oil Wonders* at *Matrix.* Hair colour – a category in which all the brands are growing – benefits from the dynamism of *Majirel* and *Inoa* at *L'Oréal Professionnel, Color Graphics* at *Matrix* and *Chromatics* at *Redken.* Styling has returned to a good growth level, thanks to *L'Oréal Professionnel* and *Redken* which have renewed their product line-ups.
- In geographic terms, the United States and Western Europe have confirmed their return to growth. The Division is growing across all the New Markets excluding Japan. The United States, Brazil, India and Russia are the largest contributors to growth.

CONSUMER PRODUCTS

In a market that slowed in 2014, the Consumer Products Division posted +1.6% like-for-like and -1.0% based on reported figures, with an improvement at the end of the year.

- The Division's three major global brands are progressing. The two 2014 acquisitions, *NYX* and *Magic,* are growing strongly.

  L'Oréal Paris is proving very dynamic in haircare with its *Extraordinary Oils* range, and is increasing make-up sales with the launch of its new "Makeup Designer" platform and *Miss Manga* mascara. *Ultra Doux* by *Garnier* is continuing to expand thanks to its *Honey Treasures* range and the brand's successful United Kingdom launch. In Southern Asia, *Garnier* is maintaining its facial skincare momentum with the success of *Sakura White* and *Garnier Men. Maybelline* is rolling out its eyebrow make-up innovations worldwide, and is now growing again in the United States with the launch of the *Nudes Palette.*
- In a flat European market, the Division is increasing its sales and strengthening its number 1 position. In North America, the Consumer Products Division gained market share in haircare and make-up. In the New Markets, the Division is outperforming the overall market trend, and winning market share in Eastern Europe and the Africa, Middle East Zone.

L'ORÉAL LUXE

Following accelerating sales in the final quarter, L'Oréal Luxe recorded growth of +7.1% like-for-like and +5.7% based on reported figures. The Division is continuing to clearly outperform the selective market. The make-up and women's fragrance categories are particularly dynamic.

- *Yves Saint Laurent* is continuing to grow with a double-digit increase in 2014, thanks to the women's fragrance *Black Opium,* make-up and Asia. *Giorgio Armani* also had a very good year with its successful fragrance *Sì* and its make-up products. *Lancôme* delivered a solid performance in fragrances with *La vie est belle,* the number 1 selling fragrance in France, and number 2 in Europe. The brand is currently revamping its point-of-sales identity, advertising campaigns and ambassadors. The skincare cream

Visionnaire and *Grandiôse* mascara, winner of the Prix d'Excellence Marie Claire, are very successful. The alternative lifestyle brands *Urban Decay, Kiehl's, Clarisonic* and *Shu Uemura* are also boosting the Division's growth. Amongst the designer fragrance brands, *Midnight Romance* by *Ralph Lauren* and *Bonbon,* the new women's perfume from *Viktor&Rolf,* are proving to be clear winners.

- In 2014, L'Oréal Luxe outperformed the market in all its main Zones, particularly in Europe, China, the Middle East and the United States. E-commerce sales are growing very strongly.

ACTIVE COSMETICS

In 2014, the Division accelerated its growth, with sales advancing by +8.7% like-for-like and +5.3% based on reported figures, outperforming a healthy market. Like-for-like growth rates were higher than in 2013 on every continent.

- The *Vichy* brand is continuing to expand particularly in skincare, underpinned by the growth of its major franchises, particularly *Liftactiv Supreme* and *Neovadiol* in the anti-ageing segment. With another year of double-digit growth, La Roche-Posay is maintaining its growth in all regions and across its product range, with outstanding performances from its two pillar ranges, *Anthelios* and *Effaclar. SkinCeuticals* is confirming its success both in its original market, the United States, and in the new geographies where it is expanding.
- All the regions are contributing to the Division's dynamism. The significant scores in France, the world's largest dermocosmetics market, Brazil, where the Division is contributing to the development of the market, and China are particularly worth noting.

MULTI-DIVISION SUMMARY BY GEOGRAPHIC ZONE

Western Europe

In a flat market, and a highly competitive environment between mass-market retailers, growth came out at +2.4% like-for-like and +3.1% based on reported figures. This increase is particularly encouraging because L'Oréal accelerated in the fourth quarter, and is growing both in Northern and Southern Europe, particularly in Germany, the United Kingdom and Spain. All Divisions are contributing to the sales increase, with a special mention for L'Oréal Luxe and Active Cosmetics.

North America

After a strong momentum over the last few years, growth in 2014 was more moderate because of the Consumer Products Division. Sales increased by +1.1% like-for-like and +0.6% based on reported figures. The Professional Products Division, Active Cosmetics and L'Oréal Luxe are continuing to develop, thanks, among others, to the American brands *Redken, SkinCeuticals, Urban Decay* and *Kiehl's*. In a market that improved in the second half, the Consumer Products Division increased its sales, in particular from the contribution of *L'Oréal Paris*. The recent acquisitions of the very fast-growing brands *NYX* and *Carol's Daughter* complement the Consumer Products Division, and boost its product offering.

New Markets

- **Asia, Pacific:** L'Oréal recorded annual growth of +5.3% like-for-like and +4.1% based on reported figures. Excluding Japan, like-for-like growth came out at +5.8%. The Group is strengthening its positions further with very good performances from Kiehl's, Yves Saint Laurent, Giorgio Armani, La Roche-Posay and Clarisonic. By country, India, Indonesia, Hong Kong and Australia are all recording high growth. Magic, acquired in China in the first half, is growing solidly in the beauty mask market.
- **Latin America:** L'Oréal recorded +10.0% like-for-like and -1.7% based on reported figures. The Professional Products Division, Active Cosmetics and L'Oréal Luxe recorded double-digit growth, underpinned by their major brands *L'Oréal Professionnel, Lancôme, Giorgio Armani, La Roche-Posay* and *Vichy*. Consumer Products Division growth is being driven by *L'Oréal Paris* with its *Elsève* brand and *Maybelline,* thanks in particular to the kiosks initiative in Brazil.
- **Eastern Europe:** The Zone recorded +6.0% like-for-like and -6.3% based on reported figures, and is growing significantly faster than the market, thanks to the good momentum of L'Oréal Luxe and the Professional Products Division. The Consumer Products Division is winning total Zone market share with a very good performance in hair colour, driven by the launch of *Prodigy* by *L'Oréal Paris,* and in deodorants thanks to *Néo by Garnier*. Active Cosmetics is outperforming the market in Russia and Turkey.
- **Africa, Middle East:** Sales rose by +13.5% like-for-like and +12.5% based on reported figures. All Divisions recorded double-digit growth and gained market share. South Africa, the Gulf states, as well as growth-relay countries like Egypt, Saudi Arabia and Pakistan posted strong performance. *L'Oréal Paris, Maybelline, Lancôme, Giorgio Armani* and *Vichy* contributed to the Zone's good score, along with the more recently launched brands *Kiehl's* and *SkinCeuticals*.

THE BODY SHOP

The Body Shop had a satisfactory end to the year in all its categories.

The brand recorded growth of +1.6% like-for-like and +4.6% based on reported figures. The strategic priority given to skincare is continuing to pay off, thanks in particular to the fourth quarter launch of *Drops of Youth Eye Concentrate*.

The Americas' region that now includes the addition of the Emporio Body Store stores in Brazil, drove the highest growth.

3.1.3. Results

/ OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

Figures for 2012 and 2013 have been restated to reflect the impacts of IFRS 5 concerning discontinued operations along with the impact of applying IFRS 11.

	2012		2013		2014	
	€ millions	% 2012 sales	€ millions	% 2013 sales	**€ millions**	**% 2014 sales**
Sales	**21,638.4**	**100%**	**22,124.2**	**100%**	**22,532.0**	**100%**
Cost of sales	-6,388.3	29.5%	-6,379.4	28.8%	-6,500.7	28.9%
Gross profit	**15,250.1**	**70.5%**	**15,744.8**	**71.2%**	**16,031.3**	**71.1%**
Research and development expenses	-680.4	3.1%	-748.3	3.4%	-760.6	3.4%
Advertising and promotion expenses	-6,531.6	30.2%	-6,621.7	29.9%	-6,558.9	29.1%
Selling. general and administrative expenses	-4,479.7	20.7%	-4,614.4	20.9%	-4,821.1	21.4%
OPERATING PROFIT	**3,558.4**	**16.4%**	**3,760.4**	**17.0%**	**3,890.7**	**17.3%**

3

Gross profit, at €16,031 million, came out at 71.1% of sales, compared with 71.2% in 2013, that is a decrease of 10 basis points. Foreign exchange effects had a negative impact of 30 basis points: the other factors represented a positive impact of 20 basis points.

Research and Development expenses remained stable as a percentage of sales at 3.4%.

Advertising and promotion expenses, as announced one year ago, came out as a lower percentage of sales compared with 2013. At 29.1% of sales, that is a decrease of 80 basis points.

Selling, general and administrative expenses, at 21.4% of sales, have come out at a higher level, by 50 basis points compared with 2013, as they did in the first half of 2014.

Overall, the **operating profit,** at €3,890 million, has grown by 3.5% and amounts to 17.3% of sales. At constant exchange rates, operating profit growth would have been +5.5%.

/ OPERATING PROFIT BY OPERATIONAL DIVISION

Figures for 2012 and 2013 have been restated to reflect the impacts of IFRS 5 concerning discontinued operations along with the impact of applying IFRS 11.

	2012		2013		2014	
	€ millions	% 2012 sales	€ millions	% 2013 sales	**€ millions**	**% 2014 sales**
Professional Products	615	20.5%	609	20.5%	609	20.1%
Consumer Products	2,051	19.1%	2,167	19.9%	2,186	20.3%
L'Oréal Luxe	1,077	19.3%	1,174	20.0%	1,269	20.5%
Active Cosmetics	315	21%	343	21.7%	376	22.7%
Cosmetics Divisions total	**4,058**	**19.5%**	**4,293**	**20.2%**	**4,440**	**20.5%**
Non-allocated (1)	-577	-2.8%	-605	-2.8%	-615	-2.8%
The Body Shop	77	9.1%	72	8.6%	65	7.5%
GROUP	**3,558**	**16.4%**	**3,760**	**17.0%**	**3,890**	**17.3%**

(1) Non-allocated = Central Group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. As a % of cosmetics sales.

The profitability of the Professional Products Division at 20.1% is down by 40 basis points, due mainly to the dilutive effect of the consolidation of Decléor and Carita. The profitability of the Consumer Products Division once again improved very significantly at 20.3%, up by 40 basis points. The profitability of L'Oréal Luxe grew by 50 basis points, at 20.5% in 2014. At Active Cosmetics, there was a further increase in profitability at 22.7%. That is a 100 basis point improvement. The profitability of The Body Shop weakened in 2014, to 7.5%.

/ PROFITABILITY BY GEOGRAPHIC ZONE

Figures for 2012 and 2013 have been restated to reflect the impacts of IFRS 5 concerning discontinued operations along with the impact of applying IFRS 11.

	2012		2013		2014	
Operating profit	€ millions	% 2012 sales	€ millions	% 2013 sales	**€ millions**	**% 2014 sales**
Western Europe	1,580	21.4%	1,662	22.3%	1,746	22.7%
North America	960	18.4%	1,003	18.7%	1,010	18.7%
New Markets	1,518	18.5%	1,628	19.2%	1,684	19.6%
COSMETICS ZONES TOTAL (1)	**4,058**	**19.5%**	**4,293**	**20.2%**	**4,440**	**20.5%**

(1) Before non-allocated.

Profitability in Western Europe improved by 40 basis points to reach 22.7%. In North America, profitability remains stable at 18.7%. And in the New Markets, profitability again increased this year, by 40 basis points, to reach 19.6%.

/ NET PROFIT FROM CONTINUING OPERATIONS

Figures for 2012 and 2013 have been restated to reflect the impacts of IFRS 5 concerning discontinued operations along with the impact of applying IFRS 11.

€ millions	2012	2013	2014
Operating profit	**3,558.4**	**3,760.4**	**3,890.7**
Finance Costs excluding dividends received	+1.7	-31.4	-24.0
Sanofi dividends	313.4	327.5	331.0
Pre-tax profit excluding non-recurring items	**3,873.5**	**4,056.5**	**4,197.7**
Income tax excluding non-recurring items	-1,004.8	-1,018.0	-1,069.5
Non-controlling interests	-2.7	-3.2	+0.1
Net profit from equity affiliates excluding non-recurring items	-4.58	-2.98	-2.99
Net profit excluding non-recurring items attributable to owners of the company[(1)]	**2,861.5**	**3,032.4**	**3,125.3**
EPS [(2)] *(euros)*	**4.73**	**4.99**	**5.34**
Diluted average number of shares	**605,305,458**	**608,001,407**	**585,238,674**

(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. See note 10 of the Consolidated Financial Statements on pages 41 et seq.
(2) Diluted net earnings per share excluding non-recurring items after non-controlling interests.

Finance expenses amounted to €24 million.

Sanofi dividends amounted to €331 million.

Income tax excluding non-recurring items amounted to €1,069 million. This represents a tax rate of 25.5%, slightly higher than that of 2013 which came out at 25.1%.

Net profit excluding non-recurring items amounted to €3,125 million.

Net Earnings per Share, at €5.34, is up by 7.1%, compared to Net Earnings per Share for 2013 restated from discontinued operations.

/ NET PROFIT AFTER NON-CONTROLLING INTERESTS: €4.910 MILLION

€ millions	2012	2013	2014	Évolution 2013/2014
Net profit excluding non-recurring items attributable to owners of the company	2,861.5	3,032.4	3,125.3	
Non-recurring items net of tax	-101.8	-154.1	-357.7	
Net profit from non continuing operations	+108.1	+79.9	+2,142.7	
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	**2,867.7**	**2,958.2**	**4,910.2**	**+66%**

Non-recurring items amounted to a charge net of tax of €357 million, due in part to the decision by the French Competition Authority.

After the capital gain on the disposal of Galderma, €2.1 billion, **net profit** came out at €4,910 million , which represents a large increase of 66%.

Finally, after payment of the dividend, acquisitions, and the purchase of shares from Nestlé, the **net debt** came out, at December 31st, 2014, at €671 million.

With a shareholders' equity amounting to €20 billion, the balance sheet remains particularly solid, after the purchase of 8% of the capital from Nestlé for €6 billion.

CASH FLOW STATEMENT, BALANCE SHEET AND NET FINANCIAL SITUATION

Gross cash flow amounted to €3,808 million.

The **working capital requirement** in 2014 was reduced by €55 million.

Investments, amounted to €1,008 million, representing 4.5% of sales, slightly less than in 2013, when it represented 4.6% of sales.

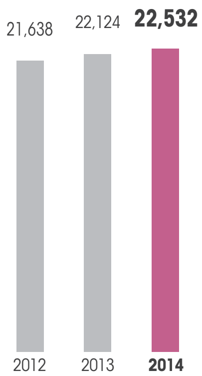
PROPOSED DIVIDEND AT THE ANNUAL GENERAL MEETING OF APRIL 22ND, 2015

The Board of Directors has decided to propose that the Shareholders' Annual General Meeting of April 22nd, 2015 should approve a dividend of €2.70 per share, an increase of 8% compared with the dividend paid in 2014. The dividend will be paid on May 7th, 2015 (ex-dividend date May 5th, 2015 at 0:00 a.m., Paris time).

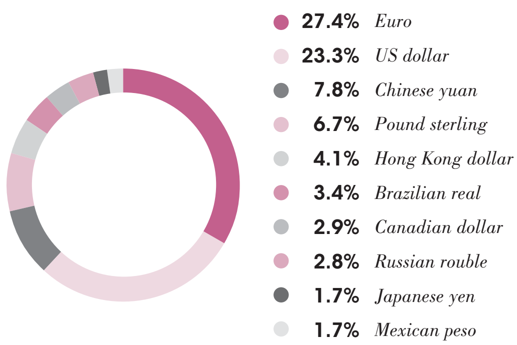
3.2. FINANCIAL HIGHLIGHTS

3.2.1. 2014: growing of sales and profits from continuing operations

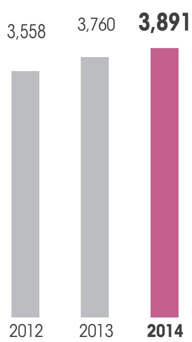
/ CONSOLIDATED SALES
(€ million)



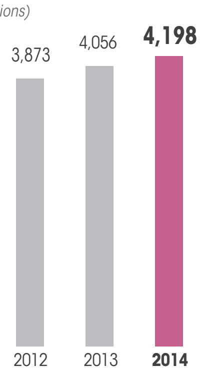
/ 2014 CONSOLIDATED SALES BY CURRENCY (1)
(as %)



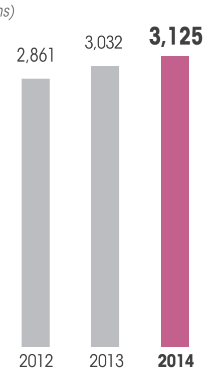
/ OPERATION PROFIT
(€ millions)



/ PRE-TAX PROFIT EXCLUDING NON RECURRING ITEMS FROM CONTINUING OPERATIONS(2)
(€ millions)



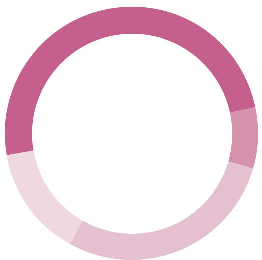
/ NET PROFIT EXCLUDING NON-RECURRING ITEMS FROM CONTINUING OPERATIONS(2)
(€ millions)



(1) *Breakdown of consolidated sales in the main currencies in 2014, i.e. 81.8% of consolidated sales.*
(2) *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 incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 11 of the Consolidated Financial Statement on pages 141 et seq.*

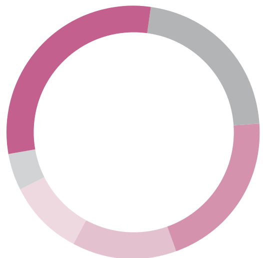
/ 2013 CONSOLIDATED SALES OF THE COSMETICS DIVISIONS

BY DIVISION



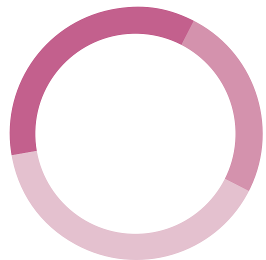
- **49.7%** *Consumer Products*
- **7.7%** *Active Cosmetics*
- **28.6%** *L'Oréal Luxe*
- **14.0%** *Professional Products*

BY BUSINESS SEGMENT



- **30.0%** *Skincare and Sun Protection*
- **21.9%** *Make-up*
- **20.5%** *Haircare*
- **13.2%** *Hair Colourants*
- **9.8%** *Perfumes*
- **4.6%** *Other*(1)

BY GEOGRAPHIC ZONE



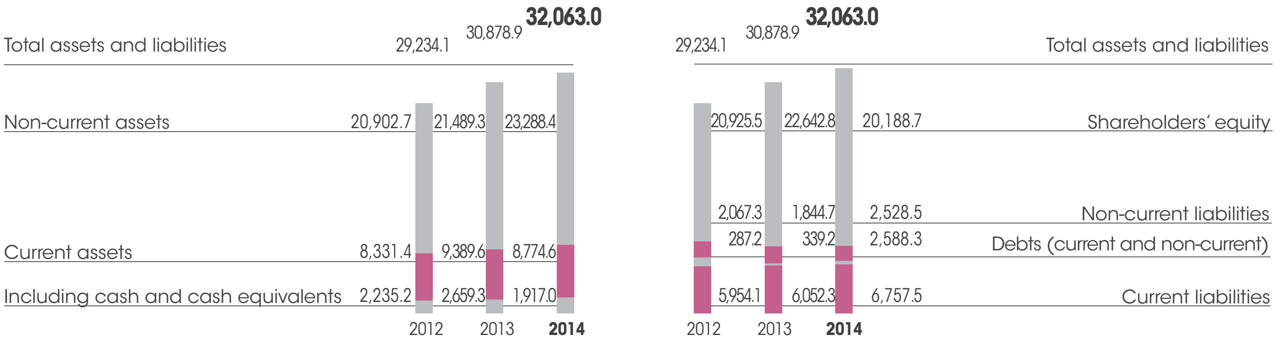
- **35.5%** *Western Europe*
- **24.9%** *North America*
- **39.6%** *New Markets*

Of which: **21.1%** *Asia, Pacific*
8.6% *Latin America*
7.3% *Eastern Europe*
2.6% *Africa, Middle East*

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

/ A SOLID BALANCE SHEET (2)

(€ millions)



(2) The balance sheet at 12.31.2012 has been restatedto allow for the change in accounting method relating to revised IAS 19.

/ NET DEBT

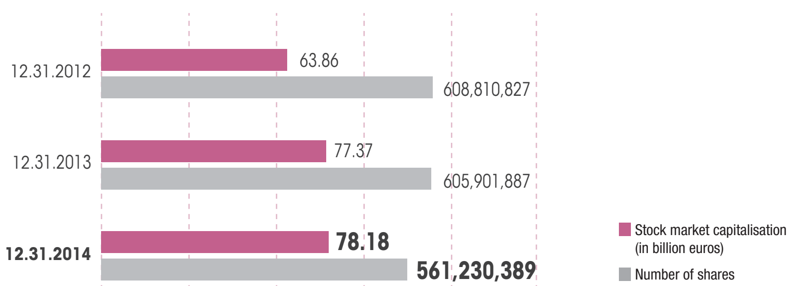
	12.31.2012	12.31.2013	**12.31.2014**
Net cash flow (3)/net financial debt *(millions euros)*	1,948(4)	2,320.1(4)	-671.3
Net financial debt/Equity	-9.3%	-10.2%	3.3%

(3) Net cash flow = cash and cash equivalents - current and non-current debt.
(4) At December 31st, 2012 and 2013 net cash surplus was €1,948 m and €2,320.1 m respectively

/ SHORT-TERM RATINGS

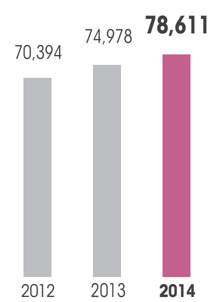
A-1+	**STANDARD & POOR'S**	OCTOBER 2014
Prime 1	**Moody's**	OCTOBER 2014
F1+	**Fitch Ratings**	OCTOBER 2014

/ STOCK MARKET CAPITALISATION



/ WORKFORCE

(at december, 31th)



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3.2.2. 2014 consolidated results

SALES AND OPERATING PROFIT

Consolidated sales

€ millions	2012	2013	2014	2013/2014 progression Like-for-like	2013/2014 progression Reported figures
Cosmetics	20,783.1	21,288.5	21,658.2	3.8%	1.7%
The Body Shop	855.3	835.8	873. 8	1.6%	4.6%
GROUP TOTAL	**21,638.4**	**22,124.2**	**22,532.0**	**3.7%**	**1.8%**

Operating profit

€ millions	2012	2013	2014	2014 Weight	Evolution based on reported sales	% of sales
Cosmetics	3,481	3,688	3,825	98.3%	3.7%	17.7%
The Body Shop	77	72	65	1.7%	-9.7%	7.5%
GROUP TOTAL	**3,558**	**3,760**	**3,890**	**100%**	**3.5%**	**17.3%**

SALES AND OPERATING PROFIT OF THE COSMETICS DIVISIONS

Consolidated sales

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	2013/2014 progression Reported figures
Professional Products	3,002.6	2,973.8	3,032.4	14.0%	2.6%	2.0%
Consumer Products	10,713.2	10,873.2	10,767.5	49.7%	1.6%	-1.0%
L'Oréal Luxe	5,568.1	5,865.2	6,197.9	28.6%	7.1%	5.7%
Active Cosmetics	1,499.2	1,576.3	1,660.4	7.7%	8.7%	5.3%
TOTAL COSMETICS DIVISIONS	**20,783.1**	**21,288.5**	**21,658.2**	**100%**	**3.8%**	**1.7%**

Operating profit

	2012		2013		2014	
	€ millions	% CA 2012	€ millions	% CA 2013	€ millions	% CA 2014
Professional Products	615	20.5%	609	20.5%	609	20.1%
Consumer Products	2,051	19.1%	2,167	19.9%	2,186	20.3%
L'Oréal Luxe	1,077	19.3%	1,174	20.0%	1,269	20.5%
Consumer Products	315	21%	343	21.7%	376	22.7%
TOTAL COSMETICS DIVISION	**4,058**	**19.5%**	**4,293**	**20.2%**	**4,440**	**20.5%**
Non-allocated (1)	-577	-2.8%	-605	-2.8%	-615	-2.8%
TOTAL DIVISIONS AFTER NON-ALLOCATED	**3,481**	**16.7%**	**3,688**	**17.3%**	**3,825**	**17.7%**

(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.

SALES AND OPERATING PROFIT OF THE COSMETICS DIVISIONS BY GEOGRAPHIC ZONE

Consolidated sales

				2013/2014 progression	
€ millions	2012	2013	**2014**	Like-for-like	Reported figures
Western Europe	7,382.6	7,467.6	7,697.7	2.4%	3.1%
North America	5,210.7	5,356.1	5,389.4	1.1%	0.6%
New Markets, of which:	8,189.8	8,464.7	8,571.1	6.9%	1.3%
◆ Asia, Pacific	4,287.1	4,382.2	4,563.6	5.3%	4.1%
◆ Latin America	1,816.9,	1,886.2	1,853.7	10.0%	-1.7%
◆ Eastern Europe [(1)]	1,622.4	1,691.3	1,585.4	6.0%	-6.3,%
◆ Africa, Middle East [(1)]	463.4	505.1	568.4	13.5%	12.5%
TOTAL COSMETICS SALES	**20,783.1**	**21,288.5**	**21,658.2**	**3.8%**	**1.7%**

(1) As of July 1st, 2013, Turkey and Israel, which were previously included in the Africa, Middle East zone, were transferred to the Eastern Europe zone. All figures for earlier periods have been restated to allow for this change.

Operating profit

	2012		2013		2014	
	€ millions	% CA 2012	€ millions	% CA 2013	**€ millions**	**% CA 2014**
Western Europe	1,580	21.4%	1,662	22.3%	1,746	22.7%
North America	960	18.4%	1,003	18.7%	1,010	18.7%
New Markets	1,518	18.5%	1,628	19.2%	1,684	19.6%
TOTAL GEOGRAPHIC ZONES	**4,058**	**19.5%**	**4,293**	**20.2%**	**4,440**	**20.5%**
Non-allocated [(1)]	-577	-2.8%	-605	-2.8%	-615	-2.8%
TOTAL ZONES AFTER NON-ALLOCATED	**3,481**	**16.7%**	**3,686**	**17.3%**	**3,825**	**17.7%**

SALES OF THE COSMETICS DIVISIONS BY BUSINESS SEGMENT

Consolidated sales

				2013/2014 progression	
€ millions	2012	2013	**2014**	Like-for-like	Reported figures
Skincare	6,039	6,303	6,489	3.1%	3.0%
Make-up	4,468	4,616	4,751	5.6%	2.9%
Haircare	4,356	4,422	4,449	3.2%	0.6%
Hair colourants	2,943	2,931	2,860	0.9%	-2.4%
Perfumes	2,010	2,029	2,123	6.7%	4.6%
Other [(2)]	968	987	986	5.2%	-0.1%
TOTAL COSMETICS SALES	**20,783**	**21,288**	**21,658**	**3.8%**	**1.7%**

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

3.2.3. Consolidated sales by geographic zone and by business segment

PROFESSIONAL PRODUCTS DIVISION

Sales by geographic zone

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	Reported figures
Western Europe	981.6	965.3	1,032.7	34.1%	1.2%	7.0%
North America	1,101.5	1,098.5	1,111.0	36.6%	1.8%	1.1%
New Markets	919.5	910.0	888.7	29.3%	5.3%	-2.3%
TOTAL	**3,002.6**	**2,973.8**	**3,032.4**	**100%**	**2.6%**	**2.0%**

Sales by business segment

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	Reported figures
Hair colourants	1,048.3	1,035.7	1,039.0	34.3%	2.5%	0.3%
Styling and textures	317.3	304.3	328.6	10.8%	0.3%	8.0%
Shampoos and haircare	1,637.0	1,633.9	1,664.8	54.9%	3.1%	1.9%
TOTAL	**3,002.6**	**2,973.8**	**3,032.4**	**100%**	**2.6%**	**2.0%**

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CONSUMER PRODUCTS DIVISION

Sales by geographic zone

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	Reported figures
Western Europe	3,783.0	3,846.1	3,857.0	35.8%	0.9%	0.3%
North America	2,555.7	2,534.7	2,477.0	23.0%	-2.5%	-2.3%
New Markets	4,374.5	4,492.4	4,433.5	41.2%	4.8%	-1.3%
TOTAL	**10,713.2**	**10,873.2**	**10,767.5**	**100%**	**1.6%**	**-1.0%**

Sales by business segment

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	Reported figures
Hair colourants	1,894.6	1,895.3	1,821.2	16.9%	0.0%	-3.9%
Haircare and styling	2,650.8	2,712.9	2,723.0	25.3%	3.4,%	0.4%
Make-up	3,189.8	3,215.5	3,204.7	29.8%	2.9%	-0.3%
Skincare	2,487.8	2,534.7	2,489.1	23.1%	-1.8%	-1.8%
Other	490.2	514.8	529.6	4.9%	8.3%	2.9%
TOTAL	**10,713.2**	**10,873.2**	**10,767.5**	**100%**	**1.6%**	**-1.0%**

L'ORÉAL LUXE

Sales by geographic zone

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	Reported figures
Western Europe	1,872.4	1,870.8	1,976.3	31.9%	4.7%	5.6%
North America	1,393.0	1,560.0	1,629.4	26.3%	6.0%	4.4%
New Markets	2,302.7	2,434.4	2,592.2	41.8%	9.8%	6.5%
TOTAL	**5,568.1**	**5,865.2**	**6,197.9**	**100%**	**7.1%**	**5.7%**

Sales by business segment

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	2013/2014 progression Reported figures
Skincare	2,481.1	2,647.6	2,754.3	44.4%	5.1%	4.0%
Perfumes	1,928.3	1,945.9	2,040.0	32.9%	6.9%	4.8%
Make-up	1,158.7	1,271.7	1,403.6	22.6%	11.6%	10.4%
TOTAL	**5,568.1**	**5,865.2**	**6,197.9**	**100%**	**7.1%**	**5.7%**

ACTIVE COSMETICS DIVISION

Sales by geographic zone

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	2013/2014 progression Reported figures
Western Europe	745.6	785.4	831.7	50.1%	5.6%	5.9%
North America	160.6	162.9	172.0	10.4%	8.7%	5.6%
New Markets	593.1	628.1	656.7	39.6%	12.9%	4.6%
TOTAL	**1,499.2**	**1,576.3**	**1,660.4**	**100%**	**8.7%**	**5.3%**

Sales by business segment

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	2013/2014 progression Reported figures
Skincare	1,168.3	1,214.2	1,286.1	77.5%	9.5%	5.9%
Haircare	93.3	108.6	105.1	6.3%	1.0%	-3.2%
Make-up	92.7	97.0	109.2	6.6%	15.3%	12.6%
Other	145	156.5	159.9	9.6%	3.9%	2.2%
TOTAL	**1,499.2**	**1,576.3**	**1,660.4**	**100%**	**8.7%**	**5.3%**

THE BODY SHOP

Retail sales (1)

€ millions	2012	2013	2014	2014 Weight	2013/2014 progression Like-for-like	2013/2014 progression Reported figures
Western Europe	548.1	544.8	562.0	38.1%	3.2%	4.9%
North America	184.8	168.6	179.1	12.1%	6.2%	3.4%
New Markets	737.6	685.5	734.3	49.8%	7.1%	6.5%
TOTAL	**1,470.5**	**1,398.9**	**1,475.4**	**100%**	**5.5%**	**5.5%**

Sales

€ millions	2012	2013	2014	2013/2014 Evolution Like-for-like
Retail sales (1)	1,470.5	1,398.9	1,475.3	5.5%
Retail sales with a comparable store base(2)	1,316.2	1,306.6	1,319.8	1.0%
CONSOLIDATED SALES	**855.3**	**835.8**	**873.8**	**1.6%**

Number of stores

	Au 12.31.2013	Au 12.31.2014	Variation en 2014
Company owned stores	1,114	1,120	+6
Franchisees	1,930	1,999	+69
TOTAL NUMBER OF STORES	**3,044**	**3,119**	**+75**

(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, 2014 and the same stores and websites present in 2012 and 2013, and for the same periods for 2012 and 2013, including franchisees.

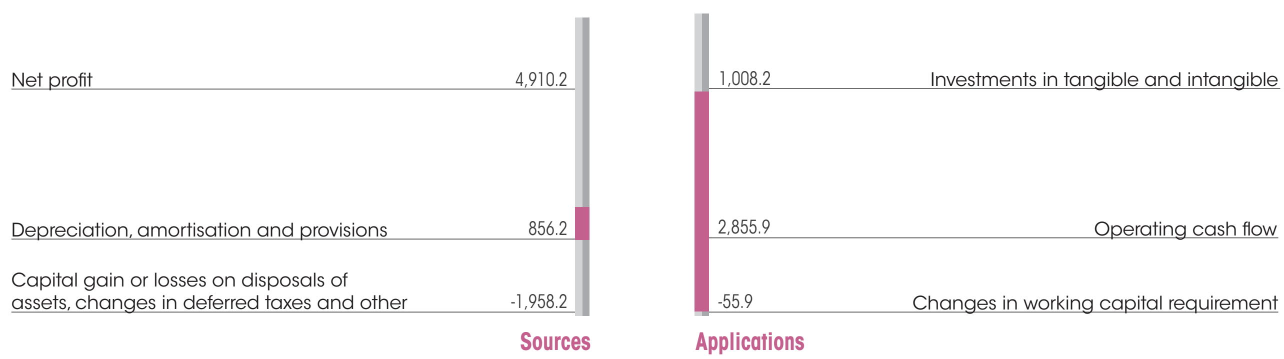
3.2.4. Simplified consolidated income statements

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. All figures for earlier periods have been restated accordingly.

€ millions	12.31.2012	12.31.2013	**12.31.2014**	% CA 2014
Sales	**21,638.4**	**22,124.2**	**22,532.0**	**100.0%**
Gross profit	**15,250.1**	**15,744.8**	**16,031.3**	**71.1%**
Research and development	-680.4	-748.3	-760.6	3.4%
Advertising and promotion	-6,531.6	-6,621.7	-6,558.9	29.1%
Selling. general and administrative expenses	-4,479.7	-4,614.4	-4,821.1	21.4%
Operating profit	**3,558.4**	**3,760.4**	**3,890.7**	**17.3%**
Operational profit	**3,437.3**	**3,631.8**	**3,583.5**	
Finance costs excluding dividends received	+1.7	-31.4	-24.1	
Sanofi dividends	313.4	327.5	331.0	
Income tax	-985.4	-1,043.6	-1,111.0	
Non-controlling interests	-2.7	-3.2	-1.6	
Net profit attributable to owners of the company	**2,867.7**	**2,958.2**	**4,910.2**	**21.8%**
Non-recurring items (expense +/income -)	-101.81	-154.1	-348.7	
Net profit excluding non-recurring items after non-controlling interests *	**2,861.5**	**3,032.4**	**3,125.3**	**13.9%**
Diluted earnings per share attributable to owners of the company *(euros)*	4.74	4.87	8.39	
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	4.73	4.99	5.34	

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

3.2.5. Sources and applications of funds (€ millions)



Gross cash flow: **3,808**

3.2.6. Financial ratios

	2012	2013	**2014**
(% of sales)			
Operating profit/Sales	16.4%	17.0%	17.3%
(% of shareholders' equity)			
Net profit excluding non-recurring items after non-controlling interests/Opening shareholders' equity	16.2%	14.5%	13.8%
(% of shareholders' equity)			
Net gearing (1)	n/a	n/a	3.3%
Gross cash flow/Investments	3.8x	3.7x	3.8x

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

3.2.7. L'Oréal 2008-2014

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	2008 (1)	2009	2010	2011 (6)	2012 (6)	2013	**2014**
Results							
Consolidated sales	17,542	17,473	19,496	20,343	21,638	22,124	22,532.0
Operating profit	2,725	2,578	3,057	3,293	3,558	3,760	3,891
As a percentage of consolidated sales	15.5%	14.8%	15.7%	16.2%	16.4%	17%	17.3%
Profit before tax and non-controlling interests	2,788	2,749	3,305	3,563	3,874	4,056	4,198
Net profit excluding non-recurring items after non-controlling interests	2,064	1,997	2,371	2,583	2,861	3,032	3,125
Net profit attributable to owners of the company (7)	1,948	1,792	2,240	2,438	2,868	2,958	4,910
Total dividend	862	899	1,082	1,212	1,397	1,523	1,507
Balance Sheet							
Non-current assets	16,380	17,350	17,048	19,141	20,903	21,489	23,288
Current assets excl. cash and cash equivalents	5,450	4,768	5,446	6,070	6,096	6,730	6,858
Cash and cash equivalents	1,077	1,173	1,550	1,652	2,235	2,659	1,917
Equity (2)	11,563	13,598	14,866	17,627	20,925	22,643	20,189
Net current and non-current debt (3)	3,700	1,958	41	-504	-1,948	-2,320	671
Gross cash flow	2,746	2,758	3,171	3,226	3,507	3,758	3,808
Pershare data *(euros)*							
Diluted earnings per share attributable to owners of the company excluding non-recurring items (7)	3.49	3.42	4.01	4.32	4.73	4.99 (8)	5.34
Dividend	1.44	1.50	1.80	2.00	2.30	2.50	2.70 (5)
Share price at December 31st (4)	62.30	78.00	83.08	80.70	104.90	127.70	139.30
Highest share price during the year (4)	99.26	79.32	88.00	91.24	106.40	137.85	140.40
Lowest share price during the year (4)	53.32	46.00	70.90	68.83	79.22	103.65	114.55
Diluted weighted average number of shares outstanding (4)	590,920,078	583,797,566	591,392,449	597,633,103	605,305,458	608,001,407	585,238,674

(1) The 2008 balance sheets has been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programs and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits.
(2) Plus non-controlling interests.
(3) The net cash surplus is €504 million in 2011, €1,948 million in 2012 and €2,320 million in 2013.
(4) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was first listed in 1963. The share capital is €112,246,077.80 at December 31st, 2014; the par value of one share is €0.2.
(5) Dividend proposed to the Annual General Meeting of April 22nd, 2015.
(6) The 2011 and 2012 balance sheets have been restated to allow for the change in accounting method relating to revised IAS 19.
(7) For 2012, 2013 and 2014 it is the net profit from continuing operations.
(8) Net profit to owners of the company per share, excluding non recurring items, published on December 31st, 2013 was €5.13.

3.3. SIGNIFICANT, RECENT EVENTS AND PROSPECTS

3.3.1. Significant events of 2014

- On January 9th, L'Oréal obtained the approval of the Ministry of Commerce of the People's Republic of China to proceed with the acquisition of all the shares of Magic Holdings International Ltd., a company listed on the Hong Kong stock exchange. On April 8th, 2014, the acquisition of Magic Holdings was finalised. This move marks L'Oréal's largest investment to date in the Chinese beauty market.
- On February 11th, L'Oréal and Nestlé announced a strategic transaction under which L'Oréal is to buy 48.5 million of its own shares from Nestlé (representing 8% of L'Oréal shares), under the suspensive condition of the sale by L'Oréal of its stake in the pharmaceutical laboratory Galderma. On July 8th, 2014, L'Oréal this transaction was finalised. The sale of Galderma will result, in the second half, in a capital gain net of tax of about €2 billion.
- On February 19th, L'Oréal and Shiseido signed the contract for the acquisition by L'Oréal of *Decléor* and *Carita*. On April 30th, 2014, the acquisition was finalised.
- On April 17th, 2014, the Annual General Meeting of L'Oréal shareholders renewed the tenure of Mr. Jean-Paul Agon as Director. The Board of Directors, which met at the end of the Annual General Meeting, decided to renew the duties of

Mr. Jean-Paul Agon as Chairman and Chief Executive Officer.

- On June 18th, 2014, L'Oréal announced the signing of a definitive agreement to acquire NYX Cosmetics, a mass market brand rooted in professional make-up artistry with its headquarters in Los Angeles. On July 30th, 2014, the acquisition was finalised.
- On October 20th, L'Oréal USA announced the acquisition of *Carol's Daughter,* an American multi-cultural beauty brand with a pioneering heritage in the natural beauty movement. The brand caters to a diverse, rapidly growing market and has established a loyal consumer following throughout the United States.
- On November 27th, L'Oréal and Nestlé announced their project to end the operations of their joint venture *Innéov* in the first quarter 2015.
- On December 18th, L'Oréal stated that it had been informed of the French Competition Authority's decision to rule against manufacturers of household and hygiene products concerning events which took place in the early 2000s. L'Oréal has appealed this decision.
- Currently undergoing finalisation in the first half of 2015, the acquisition of Niely Cosmeticos, announced on September 8, 2014, has been approved by the Brazilian regulatory authorities. Niely Cosmeticos is the largest independent hair colour and haircare company in Brazil, with a net revenue of 140 million euros in 2013.

3.3.2. Significant events that have occurred since the beginning of 2015

No significant event has occurent since the beginning of the 2015 financial year.

3.3.3. Prospects

L'Oréal is looking to the future with confidence, driven by its "Beauty for All" mission and its "Universalisation" strategy towards its ambition of winning one billion new consumers.

In an economic environment that is uncertain, but more favourable on the monetary front, all its teams are focused to ensure L'Oréal outperforms the market in 2015, and to deliver sales and profit growth.

4

2014 CONSOLIDATED FINANCIAL STATEMENTS*

** This information forms an integral part of the Annual Financial Report as provided for 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. It also holds 50% of the share capital of Galderma and Innéov developed in a joint venture with Nestlé.

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	2014	2013 (1)	2012 (1)
Net sales	**4**	**22,532.0**	**22,124.2**	**21,638.4**
Cost of sales		-6,500.7	-6,379.4	-6,388.3
Gross profit		**16,031.3**	**15,744.8**	**15,250.1**
Research and development		-760.6	-748.3	-680.4
Advertising and promotion		-6,558.9	-6,621.7	-6,531.6
Selling, general and administrative expenses		-4,821.1	-4,614.4	-4,479.7
Operating profit	**4**	**3,890.7**	**3,760.4**	**3,558.4**
Other income and expenses	8	-307.2	-128.6	-121.1
Operational profit		**3,583.5**	**3,631.8**	**3,437.3**
Finance costs on gross debt		-31.4	-23.1	-27.3
Finance income on cash and cash equivalents		42.3	36.4	35.0
Finance costs, net		**11.0**	**13.3**	**7.7**
Other financial income (expenses)	9	-35.1	-44.7	-6.0
Sanofi dividends		331.0	327.5	313.4
Profit before tax and associates		**3,890.4**	**3,928.0**	**3,752.3**
Income tax	10	-1,111.0	-1,043.6	-985.4
Share of profit in associates		-13.5	-3.0	-4.6
Net profit from continuing operations		**2,765.9**	**2,881.4**	**2,762.3**
Net profit from discontinued operations	**3**	**2,142.7**	**80.0**	**108.1**
Net profit		**4,908.6**	**2,961.4**	**2,870.4**
Attributable to:				
◆ owners of the company		4,910.2	2,958.2	2,867.7
◆ non-controlling interests		-1.6	3.2	2.7
Earnings per share attributable to owners of the company *(euros)*		8.51	4.95	4.79
Diluted earnings per share attributable to owners of the company *(euros)*		8.39	4.87	4.74
Earnings per share of continuing operations attributable to owners of the company *(euros)*	11	4.79	4.82	4.61
Diluted earnings per share of continuing operations attributable to owners of the company *(euros)*	11	4.73	4.73	4.56
Earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items *(euros)*	11	5.41	5.07	4.78
Diluted earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items *(euros)*	11	5.34	4.99	4.73

(1) The consolidated income statements for 2013 and 2012 have been restated to reflect the impacts of IFRS 5 concerning discontinued operations (see note 3) along with the impact of applying IFRS 11 (see note 1).

4.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	2014	2013	2012
Consolidated net profit for the period		**4,908.6**	**2,961.4**	**2,870.4**
Financial assets available-for-sale		*-172.7*	*677.4*	*1,730.9*
Cash flow hedges		*-17.2*	*13.2*	*103.0*
Cumulative translation adjustments		*584.0*	*-457.0*	*-134.3*
Income tax on items that may be reclassified to profit or loss (1)		*7.3*	*-32.1*	*-116.9*
Items that may be reclassified to profit or loss		**401.4**	**201.5**	**1,582.7**
Actuarial gains and losses	*22.4*	*-672.7*	*188.9*	*-271.9*
Income tax on items that may not be reclassified to profit or loss (1)		*225.1*	*-63.8*	*86.7*
Items that may not be reclassified to profit or loss		**-447.6**	**125.1**	**-185.2**
Other comprehensive income		**-46.2**	**326.6**	**1,397.5**
Consolidated comprehensive income		**4,862.4**	**3,288.0**	**4,267.9**
Attributable to:				
◆ **owners of the company**		**4,864.3**	**3,284.9**	**4,265.1**
◆ non-controlling interests		-1.9	3.1	2.8

(1) The tax effect is as follows:

€ millions	2014	2013	2012
Financial assets available-for-sale	*7.2*	*-28.0*	*-90.0*
Cash flow hedges	*0.1*	*-4.1*	*-26.9*
Items that may be reclassified to profit or loss	**7.3**	**-32.1**	**-116.9**
Actuarial gains and losses	*225.1*	*-63.8*	*86.7*
Items that may not be reclassified to profit or loss	**225.1**	**-63.8**	**86.7**
TOTAL	**232.4**	**-95.9**	**-30.2**

4.3. COMPARED CONSOLIDATED BALANCE SHEETS

Assets

€ millions	Notes	12.31.2014	12.31.2013 (1)	12.31.2012 (1)
Non-current assets		**23,288.4**	**21,489.3**	**20,902.7**
Goodwill	12	7,525.5	6,206.0	6,270.1
Other intangible assets	13	2,714.6	2,105.4	2,164.0
Property, plant and equipment	15	3,141.1	2,891.2	2,832.4
Non-current financial assets	16	9,069.0	9,204.0	8,526.2
Investments in associates	17	-	435.2	414.8
Deferred tax assets	10	838.2	647.5	695.2
Current assets		**8,774.6**	**9,389.6**	**8,331.4**
Inventories	18	2,262.9	2,085.2	1,971.1
Trade accounts receivable	19	3,297.8	3,022.8	3,051.7
Other current assets	20	1,199.3	1,500.3	969.4
Current tax assets		97.6	122.1	104.0
Cash and cash equivalents	21	1,917.0	2,659.3	2,235.2
TOTAL		**32,063.0**	**30,878.9**	**29,234.1**

(1) Includes the impact of applying IFRS 11 (see note 1).

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Equity & liabilities

€ millions	Notes	12.31.2014	12.31.2013 (1)	12.31.2012 (1)
Equity	**22**	**20,188.7**	**22,642.8**	**20,925.5**
Share capital		112.3	121.2	121.8
Additional paid-in capital		2,316.8	2,101.2	1,679.0
Other reserves		9,765.1	14,220.8	13,679.7
Other comprehensive income		3,745.9	4,370.1	3,586.4
Cumulative translation adjustments		17.8	-566.4	-109.4
Treasury stock		-683.0	-568.1	-904.5
Net profit attributable to owners of the company		4,910.2	2,958.2	2,867.7
Equity attributable to owners of the company		**20,185.1**	**22,637.0**	**20,920.7**
Non-controlling interests		3.6	5.8	4.8
Non-current liabilities		**2,595.6**	**1,928.6**	**2,114.3**
Provisions for employee retirement obligations and related benefits	23	1,479.7	939.6	1,191.2
Provisions for liabilities and charges	24	193.6	174.5	181.8
Deferred tax liabilities	10	855.2	730.6	694.3
Non-current borrowings and debt	25	67.1	83.9	47.0
Current liabilities		**9,278.7**	**6,307.6**	**6,194.3**
Trade accounts payable		3,452.8	3,249.7	3,230.7
Provisions for liabilities and charges	24	722.0	528.8	533.8
Other current liabilities	27	2,415.6	2,095.5	2,055.6
Income tax		167.1	178.3	134.0
Current borrowings and debt	25	2,521.2	255.3	240.2
TOTAL		**32,063.0**	**30,878.9**	**29,234.1**

(1) Includes the impact of applying IFRS 11 (see note 1).

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 adjust-ments	Equity attributable to owners of the company	Non-control-ling interests	Total equity
At 12.31.2012	**598,356,662**	**121.8**	**1,679.0**	**16,547.4**	**3,586.4**	**-904.5**	**-109.4**	**20,920.7**	**4.8**	**20,925.5**
Consolidated net profit for the period				2,958.2				2,958.2	3.2	2,961.4
Financial assets available-for-sale					*649.5*			*649.5*		*649.5*
Cash flow hedges					*9.1*			*9.1*	*-0.1*	*9.0*
Cumulative translation adjustments							*-457.0*	*-457.0*		*-457.0*
Other comprehensive income that may be reclassified to profit and loss					**658.6**		**-457.0**	**201.6**	**-0.1**	**201.5**
Actuarial gains and losses					*125.1*			*125.1*		*125.1*
Other comprehensive income that may not be reclassified to profit and loss					**125.1**			**125.1**		**125.1**
Consolidated comprehensive income				**2,958.2**	**783.7**		**-457.0**	**3,284.9**	**3.0**	**3,288.0**
Capital increase	6,199,701	1.2	422.2					423.4		423.4
Cancellation of Treasury stock		-1.8		-996.7		998.5		-		-
Dividends paid (not paid on Treasury stock)				-1,380.6				-1,380.6	-2.5	-1,383.1
Share-based payment				97.2				97.2		97.2
Net changes in Treasury stock	-4,762,333			1.4		-662.1		-660.7		-660.7
Purchase commitments for minority interests				-48.3				-48.3	-0.9	-49.2
Changes in scope of consolidation								-	1.4	1.4
Other movements				0.4				0.4		0.4
At 12.31.2013	**599,794,030**	**121.2**	**2,101.2**	**17,179.0**	**4,370.1**	**-568.1**	**-566.4**	**22,637.0**	**5.8**	**22,642.8**
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**	**14,675.3**	**3,745.9**	**-683.0**	**17.8**	**20,185.1**	**3.6**	**20,188.7**

4.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	**2014**	2013 (1)	2012 (1)
Cash flows from operating activities				
Net profit attributable to owners of the company		4,910.2	2,958.2	2,867.7
Non-controlling interests		-1.6	3.2	2.7
Elimination of expenses and income with no impact on cash flows:				
◆ depreciation, amortisation and provisions		856.2	767.8	623.4
◆ changes in deferred taxes	10.1	60.0	15.9	34.9
◆ share-based payment (including free shares)	22.3	113.5	97.2	86.4
◆ capital gains and losses on disposals of assets		-0.9	0.1	-4.3
Net profit from discontinued operations		-2,142.7	-80.0	-108.1
Share of profit in associates net of dividends received		13.5	-4.6	4.6
Gross cash flow		**3,808.2**	**3,757.9**	**3,507.3**
Changes in working capital	30	55.9	-67.6	-108.6
Net cash provided by operating activities (A)		**3,864.1**	**3,690.3**	**3,398.7**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-1,008.2	-1,018.8	-923.3
Disposals of property, plant and equipment and intangible assets		18.7	8.5	7.1
Changes in other financial assets (including investments in non-consolidated companies)		403.4	-464.8	443.6
Dividends received from discontinued operations		41.7	56.3	48.0
Effect of changes in the scope of consolidation	31	1,194.0	-138.4	-464.7
Net cash (used in) from investing activities (B)		**649.6**	**-1,557.2**	**-889.3**
Cash flows from financing activities				
Dividends paid		-1,589.3	-1,425.4	-1,267.8
Capital increase of the parent company		216.4	423.4	408.8
Capital increase of subsidiaries		2.3	-	1.4
Disposal (acquisition) of Treasury stock		-6,160.3	-660.6	-257.7
Issuance (repayment) of short-term loans		2,225.0	48.9	-792.8
Issuance of long-term borrowings		0.2	-	-
Repayment of long-term borrowings		-13.0	-19.7	-13.1
Net cash (used in) from financing activities (C)		**-5,318.7**	**-1,633.4**	**-1,921.2**
Net cash (used in) from discontinued operations (D)		**-**	**23.0**	**-20.4**
Net effect of changes in exchange rates and fair value (E)		62.7	-75.6	-17.2
Change in cash and cash equivalents (A+B+C+D+E)		**-742.3**	**447.1**	**550.6**
Cash and cash equivalents at beginning of the year (F)		**2,659.3**	**2,235.2**	**1,664.2**
Change in cash and cash equivalents of discontinued operations (G)		-	*-23.0*	*20.4*
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (A+B+C+D+E+F+G)	**21**	**1,917.0**	**2,659.3**	**2,235.2**

(1) The statements of cash flows for 2013 and 2012 have been restated to reflect the impacts of IFRS 5 concerning discontinued operations (see note 3) along with the impact of applying IFRS 11 (see note 1).

Income taxes paid amount to €1,060.3 million, €970.6 million and €1,067.4 million respectively for the years 2014, 2013 and 2012.

Interests paid amount to €31.2 million, €24.9 million and €27.0 million respectively for the years 2014, 2013 and 2012.

Dividends received excluding dividends received from discontinued operations amount to €331.0 million, €327.5 million and €313.4 million respectively for the years 2014, 2013 and 2012, and are included within gross cash flow.

4.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2014, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of December 31st, 2014.

On February 12th, 2015, the Board of Directors closed the consolidated financial statements at December 31st, 2014. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on April 22nd, 2015.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2014.

The Group is concerned by interpretation IFRIC 21, "Levies", which is mandatorily applicable as of January 1st, 2015. This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. IFRIC 21 does not have a material impact on the consolidated financial statements.

Change in accounting policies applicable as from January 1st, 2014: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities"

These standards redefine the notion of control over another entity and also require jointly controlled entities to be accounted for using the equity method, since proportionate consolidation is no longer permitted.

Consequently Innéov and Galderma, which were proportionately consolidated up to December 31st, 2013, have been equity-accounted.

The income statements for 2013 and 2012 have been restated accordingly. The balance sheets at December 30th, 2013 and December 31st, 2012 have also been restated.

Since the Boards of Directors of Nestlé and L'Oréal unanimously approved the sale of L'Oréal's interest in Galderma to Nestlé on February 10th, 2014, Galderma has been classified as held for sale for accounting purposes as from January 1st, 2014 in accordance with IFRS 5 (note 3).

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. Foreign currency translation

1.3.1. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS IN CONSOLIDATED COMPANIES

Foreign currency transactions are translated at the exchange rate effective at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at the closing date. Unrealised exchange gains and losses impact the income statement.

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.*

1.3.2. 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. The translation difference does not impact the income statement other than at the time the Company is sold.

1.3.3. 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.

1.4. 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.

1.5. 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.

1.6. 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.

1.7. 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.

1.8. 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).

1.9. Foreign exchange gains and losses

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.

1.10. Operating profit

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses.

1.11. 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.

1.12. 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.

1.13. 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.

1.14. Income tax

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.

1.15. Intangible assets

1.15.1. GOODWILL

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.

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 7.9% in 2014, 2013 and 2012 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 around 3% 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.

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.

1.15.2. OTHER INTANGIBLE ASSETS

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 around 3%, 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.

1.16. 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	3-5 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.

1.17. 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.

1.18. 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.

1.19. 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.

1.20. 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.

1.21. Treasury stock

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.

1.22. Share-based payment: Share subscription or purchase options – Free shares

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 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.

1.23. Provisions for employee retirement obligations and related benefits

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).

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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.

1.24. Provisions for liabilities and charges

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*.

1.25. 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*.

1.26. Financial derivatives

Derivative instruments entered into to hedge identifiable foreign exchange and interest rate risks are accounted for in accordance with hedge accounting principles.

The accounting principles applicable to foreign exchange risk are set out in detail in note 1.3.

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.

1.27. Earnings per share

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.

NOTE 2 Changes in the scope of consolidation

2.1. 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 Cosmetics, a mass market brand rooted in professional make-up artistry with its headquarters in Los Angeles.

In 2013, NYX 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 program 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 €1,381.5 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €936.9 million and €405.1 million, respectively.

The allocation of the purchase price to the identifiable intangible assets of these five acquisitions had not been finalised at December 31st, 2014. Regarding Coloright, the full amount of the difference between the purchase price and the net assets acquired is temporarily shown in *Goodwill.*

These acquisitions represent around €366.2 million in full-year net sales and €29.9 million in full-year operating profit.

B) OTHER OPERATIONS

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 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. Year 2013

On January 31st, 2013, L'Oréal finalised the acquisition of the Colombia-based Vogue group, the country's leader in mass-market make-up.

In 2012, the Vogue group reported consolidated net sales of €35.3 million.

This acquisition has been fully consolidated since February 1st, 2013.

On February 27th, 2013, Galderma Pharma S.A. finalised the acquisition of Spirig Pharma A.G. The Galderma business was reclassified within *Assets held for sale* in 2014.

On April 15th, 2013, L'Oréal announced it has acquired the Health & Beauty business of Interconsumer Products Limited (ICP) in Kenya from its founding shareholder. With a turnover of approximately €15 million in 2012, ICP is a significant player on the Kenyan beauty market, with strong positions in the hair and skin care markets.

This acquisition has been fully consolidated since April 12th, 2013.

On December 13th, 2013, following the approval of the Brazilian Anti-Trust Authority CADE, The Body Shop finalised the acquisition of 51% of Emporio Body Store in Brazil with the option of increasing its shareholding to 80% by 2019.

Founded in 1997 in Porto Alegre by Tobias Chanan, Emporio Body Store offers a complete range of beauty products sold through a franchise network.

Emporio Body Store achieved in 2012 a consolidated turnover of 20 million Reals (approximately €7 million). Since 2011, the business has grown strongly and increased from 36 points of sale in 2010 to 84 in 2012, to reach an estimated 130 points of sale end of 2013.

This acquisition has been fully consolidated since December 31st, 2013.

The cost of these new acquisitions (excluding Galderma operations) amounts to €123.8 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €84.7 million and €32.7 million, respectively.

These acquisitions (excluding Galderma operations) represent around €60 million in full-year net sales and €8 million in full-year operating profit.

2.3. Year 2012

On April 26th, 2012, L'Oréal announced that it had acquired 100% of Cadum, previously majority-owned by the investment fund Milestone.

In 2011, Cadum had consolidated net sales of €58 million, of which €49 million were made in France, mainly under the Cadum brand. The acquisition was fully consolidated as from May 1st, 2012.

On July 13th, 2012, L'Oréal announced that it had completed the sale of the home care business from the Cadum group to Eau Ecarlate SAS.

This business had net sales of €17 million in 2011, two thirds of which were made in France.

The sale of the home care business resulted in the derecognition of IBA's entire assets and liabilities, with no impact on the Group's consolidated net profit.

On October 21st, 2012, L'Oréal USA announced that it had signed a contract to acquire the professional distribution business of the New Jersey-based company Emiliani Enterprises.

Well-established in the New York area, New Jersey and Connecticut, Emiliani Enterprises supplies hair salons through a network of representatives and sales outlets open only to professionals, and in 2011 had net sales of approximately $73 million. This acquisition was finalised on December 18th, 2012 and was fully consolidated as from that date.

On November 26th, 2012, L'Oréal signed an agreement to acquire Urban Decay, America's expert make-up brand. This brand fully complements L'Oréal Luxe's portfolio of brands and strengthens the Group's position in two very dynamic distribution channels in the USA: assisted self-service and e-commerce.

Urban Decay had net sales of $130 million in the last fiscal year ended June 30th, 2012.

This acquisition was finalised on December 17th, 2012 and was fully consolidated from that date.

The cost of these new acquisitions amounts to €484.7 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €313.9 million and €135.6 million, respectively.

These acquisitions represent around €200 million in full-year net sales and €10.4 million in full-year operating profit in 2012. Their impact on 2012 net sales is approximately €35 million.

NOTE 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).

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 consolidated income statements and consolidated statements of cash flows for all periods presented. Galderma is shown in the balance sheet within *Investments in associates* at December 31st, 2013 and December 31st, 2012.

3.1. *Income statements of discontinued operations*

€ millions	2014	2013	2012
Net sales	-	826.3	795.5
Operating profit	-	116.8	142.6
NET PROFIT OF DISCONTINUED OPERATIONS (1)	**2,142.7**	**80.0**	**108.1**

(1) Includes in 2014, €41.7 million of Galderma dividends.

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3.2. *Statements of cash flows of discontinued operations*

€ millions	2014	2013	2012
Net cash provided by operating activities	-	54.8	141.0
Net cash (used in) from investing activities	-	-130.1	-32.7
Net cash (used in) from financing activities	-	98.3	-128.7
NET CASH (USED IN) FROM DISCONTINUED OPERATIONS	**-**	**23.0**	**-20.4**

NOTE 4 Segment information

4.1. *Segment information*

The **Cosmetics** Branch is organised into four sectors, each operating with specific distribution channels:

- **Professional Products** Division: products used and sold in hair salons;
- **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: products for "borderline" complexions (*i.e.* neither healthy nor problematic), 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 **"The Body Shop"** branch: 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.

The **Dermatology** Branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, is classified within discontinued operations (note 3). Data for 2013 and 2012 have been restated accordingly.

The performance of each branch and Division is measured on the basis of operating profit.

As of July 1st, 2013, Turkey and Israel were reclassified from the "Africa, Middle East" geographic zone to the Eastern Europe geographic zone.

Data for 2013 and 2012 has been adjusted to reflect these changes.

€ 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
Cosmetics Branch	**21,658.2**	**3,825.4**	**17,832.6**	**973.8**	**950.3**
The Body Shop Branch	**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.

€ millions 2013	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,973.8	609.5	3,013.9	73.7	126.7
Consumer Products	10,873.2	2,166.7	6,450.0	531.6	494.3
L'Oréal Luxe	5,865.2	1,174.2	4,382.5	222.8	239.2
Active Cosmetics	1,576.3	342.6	828.6	34.0	45.9
COSMETICS DIVISIONS TOTAL	**21,288.5**	**4,293.0**	**14,675.0**	**862.1**	**906.1**
Non-allocated		-604.5	600.4	128.3	115.8
Cosmetics Branch	**21,288.5**	**3,688.5**	**15,275.4**	**990.4**	**1,021.9**
The Body Shop Branch	**835.8**	**71.9**	**1,196.7**	**40.0**	**39.9**
GROUP	**22,124.2**	**3,760.4**	**16,472.1**	**1,030.4**	**1,061.8**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2012	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	3,002.6	615.2	2,707.4	67.2	103.9
Consumer Products	10,713.2	2,050.8	6,564.8	483.1	402.0
L'Oréal Luxe	5,568.1	1,077.0	4,592.2	199.9	197.2
Active Cosmetics	1,499.2	315.0	846.1	29.7	41.2
COSMETICS DIVISIONS TOTAL	**20,783.1**	**4,058.1**	**14,710.5**	**779.9**	**744.3**
Non-allocated		-577.2	556.5	122.4	117.6
Cosmetics Branch	**20,783.1**	**3,480.9**	**15,267.0**	**902.3**	**861.9**
The Body Shop Branch	**855.3**	**77.5**	**1,169.8**	**34.8**	**40.2**
GROUP	**21,638.4**	**3,558.4**	**16,436.8**	**937.1**	**902.1**

(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 2014, 2013 and 2012 balance sheets as follows:

€ millions	2014	2013	2012
Operational assets	**19,101.2**	**16,472.1**	**16,436.8**
Non-current financial assets	9,069.0	9,204.0	8,526.2
Investments in associates	-	435.2	414.8
Deferred tax assets	838.2	647.5	695.2
Other current assets	1,137.6	1,460.9	925.9
Cash and cash equivalents	1,917.0	2,659.3	2,235.2
Non-allocated assets	**12,961.8**	**14,406.9**	**12,797.3**
TOTAL ASSETS	**32,063.0**	**30,879.0**	**29,234.1**

4.2. *Information by geographic zone*

All information is presented on the basis of geographic location of the subsidiaries.

4.2.1. CONSOLIDATED NET SALES BY GEOGRAPHIC ZONE

	2014		Growth *(%)*		2013		2012	
	€ millions	**% of total**	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,274.2	36.7%	3.2%	2.4%	8,019.6	36.2%	7,940.6	36.7%
of which France	2,607.5	11.6%	1.3%	1.3%	2,573.5	11.6%	2,493.5	11.5%
North America	5,577.5	24.8%	0.7%	1.5%	5,538.2	25.0%	5,402.9	25.0%
New Markets	8,680.3	38.5%	1.3%	7.7%	8,566.4	38.7%	8,294.9	38.3%
GROUP	**22,532.0**	**100.0%**	**1.8%**	**4.1%**	**22,124.2**	**100.0%**	**21,638.4**	**100.0%**

4.2.2. COSMETICS NET SALES BY GEOGRAPHIC ZONE

	2014		Growth *(%)*		2013		2012	
	€ millions	**% of total**	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,697.7	35.5%	3.1%	2.5%	7,467.6	35.1%	7,382.6	35.5%
of which France	2,579.5	11.9%	1.3%	1.3%	2,546.8	12.0%	2,468.3	11.9%
North America	5,389.4	24.9%	0.6%	1.4%	5,356.1	25.2%	5,210.7	25.1%
New Markets	8,571.1	39.6%	1.3%	7.7%	8,464.7	39.8%	8,189.8	39.4%
Asia, Pacific	4,563.6	21.1%	4.1%	6.4%	4,382.2	20.6%	4,287.1	20.6%
Latin America	1,853.7	8.6%	-1.7%	10.1%	1,886.2	8.9%	1,816.9	8.7%
Eastern Europe	1,585.4	7.3%	-6.3%	5.8%	1,691.3	7.9%	1,622.4	7.8%
Africa, Middle East	568.4	2.6%	12.5%	15.3%	505.1	2.4%	463.4	2.2%
COSMETICS BRANCH	**21,658.2**	**100.0%**	**1.7%**	**4.2%**	**21,288.4**	**100.0%**	**20,783.1**	**100.0%**

4.2.3. BREAKDOWN OF OPERATING PROFIT OF COSMETICS BRANCH BY GEOGRAPHIC ZONE

€ millions	**2014**	2013	2012
Western Europe	1,746.1	1,661.8	1,579.8
North America	1,010.4	1,003.1	959.7
New Markets	1,684.1	1,628.2	1,518.5
COSMETICS DIVISIONS TOTAL	**4,440.6**	**4,293.0**	**4,058.1**
Non-allocated	-615.2	-604.5	-577.2
COSMETICS BRANCH	**3,825.4**	**3,688.5**	**3,480.9**

4.2.4. BREAKDOWN OF OPERATIONAL ASSETS AND CONSOLIDATED INVESTMENTS BY GEOGRAPHIC ZONE

	2014		2013		2012	
€ 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	8,270.8	297.2	7,786.3	308.9	7,812.9	273.4
North America	5,268.5	221.8	4,347.3	251.4	4,437.1	207.0
New Markets	4,820.7	335.5	3,738.1	341.8	3,630.3	334.3
Non-allocated	741.2	152.8	600.4	128.3	556.5	122.4
GROUP	**19,101.2**	**1,007.3**	**16,472.1**	**1,030.4**	**16,436.8**	**937.1**

NOTE 5 Personnel costs and number of employees

5.1. Number of employees

	12.31.2014	12.31.2013 (1)	12.31.2012 (1)
Western Europe	31,080	30,525	29,715
North America	15,441	15,036	15,692
New Markets	32,090	29,417	24,987
TOTAL	**78,611**	**74,978**	**70,394**

(1) Excluding employees of equity-accounted companies.

5.2. Personnel costs

€ millions	2014	2013 (1)	2012 (1)
Personnel costs (including welfare contributions)	**4,623.4**	**4,387.3**	**4,224.9**

(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 is shown in "Other operational income and expenses" (see note 8) 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	2014	2013	2012
Directors' fees	1.1	1.1	1.1
Salaries and benefits including employer welfare contributions	28.8	26.7	26.5
Employee retirement obligation charges	16.0	16.3	11.5
Share-based payment (stock option and free shares)	23.5	18.2	21.2

The number of executives who were members of the Management Committee was 16 at December 31st, 2014 compared with 15 at December 31st, 2013 and at December 31st, 2012.

NOTE 6 Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amount to €871.2 million, €838.3 million and €780.8 million, respectively, for 2014, 2013 and 2012.

NOTE 7 Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	2014	2013	2012
Time value	-15.8	-25.7	-68.9
Other foreign exchange gains and losses	50.7	67.0	-59.4
TOTAL	**34.9**	**41.3**	**-128.4**

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 positive €0.4 million in 2014, for a positive €0.5 million in 2013 and for a negative €0.5 million in 2012.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	2014	2013	2012
Cost of sales	32.6	46.2	-112.0
Research and development	-5.7	-15.4	10.0
Advertising and promotion	4.7	6.3	-16.4
Selling, general and administrative expenses	3.2	4.2	-9.9
FOREIGN EXCHANGE GAINS AND LOSSES	**34.9**	**41.3**	**-128.4**

NOTE 8 Other operational income and expenses

This item breaks down as follows:

€ millions	**2014**	2013	2012
Capital gains and losses on disposals of property, plant and equipment and intangible assets	1.0	-0.1	4.3
Impairment of property, plant and equipment and intangible assets (1)	-	-35.4	-
Restructuring costs (2)	-77.9	-65.9	-97.1
Other (3)	-230.3	-27.2	-28.4
TOTAL	**-307.2**	**-128.6**	**-121.1**

(1) These impairment charges mainly relate to:
- *in 2013, the Club des Créateurs de Beauté goodwill for €35.4 million following the decision taken in November 2013 to cease its activity.*

(2) Including:
- *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 & 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);*
- *in 2013, the reorganisation of industrial and logistics activities in Spain for €11.4 million, the termination of the distribution of the Helena Rubinstein brand in Spain and Portugal for €17.1 million, a voluntary departure plan implemented in Italy for €9.3 million, the decision to cease the Club des Créateurs de Beauté activity for €28.7 million and €7.0 million relating to the reversal of impairment charged against the building of the Solon plant following its sale at the end of 2013;*
- *in 2012, the cost of specialising operations in European factories for €16.6 million, of sales force adjustments in Germany for €5.1 million, of reorganising industrial operations within the Professional Products Division in the US for €35.1 million, and of streamlining logistics activities in the Salon Centric Division which supplies American hair salons for €27.0 million.*

(3)
- *in 2014, the exceptional "solidarity" tax on high salaries for €17.4 million, costs relating to acquisitions for €20.4 million, and the fine levied by the competition authority against L'Oréal S.A. for €189.5 million (see note 29);*
- *in 2013, costs relating to acquisitions for €11.1 million, the exceptional "solidarity" tax on high salaries for €14.6 million;*
- *in 2012, the revision of risks relating to investigations carried out by competition authorities for €3.1 million (see note 29) as well as costs relating to acquisitions for €11.1 million and revision of the earn out clause regarding Essie Cosmetics for €10.4 million.*

NOTE 9 Other financial income and expenses

This item breaks down as follows:

€ millions	**2014**	2013	2012
Other financial income	0.3	-	0.1
Interest component of pension costs	-29.1	-38.3	-
Other financial expenses	-6.3	-6.4	-6.1
TOTAL	**-35.1**	**-44.7**	**-6.0**

NOTE 10 Income tax

10.1. Detailed breakdown of income tax

€ millions	2014	2013	2012
Current tax	1,051.0	1,027.6	950.6
Deferred tax	60.0	16.0	34.8
INCOME TAX	**1,111.0**	**1,043.6**	**985.4**

10.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2014	2013	2012
Profit from continuing operations before tax and associates	**3,890.4**	**3,928.0**	**3,752.3**
Theoretical tax rate	29.83%	30.35%	29.98%
Expected tax charge	**1,160.5**	**1,192.0**	**1,124.8**
Impact of permanent differences (1)	106.5	41.6	5.3
Impact of tax rate differences (2)	-116.2	-142.4	-99.2
Change in unrecognised deferred taxes	10.1	-5.2	3.9
Other (3)	-49.9	-42.6	-49.4
GROUP TAX CHARGE	**1,111.0**	**1,043.6**	**985.4**

(1) In 2014, this amount includes €72 million relating to the fine levied by the competition authority.
(2) In 2012, this amount included +€25 million relating to the revaluation of the tax on fair value of Sanofi shares.
(3) Including tax credits, withholding taxes on distributions, tax reassessments and provisions for tax liabilities. This amount includes €45 million in 2014 and €41 million in 2013 relating to the 3% additional levy on dividends paid as well as a tax reimbursement in China relating to fiscal years 2008 to 2011 following a change in tax legislation of €24 million in 2013 compared with €35 million in 2012.

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".

10.3. 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, 2011	**642.3**
Balance of deferred tax liabilities at December 31st, 2011	**-586.6**
Income statement impact	-34.8
Translation differences	-6.4
Other effects (1)	-13.8
Balance of deferred tax assets at December 31st, 2012	**695.2**
Balance of deferred tax liabilities at December 31st, 2012	**-694.3**
Income statement impact	-15.9
Translation differences	-12.0
Other effects (1)	-55.9
Balance of deferred tax assets at December 31st, 2013	**647.5**
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	**838.2**
Balance of deferred tax liabilities at December 31st, 2014	**-855.2**

(1) Including mainly the tax effect on actuarial gains and losses recognised in equity and in 2014 on newly consolidated companies for €115.7 million.

Deferred tax assets and liabilities recorded in the balance sheet may be broken as follows:

	12.31.2014		12.31.2013		12.31.2012	
€ millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	829.7	503.1	638.5	371.4	682.0	363.2
Deferred tax liabilities on revaluation of Sanofi (1)		352.1		359.2		331.2
Tax credits and tax loss carry-forwards	8.5		9.0		13.1	
DEFERRED TAX TOTAL	**838.2**	**855.2**	**647.5**	**730.6**	**695.2**	**694.3**

(1) In 2012, the deferred tax rate increased to 4.13%.

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€440.7 million, €263.6 million and €356.5 million respectively at the end of 2014, 2013 and 2012) and provisions for liabilities and charges (€167.2 million, €171.2 millions and €189.5 million respectively at the end of 2014, 2013 and 2012).

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 €55.3 million at December 31st, 2014 compared with €41.3 million at December 31st, 2013 and €53.7 million at December 31st, 2012.

NOTE 11 Net profit of continuing operations attributable to owners of the company excluding non-recurring items – Earnings per share

11.1. 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	2014	2013	2012
Net profit of continuing operations attributable to owners of the company	**2,767.6**	**2,878.3**	**2,759.6**
Capital gains and losses on property, plant and equipment and intangible assets	-1.0	0.1	-4.3
Impairment of property, plant and equipment and intangible assets	-	35.4	-
Restructuring costs	77.9	65.9	97.1
Other (1)	230.3	27.2	28.4
Tax effect on non-recurring items	-23.2	-15.9	-44.3
Non-controlling interests on non-recurring items	-1.6	-	-
Effect of changes in tax rates on the deferred tax liability arising on the revaluation of Sanofi	-	-	25.0
Tax effect on the acquisition of Nyx Cosmetics	21.1	-	-
3% additional levy on paid dividends (2)	45.2	41.4	-
Costs net of tax of the discontinuation of the Innéov operation (note 17)	9.0	-	-
NET PROFIT OF CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**3,125.3**	**3,032.4**	**2,861.5**

(1) Including €189.5 million relating to the fine handed levied against L'Oréal S.A. by the competition authority.
(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.

11.2. 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, see note 11.5):

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**

2013	Net profit attributable to owners of the company *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	2,878.3	597,734,044	4.82
Stock options	-	8,053,243	-
Free shares	-	2,214,120	-
DILUTED EARNINGS PER SHARE	**2,878.3**	**608,001,407**	**4.73**

2012	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,759.6	598,482,929	4.61
Stock options	-	5,491,789	-
Free shares	-	1,330,740	-
DILUTED EARNINGS PER SHARE	**2,759.6**	**605,305,458**	**4.56**

11.3. 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, see note 11.5):

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**

2013	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	3,032.4	597,734,044	5.07
Stock options	-	8,053,243	-
Free shares	-	2,214,120	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**3,032.4**	**608,001,407**	**4.99**

2012	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	2,861.5	598,482,929	4.78
Stock options	-	5,491,789	-
Free shares	-	1,330,740	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,861.5**	**605,305,458**	**4.73**

11.4. Calculation of the number of shares

The table below sets out the number of potential ordinary shares excluded from the calculation of earnings per share as they correspond to stock option plans with no dilutive effect on the periods presented:

	2014	2013	2012
Stock option plans	-	-	1,445,000

11.5. 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 2014 on shares held continuously in registered form between December 31st, 2012 and the 2015 dividend payment date. The number of shares eligible for the preferential dividend cannot exceed 0.5% of the share capital for any one shareholder.

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

2013	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	573,977,957	4.84	4.71
Shares carrying preferential dividend rights	34,023,449	5.32	5.18

2012	Number of shares	Diluted earnings per share	Diluted earnings per share of continuing operations
Shares carrying ordinary dividend rights	572,786,868	4.71	4.53
Shares carrying preferential dividend rights	32,518,590	5.18	4.99

NOTE 12 Goodwill

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. The methodology used to carry out impairment tests is described in note 1.

€ 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 & 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	-	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 & Carita, Magic Holdings, Nyx, 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.

€ millions *2013*	12.31.2012	Acquisitions/ Disposals	Other movements	12.31.2013
L'Oréal Professionnel/Kérastase	351.6	0.6	-7.7	344.6
Matrix	356.3	14.5	-15.3	355.4
Redken/PureOlogy	485.2		-16.2	469.0
Professional Products total	**1,193.1**	**15.1**	**-39.2**	**1,169.0**
L'Oréal Paris	775.5		-4.9	770.6
Maybelline/Garnier	1,087.9		-34.4	1,053.4
LaScad	156.4	2.7		159.1
Other	100.0	49.0	-42.3	106.7
Consumer Products total	**2,119.8**	**51.7**	**-81.7**	**2,089.8**
Lancôme	780.8		-1.8	779.0
Shu Uemura	146.5		-28.8	117.7
YSL Beauté	519.8			519.8
Perfumes	334.7		-	334.7
Clarisonic	266.3		-8.8	257.5
Urban Decay	126.1		2.0	128.0
Other	63.8		-0.3	63.5
L'Oréal Luxe total	**2,238.0**		**-37.7**	**2,200.3**
Vichy/Dermablend	268.9		-1.8	267.1
Other	110.2		-2.2	108.0
Active Cosmetics total	**379.1**		**-4.1**	**375.1**
Other	-			-
The Body Shop	**340.1**	**40.0**	**-8.3**	**371.8**
GROUP TOTAL	**6,270.1**	**106.8**	**-170.8**	**6,206.0**

2013 acquisitions mainly relate to Interbeauty and Emporio Body Store. No significant disposals took place during 2013.

Other movements mainly reflect the negative impact of changes in exchange rates for €141.5 million and total impairment loss taken against the full amount of Club des Créateurs de Beauté goodwill for €35.3 million.

The accumulated impairment losses relating to SoftSheen-Carson, Yue-Sai, Sanoflore and Club des Créateurs de Beauté amount to €125.2 million, €29.1 million, €35.7 million and €34.7 million respectively, at December 31st, 2013.

€ millions *2012*	12.31.2011	Acquisitions/ Disposals	Other movements	12.31.2012
L'Oréal Professionnel/Kérastase	348.1	5.5	-2.0	351.6
Matrix	343.0	18.1	-4.8	356.3
Redken/PureOlogy	492.6		-7.4	485.2
Professional Products total	**1,183.7**	**23.6**	**-14.2**	**1,193.1**
L'Oréal Paris	773.8		1.7	775.5
Maybelline/Garnier	1,102.7		-14.8	1,087.9
Cadum	-	156.4		156.4
Other	98.2	3.3	-1.5	100.0
Consumer Products total	**1,974.7**	**159.7**	**-14.6**	**2,119.8**
Lancôme	780.8			780.8
Shu Uemura	163.9		-17.4	146.5
YSL Beauté	519.8			519.8
Perfumes	334.0		0.7	334.7
Clarisonic	260.0		6.3	266.3
Urban Decay	-	126.4	-0.3	126.1
Other	63.6		0.2	63.8
L'Oréal Luxe total	**2,122.1**	**126.4**	**-10.5**	**2,238.0**
Vichy/Dermablend	269.4		-0.5	268.9
Other	110.8		-0.6	110.2
Active Cosmetics total	**380.2**		**-1.1**	**379.1**
Other	9.2		-9.2	-
The Body Shop	**330.8**	**1.6**	**7.7**	**340.1**
GROUP TOTAL	**6,000.7**	**311.3**	**-41.9**	**6,270.1**

2012 acquisitions mainly relate to Cadum, Urban Decay and Emiliani Entreprises for €306.4 million. No significant disposals took place during 2012.

Other movements mainly reflect the negative impact of changes in exchange rates for €52.8 million, partly offset by the allocation of the purchase price of Clarisonic for €10.6.million.

No impairment loss has been recorded on 2012.

The accumulated impairment losses relating to SoftSheen-Carson, Yue-Sai and Sanoflore amount to €133.4 million, €29.5 million and €35.7 million respectively, at December 31st, 2012.

NOTE 13 Other intangible assets

€ 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
Other (3)	530.9	94.0	-14.1	111.6	15.6	738.0
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
Other	209.4	42.9	-14.0	0.1	23.0	261.4
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 & Carita, Nyx, 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 & Carita (€81.4 million), Nyx (€94.0 million) and Magic (€131.5 million).
(3) Including €295.0 million in customer relationships at December 31st, 2014.

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.

€ millions 2013	12.31.2012	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2013
Brands with indefinite useful life (2)	1,501.1				-53.9	1,447.2
Amortisable brands and product ranges	74.3	1.0	-1.7	19.0	-0.7	91.9
Licences and patents	277.2	9.6	-0.2		-1.2	285.3
Software	756.7	59.1	-25.0	0.1	-2.4	788.4
Other	493.8	69.0	-5.9		-26.0	530.9
Gross value	**3,103.1**	**138.6**	**-32.8**	**19.1**	**-84.2**	**3,143.7**
Brands with indefinite useful life	103.2				-1.9	101.4
Amortisable brands and product ranges	56.6	6.6	-1.7		-1.0	60.6
Licences and patents	96.4	12.6	-0.2		0.1	108.9
Software	503.9	97.5	-24.9		-18.4	558.1
Other	179.0	39.8	-3.7		-5.7	209.4
Amortisation and provisions	**939.0**	**156.5**	**-30.5**	**-**	**-26.8**	**1,038.3**
Other intangible assets – net	**2,164.0**	**-18.0**	**-2.3**	**19.1**	**-57.4**	**2,105.4**

(1) This item consists mainly of changes in the scope of consolidation resulting from Vogue and Interbeauty.
(2) At December 31st, 2013, brands with an indefinite useful life consist mainly of The Body Shop (€497.3 million), Matrix (€268.1 million), Kiehl's (€120.4 million), Shu Uemura (€98.8 million) and Clarisonic (€82.3 million).

Other movements mainly consisted of the negative change in exchange rates over the period.

Accumulated impairment losses amount to €14.0 million on Biomedic, €39.9 million on Yue-Sai and €47.5 million on Softsheen-Carson at December 31st, 2013.

€ millions *2012*	12.31.2011	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2012
Brands with indefinite useful life (2)	1,417.5			95.3	-11.7	1,501.1
Amortisable brands and product ranges	69.5	2.8		2.2	-0.2	74.3
Licences and patents	276.7	10.2	-10.2		0.5	277.2
Software	507.8	60.1	-9.8	0.3	198.3	756.7
Other	455.2	31.2	-0.9	40.1	-31.8	493.8
Gross value	**2,726.7**	**104.3**	**-20.9**	**137.9**	**155.1**	**3,103.1**
Brands with indefinite useful life	104.3				-1.1	103.2
Amortisable brands and product ranges	54.2	2.8			-0.4	56.6
Licences and patents	93.8	12.3	-10.2		0.4	96.4
Software	332.2	90.0	-10.3	0.1	91.9	503.9
Other	151.1	28.9	-0.4		-0.6	179.0
Amortisation and provisions	**735.6**	**134.0**	**-20.9**	**0.1**	**90.2**	**939.0**
Other intangible assets – net	**1,991.1**	**-29.7**	**-**	**137.8**	**64.9**	**2,164.0**

(1) This item consists mainly of changes in the scope of consolidation resulting from Cadum, Urban Decay and Emiliani Entreprises.
(2) At December 31st, 2012, brands with an indefinite useful life consist mainly of The Body Shop (€507.8 million), Matrix (€276.8 million), Kiehl's (€123.8 million), Shu Uemura (€117.2 million) and Clarisonic (€85.1 million).

Other movements mainly consisted of the reclassification of software from property, plant and equipment to intangible assets for €81.9 million offset by changes in exchange rates with a negative €17.1 million.

Accumulated impairment losses amount to €14.0 million on Biomedic, €40.4 million on Yue-Sai and €48.9 million on Softsheen-Carson at December 31st, 2012.

NOTE 14 Impairment tests on intangible assets

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
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)
2013 TEST			
Maybelline/Garnier	1,053.4	7.9	8.9
The Body Shop	869.1	8.5	(1)
Lancôme	779.0	7.9	8.9
L'Oréal Paris	770.6	7.9	8.9
Matrix	623.6	7.9	8.9
Redken/PureOlogy	528.3	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	344.6	7.9	8.9
Clarisonic	339.8	7.9	8.9
Vichy/Dermablend	302.3	7.9	(1)
2012 TEST			
Maybelline/Garnier	1,087.9	7.9	8.9
The Body Shop	847.9	7.9	(1)
Lancôme	780.8	7.9	8.9
L'Oréal Paris	775.5	7.9	8.9
Matrix	633.1	7.9	8.9
Redken/PureOlogy	546.9	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	351.6	7.9	8.9
Clarisonic	351.4	7.9	8.9
Vichy/Dermablend	304.7	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.

At December 31st, 2014, a 1-point increase in the discount rate on all Cash Generating Units would not lead to an impairment loss.

The terminal growth rate is consistent in accordance with market data, *i.e.* 3%.

A 1-point decrease in the terminal growth rate on all Cash Generating Units would not lead to an impairment loss.

A 1-point decrease in the margin rate over the business plan period on all Cash Generating Units would not lead to an impairment loss.

NOTE 15 Property, plant and equipment

€ 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 asset.*

€ millions

2013	12.31.2012	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2013
Land and buildings	1,876.2	71.3	-21.4	-56.2	76.9	1,946.7
Machinery and equipment	2,783.7	197.6	-149.2	-92.0	13.7	2,753.8
Point-of-sales advertising: stands and displays	1,355.7	273.6	-186.3	-69.3	30.9	1,404.6
Other property, plant and equipment and fixed assets in progress	1,305.0	349.1	-67.1	-65.4	-194.0	1,327.6
Gross value	**7,320.6**	**891.5**	**-424.0**	**-282.9**	**-72.5**	**7,432.7**
Land and buildings	993.1	67.6	-15.8	-18.3	0.3	1,026.9
Machinery and equipment	1,910.7	235.9	-147.2	-50.7	-63.1	1,885.7
Point-of-sales advertising: stands and displays	914.3	274.8	-186.1	-45.2	0.2	958.1
Other property, plant and equipment	670.0	103.4	-66.5	-29.8	-6.3	670.8
Depreciation and provisions	**4,488.1**	**681.7**	**-415.6**	**-143.9**	**-68.9**	**4,541.4**
Property, plant and equipment – net	**2,832.4**	**209.8**	**-8.3**	**-139.0**	**-3.6**	**2,891.2**

(1) *These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset.*

€ millions

2012	12.31.2011	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2012
Land and buildings	1,777.8	95.1	-13.9	-13.3	30.5	1,876.2
Machinery and equipment	2,661.8	180.6	-79.1	-26.6	47.0	2,783.7
Point-of-sales advertising: stands and displays	1,245.2	281.5	-185.7	-5.3	20.1	1,355.7
Other property, plant and equipment and fixed assets in progress	1,389.2	275.6	-45.3	-16.9	-297.7	1,305.0
Gross value	**7,074.0**	**832.8**	**-324.1**	**-62.1**	**-200.1**	**7,320.6**
Land and buildings	944.5	67.1	-12.1	-5.5	-1.0	993.1
Machinery and equipment	1,810.9	224.7	-75.6	-15.8	-33.5	1,910.7
Point-of-sales advertising: stands and displays	842.5	258.7	-184.9	-1.9	0.0	914.3
Other property, plant and equipment	721.6	96.2	-45.2	-7.9	-94.7	670.0
Depreciation and provisions	**4,319.5**	**646.8**	**-317.8**	**-31.1**	**-129.2**	**4,488.1**
Property, plant and equipment – net	**2,754.5**	**186.1**	**-6.3**	**-31.0**	**-70.8**	**2,832.4**

(1) *These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items as well as the reclassification of software within intangible assets for a gross value of €176.8 million and a net amount of €79.3 million.*

Property, plant and equipment include capital lease contracts for the following amounts:

€ millions	12.31.2014	12.31.2013	12.31.2012
Land and buildings	99.9	80.6	114.4
Machinery and equipment	2.5	2.2	2.3
Other property, plant and equipment and fixed assets in progress	59.8	25.5	20.5
Gross value	**162.1**	**108.3**	**137.2**
Depreciation	105.0	54.6	70.4
Net value	**57.1**	**53.7**	**66.8**

NOTE 16 Non-current financial assets

€ millions	12.31.2014		12.31.2013		12.31.2012	
	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Financial assets available-for-sale						
◆ Sanofi (1)	8,945.1	4,033.5	9,117.7	4,033.5	8,440.2	4,033.5
◆ Unlisted securities (2)	5.1	5.6	4.7	5.3	2.9	3.9
Financial assets at amortised cost						
◆ Non-current loans and receivables	118.9	123.2	81.6	86.5	83.1	87.8
TOTAL	**9,069.0**	**4,162.3**	**9,204.0**	**4,125.3**	**8,526.2**	**4,125.2**

(1) L'Oréal's stake in Sanofi was 8.96% at December 31st, 2014. The carrying amount at December 31st, 2014, December 31st, 2013 and December 31st, 2012 (€8,945.1 million, €9,117.7 million and €8,440.2 million respectively) corresponds to the market value of the shares based on the closing price at each of these dates (€75.66, €77.12 and €71.39 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 stated at cost less any impairment losses.

NOTE 17 Investments in associates

€ millions	12.31.2014	12.31.2013	12.31.2012
Investments in associates			
◆ Galderma (1)	-	433.0	414.8
◆ Innéov (2)	-	2.2	-
TOTAL	**-**	**435.2**	**414.8**

(1) Classified within assets held for sale since January 1st, 2014 (note 3).
(2) Classified in provisions for liabilities and charges at December 31st, 2014 (€10.8 million) and December 31st, 2012 (€6.8 million), since the Group's share in net assets was negative (see note 24). In late November 2014, L'Oréal and Nestlé announced their intention to end the operations of their joint venture Innéov in the first quarter of 2015. 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 11.1).

The key figures for Galderma (based on an interest of 100%) for 2013 and 2012 can be summarized as follows:

€ millions	2013/ 12.31.2013	2012/ 12.31.2012
Net sales	1,652.6	1,590.9
Net profit	159.9	216.1
Balance sheets total	2,704.4	2,418.5
Net debt	999.5	769.0

NOTE 18 Inventories

€ millions	12.31.2014	12.31.2013	12.31.2012
Finished products and consumables	2,028.0	1,827.7	1,742.7
Raw materials, packaging and semi-finished products	501.7	496.3	451.4
Gross value	**2,529.7**	**2,324.0**	**2,194.1**
Valuation allowance	266.8	238.8	223.0
Inventories – net	**2,262.9**	**2,085.2**	**1,971.1**

NOTE 19 Trade accounts receivable

€ millions	12.31.2014	12.31.2013	12.31.2012
Gross value	3,334.7	3,063.1	3,094.1
Valuation allowance	36.9	40.3	42.4
Net value	**3,297.8**	**3,022.8**	**3,051.7**

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 2014.

NOTE 20 Other current assets

€ millions	12.31.2014	12.31.2013	12.31.2012
Tax and employee-related receivables (excluding income tax)	351.5	340.2	325.3
Prepaid expenses	272.1	224.9	224.6
Derivatives	262.5	195.2	154.5
Current financial assets (1)	72.0	504.5	51.4
Other current assets	241.2	235.5	213.6
TOTAL	**1,199.3**	**1,500.3**	**969.4**

(1) Galderma repaid €438.5 million of loans in July 2014.

NOTE 21 Cash and cash equivalents

€ millions	12.31.2014 Carrying amount	12.31.2014 Acquisition cost	12.31.2013 Carrying amount	12.31.2013 Acquisition cost	12.31.2012 Carrying amount	12.31.2012 Acquisition cost
Marketable securities	666.5	666.4	1,024.2	1,023.9	150.0	150.1
Bank accounts and other cash and cash equivalents	1,250.5	1,250.5	1,635.1	1,635.1	2,085.2	2,085.2
TOTAL	**1,917.0**	**1,917.0**	**2,659.3**	**2,659.0**	**2,235.2**	**2,235.3**

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 €0.1 million in 2014 compared with €0.3 million and -€0.1 million respectively in 2013 and in 2012.

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.

NOTE 22 Equity

22.1. Share capital and additional paid in capital

Share capital consists 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 (see note 3).

Share capital consisted of 605,901,887 shares with a par value of €0.20 at December 31st, 2013, following the exercise of subscription options for 5,961,501 shares and 238,200 free shares and the cancellation of 9,108,641 shares.

Share capital consisted of 608,810,827 shares with a par value of €0.20 at December 31st, 2012, following the exercise of subscription options for 5,826,745 shares.

22.2. Treasury stock

Shares acquired under the shareholder-approved L'Oréal share buyback programme are deducted from consolidated equity. Capital gains or losses relating to these shares are also recorded in equity net of tax.

A) 2014

The change in the number of shares in 2014 is 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 3).

The change in Treasury stock in 2014 is 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	6,164.5
AT 12.31.2014	**2,905,000**	**4,083,511**	**6,988,511**	**683.0**
€ millions	363.4	319.6	683.0	

B) 2013

The change in the number of shares in 2013 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2013	**608,810,827**	**-10,454,165**	**598,356,662**
Shares cancelled	-9,108,641	9,108,641	-
Options and free shares exercised	6,199,701	1,224,058	7,423,759
Treasury stock purchased		-5,986,391	-5,986,391
AT 12.31.2013	**605,901,887**	**-6,107,857**	**599,794,030**

The change in Treasury stock in 2013 is as follows:

In shares	Buyback programme	Allocated to stock options/free shares plans	Total	€ millions
AT 01.01.2013	**5,077,250**	**5,376,915**	**10,454,165**	**904.5**
Shares cancelled	-9,108,641		-9,108,641	-998.5
Options and free shares exercised		-1,224,058	-1,224,058	-81.7
Treasury stock purchased	5,986,391		5,986,391	743.8
AT 12.31.2013	**1,955,000**	**4,152,857**	**6,107,857**	**568.1**
€ millions	244.5	323.6	568.1	

C) 2012

The change in the number of shares in 2012 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2012	**602,984,082**	**-8,597,659**	**594,386,423**
Shares cancelled			-
Options and free shares exercised	5,826,745	3,220,744	9,047,489
Treasury stock purchased	-	-5,077,250	-5,077,250
AT 12.31.2012	**608,810,827**	**-10,454,165**	**598,356,662**

The change in Treasury stock in 2012 is as follows:

In shares	Buyback programme	Allocated to stock options/free shares plans	Total	€ millions
AT 01.01.2012	**-**	**8,597,659**	**8,597,659**	**644.4**
Shares cancelled				
Options and free shares exercised		-3,220,744	-3,220,744	-239.1
Treasury stock purchased	5,077,250	-	5,077,250	499.2
AT 12.31.2012	**5,077,250**	**5,376,915**	**10,454,165**	**904.5**
€ millions	499.2	405.3	904.5	

22.3. Share subscription or purchase options – Free shares

1) SHARE SUBSCRIPTION OR PURCHASE OPTIONS

The table below sets out data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2014.

Grant date	Number of options	Number of options not yet exercised	Exercise period From	Exercise period To	Exercise price
11.30.2005	4,200,000	297,551	12.01.2010	11.30.2015	€61.37
11.30.2005	1,800,000	158,361	12.01.2010	11.30.2015	€62.94
04.25.2006	2,000,000	1,000,000	04.26.2011	04.25.2016	€72.60
12.01.2006	5,500,000	1,156,005	12.02.2011	12.01.2016	€78.06
11.30.2007	4,000,000	1,231,633	12.01.2012	11.30.2017	€91.66
03.25.2009	3,650,000	1,717,439	03.26.2014	03.25.2019	€50.11
04.27.2010	4,200,000	3,976,500	04.28.2015	04.27.2020	€80.03
04.22.2011	1,470,000	1,233,500	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, 2014, the performance conditions were deemed to have been met for the April 27th, 2010 plan. The performance conditions were definitively met for the March 25th, 2009 plan.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

	Purchase options		Subscription options						
	November 2005	June 2005	November 2005	April 2006	December 2006	November 2007	March 2009	April 2010	April 2011
Risk-free rate of return	3.16%	2.63%	3.16%	3.80%	3.62%	4.01%	3.15%	2.83%	3.42%
Expected life span	6 years	6 years	6 years	6 years	7 years	7 years	7 years	7 years	8 years
Expected volatility	21.00%	17.00%	21.00%	20.50%	22.52%	23.00%	31.95%	23.53%	22.60%
Expected dividends	1.35%	1.38%	1.35%	1.35%	1.35%	1.24%	2.83%	1.86%	2.10%
Share price	€61.30	€59.40	€61.30	€74.10	€74.60	€94.93	€50.94	€80.50	€85.68
Exercise price	€62.94	€60.17	€61.37	€72.60	€78.06	€91.66	€50.11	€80,03	€83.19
Fair value	€12.30	€9.45	€12.88	€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 2012, 2013 and 2014 are set out below:

	12.31.2014		12.31.2013		12.31.2012	
	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	**14,298,484**	**72.24**	**22,210,443**	**71.90**	**32,524,432**	**72.02**
◆ Options granted	-		-		-	
◆ Options exercised	-3,505,993	62.89	-7,182,259	70.66	-9,047,489	71.96
◆ Options expired	-21,502		-729,700		-1,266,500	
Number of options not exercised at end of period	**10,770,989**	**75.28**	**14,298,484**	**72.24**	**22,210,443**	**71.90**
Of which:						
◆ number of exercisable options at end of period	5,560,989	70.13	5,640,484	77.81	13,235,943	73.90
◆ expired options at end of period	3,000		6,500		45,000	

The weighted average share price was €125.73, €123.64 and €93.60, respectively, for 2014, 2013 and 2012.

The total charge recorded in 2014, 2013 and 2012 amounted to €20.4 million, €27.0 million and €41.2 million, respectively.

2) FREE SHARES

On April 17th, 2014, April 26th, 2013, April 17th, 2012, April 22nd, 2011, April 27th, 2010 and March 25th, 2009 the Board of Directors decided to grant respectively 1,068,565, 1,057,820, 1,325,050, 1,038,000, 450,000 and 270,000 free shares.

Vesting conditions

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.

A total of 237,800 shares and 389,300 shares were definitively granted, respectively, on March 26th, 2013 under the March 25th, 2009 plan and on April 28th, 2014 under the April 27th, 2010 plan.

The performance conditions concern:

- April 17th, 2014, April 26th, 2013, April 17th, 2012 and April 22nd, 2011 plans:
  - for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2015, 2016 and 2017 fiscal years under the 2014 plan, for the 2014, 2015 and 2016 fiscal years under the 2013 plan, for the 2013, 2014 and 2015 fiscal years under the 2012 plan and for the 2012, 2013 and 2014 fiscal years under the 2011 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 2015, 2016 and 2017 fiscal years under the 2014 plan, 2014, 2015 and 2016 fiscal years under the 2013 plan, in the 2013, 2014 and 2015 fiscal years under the 2012 plan and in the 2012, 2013 and 2014 fiscal years under the 2011 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, 2014, the performance conditions were deemed to have been met.

Fair value of free shares granted

The fair value 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 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 cost of the holding period amounts respectively to 4.46%, 5.75%, 8.06% and 8.54% of the share value at the grant date for the 2014, 2013, 2012 and 2011 plans.

On the basis of these assumptions, the fair values for the 2014, 2013, 2012, 2011 and 2010 plans amount to €104.58, €112.37, €77.07 and €70.36 respectively for French residents, and to €109.99, €119.87, €84.62 and €77.67 respectively, for non-residents, compared to a share price of €121.35, €130.45, €93.68 and €85.68, respectively.

The expense recorded in 2014, 2013 and 2012 amounted to €93.0 million, €70.2 million and €45.2 million, respectively.

22.4. Other comprehensive income

The following tables indicate movements in these items:

€ millions	12.31.2014	12.31.2013	12.31.2012
Financial assets available-for-sale			
Reserve at beginning of period	5,084.2	4,406.7	2,675.8
Changes in fair value over period	-172.6	677.5	1,730.9
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss	-	-	-
Reserve at end of period	**4,911.6**	**5,084.2**	**4,406.7**

€ millions	12.31.2014	12.31.2013	12.31.2012
Cash flow hedges – foreign exchange			
Reserve at beginning of period	108.6	95.4	-7.4
Changes in fair value over period	16.0	137.2	20.1
Changes in fair value recorded in profit and loss	-33.2	-124.0	82.7
Deconsolidation	-2.6	-	-
Reserve at end of period	**88.8**	**108.6**	**95.4**

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€199.1 million (-€187.0 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2014.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€247.5 million (-€212.2 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2013.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€209.7 million (-€195.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2012.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€38.9 million (+€51.0 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2014.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€44.5 million (+€74.0 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2013.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€55.1 million (+€68.3 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2012.

€ millions	12.31.2014	12.31.2013	12.31.2012
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	12.31.2014	12.31.2013	12.31.2012
Actuarial gains / (losses) and impact of asset ceiling			
Reserve at beginning of period	-879.5	-1068.4	-796.4
Actuarial gains / (losses) over the period	-651.8	188.9	-272.0
Impact of asset ceiling	-20.9	-	0.1
Deconsolidation	10.0	-	-
Reserve at end of period	**-1,542.2**	**-879.5**	**-1,068.4**

€ millions	12.31.2014	12.31.2013	12.31.2012
Other comprehensive income			
Gross reserve	3,458.2	4,313.3	3,433.7
Associated tax effect	287.7	56.8	152.7
Reserve net of tax	**3,745.9**	**4,370.1**	**3,586.4**

NOTE 23 Post-employment benefits, termination benefits and other long-term employee benefits

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:

- 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.

Pension obligations are determined and recognised in accordance with the accounting principles presented in note 1.23.

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 %	**12.31.2014**	12.31.2013	12.31.2012
Discount rate	2.8%	3.8%	3.6%
Salary increases	4.7%	4.9%	4.9%
Expected long-term return on plan assets	2.9%	3.8%	3.6%

	12.31.2014			12.31.2013			12.31.2012		
	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	5.8%	4.2%	2019	4.9%	3.6%	2019	5.7%	3.8%	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 %	**2014**	2013	2012
Weighted average (all countries) based on benefit	2.8%	3.8%	3.6%
of which:			
euro zone [(1)]	2.2%	3.5%	3.4%
United States	3.8%	4.3%	3.5%
United Kingdom	3.8%	4.5%	4.5%

(1) The weighted average for 2014 consists of a 2.3% discount rate on annuity plans with an average term of 23.8 years and a 2.1% 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 €298.7 million for the euro zone, €62.8 million for the United States and €69.1 million for the United Kingdom.

The expected returns on plan assets are based on the discount rates used.

It can be broken down by geographic zone as follows:

In %	**2014**	2013	2012
Weighted average based on the plan assets of each country	**2.9%**	**3.8%**	**3.6%**
of which:			
euro zone	2.2%	3.5%	3.4%
United States	3.8%	4.3%	3.5%
United Kingdom	3.8%	4.5%	4.5%

A 50 basis point decrease in the expected return would decrease the assets as well as the expected return on plan assets by -€8.6 million for the euro zone, -€3.8 million for the United States and -€2.9 million for the United Kingdom.

The breakdown of plan assets is as follows:

In %	**12.31.2014**	12.31.2013	12.31.2012
Equity securities (1)	35.6%	37.7%	35.1%
Bonds	56.4%	52.8%	55.8%
Property assets (2)	3.7%	3.6%	3.4%
Monetary instruments	1.2%	1.0%	1.0%
Other	3.1%	4.9%	4.6%
TOTAL	**100%**	**100%**	**100%**

(1) Of which L'Oréal shares: nil.
(2) Of which property assets occupied by Group entities: nil.

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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 2014, 2013 and 2012 are set out below:

€ millions	Present value of defined benefit obligations	Plan assets	Net provisions
Balance at December 31st, 2011	**3,205.6**	**-2,100.0**	**1,105.6**
Service cost	117.7	-	117.7
Interest cost	140.4	-	140.4
Expected return on assets	-	-120.7	-120.7
Past service cost: new plans/plan amendments	0.9	-	0.9
Curtailments	-	-	-
Settlements	0.1	-	0.1
Benefits paid	-160.3	116.9	-43.5
Contributions paid	5.3	-271.7	-266.4
Actuarial gains and losses	402.3	-140.7	261.6
Translation differences	-16.9	10.5	-6.3
Other movements	-0.3	2.0	1.7
Balance at December 31st, 2012	**3,694.8**	**-2,503.6**	**1,191.2**
Service cost	134.5	-	134.5
Interest cost	137.1	-	137.1
Expected return on assets	-	-98.7	-98.7
Past service cost: new plans/plan amendments	0.2	-	0.2
Curtailments	-0.2	-	-0.2
Settlements	-	-	-
Benefits paid	-178.7	131.3	-47.4
Contributions paid	4.2	-247.9	-243.7
Actuarial gains and losses	-128.7	-50.8	-179.4
Translation differences	-72.9	52.6	-20.3
Other movements (1)	60.9	5.4	66.3
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**

(1) Including for the projected benefit obligation in 2013 €67.6 million reclassified from employee-related liabilities to provisions for employee retirement obligations.

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	**12.31.2014**	12.31.2013	12.31.2012
Present value of defined benefit obligations wholly or partly funded	4,014.8	3,199.8	3,277.5
Fair value of plan assets	3,280.6	2,711.8	2,503.6
Net position of defined benefit obligations wholly or partly funded	734.2	488.0	773.9
Present value of defined benefit obligations wholly unfunded	745.5	451.6	417.3

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	**2014**	2013	2012
Service cost	141.4	134.5	117.7
Interest cost	144.2	137.1	140.4
Expected return on plan assets	-115.1	-98.7	-120.7
New plans/plan amendments	-5.1	0.2	0.9
Curtailments	-33.2	-0.2	-
Settlements	0.1	-	0.1
TOTAL	**132.3**	**172.9**	**138.4**

Contributions to defined contribution plans recognised as an expense in 2014, 2013 and 2012 amounted to €409.8, €388.4 and €367.3 million, respectively.

A change of one percentage point in medical cost inflation would have the following impact:

	Increase of 1%	Decrease of 1%
Impact on projected benefit obligation	13.3	-10.8
Impact on current service cost and interest costs	7.6	-5.6

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Actuarial gains and losses for the periods presented are as follows:

2014 *€ millions*	**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**

2013 *€ millions*	Present value of defined benefit obligations	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	-9.4	-50.8	-60.2
Actuarial gains and losses: demographic assumptions	18.2	-	18.2
Actuarial gains and losses: financial assumptions	-137.5	-	-137.5
TOTAL	**-128.6**	**-50.8**	**-179.4**

2012 *€ millions*	Present value of defined benefit obligations	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	2.1	-140.7	-138.6
Actuarial gains and losses: demographic assumptions	-138.2	-	-138.2
Actuarial gains and losses: financial assumptions	538.4	-	538.4
TOTAL	**402.3**	**-140.7**	**261.6**

NOTE 24 Provisions for liabilities and charges

24.1. Closing balances

€ millions	12.31.2014	12.31.2013	12.31.2012
Non-current provisions for liabilities and charges	**193.6**	**174.5**	**181.9**
Other non-current provisions (1)	193.6	174.5	181.9
Current provisions for liabilities and charges	**722.0**	**528.8**	**533.8**
Provisions for restructuring	65.5	98.2	129.4
Provisions for product returns	244.4	226.6	211.3
Other current provisions (1)	412.1	204.0	193.1
TOTAL	**915.6**	**703.3**	**715.8**

(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 €239.4 million at December 31st, 2014 compared with €43.0 million at December 31st, 2013 and €45.0 million at December 31st, 2012 (see note 29.2).
This caption also includes investments in associates when the Group's share in net assets is negative (see note 17).

24.2. Changes in provisions for liabilities and charges during the period

€ 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

The change in this caption in 2013 can be analysed as follows:

€ millions	12.31.2011	12.31.2012	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/Exchange rate/Other (1)	12.31.2013
Provisions for restructuring	93.4	129.4	30.7	-46.8	-12.5	-2.6	98.2
Provisions for product returns	208.2	211.3	187.3	-140.3	-26.7	-5.0	226.6
Other provisions for liabilities and charges	414.4	375.1	140.2	-74.1	-47.6	-15.1	378.5
TOTAL	**716.0**	**715.8**	**358.2**	**-261.2**	**-86.8**	**-22.7**	**703.3**

(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	31.0	-50.6	-13.1
◆ Operating profit	284.6	-209.2	-45.4
◆ Financial (income)/expense	0.2	-	-
◆ Income tax	42.4	-1.4	-28.3

The change in this caption in 2012 can be analysed as follows:

€ millions	12.31.2011	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/Exchange rate/Other (1)	12.31.2012
Provisions for restructuring	93.4	71.3	-31.9	-1.1	-2.3	129.4
Provisions for product returns	208.2	149.0	-126.6	-21.8	2.5	211.3
Other provisions for liabilities and charges	414.4	154.7	-169.7	-22.1	-2.2	375.1
TOTAL	**716.0**	**375.0**	**-328.2**	**-45.0**	**-2.0**	**715.8**

(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	84.6	-32.0	-1.1
◆ Operating profit	250.5	-205.3	-37.8
◆ Financial (income)/expense	0.2	-0.1	-
◆ Income tax	39.7	-90.8	-6.1

NOTE 25 Borrowings and debt

The Group uses bank loans for its medium-term financing needs and commercial paper issues in France and in the US for its short-term financing needs. None of these loans contain an early repayment clause linked to financial ratios (covenants).

25.1. Debt by type

	12.31.2014		12.31.2013		12.31.2012	
€ millions	**Non-current**	**Current**	Non-current	Current	Non-current	Current
Short-term paper	-	2,294.8	-	-	-	-
MLT bank loans	0.1	0.2	0.1	-	-	-
Debt on capital lease contracts	25.4	5.3	28.0	7.3	39.1	12.5
Overdrafts	-	48.4	-	34.4	-	104.5
Other borrowings and debt	41.6	172.6	55.8	213.6	7.8	123.3
TOTAL	**67.1**	**2,521.2**	**83.9**	**255.3**	**47.0**	**240.2**

25.2. Debt by maturity date

€ millions	**12.31.2014**	12.31.2013	12.31.2012
Under 1 year (1)	2,521.2	255.3	240.2
1 to 5 years	51.2	65.7	27.7
Over 5 years	15.9	18.2	19.2
TOTAL	**2,588.3**	**339.2**	**287.1**

(1) At December 31st, 2014, the Group had confirmed undrawn credit lines for €3,300.0 million compared with €3,236.3 million at December 31st, 2013 and €2,550.0 million at December 31st, 2012. These lines were not subject to any covenants.

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.

At the end of 2013, estimated interest payments were not material due to the debt outstanding at December 31st, 2013, which consisted of very short-term loans contracted locally by subsidiaries, and payments outstanding under finance leases.

At the end of 2012, estimated interest payments were not material due to the debt outstanding at December 31st, 2012, which consisted of very short-term loans contracted locally by subsidiaries, and payments outstanding under finance leases.

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.

25.3. Debt by currency

€ millions	**12.31.2014**	12.31.2013	12.31.2012
Euro (EUR)	1,850.6	25.1	115.2
US Dollar (USD)	479.0	11.9	14.2
Brazilian Real (BRL) (1)	83.6	111.9	34.5
Chinese Yuan Renminbi (CNY)	43.4	43.7	27.4
Canadian Dollar (CAD)	20.4	61.5	24.7
Indonesian Rupiah (IDR)	19.9	18.2	20.8
Egyptian Pound (EGP)	18.6	4.2	-
British Pound (GBP)	18.5	18.1	19.3
Russian Ruble (RUB)	16.3	0.9	0.4
Other	38.0	43.8	30.6
TOTAL	**2,588.3**	**339.2**	**287.1**

(1) Including €32.6 million and €48.3 million in amounts due to non-controlling interests respectively in 2014 and 2013 in respect of the Emporio Body Store acquisition.

25.4. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	12.31.2014	12.31.2013	12.31.2012
Floating rate	2,555.4	302.5	243.1
Fixed rate	32.9	36.7	44.0
TOTAL	**2,588.3**	**339.2**	**287.1**

25.5. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments are 0.30% in 2014 for short-term paper.

The Group did not hold bank loans at either December 31st, 2014 or December 31st, 2013 and December 31st, 2012.

25.6. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

	12.31.2014	12.31.2013	12.31.2012
Euro (EUR) (1)	0.37%	0.10%	0.35%
US Dollar (USD)	0.07%	0.10%	0.14%

(1) The increase in the euro rate reflects the extended average maturity of the Group's drawdowns on commercial paper.

25.7. 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 €2,589.2 million at December 31st, 2014. The fair value of borrowings and debt amounted to €340.0 million at December 31st, 2013. The fair value of borrowings and debt amounted to €287.7 million at December 31st, 2012.

25.8. Debt covered by collateral

No debt was covered by material amounts of collateral at December 31st, 2014, 2013 and 2012.

25.9. Confirmed credit lines

At December 31st, 2014, L'Oréal and its subsidiaries had €3,300.0 million of confirmed undrawn credit lines, compared with €3,236.3 million at December 31st, 2013 and €2,550.0 million at December 31st, 2012.

Credit lines fall due as follows:

- €0 million in less than 1 year;
- €3,300.0 million between 1 year and 4 years.

NOTE 26 Derivatives and exposure to market risks

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.

26.1. 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 22.4.

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	**12.31.2014**	12.31.2013	12.31.2012	**12.31.2014**	12.31.2013	12.31.2012
Currency futures						
Purchase of EUR against foreign currencies	**1,810.8**	**1,960.4**	**2,499.8**	**-10.3**	**45.9**	**32.6**
USD/EUR	411.3	252.2	806.5	-32.3	8.3	16.4
MXN/EUR	214.0	203.5	176.6	6.5	5.5	2.1
GBP/EUR	165.5	172.7	118.3	-11.0	-3.3	3.1
CNY/EUR	161.4	88.7	126.2	-9.5	1.3	1.3
RUB/EUR	139.9	174.4	198.6	53.1	3.9	-3.4
AUD/EUR	90.1	50.8	89.2	0.6	2.2	1.4
CAD/EUR	86.8	58.0	88.8	-2.9	2.7	2.0
BRL/EUR	81.9	75.1	80.0	-1.0	5.2	3.4
TRY/EUR	72.4	31.8	37.7	-2.4	3.4	-0.2
CLP/EUR	40.7	36.4	27.2	-1.1	1.6	0.1
EUR/Asia, Pacific currencies	197.4	156.1	220.8	-16.3	9.3	6.3
EUR/Eastern European currencies	54.4	61.6	96.0	0.5	0.0	-1.3
EUR/Other currencies	95.0	599.1	433.8	5.7	5.8	1.5
Purchase of USD against foreign currencies	**119.3**	**124.6**	**159.4**	**8.3**	**2.0**	**-5.6**
USD/Latin American currencies	66.7	93.0	77.0	5.5	1.4	-3.4
USD/CAD	52.6	31.6	27.9	2.8	0.6	-0.6
USD/Other currencies	-	-	54.5	-	-	-1.6
Sale of USD against foreign currencies	**216.9**	**355.4**	**344.4**	**15.5**	**8.2**	**0.3**
USD/CHF	0.6	146.5	169.4	0.3	7.5	5.2
USD/Asia, Pacific currencies	216.2	154.9	175.0	13.3	2.2	-4.9
USD/Other currencies	0.1	54.1	-	1.9	-1.5	-
Other currency pairs	**200.5**	**318.3**	**296.4**	**2.0**	**3.0**	**2.6**
Currency futures total	**2,347.5**	**2,758.7**	**3,300.0**	**15.6**	**59.1**	**29.9**
Currency options						
EUR/USD	141.6	313.0	117.9	1.3	11.4	8.3
EUR/HKD	67.9	114.8	56.0	0.9	5.3	3.7
EUR/CNY	52.9	62.9	33.1	1.1	2.6	2.0
EUR/BRL	19.5	59.9	31.7	2.5	7.8	3.1
EUR/RUB	60.9	58.6	-	24.8	4.0	-
EUR/Other currencies	95.6	202.4	199.5	1.9	14.2	9.7
CHF/USD	-	62.8	64.4	-	3.5	4.4
Other currency pairs	**17.5**	**40.2**	**21.1**	**2.0**	**3.7**	**1.2**
Currency options total	**456.1**	**914.5**	**523.7**	**34.5**	**52.4**	**32.4**
TOTAL	**2,803.6**	**3,673.2**	**3,823.7**	**50.0**	**111.6**	**62.3**

The market values by type of hedging are as follows:

€ millions	**2014**	2013	2012
Fair value hedges (1)	11.9	13.4	5.8
Cash flow hedges	38.1	98.2	56.5
Net foreign investment hedges	-	-	-
TOTAL	**50.0**	**111.6**	**62.3**

(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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26.2. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at December 31st, 2014, 2013 and 2012.

26.3. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have a direct negative impact of €6.4 million on the Group's net finance costs at December 31st, 2014 , compared with direct positive impact of €23.8 million at December 31st, 2013 and a direct positive impact of €20.0 million at December 31st, 2012, . 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 €0.3 million at December 31st, 2014 compared with €0.3 million at December 31st, 2013 and €0.3 million December 31st, 2012.

26.4. 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.

26.5. 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 €3,300.0 million at December 31st, 2014. The availability of these credit lines is not dependent on financial covenants.

26.6. 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, 2014, marketable securities consist mainly of unit trusts (note 21).

At December 31st, 2014, the Group holds 118,227,307 Sanofi shares for an amount of €8,945.1 million (note 16). 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.

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, 2013, the Group held 118,227,307 Sanofi shares for an amount of €9,117.7 million (note 16). A change of plus or minus 10% in the market price of these shares relative to the market price of €77.12 on December 31st, 2013 would have an impact of plus or minus €911.8 million before tax on Group equity.

At December 31st, 2012, the Group held 118,227,307 Sanofi shares for an amount of €8,440.2 million (note 16). A change of plus or minus 10% in the market price of these shares relative to the market price of €71.39 on December 31st, 2012 would have an impact of plus or minus €844.0 million before tax on Group equity.

26.7. 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, 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**

€ millions

December 31st, 2013	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		195.2		195.2
Sanofi shares	9,117.7			9,117.7
Marketable securities	1,024.2			1,024.2
TOTAL ASSETS AT FAIR VALUE	**10,141.9**	**195.2**	**-**	**10,337.1**
Liabilities at fair value				
Foreign exchange derivatives		90.4		90.4
TOTAL LIABILITIES AT FAIR VALUE	**-**	**90.4**	**-**	**90.4**

€ millions

December 31st, 2012	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		154.5		154.5
Sanofi shares	8,440.2			8,440.2
Marketable securities	150.1			150.1
TOTAL ASSETS AT FAIR VALUE	**8,590.3**	**154.5**	**-**	**8,744.8**
Liabilities at fair value				
Foreign exchange derivatives		100.7		100.7
TOTAL LIABILITIES AT FAIR VALUE	**-**	**100.7**	**-**	**100.7**

26.8. *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 €116.4, €26.7 and €28.8 million respectively at December 31st, 2014, 2013 and 2012.

NOTE 27 Other current liabilities

€ millions	12.31.2014	12.31.2013	12.31.2012
Tax and employee-related payables (excluding income tax)	1,165.8	1,046.6	1,074.3
Credit balances on trade receivables	748.1	673.3	606.4
Fixed asset payables	147.6	145.8	143.7
Derivatives	215.8	90.4	100.7
Other current liabilities	138.3	139.5	130.5
TOTAL	**2,415.6**	**2,095.5**	**2,055.6**

NOTE 28 Off-balance sheet commitments

28.1. Operating lease commitments

These amount to €1,690.5 million at December 31st, 2014 compared with €1,657.4 million at December 31st, 2013 and €1,769.0 million at December 31st, 2012, of which:

- €457.9 million was due in within 1 year at December 31st, 2014, compared with €425.2 million at December 31st, 2013 and €447.2 million at December 31st, 2012;
- €994.3 million was due in 1 to 5 years at December 31st, 2014, compared with €983.8 million at December 31st, 2013 and €1,069.5 million at December 31st, 2012;
- €238.1 million was due in over 5 years at December 31st, 2014, compared with €248.4 million at December 31st, 2013 and €252.3 million at December 31st, 2012.

28.2. Other off-balance sheet commitments

Confirmed credit lines are discussed in note 25.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within 1 year and are as follows:

€ millions	12.31.2014	12.31.2013	12.31.2012
Guarantees given (1)	238.3	163.1	134.2
Guarantees received	61.8	58.2	55.5
Capital expenditure orders	249.8	247.9	236.8
Firm purchase commitments under logistics supply contracts	482.0	454.1	487.2

(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 program.*

28.3. Acquisitions in progress

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 color and hair care markets.

With a net revenue of 405 million Brazilian Reals (€140 million) in 2013, 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.

28.4. 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, 2014 are not material.

NOTE 29 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 (see note 17), L'Oréal is party to several material disputes, described below:

29.1. 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 360.3 million including BRL 207.7 million in interest and penalties (€111.9 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 is awaiting a decision from the Administrative Court of Appeal. Consequently, no provision has been recorded.

29.2. 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 and an appeal for cassation has now been made in this case. The amount of the fine initially levied remains fully provisioned by the Group;
- in Italy, the case was heard in the lower courts and the fine was paid in order to avoid incurring late-payment penalties. Following the April 2012 appeal court ruling and the referral of the case to the Italian supreme administrative court, the fine was reduced by 35%. These proceedings have now ended;
- in Belgium, proceedings are also currently in progress;
- in Germany, the proceedings launched in 2008 in the household and personal care sector are still in progress: an appeal was filed against the decision handed down in first instance on March 14th, 2013. The fine has not yet been paid but a provision has been recorded in this respect.

A provision of €49.9 million had been set aside for all disputes in progress at end-December 2014 (€43.0 million at December 31st, 2013 and €45.0 million at December 31st, 2012.

B) FRANCE

On December 18th, 2014, the French competition authority issued an appealable decision on the household and personal care sector concerning events that took place in the early 2000's, and fined L'Oréal S.A. an amount of €189.5 L'Oréal refutes 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 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 is extremely surprised by this decision and by the amount of the fine, which it considers totally out of proportion. L'Oréal has filed an appeal against this decision. A provision for the amount of the fine was booked 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 30 Changes in working capital

This caption amounts to a positive €55.9 million in 2014, a negative €67.6 million in 2013 and a negative €108.6 million in 2012 and can be analysed as follows:

€ millions	**2014**	2013	2012
Inventories	-18.0	-216.0	21.6
Trade accounts receivable	-119.7	-170.3	-198.6
Trade accounts payable	55.8	194.5	90.1
Other receivables and payables	137.8	124.2	-21.7
TOTAL	**55.9**	**-67.6**	**-108.6**

NOTE 31 Impact of changes in the scope of consolidation in the cash flow statement

In 2014, this item mainly related to the acquisitions Magic Holdings, Nyx Cosmetics, Decléor & Carita and Carol's Daughter, and to the sale of Galderma to Nestlé.

In 2013, this item mainly related to the acquisitions of Vogue, Emporio Body Store and Interconsumer Products Limited.

In 2012, this item mainly related to the acquisitions of Cadum, Urban Decay and Emiliani Entreprises.

NOTE 32 Transactions with related parties

32.1. 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	**2014**	2013 (1)	2012 (1)
Sales of goods and services	0.5	1.1	1.0
Financial expenses and income	-	6.8	8.0

(1) Including Galderma.

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	**12.31.2014**	12.31.2013	12.31.2012
Operating receivables	3.6	3.0	4.8
Operating payables	0.4	0.6	0.4
Financial receivables	-1.0	559.8	382.2

32.2. Related parties with a significant influence on the Group

No significant transactions were carried out with a member of senior management or a shareholder with a significant influence besides the sale of Galderma and the purchase of 48,500,000 L'Oréal shares from Nestlé (see note 3).

NOTE 33 Fees accruing to auditors and members of their networks payable by the Group

	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Amount		%		Amount		%	
€ millions excl. VAT	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Audit								
Statutory audit	6.4	6.1	52%	71%	6.4	5.9	75%	75%
L'Oréal	1.2	1.1	10%	13%	1.1	1.0	13%	13%
Fully consolidated subsidiaries	5.2	5.0	43%	58%	5.3	4.9	62%	62%
Other directly related audit assignments (1)	4.0	1.5	33%	17%	1.6	1.5	18%	20%
L'Oréal	1.6	0.3	13%	4%	0.6	1.2	6%	15%
Fully consolidated subsidiaries	2.4	1.2	20%	13%	1.0	0.3	12%	5%
Audit sub-total	**10.4**	**7.6**	**85%**	**88%**	**8.0**	**7.4**	**94%**	**95%**
Other services								
Other services (legal, tax, employee-related, other)	1.8	1.1	15%	12%	0.5	0.4	6%	5%
TOTAL	**12.2**	**8.7**	**100%**	**100%**	**8.5**	**7.8**	**100%**	**100%**

(1) Mainly concerning acquisition audits.

NOTE 34 Subsequent events

No events occurred between the balance sheet date and the date when the Board of Directors authorised the consolidated financial statements for issue.

4.7. CONSOLIDATED COMPANIES AT DECEMBER 31ST, 2014

4.7.1. Fully consolidated companies

Company	Head office	% interest	% control (1)
Areca & Cie	France	100.00	
Banque de Réalisations de Gestion et de Financement (Regefi)	France	100.00	
Beauté Créateurs	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	99.98	
Cosbel S.A. de C.V.	Mexico	100.00	
Cosmelor KK	Japan	100.00	
Cosmelor Ltd	Japan	100.00	
Cosmephil Holdings Corporation Philippines	The Philippines	100.00	
Cosmeplas S.A.S.	Colombia	100.00	
Cosmetil	Morocco	49.80	100.00
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	
Decléor & Carita (sous-groupe)	France	100.00	
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	
Goldys International	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	
Jacques Dessange Capillaire	France	100.00	
Kosmepol Sp z.o.o	Poland	100.00	
L & J Ré	France	100.00	
LOA1	France	100.00	
LOA3	France	100.00	
LOA4	France	100.00	
LOA5	France	100.00	
La Roche-Posay Laboratoire Pharmaceutique	France	99.98	

Company	Head office	% interest	% control (1)
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 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	
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 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 Japan Ltd	Japan	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	100.00
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 S.A.	Panama	100.00	
L'Oréal Peru S.A.	Peru	100.00	

Company	Head office	% interest	% control [1]
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	
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 UK Ltd	United Kingdom	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.	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 Holding (as a group)	Chine	100.00	
Masrelor LLC	Egypt	100,00	
Matrix Distribution GmbH	Germany	100.00	
Nihon L'Oréal K.K.	Japan	100.00	
NLO K.K.	Japan	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	
Shu Uemura Cosmetics Inc.	Japan	100.00	
Sicôs & Cie	France	100.00	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche-Posay	France	99.98	
Sofamo	Monaco	99.99	
Soprocos	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	
The Body Shop (as a group)	United Kingdom	100.00 [2]	

Company	Head office	% interest	% control [1]
Urban Decay Cosmetics Singapore Pte Ltd	Singapore	100.00	
Urban Decay Shanghai Cosmetics Consulting Co. Ltd	Chine	100.00	
Venprobel	Venezuela	100.00	
Viktor&Rolf Parfums	France	100.00	
Yichang Tianmei International Cosmetics Co. Ltd	China	100.00	
YSL Beauté	France	100.00	
Zao L'Oréal	Russia	100.00	

(1) Equivalent to the percentage interest unless otherwise indicated.
(2) Except for Body Store S.A. in which the Group has a 51% interest.

4.7.2. Equity-accounted companies

Company	Head office	% interest	% control [2]
Innéov Adria d.o.o. for trade and services	Croatia	50.00 [1]	
Innéov Argentina S.A.	Argentina	50.00 [1]	
Innéov Belgique	Belgium	50.00 [1]	
Innéov Brasil Nutricosmeticos Ltda	Brazil	50.00 [1]	
Innéov Chile S.A.	Chile	50.00 [1]	
Innéov Deutschland GmbH	Germany	50.00 [1]	
Innéov España S.A.	Spain	50.00 [1]	
Innéov France	France	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 Nederland B.V.	The Netherlands	50.00 [1]	
Innéov Nutrikozmetik Ticaret Ve Sanayi Ltd Sirketi	Turkey	50.00 [1]	
Innéov Österreich Handelsgesellschaft mbH	Austria	50.00 [1]	
Innéov Polska Sp. z.o.o.	Poland	50.00 [1]	
Innéov (Shanghai) Trading Co., Ltd	China	50.00 [1]	
Innéov SK s.r.o.	Slovakia	50.00 [1]	
Innéov Suisse	Switzerland	50.00 [1]	
Innéov Taiwan Co. Ltd	Taiwan	50.00 [1]	
Laboratoires Innéov	France	50.00 [1]	
Laboratoires Innéov Portugal Unipessoal Lda	Portugal	50.00 [1]	
O.O.O Innéov	Russia	50.00 [1]	

(1) Companies jointly owned with Nestlé.
(2) Equivalent to the percentage interest unless otherwise indicated.

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4.8 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31, 2014)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

- *This report also includes information relating to the specific verification of information given in the Group's Management Report.*
- *This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To The Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2014, 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, 2014 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 Notes 1.15 and 14 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 Notes 1.23 and 23 to the consolidated financial statements. We have reviewed and analyzed the valuation methods of these obligations and 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 17th, 2015
The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

5

2014 PARENT COMPANY FINANCIAL STATEMENTS*

** This information forms an integral part of the Annual Financial Report as provided for 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 conso dated 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 holdings, the table of subsidiaries and holdings 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	12.31.2014	12.31.2013	12.31.2012
Operating revenue		**3,091.0**	**3,070.0**	**2,865.5**
Sales	2	2,818.6	2,777.0	2,606.8
Reversals of provisions and transfers of charges		40.5	59.2	38.3
Other revenue	3	231.9	233.8	220.4
Operating expenses		**-2,942.9**	**-2,837.5**	**-2,619.6**
Purchases and change in inventories		-195.6	-215.6	-209.2
Other purchases and external charges		-1,573.2	-1,486.8	-1,380.0
Taxes and similar payments		-150.4	-140.1	-113.2
Personnel costs		-795.1	-776.9	-698.1
Depreciation, amortisation and charges to provisions	5	-139.4	-130.0	-134.0
Other charges		-89.2	-88.1	-85.1
Operating profit		**148.1**	**232.5**	**245.9**
Net financial revenue	6	2,496.5	2,236.0	2,234.0
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	-39.2	-108.3	-25.7
Exchange gains and losses		33.2	2.3	-62.4
Net financial income		**2,490.5**	**2,130.0**	**2,145.9**
Profit before tax and exceptional items		**2,638.6**	**2,362.5**	**2,391.8**
Exceptional items	7	**2,431.3**	**8.1**	**43.1**
Employee Profit Sharing		-19.0	-14.2	-15.5
Income tax	8	-112.9	9.7	-11.4
NET PROFIT		**4,938.0**	**2,366.1**	**2,408.0**

5.2. COMPARED BALANCE SHEETS

/ ASSETS

€ millions (net amounts)	Notes	12.31.2014	12.31.2013	12.31.2012
Intangible assets	11	1,179.5	886.1	707.3
Tangible assets	12	422.7	390.7	345.6
Financial assets	14	10,239.5	9,989.9	9,846.9
Non-current assets		**11,841.7**	**11,266.7**	**10,899.8**
Inventories		34.3	39.2	34.0
Prepayments to suppliers		23.0	28.2	23.3
Trade accounts receivable	16	561.7	548.6	548.4
Other current assets	16	189.2	199.2	171.8
Marketable securities	15	266.1	210.5	309.4
Cash and cash equivalents	27	160.3	974.7	1,093.1
Current assets		**1,234.6**	**2,000.4**	**2,180.0**
Prepaid expenses		43.1	31.9	27.0
Unrealised exchange losses	21	17.2	16.2	10.4
TOTAL ASSETS		**13,136.6**	**13,315.2**	**13,117.2**

/ SHAREHOLDERS' EQUITY AND LIABILITIES

€ millions	Notes	12.31.2014	12.31.2013	12.31.2012
Share capital		112.2	121.2	121.8
Additional paid-in capital		2,316.8	2,101.2	1,679.0
Reserves and retained earnings		2,389.7	7,560.3	7,527.8
Net profit		4,938.0	2,366.1	2,408.0
Regulated provisions		87.1	90.4	88.6
Shareholders' equity		**9,843.8**	**12,239.2**	**11,825.2**
Provisions for liabilities and charges	**18**	**485.0**	**234.9**	**238.2**
Borrowings and debts	19	1,949.4	32.6	330.4
Trade accounts payable	20	459.2	454.6	414.0
Other current liabilities	20	392.8	347.0	304.7
Other liabilities		**2,801.4**	**834.2**	**1,049.1**
Unrealised exchange gains	21	6.4	6.9	4.7
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**13,136.6**	**13,315.2**	**13,117.2**

5.3. CHANGES IN SHAREHOLDERS' EQUITY

The share capital comprises 561,230,389 shares with a nominal value of €0.2 following transactions carried out in 2014:

- subscription to 3,439,202 shares following the exercise of options, and grant of 389,300 free shares,
- cancellation of 48,500,000 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, 2011 before appropriation of net profit	**120.6**	**1,271.4**	**45.4**	**6,517.0**	**2,169.8**	**82.5**	**10,206.7**
Changes in share capital	1.2	407.6					408.8
Appropriation of 2011 net profit				965.5	-965.5		-
Dividends paid for 2011					-1,204.3		-1,204.3
2012 net profit					2,408.0		2,408.0
Other movements during the period						6.0	6.0
Balance at December 31st, 2012 before appropriation of net profit	**121.8**	**1,679.0**	**45.4**	**7,482.5**	**2,408.0**	**88.5**	**11,825.2**
Changes in share capital	-0.6	422.2		-995.0			-593.4
Appropriation of 2012 net profit				1,027.4	-1,027.4		-
Dividends paid for 2012					-1,380.6		-1,380.6
2013 net profit					2,366.1		2,366.1
Other movements during the period						1.9	1.9
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**

Reserves include an amount of €16 million in 2014 corresponding to unpaid dividends on treasury shares, compared with €16.8 million in 2013 and €12.3 million in 2012.

Regulated provisions consist partially of the provision for investments which amounted to €11.8 million at December 31st, 2014, compared with €17.2 million at December 31st, 2013 and €21million at December 31st, 2012. In 2014, no charge was done to the provision for investments consequently to the changes of law since 2012. This provision includes the transfer to L'Oréal S.A. of some of the provisions set aside by our subsidiaries under a Group agreement. In 2014, an amount of €5.3 millions set aside to the provision in 2009 was reversed (compared with €3.8 million in 2013 and €2.7 million in 2012).

Accelerated tax-driven depreciation at December 31st, 2014 amount to €75.1 million compared with €73.1 million at December 31st, 2013 and €67.3 million at December 31st, 2012.

Details of option plans and free share plans are provided in note 17.

5.4. STATEMENTS OF CASH FLOWS

€ millions	Notes	12.31.2014	12.31.2013	12.31.2012
Operating activities				
Net profit		**4,938.0**	**2,366.1**	**2,408.0**
Depreciation and amortisation	12	91.4	90.6	81.2
Charges to provisions (net of reversals)		256.8	100.8	1.4
Gains and losses on disposals of non-current assets		-2,596.9	9.7	20.1
Other non-cash transactions (complete transfer of assets and liabilities)		0.9	-	
Gross cash flow		**2,690.2**	**2,567.2**	**2,510.7**
Changes in working capital	25	-25.8	-17.9	-129.1
Net cash provided by operating activities		**2,664.4**	**2,549.3**	**2,381.6**
Investing activities				
Investments in non-current assets		-7,234.1	-905.3	-1,069.4
Changes in other financial assets	26	490.3	-519.6	474.5
Disposals of non-current assets		2,659.7	11.7	33.6
Net cash from (used in) investing activities		**-4,084.1**	**-1,413.2**	**-561.3**
Financing activities				
Capital increase		216.3	423.5	408.8
Dividends paid		-1,507.3	-1,381.0	-1,204.3
Changes in financial debt		1,814.5	-34.6	-342.0
Net cash from (used in) financing activities		**523.5**	**-992.1**	**-1,137.5**
Cash acquired or sold in the period (complete transfer of assets and liabilities)		17.8	0.4	
Change in cash and cash equivalents		**-914.0**	**144.3**	**682.8**
Net Cash and cash equivalents at beginning of year		974.0	829.7	146.9
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	**27**	**60.0**	**974.0**	**829.7**

5.5. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

2014 highlights

STRATEGIC TRANSACTION BETWEEN NESTLÉ AND L'ORÉAL

In meetings held on February 10th, 2014, the Boards of Directors of Nestlé and L'Oréal respectively approved by unanimous decision of their voting members a strategic transaction for both companies, under which L'Oréal agreed to buy back from Nestlé 48.5 million of its own shares (representing 8% of its share capital). This buyback was financed:

- partly through the sale 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 (equity value of €2.6 billion), paid by Nestlé in L'Oréal shares (21.2 million shares). This transaction gave rise to a pre-tax capital gain of €2.6 billion for accounting purposes;
- in cash for the remainder, corresponding to 27.3 million L'Oréal shares held by Nestlé, for an amount of €3.4 billion.

The price per L'Oréal share used for this transaction was the average of its closing prices between Monday November 11th, 2013 and Monday February 10th, 2014, *i.e.* €124.48. All shares bought back by L'Oréal were cancelled.

This transaction was subject to the prior consultation of Galderma and L'Oréal works councils, and was approved by the relevant competition authorities.

The transaction was carried out on July 8th, 2014.

INVESTIGATIONS CARRIED OUT BY THE COMPETITION AUTHORITY

On December 18th, 2014, the French competition authority issued an appealable decision on the household and personal care sector concerning events that took place in the early 2000s, and fined L'Oréal S.A. an amount of €189.5 million. L'Oréal refutes 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 personal care products as illustrated by the number of manufacturers and retailers present on the market, the large choice of products available to consumers, the high degree of innovation and the number of product launches. L'Oréal is extremely surprised by this decision and by the amount of the fine, which it considers totally out of proportion. L'Oréal has filed an appeal against this decision. A provision for the amount of the fine was booked at end-2014.

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.

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 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 commercial 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 operating 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	**12.31.2014**	12.31.2013	12.31.2012
Goods	893.2	919.4	896.6
Services [1]	1,628.4	1,321.3	1,309.2
Rentals	45.3	42.5	40.0
Other revenues from ancillary activities	251.7	493.8	361.0
TOTAL	**2,818.6**	**2,777.0**	**2,606.8**

(1) Mainly invoicing of technological assistance.

The Company generated €1,397.4 million of its sales in France in 2014, compared with €1,372.9 million in 2013 and €1,289.2 million in 2012.

NOTE 3 Other revenue

This account mainly includes trademark royalties.

NOTE 4 Average headcount

Average headcount can be broken down as follows:

	2014	2013	2012
Executives	3,534	3,405	3,299
Supervisors	1,956	1,982	2,001
Administrative staff	226	250	270
Manual workers	214	234	239
Sales representatives	290	292	288
TOTAL	**6,220**	**6,163**	**6,097**
of which apprentices	193	174	166
External temporary staff	157	171	158

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	12.31.2014	12.31.2013	12.31.2012
Depreciation and amortisation	-90.9	-89.7	-79.7
Impairment of non-current assets	-0.6	-	-
Impairment of current assets	-4.1	-4.4	-4.7
Provisions for liabilities and charges	-43.8	-35.9	-49.6
TOTAL	**-139.4**	**-130.0**	**-134.0**

NOTE 6 Net financial income

Net financial income amounts includes the following items:

€ millions	12.31.2014	12.31.2013	12.31.2012
Dividends received	2,516.3	2,205.2	2,187.1
Revenues on other receivables and marketable securities	1.9	2.3	1.6
Interest expense on borrowings and financial debt	-6.1	-0.2	-3.3
Losses settled at the level of partnership entities (SNCs)	-4.1	-7.9	-0.8
Other items not broken down (1)	-11.5	36.6	49.4
TOTAL	**2,496.5**	**2,236.0**	**2,234.0**

(1) Including recharges to subsidiaries of the cost of free share grants for -€6.2 million in 2014, 40 million in 2013 and €51.3 million in 2012. In 2014, the free-share plan is a subscription plan.

Additions to provisions net of reversals and expense transfers chiefly concern:

€ millions	12.31.2014	12.31.2013	12.31.2012
Net charges to (-)/reversals of (+) impairment of financial assets (excluding Treasury stock)	-17.2	-59.8	29.5
Net charges to (-)/reversals of (+)impairment of Treasury stock (1)	5.9	-44.8	-54.5
Net charges to (-)/reversals of (+) provisions for liabilities and charges relating to financial items	-28.2	-3.7	-0.6
Net charges to (-)/reversals of (+)impairment of other financial assets	0.3	n/s	n/s
Other movements	-	n/s	-0.1
TOTAL	**-39.2**	**-108.3**	**-25.7**

(1) Charges offset by accrued revenue relating to recharge to subsidiaries of the cost of free share grants in 2014, 2013 and 2012 (refer herebefore).

NOTE 7 Exceptional items

Exceptional items represented €2 431.3 million in 2014, compared to €8.1 million in 2013 and €43.1 million in 2012.

In 2014, changes in 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	12.31.2014	12.31.2013	12.31.2012
Tax on profit before tax and exceptional items	1.8	1.0	-21.8
Tax on exceptional items and employee Profit Sharing	-114.7	8.7	10.4
INCOME TAX	**-112.9**	**9.7**	**-11.4**

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).

In 2013, the income tax gain booked reflects the expense relating to the additionnal 3% levy on the amount of dividends paid (€41.4 million) and saving of €79.3 million resulting from tax consolidation.

In 2012, the income tax expense includes a saving of €77.9 million resulting from tax consolidation and the impact of tax audits.

The application of tax legislation led to an increase of €47.7 million in net profit for 2014, chiefly reflecting the net charge to regulated provisions along with research and corporate sponsorship tax credits among others.

Income tax are calculated taking account of the exceptional temporary 10.7% contribution for 2014 and 2013.

As in 2013, the CICE *(Crédit d'Impôt Compétitivité Emploi)* tax credit was recognised as a deduction from personnel costs in an amount of €4.7 million in 2014 (€3.3 million in 2013). The CICE tax credit represents 6% of salaries paid in respect of 2014 *versus* 4% in 2013, and was allocated to investments in real estate projects, mainly regarding the Clichy and Aulnay sites.

NOTE 9 Increases or reductions in future tax liabilities

	12.31.2012		12.31.2013		Changes		12.31.2014	
€ millions	Asset	Liability	Asset	Liability	Asset	Liability	**Asset**	**Liability**
Temporary differences								
Regulated provisions	-	23.1	-	25.2	7.1	7.8	-	25.9
Temporarily non-deductible charges	70.3	-	79.9	-	39.4	26.7	92.6	-
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	-	1.9	-	3.2	3.2	3.7	-	3.7
Temporarily non-taxable revenue	-	-	-	-	-	-	-	-
Deductible items								
Tax losses, deferred items	-	-	-	-	-	-	-	-
Potentially taxable items								
Special reserve for long-term capital gains	-	188.6	-	188.6	-	-	-	188.6

NOTE 10 Research costs

Expenses booked in Research activities in 2014 totalled €761.4 million compared with €738.6 million in 2013 and €695.4 million in 2012.

NOTE 11 Intangible assets

€ millions	12.31.2012	12.31.2013	Acquisitions/Amortisation	Disposals/Reversals	Other movements	12.31.2014
Patents and trademarks	455.1	490.1	20.2	-	-	510.3
Business goodwill	113.3	268.8	-	-	206.2	475.0
Software	242.4	260.2	14.7	-0.1	7.9	282.7
Other intangible assets	187.1	211.1	69.3	-	-	280.4
Intangible assets in progress	59.9	43.7	53.6	-26.7	-10.8	59.8
Gross value	**1,057.8**	**1,273.9**	**157.8**	**-26.8**	**203.3**	**1,608.2**
Patents and trademarks	55.2	68.1	12.0	-	-	80.1
Business goodwill	0.3	0.3	-	-	-	0.3
Software	158.7	180.4	25.6	-0.1	-	205.9
Other intangible assets	39.8	42.5	3.0	-	-	45.5
Amortisation	**254.0**	**291.3**	**40.6**	**-0.1**	**-**	**331.8**
Patents and trademarks	34.6	51.4	-	-	-	51.4
Business goodwill	-	41.6	-	-	-	41.6
Other intangible assets	61.9	3.5	0.4	-	-	3.9
Depreciation	**96.5**	**96.5**	**0.4**	**-**	**-**	**96.9**
NET VALUE	**707.3**	**886.1**	**116.8**	**-26.7**	**203.3**	**1,179.5**

In 2014, the increase in business goodwill comes from the complete transfer of assets and liabilities of Fipal (Decléor) and Roger&Gallet.

In 2013, the increase in business goodwill comes from the complete transfer of assets and liabilities of Cadum.

In 2012, changes in assets in progress mainly came from the acquisition of Urban Decay trademark.

NOTE 12 Tangible assets

€ millions	12.31.2012	12.31.2013	Acquisitions/Depreciation	Disposals/Reversals	Other movements	12.31.2014
Land	79.4	76.1	1.8	-	0.6	78.5
Buildings	493.5	560.6	31.4	-2.1	18.0	607.9
Industrial machinery and equipment	195.7	199.9	11.5	-21.1	0.8	191.1
Other tangible assets	122.1	139.2	23.3	-45.1	40.6	158.0
Tangible assets in progress	34.4	23.6	13.6	-	-21.9	15.3
Advances and prepayments	1.3	1.6	-	-1.0	-	0.6
Gross value	**926.4**	**1,001.0**	**81.6**	**-69.3**	**38.1**	**1,051.4**
Land	-	0.2	0.1	-		0.3
Buildings	338.8	356.4	21.6	-2.1	1.4	377.3
Industrial machinery and equipment	163.8	164.3	9.6	-21.0	0.1	153.0
Other tangible assets	78.2	89.4	19.6	-36.2	25.0	97.8
Amortisation	**580.8**	**610.3**	**50.9**	**-59.3**	**26.5**	**628.4**
Industrial machinery and equipment	-	-	0.2	-	-	0.2
Depreciation	**-**	**-**	**0.2**	**-**	**-**	**0.2**
NET VALUE	**345.6**	**390.7**	**30.5**	**-10.0**	**11.6**	**422.8**

Depreciation and amortisation recognised in 2014 against tangible and intangible assets included:

- a charge of €84.6 million on a straight-line basis;
- a charge of €6.3 million on a declining-balance basis;
- a charge of €0.5 million relating to exceptional depreciation and amortisation.

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NOTE 13 Non-current assets held under finance leases

€ millions	Non-current assets held under finance leases at 12.31.2014				Balance sheet total including noncurrent 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	-0.5	-2.4	6.8	695.6	-380.1	315.5
TOTAL AT 12.31.2014	**9.2**	**-0.5**	**-2.4**	**6.8**	**695.6**	**-380.1**	**315.5**
Total at 12.31.2013	9.2	-0.5	-1.9	7.3	645.9	-358.5	287.4
Total at 12.31.2012	43.5	-1.7	-22.7	20.8	616.4	-361.5	254.9

(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	5.7	1.1	3.8	-	4.9	-
TOTAL AT 12.31.2014	**1.1**	**5.7**	**1.1**	**3.8**	**-**	**4.9**	**-**
Total at 12.31.2013	1.1	4.6	1.1	4.4	0.5	6.0	-
Total at 12.31.2012	5.3	67.3	4.9	15.8	1.6	22.3	1.4

NOTE 14 Financial assets

€ millions	12.31.2012	12.31.2013	Acquisitions/Subscriptions	Disposals/Reductions	Other movements	12.31.2014
Investments (1)	9,488.1	9,396.1	837.4	-32.4	-79.1	10,122.0
Loans and other receivables	177.8	232.7	13.2	-4.4	-95.0	146.5
L'Oréal shares (2)	498.3	244.1	6,156.0	-6,037.3	-	362.8
Other (3)	8.8	502.6	190.8	-682.7	-	10.7
Gross value	**10,173.0**	**10,375.5**	**7,197.4**	**-6,756.8**	**-174.1**	**10,642.0**
Investments	285.0	344.5	40.1	-22.9	-	361.7
Loans and other receivables	41.0	41.0	0.7	-1.0	-	40.7
Other	0.1	0.1	-	-	-	0.1
Impairment	**326.1**	**385.6**	**40.8**	**-23.9**	**-**	**402.5**
NET VALUE	**9,846.9**	**9,989.9**	**7,156.6**	**-6,732.9**	**-174.1**	**10,239.5**

(1) The acquisitions concern Magic Holdings and Carita/Decléor.
(2) At its meeting on February 10th, 2014, the Board of Directors approved the buyback from Nestlé of 48.5 million L'Oréal shares, which were subsequently cancelled. The number of shares at December 31st, 2014 was 2,905,000.
(3) Mainly include, in 2013 and 2014, the cash-collateral agreements granted to the bank of the Group, which ended in 2014.

The detailing subsidiaries and affiliates is presented at the end of the present notes.

NOTE 15 Marketable securities

This account can be broken down as follows:

€ millions	12.31.2014	12.31.2013	12.31.2012
L'Oréal shares	319.6	323.6	405.3
Financial instruments/Premiums paid on options	94.8	41.1	13.4
Gross value	**414.4**	**364.7**	**418.7**
L'Oréal shares	-148.3	-154.2	-109.3
Financial instruments/Premiums paid on options	-	-	-
Impairment	**-148.3**	**-154.2**	**-109.3**
NET VALUE	**266.1**	**210.5**	**309.4**

L'Oréal shares of Treasury stock acquired in connection with employee stock purchase option plans and free share plans had a net value of €171.3 million at December 31st, 2014 against €169.4 million at December 31st, 2013 and €296.0 million at December 31st, 2012.

During 2014, stock options were exercised on 66,791 shares, and 2,555 free shares were granted.

Stock purchase options expiring in 2014 represent a total of 689,670 shares, for a gross value (equal to the net value) of €50.1 million.

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.

In 2013, the total market value of Treasury stock amounted to €519.8 million based on the average share price in December and to €530.3 million based on the closing share price on December 31st.

In 2012, the total market value of Treasury stock amounted to €563.8 million based on the average share price in December and to €564.0 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	**76.5**	**69.9**	**146.4**	**40.7**	**105.7**
Other financial assets	**10.5**	**-**	**10.5**	**-**	**10.5**
Trade accounts receivable	**431.0**	**133.3**	**564.3**	**2.6**	**561.7**
Other current assets, of which	**190.8**	**-**	**190.8**	**1.6**	**189.2**
Tax and employee-related receivables	119.8	-	119.8	-	119.8
Receivable from Group and shareholders	8.4	-	8.4	-	8.4
Other receivables	62.6	-	62.6	1.6	61.0
Prepaid expenses	**43.1**		**43.1**	**-**	**43.1**

Accrual accounts included in receivables amounted to €163.6 million at December 31st, 2014 compared with €155.6 million at December 31st, 2013 and €113.8 million at December 31st, 2012.

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, 2014.

			Exercise period		
Grant date	Number of options	Number of options not yet exercised	From	To	Exercise price
06.29.2005	400,000	-	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	297,551	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	158,361	12.01.2010	11.30.2015	62.94
04.25.2006	2,000,000	1,000,000	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	1,156,005	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	1,231,633	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	1,717,439	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	3,976,500	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,233,500	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, 2014, the performance conditions 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

On April 17th, 2014, April 26th, 2013, April 17th, 2012, April 22nd, 2011, April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 1,068,565, 1,057,820, 1,325,050, 1,038,000, 450,000 and 270,000 free shares.

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.

Shares were definitively granted under the March 25th, 2009 and April 27th, 2010 free share plans, resulting in the issue of 237,800 shares on March 26th, 2013 and 389,300 shares on April 28th, 2014, respectively.

The performance conditions concern:

- April 17th, 2014, April 26th, 2013, April 17th, 2012 and April 22nd, 2011 plans:
  - for 50% of shares granted, the increase in comparable Cosmetics revenues 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 et 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 2015, 2016 and 2017 fiscal years under the 2014 plan, in the 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.

At December 31st, 2014, 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 €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	12.31.2012	12.31.2013	Charges	Reversals (used)	Reversals (not used)	Other	12.31.2014
Provisions for litigation (1)	7.9	10.8	196.5	-1.1	-1.5		204.7
Provisions for foreing exchange losses	5.7	9.3	10.8	-9.3			10.8
Provisions for expenses	87.3	94.6	75.7	-36.1	-1.3	0.4	133.3
Other provisions for liabilities (2)	137.3	120.2	37.9	-16.3	-5.6		136.2
TOTAL	**238.2**	**234.9**	**320.9**	**-62.8**	**-8.4**	**0.4**	**485.0**

(1) L'Oréal S.A. was fined an amount of €189.5 million further to the appealable decision issued by the French competition authority on December 18th, 2014. L'Oréal has appealed this decision. A provision was booked for the amount of the fine at December 31st, 2014.
(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 income statement as follow:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	43.8	-29.4	-3.0
Net financial income	79.6	-20.9	-
Exceptional items	197.5	-12.5	-5.4
Income tax	-	-	-
TOTAL	**320.9**	**-62.8**	**-8.4**

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NOTE 19 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans and from short-term commercial paper issued 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 commercial paper issues is provided by confirmed short-term credit facilities with banks, which amounted to €3,300 million at December 31st, 2014 (€3,200 million at December 31st, 2013 and €2,550 million at December 31st, 2012).

All borrowings and debt are denominated in euros and can be broken down as follows:

Breakdown by type of debt

€ millions	12.31.2014	12.31.2013	12.31.2012
Bonds	n/s	n/s	n/s
Commercial paper	1,825.0	-	-
Other borrowings and debt	23.9	31.9	66.9
Overdrafts	100.5	0.7	263.5
TOTAL	**1,949.4**	**32.6**	**330.4**

Breakdown by maturity date

€ millions	12.31.2014	12.31.2013	12.31.2012
Less than 1 year	1,926.0	1.3	300.1
1 to 5 years	22.1	30.0	29.0
More than 5 years	1.3	1.3	1.3
TOTAL	**1,949.4**	**32.6**	**330.4**

Effective interest rate and average interest rate on borrowings and debt

The effective interest rate on commercial papers was 0.35% at the end of 2014.

The average interest rate on commercial papers was 0.37% in 2014, 0.10% in 2013 and 0.35% in 2012.

The average interest rate increased in 2014 as L'Oréal extended the average maturity of its commercial paper drawdowns.

NOTE 20 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**459.2**	**-**	**459.2**
Other current liabilities, of which	**383.8**	**9.0**	**392.8**
Tax and employee-related payables	288.7	-	288.7
Payables related to non-current assets (1)	34.3	9.0	43.3
Payable to Group and shareholders	6.6	-	6.6
Other payables	54.2	-	54.2

(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	12.31.2014	12.31.2013	12.31.2012
Trade accounts payable	**276.7**	**232.5**	**218.0**
Payables related to non-current assets	**36.7**	**47.4**	**26.3**
Tax and employee-related payables, of which	**158.2**	**149.1**	**145.2**
Provision for employee Profit Sharing	19.3	15.8	18.8
Provision for incentives	68.4	66.2	62.0
Other payables	**23.7**	**27.9**	**29.3**
TOTAL	**495.3**	**456.9**	**418.8**

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	**12.31.2014**	12.31.2013	12.31.2012	**12.31.2014**	12.31.2013	12.31.2012
Financial receivables	6.0	9.6	6.2	-	-	-
Trade accounts receivable	4.0	2.7	2.8	2.1	0.5	0.8
Borrowings and debt	0.1	-	-	-	-	0.1
Trade accounts payable	3.1	0.1	0.1	0.5	1.8	1.5
Derivative financial instruments	4.0	3.8	1.3	3.8	4.6	2.3
TOTAL	**17.2**	**16.2**	**10.4**	**6.4**	**6.9**	**4.7**

In accordance with the accounting principles described above, the overall foreign exchange position at December 31st, 2014 is an unrealised loss of €10.8 millions arising mainly on the Venezuelan bolivar. This loss is recognised through profit and loss. At December 31st, 2013, the overall foreign exchange position was an unrealised loss of €9.3 millions compared with an unrealised loss of €5.7 millions at December 31st, 2012.

NOTE 22 Derivative financial instruments

Derivative financial instruments can be broken down as follows:

	Notional			Market value		
€ millions	**12.31.2014**	12.31.2013	12.31.2012	**12.31.2014**	12.31.2013	12.31.2012
Currency futures						
Purchase of EUR against foreign currencies						
EUR/CNY	189.9	98.6	126.3	-11.0	-	-0.3
EUR/RUB	135.7	147.9	176.2	52.3	0.3	-3.5
EUR/BRL	75.0	68.9	73.1	-1.2	4.7	3.0
EUR/GBP	40.1	35.9	29.3	-1.7	-	0.3
EUR/KRW	36.0	1.7	1.8	-2.0	0.3	-0.1
EUR/THB	29.3	7.8	7.0	-1.9	-0.8	0.2
EUR/TWD	28.0	1.3	3.5	-0.8	0.1	0.1
EUR/ZAR	26.8	8.8	4.4	-0.6	1.3	-
EUR/USD	25.5	15.2	74.0	-3.5	-	3.1
EUR/CAD	19.5	11.6	17.4	-0.7	2.2	0.4
EUR/IDR	18.8	12.6	14.9	-1.1	-	0.4
EUR/AUD (1)	17.5	20.0	17.4	0.1	0.4	0.1
EUR/MYR	12.9	1.9	3.8	-0.1	-0.2	0.1
EUR/INR	10.3	3.3	8.3	-0.8	-	0.3
EUR/CLP	8.9	7.0	6.6	-0.2	0.3	-
EUR/CHF (1)	8.6	381.4	7.5	-0.1	0.2	-
EUR/PLN	8.2	10.5	10.2	-	-0.2	-0.4
EUR/TRY	7.5	3.2	3.9	-0.3	-0.6	0.0
EUR/SEK	5.6	6.0	4.3	0.1	0.6	-0.1
EUR/NOK	5.6	5.9	4.7	0.5	-0.1	-0.2
EUR/MXN	5.3	2.4	13.6	0.3	0.2	-
EUR/KZT	0.2	10.4	13.9	-	-	0.6
EUR/JPY (1)	-	35.2	-	-	0.1	-
EUR/HKD (1)	-	6.2	-	-	1.4	-
EUR/Other currencies	27.7	24.8	31.2	-0.4	3.7	-0.3

	Notional			Market value		
€ millions	**12.31.2014**	12.31.2013	12.31.2012	**12.31.2014**	12.31.2013	12.31.2012
Sale of EUR against foreign currencies						
EUR/JPY	22.7	-	15.6	-1.2	-	-3.9
EUR/SGD (1)	15.0	10.1	5.0	0.4	-1.1	-0.1
EUR/Other currencies	2.3	-	1.3	0.2	-	-0.1
Purchase of USD against foreign currencies						
USD/BRL	63.1	57.2	73.2	6.3	0.7	-0.3
USD/THB	35.1	-	-	-0.1	-	-
USD/KRW	22.5	-	-	1.0	-	-
USD/TWD	22.4	-	-	1.0	-	-
USD/MYR	17.4	-	-	0.9	-	-
USD/PEN	12.8	-	-	-	-	-
USD/INR	11.3	9.5	-	-0.1	0.6	-
USD/PHP	7.5	6.8	7.1	0.1	0.1	-0.2
USD/RUB	3.3	8.3	8.7	2.0	1.8	-0.7
USD/ARS	-	-	9.8	-	-	-0.9
USD/Other currencies	3.3	-	0.4	-0.3	-	-
Sale of USD against foreign currencies						
USD/CNY	29.4	22.9	28.4	-0.5	-0.6	0.6
USD/IDR	-	9.6	1.4	-	-0.9	-0.1
Other currencies pairs						
JPY/CNY	13.0	6.7	11.0	-0.5	-	-1.3
JPY/TWD	6.4	-	-	-	-	-
PLN/RUB	6.8	6.9	-	2.2	-	-
Other currencies	2.6	6.3	9.2	-	0.2	-0.4
Currency futures total	**1,039.8**	**1,072.8**	**824.4**	**38.3**	**14.7**	**-3.7**
Currrency options						
EUR/RUB	60.9	58.6	-	24.8	4.0	-
EUR/CNY	52.9	62.9	33.1	1.1	2.6	2.0
EUR/USD	51.7	102.5	43.4	0.5	3.8	3.2
EUR/BRL	17.7	54.6	29.3	2.2	7.1	2.9
USD/BRL	11.8	31.6	17.7	1.6	2.9	1.1
EUR/CAD	8.6	10.6	6.0	0.1	0.8	0.4
EUR/IDR	4.0	8.7	5.3	0.2	1.3	0.6
EUR/GBP	4.6	5.9	8.9	-	-	0.3
EUR/MXN	1.6	5.6	4.7	0.1	0.4	0.3
EUR/AUD	-	5.6	-	-	0.5	-
Other currencies	6.8	10.2	6.7	0.3	0.7	0.4
Currencies options total	**220.6**	**356.8**	**155.1**	**30.9**	**24.1**	**11.2**
Of which total options purchased	221.9	356.8	155.1	31.1	24.1	11.2
Of which total options sold	-1.3	-	-	-0.2	-	-
TOTAL INSTRUMENTS	**1,260.4**	**1,429.6**	**979.5**	**69.2**	**38.8**	**7.5**

(1) The balance at the end of 2013 mainly concerns the hedges of cash-collateral agreements in foreign currencies grated to the bank of the Group (refer note 14).

NOTE 23 Transactions and balances with related entities and parties

Related-party data can be analysed as follows:

€ millions	**12.31.2014**	12.31.2013	12.31.2012
Financial assets	9,858.7	9,234.0	9,296.9
Trade accounts receivable/	302.5	300.9	438.3
Other accounts receivable	8.4	18.5	21.2
Cash and cash equivalents	158.7	967.0	1,080.4
Borrowings	100.0	-	287.2
Trade accounts payable	106.4	126.6	96.4
Other payables	6.8	4.6	n/s
Financial expenses	7.0	8.2	1.4
Financial revenues	2,517.9	2,207.1	2,242.1

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 €77.2 million due in less than one year, €197 million due between 1 and 5 years and €27.8 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	**12.31.2014**	12.31.2013	12.31.2012
Commitments granted in connection with employee retirement obligations and related benefits (1)	926.4	486.1	565.2
Commitments to buy out non-controlling interests	7.7	6.7	6.7
Guarantees given (2)	714.2	647.1	679.5
Guarantees received	10.7	10.3	10.1
Capital expenditure orders	56.4	65.4	72.2
Documentary credits	-	-	4.4

(1) The discount rate used to measure these commitments at December 31st, 2014 is 2% for plans providing for payment of capital and 2.25% for annuity plans, compared with respectively, 3.25% and 3.50% at end-2013, and 3% and 3.25% at end-2012.
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 €696.2 million at December 31st, 2014 on behalf of direct and indirect subsidiaries (€618.7 million at December 31st, 2013 and €642.3 million at December 31st, 2012). 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	**12.31.2014**	12.31.2013	12.31.2012
Inventories	5.0	-5.1	0.7
Receivables	8.8	-72.2	-173.6
Payables	-39.6	59.4	43.8
TOTAL	**-25.8**	**-17.9**	**-129.1**

NOTE 26 Changes in other financial assets

This caption mainly includes flows related to Treasury stock, classified within marketable securities, as well as flows related to cash-collateral agreements granted to the bank of the Group, classified within financial assets.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents can be broken down as follows:

€ millions	**12.31.2014**	12.31.2013	12.31.2012
Cash	160.3	974.7	1,093.1
Accrued interest receivable	-	-	-
Bank overdrafts (note 19)	-100.5	-0.7	-263.5
Accrued interest payable	0.2	-	0.1
TOTAL	**60.0**	**974.0**	**829.7**

NOTE 28 Other disclosures

Statutory audit fees are presented in the note 33 to *the Consolidated financial statements.*

NOTE 29 Subsequent events

No event occurred between the end of the financial year and the date the Board of Directors authorised the financial statements for issue.

5.6. TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31ST, 2014

TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31st, 2014 (€ thousands)

/ DETAILED INFORMATION

	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 French subsidiaries (holding of over 50%)							
Areca & Cie	35	10	100.00	35	35	140	
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	109,140	100.00	75,670	75,670	27,959	26,667
Beauté Créateurs	612	-31,445	100.00	31,599	0	3,986	
Beauté, Recherche & Industries	10,690	5,563	100.00	19,116	19,116	1,818	1,861
Carita International	11,292	-4,512	100.00	58,346	58,346	-1,194	
Chimex	1,958	30,716	100.00	21,501	21,501	3,321	3,537
Cosmétique Active France	24	19,310	61.97	130	130	25,951	17,572
Cosmétique Active International	19	19,014	80.43	15	15	21,326	
Cosmétique Active Production	186	17,193	80.13	5,081	5,081	6,460	7,619
EpiSkin	13,609	5,122	99.89	17,978	17,978	1,038	
Exclusive Signatures International	10	4,384	99.00	10	10	3,286	
Fapagau & Cie	15	4,573	79.00	12	12	5,724	4,541
Faprogi	15	4,490	59.90	9	9	4,627	2,491
Finval	2	4,424	99.00	2	2	4,694	
Gemey Maybelline Garnier	50	561	66.61	34	34	37,979	25,551
Gemey Paris – Maybelline New York	35	6,320	99.96	46	46	16,840	17,794
Goldys International	15	0	99.90	15	15	-5	
H.B.D.F.	5	0	100.00	5	5	43	161
Helena Rubinstein	30	1	99.95	46,661	46,661	5,532	5,231
Holdial	1	0	98.00	1	1	493	539
L & J Ré	1,500	9,885	100.00	1,500	1,500	2,061	
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	16,588	18,283
Laboratoires Décléor	19,375	30,911	100.00	58,323	58,323	-4,328	
Laboratoires Innéov	485	-2,084	50.00	31,675	0	-10,378	
Laboratoire Sanoflore	10	881	100.00	5,197	0	676	
Lancôme Parfums & Beauté & Cie	1,192	0	100.00	3,235	3,235	53,874	56,433
LaScad	20	12,776	99.26	12,796	12,796	64,424	60,467
Lehoux et Jacque	39	-309	100.00	263	263	417	
L'Oréal Produits de Luxe France	84	56,209	68.55	1,457	1,457	12,383	7,617
L'Oréal Produits de Luxe International	98	75,253	77.36	76	76	34,851	27,774
LOA4	3	0	100.00	3	3	0	
LOA5	3	0	100.00	3	3	0	
Parfums Cacharel & Cie	1	1	99.00	2	2	438	400
Parfums Guy Laroche	332	54	100.00	1,656	1,656	183	51
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	2	16
Parfums Ralph Lauren	2	-452	99.00	2	0	7	
Prestige & Collections International	32	3,952	81.67	3,823	3,823	20,203	18,627
Sicôs & Cie	375	7,583	80.00	999	999	4,270	4,391
Société de Développement Artistique	2	49	99.00	2	2	21	
Soprocos	8,250	9,064	100.00	11,904	11,904	5,077	530
Soproréal	15	3,205	99.90	15	15	1,603	3,375
Sparlys	750	89	100.00	3,826	3,826	2,833	540
Viktor&Rolf Parfums	2	0	99.00	1	1	618	488
YSL Beauté	130,786	37,062	100.00	312,802	312,802	27,890	
B. Main French investments (Holdings of less than 50%)							

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	Share capital	Other equity	% holding	BOOK VALUE of investment Gross	Net	PROFIT or LOSS in last year	DIVIDENDS [1] booked during the year
Innéov France	130	-1,128	0.00	n/s	n/s	-1,494	
La Roche-Posay Dermato-Cosmétique	2	0	1.00	0	0	-39	
Sanofi		[2]	8.96	423,887	423,887	[2]	331,036

(1) *The SNCs (general partnership), and Sociétés civiles (non trading companies), that are not tax consolidated, distribute all their profit.*
(2) *Sanofi : this information is not available.*
At the end of 2014 L'Oréal owns 118, 227, 307 shares. The market value amounts to €8, 945, 078 thousand on the basis of the closing price.

	Share capital	Other equity	% holding	BOOK VALUE of investment Gross	Net	PROFIT or LOSS in last year	DIVIDENDS [1] booked during the year
A. Main foreign subsidiaries (Holdings of over 50%)							
Beautycos International Co. Ltd (China)	52,482	77,273	73.46	46,195	46,195	5,314	
Beautylux International Cosmetics (Shanghai) Co.Ltd (China)	5,629	-1,201	100.00	16,871	3,822	97	
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,461	5,462
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,451	19,663	100.00	30,290	30,290	6,608	
Cosmelor Ltd (Japan)	3,554	7,436	100.00	35,810	19,810	455	
Cosmephil Holdings Corporation (Philippines)	171	-137	100.00	400	14	0	
Egyptelor LLC (Egypt)	6	177	99.80	7	7	53	
Elebelle (Proprietary) Ltd (South Africa)	806	30,025	100.00	61,123	46,783	2,521	2,360
Erwiton S.A. (Uruguay)	739	2,128	100.00	17	17	7,469	6,584
Galderma Pharma S.A. (Switzerland)			0.00	0	0		41,744
Kosmepol Sp. z.o.o. (Poland)	38,844	43,167	99.73	48,965	48,965	6,141	
L'Oréal Adria d.o.o. (Croatia)	131	1,078	100.00	1,503	1,503	7,595	6,445
L'Oréal Argentina S.A. (Argentina)	18,937	89,028	94.90	123,735	77,820	37,562	
L'Oréal Australia Pty Ltd	2,711	18,097	100.00	33,867	33,867	38,581	36,500
L'Oréal Balkan d.o.o. (Serbia)	1,283	-466	100.00	1,285	1,285	865	1,097
L'Oréal Baltic SIA (Latvia)	387	2,173	100.00	529	529	2,416	3,482
L'Oréal Belgilux S.A. (Belgium)	16,124	18,177	98.93	77,150	77,150	19,066	26,848
L'Oréal Brasil Pesquisas	7,583	154	99.96	7,583	7,583	807	
L'Oréal Bulgaria EOOD	102	700	100.00	102	102	2,838	2,473
L'Oréal Canada Inc.	3,979	8,428	100.00	146,517	146,517	70,554	77,211
L'Oréal Central America (Panama)	8	-200	100.00	8	8	-221	
L'Oréal Central West Africa (Nigeria)	220	-2,397	99.91	2,748	48	-3,264	
L'Oréal Ceska Republika s.r.o (Czech Republic)	5,939	1,465	100.00	8,678	8,678	5,815	6,123
L'Oréal Chile S.A. (Chile)	20,888	9,745	100.00	43,784	43,784	30,253	23,306
L'Oréal China Co Ltd (China)	43,498	92,523	100.00	345,733	345,733	209,447	188,635
L'Oréal Colombia S.A. (Colombia)	10,688	47,248	96.57	72,547	72,547	1,142	
L'Oréal Cosmetics Industry S.A.E (Egypt)	48,082	-12,176	100.00	48,063	32,263	-2,639	
L'Oréal Danmark A/S (Denmark)	270	5,307	100.00	8,336	8,336	14,179	11,226
L'Oréal Deutschland Gmbh (Germany)	12,647	275,804	100.00	76,855	76,855	169,043	217,424
L'Oréal East Africa Ltd (Kenya)	191	-3,336	99.90	191	191	-4,010	
L'Oréal Espana S.A. (Spain)	59,911	20,173	63.86	299,154	299,154	48,076	25,081
L'Oréal Finland Oy (Finland)	673	17	100.00	1,280	1,280	10,853	12,431
L'Oréal Guatemala S.A.	1,044	916	100.00	2,162	2,162	529	1,467
L'Oréal Hellas S.A. (Greece)	9,736	2,119	100.00	35,307	35,307	6,386	4,391
L'Oréal Hong-Kong Ltd	3	7,957	99.97	604	604	82,330	191,792
L'Oréal India Private Ltd (India)	60,050	-151	100.00	78,598	57,416	5,439	
L'Oréal Investments B.V. (The Netherlands)	18	0	100.00	18	18	-1	
L'Oréal Israel Ltd	4,137	11,186	92.97	38,497	36,097	7,157	5,419
L'Oréal Italia Spa	1,680	56,065	100.00	226,469	226,469	54,559	51,060
L'Oréal Japan Ltd (Japan)	370	-1,986	100.00	275	0	-717	
L'Oréal Kazakhstan Llp (Kazakhstan)	422	1,924	100.00	422	422	6,709	7,015

	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 Korea Ltd (Korea)	1,991	1,575	100.00	20,794	20,794	7,210	4,643
L'Oréal Liban SAL	3,139	974	99.88	7,693	7,693	15,588	12,641
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	428	-75	100.00	787	787	2,759	2,307
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	2,919	100.00	6,762	6,762	11,049	8,520
L'Oréal Mexico S.A de C.V (Mexico)	2,349	102,481	100.00	8,443	8,443	35,870	35,194
L'Oréal Middle East (United Arab Emirates)	7,761	2,172	100.00	54,379	54,379	56,083	40,769
L'Oréal Nederland B.V. (The Netherlands)	1,178	95	100.00	22,014	22,014	22,030	24,562
L'Oréal New Zealand Ltd (New Zealand)	44	2,831	100.00	6,110	6,110	7,030	6,407
L'Oréal Norge A/S (Norway)	1,384	1,934	100.00	4,050	4,050	17,472	16,468
L'Oréal Osterreich Gmbh (Austria)	2,915	1,366	100.00	3,818	3,818	14,762	14,162
L'Oréal Pakistan Private Ltd	15,563	-13,216	100.00	15,582	4,582	-3,044	
L'Oréal Panama S.A.	159	2,955	100.00	168	168	10,481	9,103
L'Oréal Peru S.A.(Peru)	2,322	493	100.00	3,739	3,739	-1,880	858
L'Oréal Philippines Inc.	12,344	-13,798	99.46	27,241	41	-2,662	
L'Oréal Polska Sp. Z.O.O. (Poland)	405	-168	100.00	707	707	31,859	25,392
L'Oréal Portugal Lda	495	961	100.00	6,459	6,459	11,263	8,862
L'Oréal Romania SRL (Romania)	2,187	431	100.00	5,883	5,883	5,203	4,540
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	442	74.63	4,260	4,260	919	441
L'Oréal Singapore Pte Ltd (Singapore)	1,165	4,634	100.00	18,991	18,991	4,469	6,333
L'Oréal Slovenija kosmetika d.o.o.(Slovenia)	465	432	100.00	856	856	642	578
L'Oréal Slovensko s.r.o. (Slovakia)	1,598	770	100.00	1,673	1,673	4,516	3,130
L'Oréal Suisse S.A.	346	6,032	100.00	160,311	160,311	34,395	29,089
L'Oréal Sverige AB (Sweden)	2,038	584	100.00	2,247	2,247	17,796	22,881
L'Oréal Taiwan Co Ltd (Taiwan)	187	1,511	100.00	17,881	17,881	22,016	19,187
L'Oréal Thailand Ltd	3,992	2,973	100.00	5,238	5,238	21,014	16,320
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	39,142	-23,267	100.00	55,093	36,203	8,710	
L'Oréal UK Ltd (United Kingdom)	121,150	-133,108	100.00	145,573	145,573	136,967	121,373
L'Oréal Ukraine	3,033	-1,627	100.00	2,990	2,990	11,054	9,580
L'Oréal Uruguay S.A.	485	7,888	100.00	5,435	5,435	5,092	
L'Oréal USA Inc. [4]	4,402	3,040,947	100.00	3,797,447	3,797,447	433,853	408,470
L'Oréal Venezuela C.A.	12,765	32,562	100.00	26,953	13,667	29,010	
L'Oréal Vietnam Co Ltd	9,645	-14,111	100.00	9,754	2,354	-1,640	
Magic Holdings Internatinal Limited	9,765	66,823	100.00	615,198	615,198	-5	
Masrelor LLC (Egypt)	15,644	-958	100.00	15,531	31	-15	
Nihon L'Oréal KK (Japan)	138,845	16,794	100.00	415,182	396,441	18,001	
Parbel of Florida Inc. (USA)	40	-5,269	100.00	100,317	100,317	25,908	24,950
Procosa Productos de Beleza Ltda (Brazil)	100,647	140,046	100.00	170,243	170,243	46,758	
P.T. L'Oréal Indonesia	1,510	-2,282	99.00	2,305	2,305	4,926	
P.T. Yasulor Indonesia	73,931	-7,626	99.99	110,022	65,522	2,224	
Scental Limited (Hong Kong)	5	182	100.00	8	8	0	
Sofamo (Monaco)	160	-41,160	99.99	1,852	0	504	
The Body Shop International PLC (United Kingdom) [3]	14,553	937,549	100.00	992,445	992,445	41,199	26,114
Venprobel (Venezuela)	20	-69	100.00	2,722	0	0	
B. Main foreign subsidiaries (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.

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/ GLOBAL INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

	Subsidiaries		Other Investments	
	French	Foreign	French	Foreign
Book value of shares held				
◆ gross (after revaluation)	753,475	8,944,691	423,887	1
◆ net	685,002	8,651,555	423,887	1
Amount of loans and advances granted	65,920	72,370		
Amount of guarantees and security granted	12,867	683,334		
Amount of dividends booked	312,589	1,872,628	331,036	0

5.7. OTHER INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF L'ORÉAL PARENT COMPANY

5.7.1. *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	€1.4 million
Corresponding tax amount	€0.5 million

5.7.2 *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	**2014**	2013	2012
Trade accounts payable not yet due	**175.6**	**197.5**	**191.6**
including:			
at 30 days	118.2	116.9	122.1
between 30 days and 45 days	57.4	80.6	69.5
more than 45 days	-	-	-
Trade accounts payable due	**6.1**	**14.5**	**10.5**

5.7.3 *Net sales (excluding taxes)*

Net sales *€ millions*	**2014**	2013	Variation in %
1st quarter	754.6	743.5	1.48
2nd quarter	710.8	697.9	1.85
3rd quarter	654.1	666.4	-1.84
4th quarter	699.1	669.2	4.47
TOTAL	**2,818.6**	**2,777.0**	**1.50**

N.B: These net sales figures include sales of goods and finished products, accessories, waste and services, less reductions in respect of sales. These sales include, in particular, supplies of goods to various subsidiaries which are recorded as intercompany sales from a consolidated accounts standpoint.

5.8. FIVE-YEAR FINANCIAL SUMMARY

/ L'ORÉAL PARENT COMPANY (EXCLUDING SUBSIDIARIES)

€ millions (except for earnings per share, shown in euros)	2010	2011	2012	2013	**2014**
I. Financial position at financial year-end					
a) Share capital	120.2	120.6	121.8	121.2	112.2
b) Number of shares	600,992,585	602,984,082	608,810,827	605,901,887	561,230,389 (1)
c) Number of convertible bonds	0	0	0	0	
II. Overall results of operations					
a) Net pre-tax sales	2,231.0	2,421.1	2,606.8	2,777.0	2,818.6
b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and Profit Sharing reserve)	2,048.4	2,344.8	2,517.5	2,562.0	5,418.1
c) Income tax	-104.6	-51.3	11.4	-9.7	112.9
d) Net profit	1,995.3	2,169.8	2,408.0	2,366.1	4,938.0
e) Amount of distributed profits	1,082.5	1,212.4	1,397.4	1,523.3	1,524.2 (2)
III. Results of operations per share					
a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions	3.55	3.94	4.09	4.22	9.42
b) Net profit	3.32	3.60	3.96	3.91	8.80
c) Dividend paid on each share (not including tax credit)	1.80	2.00	2.30	2.50	2.70 (2)
IV. Personnel					
a) Number of employees	5,957	6,016	6,097	6,163	6,220
b) Total salaries	426.7	459.0	489.5	515.6	541.7
c) Amount paid for welfare benefits (social security, provident schemes, etc)	182.5	200.4	208.6	261.3	253.5

(1) The share capital comprises 561,230,389 shares with a par value of €0.2, following the subscription of 3,439,202 shares following the exercise of options and grant of 389,300 of free shares, as well as cancellation of 48,500,000 treasury shares.

(2) The dividend will be proposed to the Annual General Meeting of April 22th, 2015

5.9. INVESTMENTS (MAIN CHANGES INCLUDING SHAREHOLDING THRESHOLD CHANGES)

/ INVESTMENTS

(main changes including shareholding threshold changes > 5%)

	Situation at 12.31.2013 Including revaluation		Acquisitions		Subscriptions		Others		Situation at 12.31.2014	
Headings (€ millions)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
L'Oréal India PVT Ltd	68.5	99.99			10.1	99.99			78.6	99.99
Magic holdings international Ltd			615.2	100.00					615.2	100.00
L'Oréal Argentina S.A	103.4	94.90			20.3	94.90			123.7	94.90
YSL Beauté Holding	299.6	89.80					13.2	10.20 (1)	312.8	100.00
Roger&Gallet	109.7	100.00					-109.7	100.00 (1)	0.0	
L'Oréal Central West Africa	1.2	99.91			1.6	99.91			2.7	99.91
Galderma pharma	10.1	50.00					-10.1	50.00 (3)	0.0	
Galderma international	0.0	26.44					-0.0	26.44 (3)	0.0	
Lai Mei	11.2	100.00					-11.2	100.00 (2)	0.0	
YSL Beauté Vostok	5.5	99.97					-5.5	99.97 (2)	0.0	
L'Oréal Colombia	6.4	94.00			66.2	100.00			72.5	96.57
Centrex	1.8	99.99					-1.8	100.00 (1)	0.0	
Fipal			154.5	100.00			-154.5	100.00 (1)	0.0	
Laboratoires Decleor							58.3	100.00 (1)	58.3	100.00
Carita International			58.3	100.00			-0.0	100.00 (3)	58.3	99.99
Club Créateurs de Beauté Belgique	3.8	100.00					-3.8	100.00 (2)	0.0	
L'Oréal Vietnam Co Ltd	7.4	100.00			2.3	100.00			9.8	100.00
L'Oréal Pakistan Private Ltd	11.0	99.99			4.5	99.99			15.6	99.99
Masrelor	13.7	99.99			1.8	99.99			15.5	99.99
L'Oréal Cosmetics Industry	42.3	99.99			5.8	99.99			48.1	99.99
L'Oréal Brasil Pesquisas					7.6	99.96			7.6	99.96
L'Oréal Philippines	22.2	99.45			5.0	100.00			27.2	99.46
Beauté Recherche & Industrie	20.3	100.00					-1.2	(4)	19.1	100.00
Laboratoire Inneov	30.9	50.00			0.8	50.00			31.7	50.00
	769.2		828.0		126.0		-226.3		1496.9	

(1) Complete transfer of assets and liabilities.
(2) Liquidation.
(3) Disposal.
(4) Price adjustment.

5.10. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31, 2014)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the Management Report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2014, 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.

5

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.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2014, and of the results of its operations for the year then ended in accordance with French accounting principles.

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 to 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 17th, 2015
The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

6

CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSABILITY*

** This information forms an integral part of the Annual financial Report as provided for an article L451-1-2 of the French Monetary and Financial Code.*
☑ The Statutory Auditors have expressed a reasonable assurance on this selected information.

At the end of 2013, the Group presented its commitments with regard to Sustainable Development by 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 building and ensuring sustainable growth.

L'Oréal now has a solid Sustainable Development legacy and has set itself big ambitions for the future with commitments integrated into its growth model.

The "Sharing Beauty With All" programme concerns all the Group's environmental, social and societal impacts and covers four areas:

Innovating sustainably;

Producing sustainably;

Living sustainably;

Developing sustainably.

The Group describes each year the progress made and its achievements in the various areas concerned (Human Rights, labour standards, environmental standards and anti-corruption measures), namely through its Sustainable Development Report, the Global Reporting Initiative (GRI) indicators and those of the United Nations Global Compact.

The efforts and progress made were recognised and rewarded demanding organisations in this field: Vigeo, Ethisphere Institute, Carbon Disclosure Project, which ranked L'Oréal among the 10% best rated companies in 2014, and OEKOM.

6.1. THE L'ORÉAL GROUP'S COMMITMENTS IN THE AREA OF SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSIBILITY

6.1.1. 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
1993	Creation of the annual EHS Awards
1996	Creation of *the Instance Européenne de Dialogue Social / European Works Council*
1998	Launch of the international "L'Oréal – UNESCO For Women in Science" programme
2000	Publication of the Group's 1st Code of Ethics
	Implementation of the Worldwide Profit Sharing Program – WPS
2001	L'Oréal joins the World Business Council for Sustainable Development
2002	L'Oréal confirms its commitment to corporate citizenship by signing the United Nations Global Compact
	Signature of the United Nations Anti-Corruption Convention
	Launch of the ISO 14001 certification programme
2003	First participation in the CDP (Carbon Disclosure Project)
2004	L'Oréal wins the Diversity Leadership Award presented by Diversity Best Practices
	L'Oréal receives the Anti-Defamation League's International Leadership Award
2005	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
	Creation of the "Citizen day"
	Creation of the L'Oréal Corporate Foundation
2007	Publication of the Group's 2nd edition of the Code of Ethics
	L'Oréal pledges, for the first time, to reduce CO_2 emissions, water consumption and waste generation by 50% at all its factories and logistics centres
2009	First participation in the CDP supply chain project for 2008
	Creation of a "Solidarity Sourcing" global programme
	Creation of the "Ergonomic Attitude" programme
2010	1st European gender equality label, the "Gender Equality European Standard" (GEES) for 8 of its entities in Europe
	Launch of the "Sharing Beauty With All" programme
2013	**Launch of the "Share & Care " programme**
	L'Oréal obtained from the CDP a score of A for performance and 98 for transparency
	L'Oréal received a Best performer in Climate Change Leadership award
2014	Publication of the Group's 3rd edition of the Code of Ethics

6.1.2. *A commitment for the future: "Sharing Beauty With All" programme*

THE L'ORÉAL GROUP'S SUSTAINABLE DEVELOPMENT COMMITMENTS FOR 2020: "SHARING BEAUTY WITH ALL".

On October 23rd, 2013, Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal, announced the commitments that L'Oréal has set itself by 2020, to reduce its impact while achieving its growth ambition.

SUSTAINABILITY AT THE SERVICE OF GROWTH

L'Oréal's ambition is to reach one billion new consumers through its universalisation strategy which aims to respond to the different beauty needs of men and women all over the world. The Group's growth strategy is partly based on its commitment to produce more, with less impact, 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. For this purpose, L'Oréal has undertaken to improve its practices throughout its value chain, from research to production, while sharing its growth with the surrounding communities.

These commitments are the fruit of two years of consultation with various stakeholders throughout the world. L'Oréal will regularly communicate on its progress with regard to each of the objectives with the assistance of a panel of independent international experts(1), chaired by José Maria Figueres(2), recognised throughout the world for his commitment to Sustainable Development.

"SHARING BEAUTY WITH ALL": A COMMITMENT WHICH COVERS FOUR AREAS:

- *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%, whilst bringing beauty to one billion new consumers.
- *LIVING SUSTAINABLY* – By 2020, the Group will empower all L'Oréal consumers to make sustainable consumption choices.
- *DEVELOPING SUSTAINABLY*
  - With employees - by 2020, L'Oréal employees will have access to healthcare, social protection and training, wherever they are in the world ;
  - With suppliers - by 2020, 100% of the Group's strategic suppliers will be participating 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) The panel of international experts: • Sze Ping, Chinese environmentalist, former Greenpeace activist, Executive Director of Greenovation Hub • Mehjabeen Abidi-Habib, Pakistani researcher in human ecology, specialist of natural resources management • HRH Celenhle Dlamini, South African, one of the Directors of Ubuntu Institute working on the achievement of the UN Millenium Development objectives; • Analisa Balares, American, Founder and CEO of WomensphereTM, developing media tools, online communities, and an award to inspire and support women willing to make a difference in the world • Christian de Boisredon, French, promoting the concept of "impact journalism" through Sparknews, in order to give visibility to positive initiatives throughout the world.

(2) Former President of Costa Rica and strongly committed to environmental issues.

/ INNOVATING SUSTAINABLY

"By 2020, we will innovate so that 100% of products have an environmental or social benefit."

2020 Targets	2014 Results
100% of our products will have a positive environmental or social benefit. Every time we invent or update a product, we will improve its environmental or societal profile against at least one of the following criteria:	**67%** 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;	**46%** of new renovated 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;	**54%** of new or renovated products have an improved environmental profile due to a new formula with a reduced environmental footprint.
◆ the new packaging has an improved environmental profile;	Indicator not available for 2014. Baseline currently being calculated. A strict eco-design policy is developed at all the Group's Packaging Design centres. For example, one of L'Oréal's objectives is for all paper and cardboard packaging to be sourced from sustainably managed forests. In 2014, more than 97.9% of paper and cardboard packaging supplies were certified sustainable in accordance with FSC or PEFC standards.
◆ the new product has a positive social impact.	**17%** of new or renovated products have an improved social profile thank to a positive social impact.

(1) The analysis of new products in 2014 does not include make-up or fine fragrances. All other categories (shampoos, hair care, shower gels, skin care, cleansers, hair colouring, styling, permanents, deodorants, sun care) have been analysed, as they are all formulas produced in the Group's plants in 2014.

/ PRODUCING SUSTAINABLY

"By 2020, we will reduce our environmental footprint by 60% whilst bringing beauty to one billion new consumers."

2020 Targets	2014 Results
We will reduce CO_2 emissions at our plants and distribution centres by **60%** in absolute terms, from a 2005 baseline.	CO_2 emissions have been reduced by **50.2%** from a 2005 baseline[1].
We will reduce our water consumption by **60%** per finished product unit, from a 2005 baseline.	Water consumption was reduced by **36%** from a 2005 baseline[2].
We will reduce waste by **60%** per finished product unit, from a 2005 baseline.	Waste generation was reduced by **23.1%** from a 2005 baseline[3].
We will send **zero waste** to landfill.	Only **3.8%** of waste was sent to landfill[4].
We will reduce by **20%** our CO_2 emissions from transportation of products (in grams in CO2 per unit of finished product and per km) from a 2011 baseline.	Indicator not available for 2014. The reporting process for this indicator is in progress. Currently being implemented. Figures for 2014 will be consolidated in 2015.

(1) The calculation of CO_2 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 is based on plants and distribution centres. The reduction percentage is calculated in litre/finished product, from a 2005 baseline.
(3) The calculation of waste generation is based on plants and distribution centres (excluding reusable packaging rotation with returnable packaging calculated at the source). The reduction percentage is calculated in grams of waste per finished product from a 2005 baseline.
(4) The percentage of waste sent to landfill is calculated for the given year, by dividing the quantity of waste sent to landfill (5088 tonnes) by the quantity of transportable waste excluding reusable packaging (96,943 tonnes) and reusable packaging rotation (36,698 tonnes).

/ LIVING SUSTAINABLY

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

2020 Targets	2014 Results
We will use a p*roduct assesment tool to* evaluate the environmental and social profile of 100%l new products and all brands will make this information available to allow consumers to make sustainable lifestyle choices.	The percentage of brands that provide the consumer 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 Assesment Tool* are not available this year. At the beginning of 2014, L'Oréal began to develop a prototype assesment tool for the social and environmental impacts of a cosmetic product. The tool will make it possible to evaluate and improve the (new or renovated) products on the basis of 11 relevant criteria (7 environmental criteria relating to packaging and formula and 4 social criteria). It is tested on 4 pilot brands: Biotherm, Redken USA, La Roche-Posay and Garnier. Within the scope of this process, baselines have been constituted both for formulas and for packaging. Thus, more than 28,000 Formulas and 12,000 packaging have been assessed using the tool's criteria.
All L'Oréal brands wil assess where they have the biggest environmental and socal impact and make commitments to improve their footprint.	**22%** of the brands have evaluated where they had the biggest social or environmental impact [1]. The Biotherm brand has implemented the "*Sharing Beauty With All*" programme in its entirety, evaluating its impact, and building its brand platform around water under the umbrella of the *Water Lovers* programme. Working groups to conduct a diagnostic review of packaging and formula have been set up withKérastase, Garnier, The Body Shop, La Roche-Posay and at the level of Professional Products Division.
Every brand will report on its progress and raise awareness among consumers about sustainable lifestyle choices.	**25.4%** of the brands have carried out an action to raise awareness among consumers[1]. The Biotherm, Garnier, La Roche-Posay, The Body Shop, Kiehl's, Armani brands are already raising awareness among consumers about responsible lifestyle choices through various programs.
Our consumers will be able to influence our sustainability actions through a consumer sustainability panel.	Indicator not available this year. The consumer consultation group for the purpose of influencing our Sustainable Development actions will be set up in 2016.

(1) The percentage of brands in 2014 is calculated based on their share of 2013 consolidated turnover.

/ DEVELOPING SUSTAINABLY - *EMPLOYEES*

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

2015 Targets	2014 Results
We will provide health care coverage for employees which is aligned with the best practice of the country they are based in.	**85.3%** of the Group's permanent employees have healthcare coverage reflecting best practices in their country of residence(1).
We will provide financial protection for all employees if unexpected life events such as incapacity or permanent disability occur.	**70.1%** of the Group's permanent employees receive financial protection in the event of personal injury, such as death or permanent disability(1).
Every L'Oréal employee will have access to at least one training session per year wherever they are in the world.	**81.7%** of the Group's employees attended at least one training session in 2014(1).

(1) Indicators calculated according to the Group's global scope (Cosmetics and The Body Shop).

/ DEVELOPING SUSTAINABLY - *SUPPLIERS*

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

2020 Targets	2014 Results
All strategic suppliers(1) will be evaluated and selected on social and environmental performance.	**43%** of the Group's strategic suppliers(1) have been evaluated and selected based on the basis of their environmental and social performance. They represent more than 60% of total direct purchases (raw materials, packaging and subcontracting). Furthermore in 2014, 834 social audits were carried out, making a total of 6129 since 2006.
All strategic suppliers(1) will have completed a self-assessment of their sustainability policy with our support.	**50%** of strategic suppliers(1) have completed a self-assessment of their sustainability policy with our support. This percentage is based on the calculation of the number of suppliers who, in 2014, were assessed on their social, environmental and ethical policies, as well as assessments conducted at their own suppliers by Ecovadis. Ecovadis provides expertise on social responsibility (CSR) consisting of scorecards covering 150 purchasing categories and 21 CSR indicators.
All suppliers will have access to L'Oréal training tools to improve their sustainability policies.	Indicator not available for 2014. Access to training tools is part of the 2015 action plan.
20% of strategic suppliers(1) will be associated with our Solidarity Sourcing programme.	**4%** of strategic suppliers(1) are involved in 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.

/ DEVELOPING SUSTAINABLY - *COMMUNITIES* AROUND US

"By 2020, we will enable more than 100,000 people from underprivileged communities, equivalent to the size of our global workforce, to access work."

2020 Targets	2014 Results
We will enable more than **100,000** people from socially or financially deprived communities to access work through the following programmes:	Over **54,000** people from socially or financially deprived communities has access to work.
◆ Solidarity Sourcing;	**52,000** people accessed work through the Solidarity Sourcing programme. The Body Shop's Community Fair Trade programme is part of this initiative and helped 25,000 people access work.
◆ Inclusive distribution;	**200** people accessed work as part of an inter-industry, inclusive waste management project in Mumbai, India.
◆ Beauty professionalisation;	**1,400** people accessed work through the Beauty for a Better Life programme.
◆ Mentoring and community education;	Indicator not available in 2014.
◆ Employment of disabled people and under-represented socioethnic groups.	**815** people with disabilities work for L'Oréal(1).

(1) Employees with disabilities present as of 12.31.2014 including employees with permanent contracts, fixed-term contracts, or working as beauty advisors with L'Oréal. This figure only includes those employees wishing to self-declare as having a disability. As self-declaration meets with significant resistance in various cultural contexts, this figure does not encompass the reality of the staff concerned.

6

6.2. SOCIAL INFORMATION

6.2.1. The L'Oréal Group's Human Resources policy

L'Oréal has built its human and social project around two priorities: individual performance and social performance, two key factors in the success of the world leader in beauty.

While accelerating the recruitment and development of talents all over the world, in order to ensure sustainable growth, L'Oréal is keen to offer all its employees an environment in which everyone can reveal their talents, improve and thrive and where they all feel that their contributions are recognised and that they receive support.

L'Oréal's Human Resources policy is founded on:

- A vision focusing on performance and individual talent.

  L'Oréal has always put the human dimension at the centre of the Company by projecting a long-term vision for its talents. The mission of the Human Resources Department is currently to develop the talent of every employee and prepare tomorrow's leaders, by favouring, in particular, the emergence of local talents, to support the Group's ambition to win a billion new consumers.

  - Ongoing recruitment of talented individuals.

    The Group constantly strives to enhance its pool of talents, in all countries. 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, the Group conducts a diversified recruitment policy, which is based both on partnerships with the best educational institutions in the world and the use of corporate gaming attracting tens of thousands of students from all over the world and a proactive strategy of looking for candidates via digital technologies. L'Oréal also develops its own selection methods to recruit the best talents and those which best represent the diversity of its consumers from among the million spontaneous applications received every year.

  - The ambition of putting each employee in a position to develop their career.

    Individual performance monitoring and a large number of career development opportunities and training programmes that are accessible to everyone, in addition to class-room based training, are aimed at allowing each and every employee to develop. The programmes may be rolled out throughout the world, thanks to the international locations of training structures and the use of digital technologies with the "My learning" portal which offers all employees opportunities for online training. The large-scale mobility between jobs and between countries and the many individual promotions made each year attest to the vitality of career management. This management is based on a network of Human Resources professionals, who are both in tune with employee expectations and aware of the requirements of our business. The close cooperation between these Human Resources professionals and the operational managers makes it possible to have a two-way perspective with regard to talents and to define the most suitable development opportunities for each of them.

- Offering a solidarity-based, fulfilling working environment.

L'Oréal pays particular attention to the level of its social performance. The Group has set itself the target of promoting its values by creating a pleasant and conducive working environment, marked by solidarity and respect, and where all employees can fulfil personal development with:

  - the desire to recognise the effective contribution made by everyone through a dynamic remuneration policy and short-, medium- and long-term global incentive and profit sharing systems among others ;
  - a regular evaluation of the expectations of employees throughout the world through large-scale opinion polls leading to the implementation of action plans ;
  - the search for a work environment and working conditions that will help everyone to achieve personal satisfaction ;
  - an active dialogue between management and employees and their representatives at worldwide level;
  - an active policy with regard to diversity as a factor of progress, innovation and creation of a social relationship with three global priorities of gender, social origin and disabilities.

SHARE & CARE

In 2013, the Group chose to go one step further with regard to social performance with the launch of the **"L'Oréal Share & Care"** programme, which reinforces the commitments already made by the Group in the area of Sustainable Development and Corporate Social Responsibility , with its "Sharing Beauty With All" programme.

This programme offers the Group's employees all over the world, before the end of 2015, a set of guaranteed global social measures in four areas:

- *PROTECT* (social protection), to provide employees with effective support, particularly of a financial nature, for major life risks. This involves, for example:
  - guaranteeing a capital sum equivalent to at least 2 years' salary in case of natural or accidental death or disability.
- *CARE* (health cover), to provide employees and their families with access to a high-quality healthcare system which is among the top performers on the local market. This involves, for example:
  - offering employees medical cover providing for reimbursement of at least 75% of healthcare costs related to the main medical risks: hospital stays, surgery, maternity, drugs for chronic and serious conditions;
  - within the framework of prevention, each subsidiary will be required to implement, at least once a year, a health prevention action of a collective nature (concerning melanoma, HIV, diabetes, obesity, etc.), as well as an individual action (medical check-up, online risk assessment, etc.);
- BALANCE (parenthood), to enable employees to live important life moments to the full, such as maternity and paternity, while pursuing their careers. This involves, in particular:
  - providing 14 weeks' maternity leave and a minimum of 3 days' paternity leave, with full pay;
  - ensuring that all women on maternity leave benefit from salary increases equivalent to those they would have received had they been present in the Company;
- ENJOY (quality of life at work), to enable employees to benefit from a high quality of life at work. This involves, for example:
  - flexible working time arrangements;
  - a stress prevention programme.

This programme, which will make it possible to respond to the essential needs of each and every one of our employees and anchor their commitment, will make L'Oréal one of the companies with the best practices in terms of social performance and well-being at work.

The launch and implementation of this programme demonstrate a strong conviction, whereby social performance and economic performance are not only intimately linked but they also serve to reinforce each another.

6.2.2. *Social information with regard to the consolidated scope of the L'Oréal Group*

The workforce indicated in the "Total workforce" and "Geographic distribution of workforce" charts is the total workforce present in the Group at December 31st, 2014[(1)].

All the other social indicators set out in this chapter relate to "Cosmetics" and "The Body Shop"[(2)].

If an indicator relates to a scope different from that of "Cosmetics" and "The Body Shop", the scope of consolidation is indicated in a note.

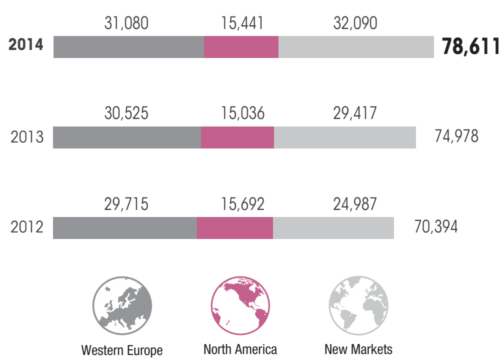
(1) Galderma (dermatology) is excluded
(2) Galderma and innéov are excluded

6.2.2.1. EMPLOYMENT

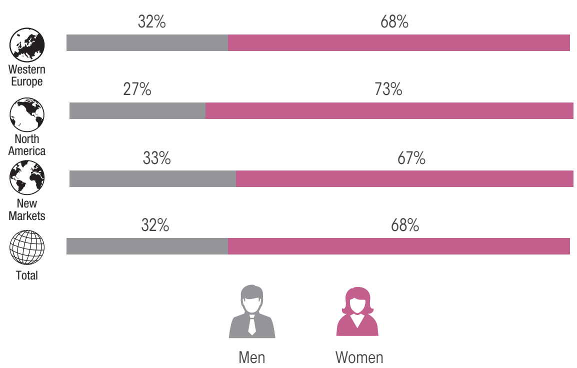
Total workforce and distribution of employees by geographic zone, by gender and by age

In 2014, L'Oréal had 78,611 employees.

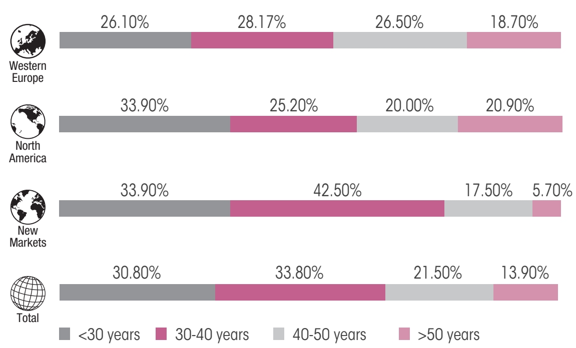
/ GEOGRAPHIC DISTRIBUTION OF WORKFORCE



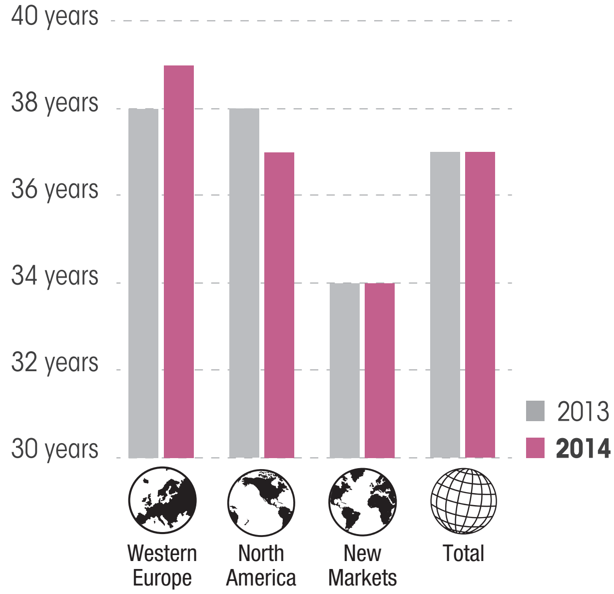
/ DISTRIBUTION BY GENDER AT 12.31.2014



/ BREAKDOWN BY AGE AT 12.31.2014



/ AVERAGE AGE BY GEOGRAPHIC ZONE



Recruitments and departures [(1)]

- The number of employees hired on permanent contracts in 2014 is 11,492 [(1)].

  L'Oréal does not have any problems in recruiting either executives or other categories of staff.

  L'Oréal is pursuing its active recruitment policy for all its businesses and all categories of staff in the Company.

  L'Oréal's aim is to create a durable relationship with its employees in order to enable each and every one of them to develop their potential and to build long-term growth together, become more competitive, and continue geographic expansion and the promotion of innovation.

- The number of departures, on the Company's initiative, in 2014 is 2,314[(1)].

  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 namely of L'Oréal's ethical principles of integrity and transparency.

Remuneration and trends

L'Oréal's remuneration policy is inseparable from the general objectives of Human Resources policy and accompanies the Group's development strategy defined by the General Management.

(1) Cosmetics scope excluding The Body Shop.

The principle of this policy is to reward all its employees everywhere in the world fairly by recognising the individual contribution made by each of them and by proposing diversified remuneration intended to fulfil the different expectations of its employees.

Its purpose is to reward the commitment made by each of them and encourage individual and collective performances. For this purpose, it is based on an annual performance assessment system (MAP) for employees applied in all the Group's subsidiaries. This performance assessment system makes it possible to revise the various fixed and variable components of remuneration regularly depending on the position held, the skills used, the performances and the potential of each and every employee. It also makes it possible to communicate clearly and transparently on the rules for determining remuneration, the process and the decisions made.

In most countries, the minimum salaries paid are much higher than the statutory minimum wage (at a national or regional level or according to the collective bargaining agreement).

As L'Oréal wants to be one of the most attractive companies wherever it has subsidiaries, surveys aimed at positioning remuneration as compared to the market are conducted by specialist firms every year. Furthermore, internal opinion polls, carried out periodically, make it possible in particular to evaluate the perceptions and expectations of employees with regard to remuneration and adapt the Group's action plans accordingly.

Finally, L'Oréal wishes to associate its employees collectively with the Group's results through global incentive profit sharing systems and thus strike a balance between social performance and economic performance.

PERSONNEL COSTS (INCLUDING PAYROLL COSTS)

€ millions	2012	2013	2014
Total	4,227.9	4,390.3	4,623.4

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

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 aimed at making employees feel that they are part of the Company and enhancing their motivation. This led to a redistribution of €244 million in 2014 at the scale of the Group, on the basis of the income for 2013.

L'Oréal has implemented a Worldwide Profit Sharing Program – WPS since 2001 in all the Group's subsidiaries in which the employees do not benefit from profit sharing arrangements provided for by law. This programme is not applied in the countries which already have a similar system provided for by law, particularly France (see box below).

The amounts paid are calculated locally on the basis of sales and profits generated by each subsidiary as compared to budgeted targets. Implementation of the programme takes place locally and compliance with the principles and rules of the programme is coordinated, at Corporate level, by the International Labour Relations Department.

PROFIT SHARING, INCENTIVE AND MANDATORY PROFIT SHARING SCHEMES

€ millions	2012	2013	2014
TOTAL	**210**	**236**	**244**

6

FRANCE

A mandatory employee profit scheme was set up in 1968 and an incentive profit sharing scheme has been in force since 1988.

Mandatory employee profit sharing

Mandatory employee profit sharing is a compulsory system in France, introduced in 1968, for all profit-making companies with over 50 employees. Signed for a term of 3 years, the mandatory profit sharing agreement was renewed in May 2012.

Within the framework of this Group agreement, which pools the results of all the companies that are signatories, L'Oréal has made favourable adjustments to the legal formula to take account of the Group's international development.

Mandatory profit sharing is available immediately but may be frozen which allows employees to benefit from a tax exemption:

- for 5 years in the Company savings plan or the frozen current account ;
- or invested until retirement in the collective retirement savings plan (PERCO) on which an additional employer contribution is paid equal to +50%.

CHANGES IN GROSS MANDATORY PROFIT SHARING

€ millions	2011 (1) (2)	2012 (1) (2)	2013 (1) (2)
	32.8	31.5	28.3

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

Mandatory profit sharing for 2013 paid in 2014 represented the equivalent of 0.5 month's salary.

Incentive profit sharing

Incentive profit sharing is a system provided for by law but is of a non-mandatory nature. Renegotiated every 3 years, it was the subject of a new Group agreement in 2012. The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items and weighted on the basis of the salary/value added ratio.

The incentive amount is available immediately, but may also be frozen in the Company savings plan for 5 years and benefit from a corresponding tax exemption.

Within the framework of the regulations on sharing profits (Article 1 of French Law No. 2011-894 of July 28th, 2011), L'Oréal proposed the payment in 2014 of a gross additional incentive amount of €1,100 per employee in respect of the "non-mandatory monetary benefits" provided for by the legislation.

L'Oréal chose to propose the payment of an additional incentive amount as it corresponds to the system which is the closest to the notion of "value sharing".

Company-level agreements providing for the payment of a gross additional incentive amount of €1,100 were thus entered into with the Works Councils of L'Oréal and its subsidiaries in France. It was paid on September 30th, 2014[1].

The total net amount of incentives allocated in 2014 is €123.9 million, plus the additional incentive payment to "share in profits for 2014" of €13.6 million.

CHANGES IN GROSS INCENTIVE AMOUNT

€ millions	2011 (1) (2)	2012 (1) (2)	2013 (1) (2)
	112.6	117.5	123.9

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

For an annual gross salary of	The gross Incentive amount for 2013 paid in 2014 and the additional amount represented
€25,000	€7,757 *i.e.* 3.72 months
€35,000	€8,880 *i.e.* 3.04 months
€45,000	€10,003 *i.e.* 2.67 months
€65,000	€12,249 *i.e.* 2.26 months

For employees who so wish, the amounts paid in respect of incentive and mandatory profit sharing may be invested for a minimum period of 5 years in the Company savings plan which proposes, in particular, an employee investment fund invested in L'Oréal Shares, on which an additional employer contribution of 25% is paid for incentive profit sharing payments.

In 2014, the following amount net of CSG, CRDS and the *forfait social* levy was invested by the employees of L'Oréal and its subsidiaries in France in the fund which is 100% composed of L'Oréal shares, *L'Oréal Intéressement:* €60,864,905, plus the net additional incentive amount to "share in profits for 2014" of €5,592,482.

COMPANY SAVINGS PLAN AND FROZEN CURRENT ACCOUNT

Outstanding balance for all the companies concerned in France:

€ millions	2012	2013	2014
Company savings plan + Frozen current account + collective retirement savings plan	863	985	1,098

At December 31st, 2014, 52% of the savings of L'Oréal employees were invested in L'Oréal shares, and 10,442 Group employees in France were shareholders of L'Oréal through the savings plan.

(1) On a full-time basis, for 12 months' presence in 2013.

At worldwide level, in addition to the mandatory profit sharing, incentive profit sharing or Worldwide Profit Sharing programmes for its employees, the Group has for several years granted stock option plans and made conditional grants of shares (ACAs) in an international context, in order to associate those who have made big contributions with the future evolution of the Group's results and help to instil a Group spirit.

In 2009, L'Oréal enlarged its policy by introducing a mechanism for the conditional grant of shares, in order to reach out to a broader population of potential beneficiaries thanks to a long-term incentive tool.

The final vesting of these shares is conditional on the achievement of performance criteria.

In 2014, the Group continued its policy for conditional grants of shares;

- 1,978 employees were thus beneficiaries of the April 17th, 2014 plan (2,092 in 2013);
- 83% of the beneficiaries are outside France (61% in 2013);
- 47% of the beneficiaries are women (46% in 2013).

In total, more than 3,000 employees, i.e. over 12% of the managers worldwide, benefit from at least one stock option plan or plan for the conditional grant of shares.

Employee Benefit and pension schemes and other benefits

Depending on the legislation and practices in each country, L'Oréal adheres to pension schemes, pre-retirement arrangements and Employee Benefit schemes offering a variety of additional coverage for its employees.

In 2002, L'Oréal set up a Supervisory Committee for pension and Employee Benefit schemes offered by its subsidiaries. This committee ensures the implementation and the monitoring of L'Oréal's pension and Employee Benefits policy as defined by the L'Oréal Executive Committee.

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.

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

In 80% of the countries in which L'Oréal is established, L'Oréal 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). It does so through a whole series of 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 (Germany, Belgium and the United Kingdom). This series of defined benefit and defined contribution schemes makes it possible to share the financial risks and ensure improved cost stability. 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.

The 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.

FRANCE

Pension schemes

In France, L'Oréal has supplemented its retirement plan by creating on January 1st, 2001 a defined benefit scheme with conditional entitlements based on the employee's presence in the Company at the end of his/her career. Then, on September 1st, 2003, a defined contribution scheme with accrued entitlements was introduced.

Defined benefit scheme

In order to provide additional cover, if applicable, to compulsory pensions provided by the French Social Security compulsory pension scheme, the ARRCO or AGIRC (mandatory French supplementary pension schemes), L'Oréal introduced on January 1st, 2001, a defined benefit scheme with conditional entitlements, the "Retirement Income Guarantee for former Senior Managers" *(Garantie de Ressources des Retraités Anciens Cadres Dirigeants)*. Prior to this, on December 31st, 2000, L'Oréal closed another defined benefit scheme, also with conditional entitlements, the "Pension Cover of the Members of the *Comité de Conjoncture*" *(Garantie de Retraite des Membres du Comité de Conjoncture)*.

Access to the "Retirement Income Guarantee for former Senior Managers", created on January 1st, 2001, is open to former L'Oréal Senior Managers who fulfil, in addition to the requirement of having ended their career with the Company, 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, the 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 basis for the Guaranteed Income 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 Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the Company 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 this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. 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 retiree 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 an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 400 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having ended their career with the Company.

Access to the "Pension Cover for Members of the *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, the 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 basis 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 basis 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 for the calculation basis. 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.

Defined contribution scheme

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

A new agreement was signed in December 2007, with effect from January 1st, 2008, as well as a supplemental agreement applicable as from January 1st, 2009.

A 2nd supplemental agreement was signed on June 6th, 2014, applicable as from January 1st, 2015: all categories of employees (executives, sales representatives, administrative staff, manual workers, technicians and supervisors) will be beneficiaries of the scheme.

This scheme, which is co-funded by L'Oréal and the employee, makes it possible to improve pension savings for everyone.

In 2015, L'Oréal will contribute on Bracket A, then in 2016, L'Oréal and the employee will both contribute on this Bracket.

For the portion of remuneration exceeding Bracket A, capped at 6 times the French annual social security ceiling, the contributions for both the Company and employees will increase gradually, in 2015 and 2016.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlement from the French Social Security compulsory 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.

The Life Annuity is calculated on the basis of the capital formed by the contributions made 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.

€ millions	12.31.2012	12.31.2013	**12.31.2014**
Number of members	13,549	13,823	14,092
TOTAL NET CONTRIBUTIONS	**9.20**	**9.51**	**10.2**

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 (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 €9,280 gross/month) as well as mandatory profit sharing, incentive payments and paid leave;
- **early retirement leave under the time savings account**: this arrangement, linked to the 35-hour working week agreement and the Time Savings Account (*Compte Épargne Temps* – CET), enables an employee who has saved 3 days' leave per year under the CET since 2001, to benefit from the possibility to terminate his/her activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave;
- **retirement indemnities**: a new scale of indemnities at L'Oréal was implemented by a collective Company-level agreement as from 2011, which 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' service.

  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.

	12.31.2012			12.31.2013			12.31.2014		
	Men	Women	Total	Men	Women	Total	**Men**	**Women**	**Total**
Early retirement leave	65	128	193	81	183	264	78	191	269
Compulsory retirement on the Company's initiative	3	0	3	2	0	2	0	0	0
Voluntary retirement	66	135	201	80	150	230	94	188	282

Source: HR France statistics 2012, 2013 and 2014.

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 adopted 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	12.31.2012	12.31.2013	**12.31.2014**
Provision for pension commitments in consolidated balance sheet liabilities	706.7	621.3	1,049.4

Employee Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4 *bis* of the French National Collective Bargaining Agreement of 1947 (1.5% of Bracket A of income as defined by the French Social Security) and the guarantees accorded under the French National Collective Bargaining Agreement for the Chemical Industries, 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 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 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 Social Security ceiling, net of all deductions;
- In case of death:
  - **a)** 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,
  - **b)** for executives and comparable categories of employees, the payment of a **Spouse Pension** to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,
  - **c)** 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	12.31.2012	12.31.2013	**12.31.2014**
Net Employee Benefit Contributions for the financial year	11,445	11,985	12,500 (1)

(1) Estimated.

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 Benefits 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 subject to a ceiling.

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.

Retirees of L'Oréal S.A. and its French subsidiaries can continue to benefit from a healthcare scheme.

Retirees of L'Oréal S.A. and certain companies, who retired prior to December 31st, 2014, benefit from a contribution by L'Oréal, subject to a membership duration clause, specified in the regulations for additional defined benefit pensions.

This additional defined benefit pension scheme was closed as from December 31st, 2014. All the retirees who were beneficiaries of this scheme will continue to benefit from it.

For employees who are close to retirement age, a transitional "transition capital" scheme was set up in the form of a collective Company-level agreement: it provides for the payment of a capital sum at the time of retirement (between €1,000 and €3,500) depending on age, for all employees aged 52 and over at January 1st, 2015.

6.2.2.2. WORK ORGANISATION

Organisation of working time

L'Oréal complies with the statutory and contractual obligations with regard to working time in each of its subsidiaries. Working time depends on the local environment and the business activities carried out.

Employees who have chosen to work part-time come from all categories. The number of part-time employees worldwide is 10,611, of whom 9,929 are women and 682 men.

FOCUS ON FLEXIBILITY IN EUROPE AND THE USA

Within the framework of the L'Oréal Share & Care programme, 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. The most innovative examples of such systems are in Europe with "smart work", following the example that already exists in the United States, after making the necessary local adaptations.

UNITED KINGDOM

In 2014 L'Oréal UK launched a new initiative, called "**work smart**", which is aimed at giving employees more flexibility in order to enable them to work to their full potential. In concrete terms, this means that employees are free to adapt their working hours and work remotely as long as their work is done and their objectives achieved.

- This means that they have flexibility to work outside usual working hours and outside the usual place of work.
- Unlike working-time adjustments which are generally fixed, permanent arrangements, the goal of the scheme is to give employees more flexibility without any formal changes to the employment contract and working conditions.

ITALY

In 2014, L'Oréal Italy launched a new programme called "**be smart, work smart**". It enables eligible employees to work from home or at a location other than statutory place of work on condition that it meets the safety standards and has Wi-fi access.

For L'Oréal Italy, this important initiative will improve the commitment shown by employees and their productivity and will offer them a better balance between private life and through greater flexibility and give them more autonomy in managing working time, within a limit of 2 days a month, or 24 days a year.

GERMANY

In 2014, L'Oréal Germany launched a new programme called the "**flexi work program**", in line with their vision "Unser Leben schöner machen" ("Making life more beautiful").

The FWP consists of a whole set of initiatives aimed at offering greater flexibility in working time. Some of them are new and others have been enhanced to make them more accessible to all the employees.

- **Home office:** this is one of the main innovations made by the FWP: this initiative already existed in the past but it is now open to all office employees. Clear rules have been drawn up and distributed to employees in this connection.
- **Summer working hours:** after a pilot phase, the period of "summer working hours" was entered on the annual calendar. During this period, employees are able to leave their place of work at 1 p.m. on Fridays.
- **Flex-time:** several reduced working time arrangements are proposed to employees.

UNITED STATES

L'Oréal USA offers 2 programmes to assist its employees to balance their professional and personal commitments, concerning flexible work time and telecommuting.

- The "**Flexible Work Time**" programme enables eligible employees to work outside established working hours. These flexible work hours are proposed for defined periods and formally provided for in an agreement with the employee concerned.
- The "**Telecommuting**" programme offers the possibility for eligible employees to perform their professional activities by working from home within the limit of 2 days a month.

Absenteeism

The overall rate of absenteeism for 2014 was 4.93%, 2.36% of which is due to sickness, calculated using the following method.

Method of calculation:

- Total absenteeism: B/(A+B);
- Sickness absenteeism: C/(A+B).

(A) Number of days effectively worked by all employees with contracts, including training.

(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, accidents in the workplace and/or travel to work accidents...).

6

6.2.2.3. LABOUR RELATIONS

Company saving plans and frozen current account

The quality of 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 have been set up in most of the European subsidiaries, the Asian subsidiaries (China, Indonesia, India, South Korea…), Africa (South Africa, Kenya..), and in North and South America (the United States, Canada, Mexico, Brazil and Argentina…), and also in Australia and New Zealand.

In the few cases where there is no employee representative institution (essentially 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.

Since 2003, L'Oréal has carried out a global employee opinion poll with the assistance of the international firm of Towers Watson, a survey that was repeated in 2011-2012. The results are shared with the employees and employee representatives. They are the subject of actions plans implemented in a decentralised manner, as closely as possible to the expectations expressed.

The Company's 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 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, unchanged, for the period 2013-2016.

The IEDS/EWC contributes to 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 represents approximately 30,000 employees in 26 countries which are part of the European Economic Area; among whom the 16 countries with more than 150 employees are represented directly.

Situation with regard to collective agreements

The social policy at L'Oréal permits the signature of a certain number of collective agreements in the subsidiaries every year. In 2014, 224 agreements were signed in France and 88 agreements were signed in the rest of the world. In total, the number of agreements in force at December 31st, 2014 was 765, of which 477 are in France.

6.2.2.4. HEALTH AND SAFETY

General policy

For several years, L'Oréal has applied a well-established policy in the field of health (H) and safety (S). This defines the Company's commitment to developing, producing, distributing and selling innovative products of the highest quality, while having an ethical conduct and guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its activities.

This approach is part of an overall environmental, health and safety (EHS) policy described in the Environmental information section.

L'Oréal is eager to provide a safe and healthy work environment for its employees. Health and safety are of paramount importance and L'Oréal's ultimate goal is a zero accident rate.

Comprehensive programmes have been adopted that focus on risk reduction and continuous improvement. A safety culture has been instilled, setting high standards and involving employees at all levels of the Company.

Keen to increase safety in the workplace, the General Management has set an ambitious objective to improve the results obtained.

Target: zero accident

Overall, 2014 was a good year for the Group as a whole with a very healthy improvement for all sectors. For the first time, all the sites had a conventional frequency rate (TFc[1]) of less than 1.1 ☑, in particular Operations which, with a TFc = 0.65, were close to the target for 2015. In addition, there was an improvement of 31.4% for the sales forces and shops.

The Group's performance improved by 32.9% as compared to 2013. The 130 lost-time accidents (L'Oréal staff and temporary employees) registered in the Group in 2014 break down as follows:

TFc	2012	2013	2014	Variation
Sites of plants and distribution centres	*1.49*	*1.17*	***0.65***	↓ **-44.40%**
Administrative sites	*1.8*	*1.17*	***0.77***	↓ **-34.20%**
R&I sites	*2.3*	*2.6*	***1.95***	↓ **-25.00%**
Sales force & Shops	*2.84*	*3.15*	***2.16***	↓ **-31.40%**
Group: all sites	*1.72*	*1.64*	***1.10*** ☑	↓ **-32.90%**

Security improvement programme

Management is the guiding force behind this change in safety culture, supported and assisted by the EHS network. L'Oréal has set up the necessary tools and programmes to achieve excellence in this area.

The basic safety improvement programmes rest on the following components:

- **EHS steering Committees:** overall review of the action plans and the efficiency of the site's EHS programmes by the Management Committee;
- **Ergonomic attitude:** a programme for all Operations sites, scheduled to be extended to all the Group's sites by 2020. In 2014, the Group's Governance Committee on Ergonomics defined the Vision statement. In 2015, the Ergonomics roadmap will be implemented on all the Group's sites. It is based on the strategy and actions that have been successfully deployed in Operations since 2009. This roadmap consists of four levels which enable the sites to systematically improve their ergonomics culture and determine their individual action plans;
- **MESUR (Managing Effective Safety Using Recognition and Realignment):** a periodic safety visit by a manager in the field. In 2014, the programme was also deployed on certain administrative and research sites;
- **SIO (Safety Improvement Opportunities):** reporting of situations considered as involving risks by each employee with follow-up by direct management of the corrective measures taken;
- **Constructive Challenge:** a programme aimed at improving the safety culture and state of mind of each employee so that each and every one of them takes into account both his/her own safety and that of others. The objective of this programme is to cover 100% of the sites in 2020.
- **Safety Training for management:** in 2014, 69 Site managers attended the Safety & leadership seminars, held at the CEDEP, the European Centre for Continuing Education (Centre Européen d'Education Permanente) on the campus of INSEAD in France. Since the start of this programme, 284 of L'Oréal's 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.

(1) TFc = Number of lost-time accidents per million hours worked by L'Oréal staff.
☑ The Statutory Auditors have expressed a reasonable assurance on this selected information.

- **Group EHS audits:** "Combined Risk and Culture Audits" were implemented in 2014, in order to simplify the audit process. These audits incorporate in full the evaluation of the EHS culture and risk management, the assessment of the visible commitment by managers and employees and the process of ongoing improvement through the action plans. The teams of auditors are composed of employees of L'Oréal including senior EHS managers, as well as outside experts trained in the Group's Internal Rules, local legislation and safety, fire prevention and related processes.

EHS priority area

The priority areas and EHS focuses for 2015 can be classified in the 8 following areas:

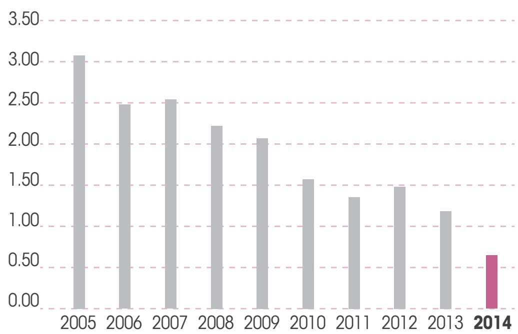
1. Updating of strategy and action plans to achieve the target for 2020 (TFc < 0.5 for all the Group's sites);
2. Commitment and visible participation by management;
3. Targeted initiatives to deal with the most frequent accidents, including a global ergonomic programme and a programme to prevent falls and hand injuries;
4. EHS organisation in line with the Group's standards with OHSAS 18001 accreditation for all Operations Division sites;
5. Training programme for managers, EHS network and operators/technicians;
6. Efficient Health and Safety management systems at all sites;
7. Active participation by employees;
8. Sharing of resources, feedback and best practices.

SAFETY TARGET FOR FACTORIES AND DISTRIBUTION CENTRES

The initial target for 2015 was to reach a TFc of less than 0.6, namely a 81% improvement in the score with regard to safety by 2015 (2005 baseline: TFc = 3.09),the results for 2014 are close to this figure with TFc = 0.65.

PERFORMANCE SUMMARY FOR FACTORIES AND DISTRIBUTION CENTRES SINCE 2005

TFc (conventional frequency rate) – Factories and distribution centres



TARGET: ZERO ACCIDENT IN 2014 [(1)]

Out of 99 factories and distribution centres, 86 recorded a zero lost-time accident rate.

A DECREASING ACCIDENT SEVERITY RATE

As well as a reduction in the number of accidents, it is also important to note that the accident severity rate has fallen by 50% versus 2013 for Operations and 40% for the Group. It amounts to 0.03 ☑ in 2014 for Operations and also for the Group.

MILLIONS OF HOURS – L'ORÉAL STAFF – WITHOUT A LOST-TIME ACCIDENT SINCE 2005 – OPERATIONAL AND ADMINISTRATIVE SITES:

- 4 factories, 8 distribution centres and 10 administrative/R&I sites reached or passed the threshold of one million hours worked without a lost-time accident;
- 3 factories, 1 distribution centre and 14 administrative sites have now exceeded 3 million hours.

(1) L'Oréal permanent staff.
☑ The Statutory Auditors have expressed a reasonable assurance on this selected information.

Status report on collective agreements with regard to health and safety

- L'Oréal's health and safety standards are very strict and often exceed the legal obligations in the different countries. The Health and Safety Committees and their activities do not necessarily lead to the signature of specific agreements, but rather to joint monitoring of this subject (application of L'Oréal's standards and the legal obligations, analysis of situations, etc.) according to the principle of continuous improvement.
- 84 agreements have nevertheless been identified as being in force at December 31st, 2014, which deal, totally or partially, with health and safety.

6.2.2.5. TRAINING

"Sharing Beauty With All" programme

Within the scope of the "Sharing Beauty With All" programme, the Group undertakes to give its employees access, everywhere in the world, to at least one training session per year by 2020. In 2014, 81.% of the employees received at least one training during the year.

Training is an integral part of employee development policy at L'Oréal. In a continual search for excellence and creativity and the desire to be one step ahead to deal with the growing complexity of the challenges of our business, the "Learning" teams provide employees and managers with ongoing support to help them not only to be high-performing, but also to promote the development of their professional careers.

Training has always been at the heart of the Human Resources strategy: this enables L'Oréal to attract the best talents, prepare the leaders of the future, but also provide all the employees throughout the world with the best possible response in terms of training. The Group's ambition is to enable the largest possible number of employees, whatever their profession, country or position to have access to development opportunities throughout their working life: this is L'Oréal's vision of "Learning for All".

The training offering is structured into "practices", or fields of expertise (marketing, commerce, research, operations, management, personal development…). Responsibility for each "practice" is entrusted internally to professionals in this area, whose role is to identify the Group's current and future needs in terms of skills and to design appropriate training solutions.

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 exchanges, with the help of Training managers.

Employees then have access to a whole set of development resources with 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.

Due to the presence of an international network of "Learning" managers, both at the level of the countries, but also in the 5 main regions, L'Oréal ensures global consistency in the major programmes and thus promotes the sharing of the same corporate culture everywhere in the world. This organisation as a network is an essential driver to foster the loyalty of our employees and accelerate their development. It thus makes it possible to respond better to the specificities and regional priorities in terms of skills needs.

The Group also organises large international programmes which make it possible to unite employees from all over the world and thus profit from enriching multicultural exchanges and experience sharing. These moments are essential to understand the Group's culture and its strategy, meet the senior managers and share their challenges, instil a Group spirit and develop an internal international network, which are all key factors for the success of each and every one of them, as well as also being factors for Sustainable Development and long-term success for the Group.

/ NUMBER OF HOURS OF TRAINING

	2012	2013	2014
Total number of hours of training	1,063,172	1,325,136	1,599,742

6.2.2.6. DIVERSITY AND EQUAL OPPORTUNITIES

For over 10 years, L'Oréal has been engaged in an innovative, ambitious policy in favour of Diversity. The Group has set itself three priorities:

1. gender;
2. disability; and
3. socio-cultural and ethnic origin.

The Group focuses more particularly on the areas of Human Resources, solidarity sourcing and marketing.

At December 31st, 2014, with a network of more than 96 Diversity coordinators ☑ all over the world, the initiatives conducted by all the Group's subsidiaries make L'Oréal a pioneer and one of the recognised major players in the area of diversity at worldwide level.

In 2004, L'Oréal was a founding member of the **first Diversity Charter in France**. The Group has now signed 9 charters in all (Germany, Austria, Belgium, Italy, Poland, Spain, Finland, France and Sweden), 5 of which were created on the initiative of L'Oréal. The most recent initiative was at L'Oréal Finland which was a founding member of the Finnish Diversity Charter in 2012.

☑ *The Statutory Auditors have expressed a reasonable assurance on this selected information.*

In the field of gender equality

L'Oréal has been awarded since 2010 the first European gender equality label, the "Gender Equality European Standard" (GEES), for its entities in Europe.

Summary of GEES certifications:

- **2010 (initial audit):** Germany, France, Spain, Italy, Belgium, United Kingdom, Ireland and L'Oréal S.A.
- **2012 (initial audit):** Baltic countries (Estonia, Latvia, Lithuania), Portugal, Czech Republic, Hungary, Slovakia and Poland
- **2013 (mid-term audit):** Germany, France, Spain, Italy, Belgium, United Kingdom, Ireland and L'Oréal S.A.
- **2014 (initial audit):** Austria, Finland, Sweden, The Netherlands, Croatia, Bulgaria, Slovenia and Romania
- **2014 (mid-term audit):** Baltic countries (Estonia, Latvia, Lithuania), Portugal, Czech Republic, Hungary, Slovakia and Poland.

In total, 24 entities ☑ of the L'Oréal Group have obtained the label and are regularly audited to measure their progress.

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

L'Oréal France has also received the Professional Equality label.

Also in the field of gender equality, L'Oréal Mexico received the World Bank's "Gender Equity Model" certification in October 2012.

Finally, 7 countries (Australia, Brazil, Canada, the United States, India, Philippines and Russia) started the Economic Dividend for Gender Equality (EDGE) process to obtain certification with regard to social and professional equality of men and women in the world in 2014.

L'Oréal USA ☑ obtained the EDGE label in summer 2014. The other 6 countries ☑ are finalising the evaluation stage in order to receive the certification.

In addition, L'Oréal obtained the Vigeo prize for its actions in favour of women and L'Oréal USA was recognised as one of the "Top 10 Champions of Global Diversity".

With regard to disability

L'Oréal has been developing a global policy since 2008 in favour of professional insertion of the disabled in the Company. This policy focuses on five priorities:

1. raising awareness;
2. accessibility to information and infrastructures;
3. partnerships;
4. recruitment; and
5. maintenance in employment.

- To accelerate the mobilisation of its subsidiaries, L'Oréal has put in place since 2008 awards known as **"Initiatives for the Disabled"** which reward operational entities for their concrete actions in favour of the disabled. These awards, which are presented every two years, make it possible to showcase and share the best practices of the various L'Oréal entities both in France and in Europe. In 2012, this initiative was made international, which enabled 14 countries from four geographic zones to participate. Finally in 2014, 65 countries in the Group showed their commitment to this initiative by submitting 80 projects.
- In 2013, L'Oréal Chile received the "Sello Inclusivo" seal which rewards efforts made with regard to accessibility. L'Oréal also signed the **agreement with the International Labour Organisation to become part of this organisation's Disability Network**, in order to share its best practices and interact with stakeholders, such as Non-Governmental Organisations, civil associations and other businesses on the organisation Committee.
- In 2009 L'Oréal created the **CSR+Disability network** together with the Italian Ministry of Labour, Telefonica and the ONCE Foundation in Spain. The purpose of this tri-national network which consists of players from the private and public sphere and from associations, is to promote access to work for disabled people throughout Europe. In 2013, as a result of this partnership, the "1st European Award for Social Entrepreneurship and Disability: Promoting Social Investment" was jointly created. This award aims at identifying and rewarding projects from European social entrepreneurs in the field of inclusion of the disabled or innovative projects promoted by disabled entrepreneurs. The first award-winner, Gregor Demblin, has been working in close collaboration with L'Oréal Austria since 2014. In 2014, L'Oréal actively supported the launching of the second edition of the award that will be presented in March 2015.
- December 3rd is the International Day of persons with disabilities declared by the United Nations. A communication kit was sent to all the Group's subsidiaries in November 2014 in order to help them to organise **a day or a whole week to raise awareness with regard to disability**. To date, 5 Group subsidiaries ☑ have gone into action and created events to raise awareness among their employees: Brazil, United States, Mexico, China and Uruguay. France also mobilised the head office teams to raise awareness on this topic.

Social and Ethnic origins

- Finally, 28 countries focused part of *their diversity strategy on social and ethnic origins*. With regard to recruitment , 59 countries in which the Group is established have implemented actions to **diversify the origin of their recruitments** with one objective: enable all talented individuals to assume high-level responsibilities within the Company, whatever their differences or their origins.

☑ *The Statutory Auditors have expressed a reasonable assurance on this selected information.*

- L'Oréal hosted the European Origins **conference at its head office** in partnership with the ENAR (European Network Against Racism) in October 2013. In 2014, L'Oréal once again hosted the ENAR conference in order to explore best corporate practices to address the question of ethnic and cultural origin in the workplace.
- L'Oréal has moreover developed a **diversity assessment** in France with a hundred or so indicators that together cover the 6 dimensions of Diversity policy. For the same purpose, an automatic Diversity Reporting tool with 30 indicators (recruitment, training, remuneration…) has been made available to all the subsidiaries.
- In order to support these initiatives, L'Oréal has undertaken to train its employees in diversity by organising **"Diversity Workshops"**. This one-day training session made it possible to raise awareness among over 15,000 employees in more than 20 countries.

6.2.2.7. PROMOTION AND COMPLIANCE WITH THE PROVISIONS OF THE FUNDAMENTAL CONVENTIONS OF THE INTERNATIONAL LABOUR ORGANISATION

L'Oréal became a signatory of the United Nations Global Compact in 2003 and is committed to respecting and promoting the Fundamental Conventions of the International Labour Organisation even though not all these conventions have been ratified by all the countries in which L'Oréal is present.

This means in particular respecting freedom of association and the recognition of the right to collective bargaining, contributing to the elimination of all forms of forced or compulsory labour, contributing to the effective abolition of child labour and eliminating all forms of discrimination in respect of employment and occupation.

L'Oréal ensures that these conventions are observed with regard to its employees thanks to the actions taken by Human Resources and at its suppliers and subcontractors through the initiatives taken by the Purchasing function (see the section on Societal Information, paragraph on Subcontracting with suppliers for further details).

L'Oréal's "Open Talk" policy enables employees to raise any concerns they may have directly with the Group's Chief Ethics Officer including via a secure website.

L'Oréal follows, inter alia, the Global Reporting Initiative indicators HR3, HR4, HR5 and HR6 which correspond to the four fundamental conventions.

This means namely respecting :

- *Freedom of association and recognition of the right to collective bargaining :* the measures taken are described in the paragraph on "Labour Relations". In countries where freedom of association and the right to collective bargaining are limited or prohibited, L'Oréal ensures that other modes of dialogue with employees exist enabling them to report any concerns they may have.
- *Elimination of all forms of discrimination in respect of employment and occupation :* the measures taken are described in the paragraph on "Diversity and Equal Opportunities".
- E*limination 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 or subcontractors must request L'Oréal's authorisation 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.
- A*bolition of child labour :* all L'Oréal entities are required to verify the age of 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 Labour Organisation.

  In light of their young age, employees who are between 16 and 18 years old are subject to specific measures and in particular: no night work, no overtime, no work involving the use of hazardous substances or tools, no carrying of heavy loads, the implementation of a reinforced training programme, appointment of an internal "tutor" and inclusion on a special register. In 2014, 408 employees aged between 16 and 18 worked within the Group's entities.

Methodological note

SOCIAL, HEALTH AND SAFETY DATA SCOPE, INDICATORS, REPORTING METHOD AND SYSTEMS APPLIED

Social data

SCOPE OF CONSOLIDATION

The workforce indicated in the "Total Workforce" and "Geographic distribution of workforce" charts is the total workforce present at December 31st of the year concerned (1).

All the other social indicators set out in the Social information section relate to "Cosmetics" and "The Body Shop".

If an indicator relates to a scope different from that of "Cosmetics" and "The Body Shop", the scope of consolidation is indicated in a note.

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.

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, ethics, Worldwide Profit Sharing, labour relations, remuneration, Human Resources expenses, recruitment and training, and absenteeism;
- 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 Corporate 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 scope, it is recognised that 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" are gathered from the "CAROL" online career monitoring system, deployed in all "Cosmetics" subsidiaries.

The improvement of the information collection process at consolidated level has made it possible to identify agreements that are in force that have not been taken into account up to the present. The work need to progress in this field is continuing in all the companies of the L'Oréal Group.

The monitoring of training at Group level does not take into account all the hours of training in 2014 such that the number of hours of training and the number of employees trained are higher than the figures published in this report. An action plan is currently under way in order to cover all employees and in particular those who hold certain external or travelling positions.

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.

Health and safety data

SCOPE OF CONSOLIDATION

The safety indicators set out relate to the "Cosmetics", "Dermatology" and "The Body Shop" sites: factories and distribution centres but also the administrative sites and research centres.

Safety *reporting* covers 93% of factories and distribution centres and over 74% of the workforce of the administrative sites and research centres.

The safety indicators of the factories 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 factories 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 6 sites that recently became part of the Group are not integrated in the Group's EHS reporting for 2014: BADDI (India), KENYA, VOGUE (Colombia), MAGIC HOLDING 1 (China), MAGIC HOLDING 2 (China), DECLEOR (France).

INDICATORS

The indicators applied are those used in the management of the Company's sites. They reflect the results of the Group's Environmental, Health and Safety (EHS) policy.

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 "QIS" intranet system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

When the data are compiled, each site 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 year: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

(1) *Galderma (dermatology) is excluded.*

6.3. ENVIRONMENTAL INFORMATION

The Group's Environment, Health and Safety policy aims at minimising environmental impact while guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its business activities. This policy nevertheless leads us to systematically identify the risks inherent in our business activities, and to bring them under control. For example, before building or renovating a factory anywhere in the world, and before introducing new manufacturing equipment and processes, the environmental impacts are assessed and are the subject of action plans to minimise them.

The health and safety measures adopted in favour of L'Oréal's employees are described in the "Health and Safety" section below, page 226.

The Group's EHS policy and manual

EHS policy at L'Oréal is organised and managed in accordance with an EHS manual, which sets out the measures to be applied by all operational sites under L'Oréal's control. It covers safety measures and safety objectives (zero accident), resource efficiency, greenhouse gas emissions, waste generation, EHS responsibilities, internal procedures, etc. For L'Oréal sites, the EHS manual is a key tool to drive further improvements in their EHS performances. Distributed to all operational sites since 2011, it is currently being rolled out in the research centres and administrative sites.

The Group's EHS system consists of a large number of procedures that make it possible for the sites to control the facilities and business activities, leading, in particular, to reducing the risks of fire, explosion and environmental incidents and all forms of risks to people to a minimum.

Organisation of EHS

Accountabilities for EHS are defined at all levels of the organisation. L'Oréal's Executive Vice-President Operations, who reports to the Group's Chairman & CEO, is responsible for health, safety and environmental issues. EHS managers ensure the deployment of the Group's rules and procedures and the associated performance objectives in each entity.

The remuneration of factory managers and distribution centre managers is partly linked to their performances in the field of health, safety and the environment.

Worldwide audit programme

Internal and external experts regularly visit L'Oréal's production and distribution sites to assess the compliance of their operations with the Group's rules, the progress made and the risks they present. Third-party audits are also carried out at supplier sites in accordance with the same criteria as those used for Group entities.

L'Oréal has a comprehensive programme of EHS audits, which includes in particular risk audits, culture udits, combined Risks and Culture audits, loss prevention audits by insurance companies, real estate audits and subcontractor audits.

RISK AUDITS

They have 2 main objectives:

- ensuring that technical equipment, processes and operation methods implemented by management and used by employees do not carry risks of damage to their health and safety or to the environment;
- giving the Group's General Management objective knowledge of control over risks in the EHS fields on the L'Oréal sites and providing the assurance that they are under control.

For three years, these audits have covered all international operations and are carried out by independent experts. As a general rule, it takes about five days for a team of three or four auditors to evaluate a factory and around three days to evaluate a distribution centre, an administrative site or a research centre. In 2014, risk audits were carried out at 6 factories, 10 distribution centres, 2 administrative sites and 2 Research centres.

EHS CULTURE AUDITS

Launched in 2009, the EHS culture audits programme aims at measuring and developing management's leadership and internal EHS culture so that EHS is at the core of the responsibilities of all operational managers. EHS Culture Audits are triggered by a site's performance and conducted by internal EHS specialists through group interviews with 20-30% of the site's employees. In 2014, EHS Culture Audits were carried out at 2 factories, 3 distribution centres and 2 research centres.

COMBINED RISK AND CULTURE AUDITS

A new type of combined risk and culture audit was carried out in 2013 at 6 pilot sites. In 2014, this type of audit was carried out at nearly 42% of the Group's audited sites (namely 20 sites out of the 47 audited).

LOSS PREVENTION AUDITS

Furthermore, within the scope of the Group's Fire and Environment insurance policies, loss prevention visits are conducted regularly by experts and insurers. In 2014, 11 factories and a R&I site were visited in 5 countries with regard to environmental risks (France, Indonesia, Japan, China, South Africa) and 17 sites with regard to fire risks.

REAL ESTATE AUDITS

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. The purpose of the real estate audit is to check that the buildings have been brought into 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. In 2014, 13 sites were audited in various countries.

SUBCONTRACTOR AUDITS

Industrial subcontractors are subject to specific external EHS audits, if they manufacture families of products such as aerosols or inflammable products. As necessary, action plans validated by an external expert company are required and a follow-up audit is scheduled.

EHS policy training

A targeted training programme is provided on L'Oréal's EHS policy and practices for managers and EHS professionals across the Group. The objectives are as follows:

- identify and share EHS vision, challenges and values across the Group;
- identify the risks inherent in a role, task, behaviour or use of equipment and implement appropriate preventive and corrective solutions;
- enable managers to implement EHS policy effectively.

Deployment of the EHS training course launched in 2013 specifically for the EHS teams continued in 2014. 37 people have already been trained in Europe, representing 11 nationalities. Managers continue to receive training in environment, health and safety culture all over the world: 161 managers and supervisors took part in EHS Operations, 69 top managers in Safety & Leadership.

In addition, within the scope of deployment of the Ergonomic Attitude programme throughout the Group, 149 people received training including experts, managers and employees. This training was developed and tested in 2012 with global deployment in 2013. In 2014, 88 experts and 500 employees (managers, technicians and others) were trained.

In 2014, an Ergonomic Attitude Governance Committee was launched with senior representatives of the Group (from Operations, R&I, Marketing, IT, HR and EHS teams). This Committee's role is to determine the vision, objectives and actions to be deployed within the Group and to ensure that the actions under this programme duly support the "Sharing Beauty With All" programme. The Committee meets twice a year and has already initiated the Vision Statement, the 2020 roadmap, the deployment of which on a worldwide basis will begin in 2015.

6.3.1. General environmental policy

"SHARING BEAUTY WITH ALL" PROGRAMME

Within the scope of the "Sharing Beauty With All" programme, the Group is continuing with the process initiated in 2009 to reduce its environmental footprint for its plants and distribution centres. The commitment to reducing its direct and indirect CO2 emissions in absolute terms (scope 1 and 2), its water consumption and its waste generation per finished product (FP) by 50% between 2005 and 2015 has been increased to 60% between 2005 and 2020:

- 60% absolute reduction in greenhouse gas emissions (scope 1 and 2);
- 60% reduction in waste generated per finished product;
- 60% reduction in water consumption per finished product.

Finally, by 2020, the Group undertakes:

- to send zero industrial waste to landfill; and
- to reduce the CO_2 emissions from transportation of products by 20% per FP/km from a 2011 baseline (transportation under the control of L'Oréal).

Global industrial policy also demands all sites to:

- ensure compliance with the regulations;
- apply best practices in energy efficiency or efficient consumption of resources, waste reduction and the best possible waste treatment;
- roll out breakthrough projects in a permanent search for operational performance allied with environmental performance.

Furthermore, all L'Oréal's factories must be ISO-14001 certified. At the end of 2014, 4 plants remained to be certified [Kaluga (Russia), Cairo (Egypt), San Luis Potosi (Mexico)] because of the recent start-up of operations, and Rio for which certification will be renewed in 2015. An ISO 50 001 (Energy management) certification programme was launched in 2014, and the first factory (SICOS France) was certified in December. This programme will gradually be extended to the Group's other factories.

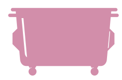
SUMMARY OF THE ENVIRONMENTAL PERFORMANCES OF THE L'ORÉAL GROUP'S FACTORIES AND DISTRIBUTION CENTRES

+21.2%

In volumes produced

(Excluding raw material factories)

2005 – 2014



-23.1%

In the generation of transportable waste

(Grams per finished product, excluding rotation of shuttle packaging, including the recording of shuttle packaging at source at the factories and distribution centres)

2005 – 2014

-50.2%

Greenhouse gas emissions

(Tonnes of CO_2, direct and indirect on a like-for-like basis according to the GHG Protocol[(1)])

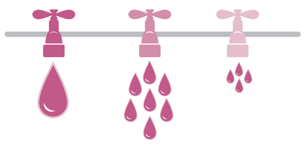
2005 – 2014

(1) Greenhouse Gas Protocol: international method of carbon accounting.

89.0%	**91%**
2005	**2014**

In the waste recycling

(With 16 factories at 100% in 2014)

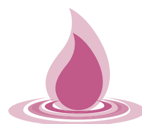


-36.0%

In water consumption

(Litres per finished product)

2005 – 2014



+38.0%*

In the wastewater quality index

(Tonnes of COD)

2005 – 2014

** Two industrial sites in North America (which contribute 6% of the Group's FP units) are excluded from the scope of consolidation of the indicator; action plans to improve reliability are currently being deployed.*

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.

6.3.2. Pollution and waste management

"Sharing Beauty With All" programme

Within the scope of the "Sharing Beauty With All" programme by 2020, the Group undertakes to send zero industrial waste to landfill and to reach 60% of reduction in waste generation per finished product unit from a 2005 baseline.

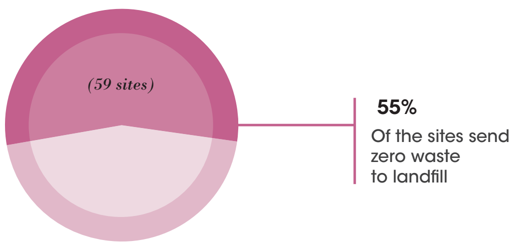
6.3.2.1 SOLID WASTE

For many years, L'Oréal has followed an ambitious waste management policy. This goes beyond regulatory compliance and the prevention of human risks to the environment. 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.).

All the possible methods of waste recovery are systematically explored – reuse, recycling, composting, energy recovery – in order to avoid waste to landfill as far as possible.

In 2014, efforts continued and new initiatives were taken in the Group within the scope of the Commitments for 2020. Cross-functional working groups have been set up, making it possible to increase the involvement of all businesses and jobs and all divisions. All the initiatives aimed at reducing the waste at each of the sites are currently being consolidated within the framework of a roadmap:

- in 2014, 91% of waste was reused, recycled or recovered, including 65% through materials recovery (reuse 'as is' or recycling) and 26% through energy recovery;
- 5,088 tonnes of waste (transportable waste with shuttle packaging) were sent to landfill, *i.e.* 3.8% and 6,180 tonnes of waste were destroyed without recovery, representing 4.6%;



- 55% of the sites send zero waste to landfill (namely 59 sites);
- Waste per finished product (excluding shuttle packaging subject to rotation, with shuttle packaging recorded at source) has decreased by 23.1% as compared to 2005.

Improved recording in respect of shuttle packaging used for transportation in 2014:

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of shuttle packaging, a new system of recording shuttle packing at source was put in place in 2014. L'Oréal thus records at source the weight of its shuttle packaging in transportable waste, with each of the sites being responsible for maximising the rotation rates. The recording of the weight of the shuttle packaging at source is a measure intended to encourage rotation of this shuttle packaging and contributes, through its reuse, to increasing the useful life of the packaging.

L'Oréal continues to record the shuttle packaging rotation which is necessary to calculate the recovery index.

	2013	2014
Transportable waste excluding shuttle packaging subject to rotation, with shuttle packaging being recorded at source (tonnes)	106,080	97,817
Shuttle packaging subject to rotation	35,584	36,698
Total recovered (tonnes)	128,708	121,615
Recovery index (%)	**90.9**	**91**

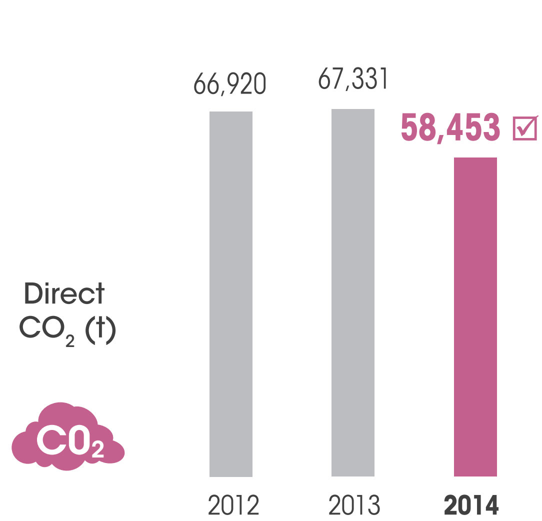
6.3.2.2 ATMOSPHERIC EMISSIONS

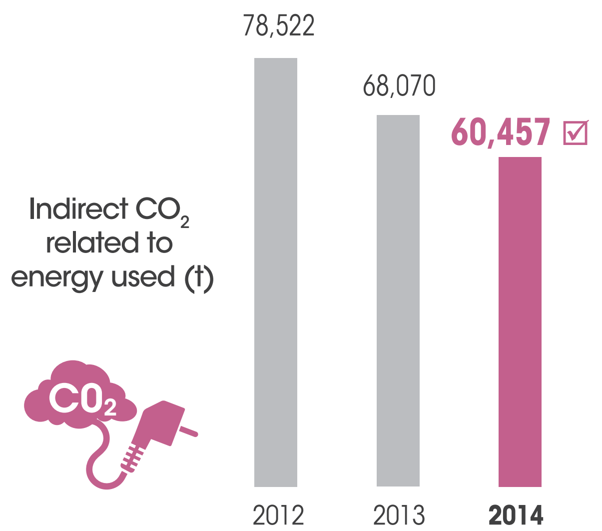
Atmospheric emissions are essentially CO_2 emissions, linked to energy consumption on the sites.

The low emissions of sulphur dioxide (SO_2) come from the fuel oil used (3% of fossil energy consumed).

The volatile organic compounds (VOCs) emitted in small quantities result essentially from the alcohol used in our production processes.

Please refer to the table below for each of these emissions:





(tonnes)	2013	2014
Direct CO_2 (t)	67,331	58,453
Indirect CO_2 related to energy used (t)	68,070	60,457
SO_2 (t)	3.7	1.8
VOCs (t)	139	139
Ozone depleting substances	Negligible *	Negligible *

* *These emissions come from the refrigeration units used in our sites.*

6.3.2.3 WATER EMISSIONS: WASTEWATER

On production sites

Approximately half of L'Oréal's factories have on-site wastewater treatment plants. These use a range of methods, including physical, chemical and biological processes, adapted to the characteristics of the wastewater and local discharge conditions.

In 2014, total chemical oxygen demand (COD) for the wastewater after on-site treatment has fallen by 3.1% ** in tonnes. It amounts to 0.9 g ** of COD per finished product.

L'Oréal is continuing to install on-site wastewater treatment facilities. Thus, the factory in South Africa now has its own equipment.

	2013	2014
Accidental spills (m^3)	0	0
Wastewater discharge (m^3)	1,781,730	1,463,152
Tonnes of COD **	4,647	4,503

** *Two industrial sites in North America (which contribute 6% of the Group's FP units) are excluded from the scope of consolidation of the indicator; action plans to improve reliability are currently being deployed.*

☑ *The Statutory Auditors have expressed a reasonable assurance on this selected information.*

On the sites of end customers

"Sharing Beauty With All" programme

Within the scope of its commitments under "the Sharing Beauty With All" programme, L'Oréal has undertaken to innovate such that in 2020 all of its new products have an environmental or social benefit.

Beyond wastewater management on its production sites, L'Oréal pays close attention to the impact of its products on aquatic environments after use by consumers.

Since 1995, the date of creation of its ecotoxicology laboratory, L'Oréal has developed expertise with regard to the potential impacts of its cosmetic products on aquatic environments.

In 2013, L'Oréal moreover developed an ecological performance index for a cosmetic formula. A calculation method for the Water Footprint specific to cosmetic products, particularly rinsed products, was applied (performance index for a formula based on the environmental profile of its ingredients in terms of biodegradability and aquatic ecotoxicity).

Improvement in the percentage of biodegradability and/or of the Water Footprint of a formula is an essential factor for reducing the impacts.

Thus, following on from the work carried out to get to know and improve the environmental profile of ingredients which began in 1995, the Research & Innovation teams are currently working on improving the biodegradability and the Water Footprint of formulas.

The average biodegradability in 2013 is 88% for shampoos and 89% for shower gels.

Certain shampoos and conditioners with highly biodegradable formulas have been launched on the market.

For example, among the products launched in 2014, the Redken Thinning Retaliate Shampoo, L'Oréal Professionnel Clarifying, Serioxyl Shampoo Coloured Thinning Hair Kit, the MIXA soothing shower oil and or CADUM – soap-free shower gel for softened skin have biodegradability levels of between 95% and 99%.

The improvement in biodegradability and of the Water Footprint of the formulas for which production was launched as from 2014 will be assessed by taking as a baseline:

(1) for creations, the average values for the formulas on the market in 2013 with the same cosmetic properties; and

(2) for renovations, the previous formula.

These actions are part of the process adopted by the Group aimed at reducing the environmental impact of products and in particular the "Innovating sustainably" pillar of the "Sharing Beauty With All" programme, whereby the Group has undertaken that by 2020, 100% of its products will have an environmental or social benefit.

In 2014, 67% of the new products have an environmental or social benefit (in 10 product categories and excluding subcontracting and acquisitions).

6.3.2.4 NOISE POLLUTION

L'Oréal's industrial activities are not particularly noisy. The sites comply with the noise standards to which they are subject. Every month, the internal environmental reporting system informs L'Oréal of any instances of non-compliance on this topic. In 2014, only one site exceeded the standard, but does not generate noise pollution as there are no close neighbour. This non-compliance was removed in the course of the year.

6.3.3. Sustainable use of resources

L'Oréal's strategy for raw materials is a fundamental component of Sustainable Development vision. The impact of the raw materials used is measured with the help of the environmental evaluation guide. L'Oréal encourages the use of raw materials having a favourable social impact, evaluates those raw materials having an unfavourable profile and gives priority to those which are renewable and plant-based, with respect for biodiversity.

Water is first on the list of resources to be preserved, and L'Oréal endeavours to control the use made of water throughout the entire production cycle.

6.3.3.1 WATER

"Sharing Beauty With All" programme

Within the scope of the "Sharing Beauty With All" programme by 2020, The Group has pledged to reduce its water consumption in litres per finished product by 50%, now increased to 60% (2005-2020).

L'Oréal has had a global water conservation programme in place since 2003, which has made it possible to make significant progress in reducing total water use and increasing eco-efficiency.

In 2014, water consumption per finished product in factories and distribution centres was reduced by 12.8% as compared to 2013. Total consumption for 2014 was 2,495 thousand m^3.

Over the past 10 years (2005-2014), water use per finished product has been reduced by 36% and absolute consumption has fallen by 22.4%, while production (excluding raw materials plants) has increased by 21.2%.

A lot of the water consumed in L'Oréal factories is used for cleaning production equipment and packaging lines to maintain very strict hygiene standards. This represents 34% of all water consumption in the industrial sites.

To meet the targets set, L'Oréal's teams aim to reduce the amount of water used for cleaning operations as far as possible without affecting product quality. This optimisation is very complex, as each cleaning process depends on the formula of the manufactured product and the specific equipment used.

In line with the targets for 2020 under the "Producing sustainably" pillar of the "Sharing Beauty With All" programme, a standard tool for analysis and exhaustive mapping of water consumption is now deployed in each of the Group's factories – the "Waterscan tool". This tool makes it possible to categorise the different uses of water, and to identify consumptions in each of such categories. The best performances for a given use are established as a group standard, and are then set as a target for each factory. The projects making it possible to achieve these targets are identified and quantified for each site and the completion of such projects scheduled over time. These planned reductions in consumption form the Group's "Water roadmap", performance on which is monitored on a monthly basis.

Transparency in water reporting: Carbon Disclosure Project water disclosure

Since 2010, L'Oréal has been communicating water information transparently via the CDP water reporting initiative, of which the Group was one of the Founding Responders. The CDP is a leading, independent, not-for-profit organisation that promotes transparency in environmental information reporting: with regard to global warming, water, deforestation, etc. L'Oréal reports every year on its water management strategy, its performances and the Group's initiatives within the framework of the Water Disclosure Project.

Following on from the CDP pilot water supply chain project carried out in 2013, L'Oréal contacted 26 suppliers in order to involve them in this process in 2014. These suppliers were chosen on the basis of their water impact (technologies that use a lot of water), their location in water stress zones, and their importance for the Group. 18 (*i.e.* 69% of them) agreed to take part in this programme.

6.3.3.2 PACKAGING

"Sharing Beauty With All" programme

Packaging has been identified as a major factor in the environmental profile of products and falls within the objective of improving the environmental profile of all products sold by 2020, as part of the commitment to Innovating sustainably under the "Sharing Beauty With All" programme.

Since 2007, L'Oréal has implemented a Packaging and Environment policy based on three pillars:

- Respect;
- Reduce;
- Replace.

This policy is accompanied by a whole set of ecodesign tools developed and deployed in all the Group's Packaging Design centres. The ecodesign process for finished products is now robust, which enables us to move into new areas in terms of Responsible Packaging. In 2014, an ecodesign process for POS (point-of-sale) advertising was defined, and is currently being tested with various suppliers. The ecodesign process for POS advertising will be operational by mid-2015.

RESPECT

L'Oréal imposes the requirement that its paper and cardboard packaging come from responsibly managed forests. To date, 97.9% of paper and cardboard packaging fulfil this criteria.

Furthermore the only label claimed on packaging is that of the Forest Stewardship Council (FSC) of which L'Oréal is a member in France.

L'Oréal extends this approach to its supply chain, going beyond packaging materials. L'Oréal encourages its printers to obtain FSC certification for their entire activity scope in order to guarantee a certified product for the end consumer through its traceability. At the end of 2014, 88% of paper printers and 96% of cardboard box printers have obtained this certification.

A materials vigilance programme, set up many years ago, is supported by a programme of audits in order to identify and correct any deviation far upstream through clear and well-controlled action plans. In 2014, the ecodesign process was enriched with an evaluation tool with regard to recyclability of our packaging making it possible to optimise right from the marketing brief.

REDUCE

Weight and volume reduction in packaging, an integral part of design, is a major area for progress. Every year, actions taken in this area are recognized through indicators. **Between 2008 and the beginning of 2015, 4,070 tonnes of packaging materials were saved due to actions to reduce them at source**. As concerns the volume of packaging, as there are no international regulations in this area, L'Oréal has developed an internal procedure which defines ratios to be complied with for the various levels of packaging constituting a finished product. In addition, L'Oréal has set up specific tools to assist it in carrying out Life Cycle Assessments (LCAs) and reducing the environmental impacts of transport packaging, packing items and finished products.

REPLACE

Aware that non-renewable resources are not sustainable, L'Oréal looks for alternatives to the materials based on these resources. Among the catalogue of options being studied, one of the solutions that L'Oréal has implemented is the use of recycled materials to limit the use of virgin materials. A certain number of its brands include up to 100% recycled plastic in their bottles (Kiehl's, Garnier, L'Oréal Professionnel, Matrix…), or recycled glass in their jars (Vichy, Biotherm, Garnier). **More than 4,100 tonnes of virgin materials were saved in this way in 2014.**

For instance, these initiatives have been taken in 2014:

- 19% reduction in the aluminium cans for the Graphic range (Garnier);
- 8% reduction in the Ambre Solaire spray cap (Garnier);
- 24% reduction in hair colour bottles in the "Americas" zone;
- 26% reduction in the Vichy capsule for the "makeup remover" range;
- 67% reduction in weight of the transport crate for Lancôme mascaras.

6.3.3.3 RAW MATERIALS

The constant concern for the Group in the sourcing of its raw materials is, over and above the desire for quality, to guarantee the sustainability of resources in the following manner:

- by increasing the share of renewable raw materials;
- by ensuring responsible sourcing for such raw materials;
- by making the commitment by 2020 that none of the commodities (palm oil, soya oil and paper and cardboard) will contribute to deforestation. *Published in January 2014, this commitment can be consulted on www.loreal.com*

Renewable raw materials

"Sharing Beauty With All" programme

Within the scope of the "Sharing Beauty With All" programme by 2020, L'Oréal has undertaken that 100% of its renewable Raw Materials will come from sustainable sources.

In 2014, 100% of the renewable raw materials used by the Group were reassessed based on criteria such as respect for biodiversity and contribution to the socio-economic development in the territories from which they originate.

Since 2013, L'Oréal has considered all raw materials of which the carbon content is mostly of plant origin as being plant-based.

To date, 46% of the raw materials used by the L'Oréal Group are renewable. This represents more than a thousand ingredients from nearly 300 species of plant from around sixty countries.

In 2014, 32% of the Group's newly registered raw materials are renewable and 22% of them respect Green Chemistry principles.

Among the products sold in 2014, certain contain a significant percentage of renewable raw materials. This is the case for Kérastase Elixir Ultime pre-shampoo, Kiehl's Damage Reversing shampoo, Mixa glossy shower oil and Ushuaia Bio Vanilla deodorant, in which the percentages of renewable raw materials exceed 90%.

Out of the 300 plant species which are the source of the renewable raw materials used by the Group, less than 10% 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, and these are the subject of priority action plans.

In 2014, the Group redefined its evaluation criteria for the "sustainable sourcing" risk in respect of the renewable raw materials, in order to adapt them to the definition adopted within the scope of the "Sharing Beauty With All" programme.

In order to be recognised as being responsibly sourced, a renewable raw material must:

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

Thus, beyond the issues related to the territories from which the renewable ingredients are sourced, the Group, through its "Buy & Care" programme, also integrates the environmental and social issues relating to the industrial operations of its suppliers (see § 6.4.4, page 250).

The monitoring of this data is consolidated and managed through:

- "sustainable sourcing risk" indicators (ecological, social & societal risk), established in particular using the "Plant Information Sheets" that are prepared and are available for all the plant species from which renewable raw materials are sourced, and updated on a monthly basis for the most sensitive species;
- A four-level process for making progress has been defined and shared with certain suppliers of renewable raw materials, including objectives of traceability, conformity, consideration of critical issues and acceptability, which will replace the Raw material sustainability framework questionnaire. An in-depth investigation into the supply chains has been initiated with certain suppliers for the most sensitive raw materials, starting with a document analysis and going as far as an on-site investigation conducted by an independent third party, according to the nature and criticality level of the environmental and social risks identified. This method was subject to several critical reviews by external stakeholders in 2014. Beyond the criteria adopted, the objective is to validate the relevance of this management system for the sustainable sourcing of renewable raw materials.

  Where applicable, corrective action plans are undertaken 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.

Currently 94% of the raw materials representing the Group's largest volumes of purchases, and derived from species identified as sensitive have been the subject of improvement plans or actions with the suppliers concerned in order to ensure sustainable sourcing.

Fair Trade

Recognized by the L'Oréal Group as a powerful social inclusion factor, Fair Trade via responsible sourcing of renewable raw materials is a major pillar of the "Solidarity Sourcing" programme launched in 2010 (see § 6.4.1.3, page 247).

In 2014, more than 50 fair trade-sourced raw materials were included in 10.5% of the products manufactured (excluding The Body Shop).

For The Body Shop, over 90% of the products sold contain ingredients from the "Community Fair Trade" (CFT) programme.

In 2014, a total of 27,000 people therefore benefited from fair trade-sourced raw material purchases (excluding the CFT).

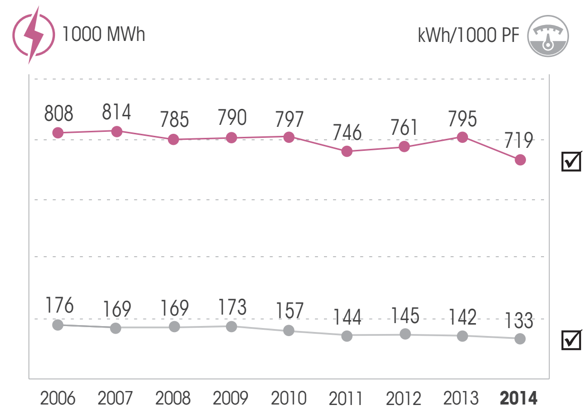
In 2014, for example:

- 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 come from a fair trade source in Brazil;
- 100% of sesame oil purchases are from fair trade sources and more than 500 product formulas containing sesame oil from fair trade sources were manufactured;
- In Brazil, 4 raw materials were integrated into our Solidarity Sourcing programme: Pracaxi oil and Muru Muru butter used in hair products, white clay used in personal hygiene products, and Cupuacu butter in personal care products.

6.3.3.4 ENERGY

L'Oréal's objective is to reduce greenhouse gas emissions linked to its business activities. Various means have been put in place internally: improving energy efficiency across all facilities, green energy purchases, installation on certain sites of renewable energy production equipment (Biomass or photovoltaic energy, etc.).

/ TOTAL ENERGY CONSUMPTION



6.3.3.5 TRANSPORT

"Sharing Beauty With All" programme

Within the scope of the "Sharing Beauty With All" programme by 2020, L'Oréal pledged in 2013 to reduce the CO_2 emissions of its downstream transportation, with regard to a scope covering the transportation of its Finished Products, for transportation under the control of L'Oréal. The ambition for 2020 is to reduce the CO_2 emissions/FP/km by 20% with regard to this scope from a 2011 baseline.

The system of the monitoring of this target for 2020 is gradually being put in place, and the Group has chosen to use the following methodology for the evaluation of CO_2 emissions during transportation:

The data are collected by the operational managers who calculate and validate all the results of the zone for which they are responsible (entity, country, zone, Group) for all the flows of transportation under the control of L'Oréal (from the distribution centres of the commercial entities to customers, from the industrial distribution centres to the distribution centres of the commercial entities, between factories and the industrial distribution centres).

The reporting tools set up are:

- for the calculation of the emissions, an Excel tool defined in collaboration with the ADEME, based on the definition of the transport plan used, the type of transport, the transport vector used and the emission factors of each of these vectors (ADEME data);
- for the reporting of the indicators, an Operations Division reporting tool, Magnitude.

For the last 4 years, audits carried out every year by external organisations have checked that the reporting works.

☑ *The Statutory Auditors have expressed a reasonable assurance on this selected information.*

In 2014, the current reporting overs approximately 80% of all the flows that the Group wants to include in the reporting:

- complete information for Europe and Asia;
- partial information for North America;
- information which needs to be enhanced for Latin America and the Africa, Middle East zone.

The target is to achieve coverage of 90% in 2015 and 100% in 2016.

A large number of action plans with regard to transportation have already been deployed all over the world – The CPD Europe (Consumer Products Division), for example, has increased its use of multimodal freight from 3% to 15% between 2009 and 2013, and achieved a fill rate for its delivery vehicles of over 95% in 2013.

Beyond transportation, the global progress in the Supply Chain, in partnership with our customers, has also led to an improvement in its environmental footprint – optimising the frequency of our deliveries, for example, or limiting the use of air transport make big contributions and are the subject of a growing number of action plans.

6.3.3.6 GROUND USE

L'Oréal has several requirements relating to ground use:

- 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 m 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.

During operation of the site, the Group's policy is to take all the preventive measures described in internal documents in order to avoid soil or rainwater pollution. These measures are verified at the time of audits and site visits made by insurers. Finally, at the time of the sale of a site, a pollution assessment is conducted according to an internal procedure.

Furthermore, at the time of a project for a new site, preparation of an overall environmental impact study is required immediately during the design phase (with the objective of minimising the project's negative impact on the environment and health), and this study must then evolve to adapt the project to the conditions imposed by the site and its environment. At the time of the acquisition of land or buildings, L'Oréal conducts a "due diligence" review which includes, in particular, a review of the environmental aspects.

6.3.4. Contribution to adapting to and combating global warming

"Sharing Beauty With All" programme

L'Oréal has now pledged to achieve an absolute reduction of 60% in the direct and indirect CO_2 emissions of its Operations (scope 1 and 2) between 2005 and 2020. The mid-way target for 2015 was achieved at the end of 2014; there was a 50.2% reduction as compared with 2005. The change in scope taken into account complies with the GHG Protocol's rules (1).

6.3.4.1 ENERGY AND GREENHOUSE GASES IN MANUFACTURING

The cosmetics industry has a relatively low energy demand as compared with other sectors. Thus, L'Oréal is exempt from the European regulations on carbon emission quotas.

However, the L'Oréal sites are committed to significantly reducing their greenhouse gas emissions and their energy consumption.

Wherever possible, natural gas is preferred to fuel oil (which has a higher sulphur content). Over the last few years, several large renewal energy production projects have been deployed on the sites, making it possible to significantly reduce CO_2 emissions (Biomass and cogeneration in Belgium, Biomass in Rambouillet and Roye in France, Burgos in Spain, etc., Heat networks in Germany and Italy, Photovoltaic energy in China, the United States, Spain, etc., Geothermal energy in Vichy, La Roche-Posay, etc.). In 2014, 2 important projects supplemented those previously implemented: the Burgos biomass plant, inaugurated in September 2014, and continued deployment of the photovoltaic installations on several sites in the USA.

(1) Greenhouse Gas Protocol international carbon accounting tool.

/ DATA RELATING TO CONSUMPTION WITH AN IMPACT ON GLOBAL WARMING

	2013	2014
Electricity (MWh)	408,389	380,986
Gas (MWh)	328,807	278,039
Fuel oil (MWh)	6,041	8,859
Others (MWh)	52,258	51,513
Energy consumption (MWh)	**795,495**	**719,398**

6.3.4.2 BUS PROJECT (BETTER UTILITIES FOR SUSTAINABILITY)

The BUS project implemented in 2010 is a Group-wide project, which draws on expertise of all its teams to identify methods, technical solutions and good practices in cleaning, cooling, air compression and other factory processes.

To date, 11 good practices have been identified, in particular to improve energy efficiency; they are accompanied by technical recommendations and rolled out throughout the whole Group.

METHODOLOGY FOR THE CALCULATION OF INDIRECT EMISSIONS (SCOPE 2)

The methodology used for calculation of the 2005 baseline is based on the 2003 emission factors of local electricity suppliers – when they are available.

6.3.4.3 ADAPTATION TO CLIMATE CHANGE

L'Oréal has always considered climate change as one of the priority challenges.

By pledging to reduce the % of CO_2 emissions

The Group has made a significant pledge to this by setting ambitious targets, in particular an absolute reduction of 60% in the CO_2 emissions of its Operations (Scope 1 &2) between 2005 and 2020. In 2014, L'Oréal was once again rewarded by the CDP for its efforts (2014 score: performance A, transparency 98).

In addition, L'Oréal conducts actions to reduce the CO_2 emissions of its enlarged activities. Indeed, L'Oréal considers that the CO_2 emissions of its suppliers are part of its enlarged environmental footprint and that they must unite their efforts to succeed in reducing it.

Member of the Carbon Disclosure Project ("CDP") since 2003 and the CDP Supply Chain since 2007, L'Oréal continues to encourage its suppliers to measure and reduce their CO_2 emissions. In 2012, L'Oréal stepped up its strategy with regard to the CDP: it is no longer only the environmental experts who discuss these issues with suppliers, buyers trained in the CDP have now become ambassadors of this process.

The environmental performance of suppliers and the reduction of greenhouse gas emissions have been integrated into the supplier relationship are therefore discussed at strategic meetings (Business Reviews).

Between 2011 and 2013, the number of suppliers invited increased from 55 to 173. In furtherance of this process, 215 suppliers were invited in 2014. These suppliers were selected in 6 fields of purchases (raw materials, packaging items, production equipment, subcontracting, POS advertising/Promotional items and materials, indirect supplies), everywhere in the world. They consist of strategic suppliers, suppliers in CO_2-generating industries, major industrial groups but also small and medium-sized enterprises.

In order to assess suppliers' environmental performance, a scorecard has been developed jointly with the CDP, summarising suppliers' answers to the CDP to make them accessible to purchasing teams. Thus, in 2014, 192 suppliers (as against 152 in 2013), out of the 215 suppliers who were invited, responded positively to L'Oréal's invitation to also join the CDP. This number is higher than the average (3,395 participants for more than 6,505 suppliers invited) for members of the CDP. The high response rate obtained due to the joint commitment of the purchasing and environmental teams has led to the CDP recognising L'Oréal as one of the companies that is the most committed to this area. L'Oréal sends results with comments and opportunities for improvement to suppliers who have participated. The average of supplier results for 2014 is stable as compared to 2013: 67 C (as against 63 C in 2013 and 59 D in 2012)[(1)]. This stagnation can be accounted for by the less good performances by companies participating for the first year.

In 2013, the Group participated in the CDP Water Supply Chain Pilot Programme. 15 of the 17 suppliers invited by L'Oréal agreed to take part in this new programme aimed at measuring and reducing the water footprint. Following this pilot phase, 26 suppliers were invited in 2014, and 18 agreed to take part.

By engaging in the fight against deforestation

Because deforestation is a major cause of global warming, L'Oréal made a public commitment in 2014 to a "Zero deforestation" policy with the aim that none of its products will be associated with deforestation by 2020 at the latest.

Within the scope of this policy, L'Oréal will more specifically ensure responsible sourcing of commodities such as palm oil and its derivatives, soya, paper and cardboard, which have been identified as the major causes of tree clearing.

6

(1) *For further information on the CDP supply chain and the rating methodology, visit the following websites: https://www.cdp.net/en-US/Programmes/Pages/CDP-Supply-Chain.aspx#members*

Between now and 2020, L'Oréal continues to rely on internationally recognised certifications to guarantee sustainable sourcing.

In this manner, in 2014:

- 100% of purchases of palm oil and palm oil and palm kernel derivatives are certified as sustainable according to the RSPO criteria *(www.rspo.org);*
- 100% of soya oil purchases in Brazil are certified as organic and obtained from fair trade sources;
- 97.9% of paper and cardboard suppliers are certified (in particular by the FSC, PEFC).

Concerning palm oil and its derivatives, conscious of the limits of the current certification model in the fight against deforestation, L'Oréal has decided to go one step further with its suppliers:

- by asking them to specify the precise geographic origin of the materials they supply;
- by providing the most strategic suppliers with support in mapping deforestation risks in their supply chain; and
- by stepping up its exploratory operations in Indonesia and Malaysia in order to identify the projects to be implemented with its partners to support small-scale independent growers.

Concerning more generally the establishment of responsible supply chains, the Group has developed a set of actions described hereafter in the paragraph on "Protection of biodiversity" below.

- **when developing its products,** L'Oréal takes care to limit the use of resources, both for products and for their packaging. Actions to achieve reductions at source undertaken by the teams made it possible to save nearly 470 tonnes of packaging materials in 2014, making cumulated savings of 4,070 tonnes since 2008.

6.3.5. Protection of biodiversity

For many years, L'Oréal has implemented a programme for the protection of biodiversity aimed in priority at:

- limiting the impact of its ingredients on aquatic ecosystems;
- ensuring responsible sourcing of renewable raw materials.

6.3.5.1 REDUCTION OF THE IMPACT OF RAW MATERIALS AND PRODUCTS ON THE ENVIRONMENT AND ON ECOSYSTEMS

L'Oréal's commitment to biodiversity goes back to 1995 with the creation of its first ecotoxicology laboratory. Anticipating and minimising the potential impact of the ingredients used in its products on the natural environment and, in particular, on aquatic ecosystems, is of utmost importance to L'Oréal. From the product-conception phase onwards, therefore, raw materials undergo a robust selection process before entering a formulation.

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

- development in its ecotoxicology laboratory of innovative methods for early measurement of the aquatic ecotoxicity of raw materials and formulas (e.g. automatic use of the growth inhibition test on microalgae, an alternative method to the acute toxicity test on fish);
- launch in 2004 of the assessment of its entire raw materials portfolio for persistence, bioaccumulation and toxicity criteria.

As of the end of 2008, 99% of raw materials were assessed in this way. All new raw materials now systematically have to undergo this assessment before they can be accepted into the ingredients portfolio.

In 2014, supplementary evaluations were also conducted on over 100 raw materials, in order to precisely define and consolidate the average biodegradability and Water Footprint values of the formulas on the market in 2013[1].

6.3.5.2 ESTABLISHMENT OF RESPONSIBLE SUPPLY CHAINS

100% of new and existing renewable raw materials used by the Group are now the subject of a strict review with regard to sustainability criteria in terms of respect for biodiversity.

L'Oréal's strategy consists in estimating the impacts of its sourcing, for each of the commodities: paper, palm oil, wood and soya and reducing the impacts by turning to increasingly responsible sourcing. This process is under way for certain raw materials like paper, and has already been carried out for others like palm oil or soya, on the basis of existing certification models (RSPO for palm oil, FSC or PEFC for paper/cardboard, etc.).

In 2014, over 97.9% of paper and cardboard packaging supplies were certified as sustainable according to the FSC or PEFC benchmarks.

In 2014, 100% of soya oil purchases in Brasil are certified as sustainable.

Currently 94% of the renewable raw materials representing the Group's largest volumes of purchases and derived from species identified as being the most sensitive have been the subject of improvement plans or actions with the suppliers concerned in order to ensure sustainable sourcing.

(1) The baseline year for measurement of the improvement in the environmental footprint of our formulas put into production as from 2014.

Methodological note

ENVIRONMENTAL DATA SCOPE, INDICATORS, REPORTING METHOD AND SYSTEMS

Scope of consolidation

The environmental indicators set out relate to the "Cosmetics" and "The Body Shop" sites: factories and distribution centres.

Following the sale of the Galderma laboratories in 2014, the data relating to their business activities were excluded from the 2014 data published by the Group.

The Safety reporting scope is defined in the methodological note at the end of the Human Resources information chapter.

The environmental indicators of the factories 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 factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental reporting systems: for the 2014 financial year, 93% of the factories and distribution centres participated in the reporting system, data pertaining to 6 sites, recently integrated into the Group, are not yet included in the published data: (BADDI (India), KENYA, VOGUE (Colombia), MAGIC HOLDING 1 (China), MAGIC HOLDING 2 (China), DECLEOR (France)).

Out of concern for comparability, data on CO_2 emissions for the 2005 baseline communicated have been updated in light of the GHG protocol's rules (recalculated based on a constant scope).

Indicators

The indicators chosen are those used in the management of the Company's site. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

Greenhouse gas: The methodology used for calculation of the 2005 baseline is based on the 2003 emission factors of local electricity suppliers – when they are available. When these 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.

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.). Transportable waste does not include waste from work on an exceptional scale carried out at sites (for example, rubble and other materials removed from a site when work is carried out).

In order to improve the system of waste performance monitoring and exhaustively record the waste generated by the use of shuttle packaging, a new system of recording shuttle packing at source was put in place in 2014. L'Oréal thus records at source the weight of its shuttle packaging in transportable waste, with each of the sites being responsible for maximising the rotation rates. The recording of the weight of the shuttle packaging at source is a measure intended to encourage rotation of this shuttle packaging and contributes, through its reuse, to increasing the useful life of the packaging.

Specific attention is paid to the waste indicators in order to improve the classification in categories and subcategories and to make better categorisations for complex waste. They are also subject to increased monitoring (shuttle packaging subject to rotation, categorisation of wood waste, plastics, etc.).

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 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 definitions, and improving the communication, monitoring and control process.

Average biodegradability is calculated on the basis of sales volumes, which is why reporting is carried out on the basis of 2013, as the 2014 consolidated sales figures will be available in mid-February and the analysis of overall biodegradability of the products sold in 2014 will be completed by March 2015.

(1) The Emissions & Generation Resource Integrated Database.
(2) Environmental Protection Agency.

6.4. SOCIETAL INFORMATION

6.4.1. Territorial, economic and social impact of activities

"Sharing Beauty With All" programme

Within the framework of the "Sharing Beauty With All" programme, L'Oréal has made a commitment in favour of the surrounding communities, in particular to enable 100,000 people from underprivileged communities to access work by 2020.

The L'Oréal Group is a leading economic player in all the geographical zones where it is established. On this basis, L'Oréal contributes to local employment and thus participates in regional development.

6.4.1.1. TERRITORIAL IMPACT OF L'ORÉAL IN FRANCE ON EMPLOYMENT AND REGIONAL DEVELOPMENT

In France, L'Oréal S.A.'s establishments are situated in the Paris region: Paris, Clichy-la-Garenne, St Ouen, Levallois, Asnières, Aulnay-Sous-Bois, Chevilly-Larue, Marly-la-Ville and Mitry-Mory.

Over the past three years on all these sites in France, L'Oréal has hired 5,315 employees on permanent and fixed-term contracts and has thus contributed to the country's economic development on the territories in which its sites are located.

Since 2011, the CAF *(Cosmétique Active France)* distribution centre has received every year people looking for employment or following a professional retraining programme, through contracts offering them work experience in "logistics" in order to obtain a qualification as warehouse order pickers. Over the last **4** years, **13** persons were thus received in the centre and **1** of them was hired under a permanent employment contract in 2013.

In January 2012, within the scope of its partnership with the De Gré Diversité association, this Centre offered a one-week internship to a young person who had failed at school and was being coached by this association, in order to allow him to discover the business world and a job. At the end of this internship, a period of temporary employment and a fixed-term contract, this person was offered a permanent employment contract in 2014.

In 2014, the *Passerelles de l'Industrie* scheme began at the Soproréal factory, based in Aulnay-sous-Bois, in partnership with the French unemployment authorities (Pôle Emploi). This factory has insourced a packaging activity that was previously subcontracted in a new specially-designed production unit with both a high ergonomic value and a social and societal dimension. Since July 2014, a scheme has made it possible to offer training under a 10-month apprenticeship to 15 people to enable them to learn about a job and prepare them for a certificate.

L'Oréal will have to pay an amount of €24.1 million for the territorial economic contribution (CET) in respect of the 2014 financial year.

6.4.1.2. REGIONAL DEVELOPMENT AND LOCAL POPULATIONS

Due to its many industrial and administrative sites all over the world, the L'Oréal Group 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, L'Oréal's establishments and its subsidiaries build good relations with the communities in the areas in which they operate, and make every effort to limit the impact of their activities on the environment and to provide exemplary working conditions for their employees.

The internal competitions – Environment, Health & Safety – Civic Initiative Prizes recognise, by awarding a prize, the commitment, mobilisation and involvement of a site (factory, distribution centre or administrative site) with regard to the community in which it operates. Awards are presented for the best local initiatives conducted each year in partnership with local authorities, local residents and schools in the fields of solidarity, education or the environment. By these initiatives, L'Oréal is eager to demonstrate its good citizenship, and to show that it firmly respects the ethical values of the surrounding community.

Initiatives on a few site

Each L'Oréal site has implemented initiatives in order to anchor itself on a lasting basis in its socio-economic environment. A few examples of these initiatives are described below.

Since 2009, L'Oréal has been supporting project promoters with business creation projects in Seine-Saint-Denis via a partnership with Créo Adam, a not-for-profit organisation which provides support to business creators and advocates that the economic success of the men and women it supports should benefit the territories they come from, with actions in favour of local employment and/or by being closely involved in civic life in the neighbourhood. L'Oréal has become one of the pillars of the *Révélateurs de talents* competition organised by Créo Adam, the fifth edition of which took place in 2014. Thus, every year, from June to October, during the competition preparation period, Group employees advise project promotors on their business creation projects.

L'Oréal Germany has been working for over ten years with the Karlsruhe Chamber of Trades to promote the employment of disabled persons. Two disabled persons are currently following a training process on our sites.

L'Oréal Italy has set up a programme called "Sustainable Engagement" for the purpose of favouring access to the labour market for the most underprivileged social categories. Since 2011, in partnership with ANGSA, a national association that supports autistic people, L'Oréal Italy has been taking action to integrate those who suffer from this disorder. Several autists have become employees of the Group. One of them works in the Finance Departments. Three others have been assigned to the packaging activities. The integration of autistic employees in L'Oréal Italy is subject to a refined benchmark in order to be extended to other production sites within the Group.

6.4.1.3. THE "SOLIDARITY SOURCING" PROGRAMME

"Sharing Beauty With All" programme

The Solidarity Sourcing programme falls within one of the 5 pillars of the "Sharing Beauty With All" programme (Sharing Growth with Communities) which aims to enable more than 100,000 people from underprivileged communities to access work by 2020.

Using L'Oréal's purchases as a driver for the promotion of social inclusion is the objective of the Solidarity Sourcing programme. The Group created this global solidary sourcing and responsible purchasing programme in 2010, which aims to help to give people from economically vulnerable communities durable access to employment and income.

CSR is an integral part of the buyers' task: the implementation of value-creating projects such as Solidarity Sourcing is now added to the management of the social and environmental performance of each supplier portfolio. Between 2012 and 2014, the number of buyers having initiated a Solidarity Sourcing project has doubled.

In 2014, this programme consisting of 250 projects offered access to work to more than 27,000 people all over the world (excluding The Body Shop purchases). As far as The Body Shop Community Fair Trade programme is concerned, it offered access to work to 25,000 people. In total, more than 52,000 beneficiaries of the programme are spread over all geographical zones.

In 2014, deployment of the programme accelerated both on the initiative of L'Oréal and on that of its suppliers.

In addition to Purchasing, its initial scope of action, the programme now relies on contacts in all the Group's zones and divisions who work in partnership with the *Sharing Beauty With All* representatives in each country. The Asia, Pacific zone was a pioneer in this initiative to raise awareness and for co-construction of Solidarity Sourcing projects, and it will soon be extended to other zones.

Since 2012, the internal auditors have included the Solidarity Sourcing programme in their audit scope with the aim of continuous improvement. Audits have thus been conducted in China, Switzerland, South Africa, Benelux and for all indirect purchases in Europe.

6.4.2. Relations with stakeholders

L'Oréal attaches crucial importance to the dialogue with its stakeholders. Admittedly, this dialogue provides the opportunity for the Group to share its strategy, its objectives and its achievements but it also nurtures progress, as L'Oréal is keen to take into consideration the expectations of civil society when building its sustainability policy in order to always go further.

Because the importance and handling of the challenges related to corporate social and societal responsibility differ from one country to the next, L'Oréal has set up stakeholder forums all over the world in order to promote a dialogue at a local level with regard to both local and global issues.

Since 2011, forums have been held, for which 754 organisations were contacted in all and 232 actually participated. Bilateral meetings and participation in public forums also enable L'Oréal to exchange views with stakeholders on key topics. Furthermore, L'Oréal makes available to its stakeholders a dedicated information and dialogue platform which makes it possible to view the CSR commitments and interact with experts on an online forum. Finally, since the announcement of the "Sharing Beauty With All" programme, an external governance body called the "Panel of critical friends", consisting of major international environmental and societal experts, has been set up to guarantee the sincerity of the process adopted by L'Oréal, and challenge the Group on its progress once a year. The first meeting of this panel was held on September 19th, 2014 in Clichy, in the presence of Jean-Paul AGON and all the topics and progress made in the programme were discussed. In France in 2014, L'Oréal replied favourably to the initiative by Committee 21 which invited major players – companies, stakeholders, third-party facilitators, trade unions, researchers – to undertake a collective reflection on stakeholder dialogue. L'Oréal participated in the various stages: working days, open online consultation with practitioners, wider consultation for preparation of the text defining the main principles. A signature of these principles by all players involved is scheduled for the beginning of 2015.

6.4.2.1. RELATIONS WITH EDUCATIONAL ESTABLISHMENTS IN FRANCE AND ASSOCIATIONS

Educational establishments

L'Oréal has always built close partnerships with primary and secondary schools but also with universities, graduate engineering and business schools and research establishments.

L'Oréal offers students the possibility of discovering the Company during their courses by offering them internships every year and, for over 20 years, through apprenticeship contracts and contracts offering work experience across all its businesses.

At December 31st, 2014, 674 young people on work and training contracts (338 apprenticeship contracts and 336 contracts offering work experience) were present in the Group in France, 360 of which were at L'Oréal S.A.

Over 85% of the apprentices are preparing for qualifications at "bac+2" level (equivalent to a 2-year course after "A levels") or higher. Their pass rate is approximately 80%.

A qualitative assessment of the apprentice training centres is carried out each year.

In 2015, L'Oréal will have to pay an amount of €4,915,361 in apprenticeship tax for 2014.

L'Oréal also supports Capital Filles, an association created in 2010 in partnership with three French Ministries: the Ministry of Education, the Ministry of Higher Education and Research and the Ministry responsible for Apprenticeships. Capital Filles is a programme for girls from secondary schools that come under city education programmes and priority education policies. L'Oréal's workforce includes 120 mentors who provide support to girls from secondary schools in the department of Seine-Saint-Denis (93), in Orléans and in Cambrai (to boost their self-confidence and their belief in their professional future, helping them learn more about scientific and technological careers, assisting them in choosing their studies, encouraging apprenticeships and opening them up to the world of Business).

Environmental defence associations

Within the scope of its Commitments by 2020, L'Oréal has undertaken to reduce its greenhouse gas emissions, its water consumption and its waste generation per unit produced by 60% by 2020. L'Oréal actively contributes to environmental protection through its commitments within associations or organisations at national level (*e.g.* Eco-Emballages, the French eco-packaging organisation), European level (*e.g.* Forest Footprint Disclosure project in the United Kingdom) and international level (*e.g.* the World Business Council for Sustainable Development). The Group is also a member of the Consumer Good Forum in which the Company has committed, alongside other companies, to fight against deforestation.

L'Oréal is also involved in a large number of working groups, which play a crucial role in the exchange of expertise and advice.

6.4.2.2. L'ORÉAL PHILANTHROPY IN 2014

L'Oréal has always been committed to worthy causes and taken an interest in its surrounding communities. Beginning in 1998, the Group created with UNESCO the first programme to support women in their scientific careers called "For Women in Science", an initiative that is now implemented throughout the world. Since that time, L'Oréal has never stopped developing philanthropy projects all over the world, through its subsidiaries, its brands and its Foundation, the creation of which in 2007 showed the Group's intention to go one step further and make commitment to good corporate citizenship a real strategy in the Company.

L'Oréal's commitments are aimed at promoting scientific careers for women, restoring people's physical appearance (a major factor in establishing social relations) or giving everyone a future thanks to beauty, all reflecting one ambition: to give meaning to the beauty sector.

The L'Oréal Foundation

The L'Oréal Foundation with Science and Beauty reveals and enhances the women that it supports in the worldwide, through missions centred around two strong thematics : For Women in Science and the Beauty to feel better and to have a better time.

- Thanks to its "For Women in Science" action, the L'Oréal Foundation raises young women students vocations from high school, encourages researchers and recognizes the excellence in an area where women should be even more represented. Since 17 years, more than 2.250 women of science from more than 110 countries have received a distinction award and have been rewarded;
- The beauty to feel better and have a better time, it is dispensing care to women affected by the disease, insecurity or isolation, enjoying renewed self-confidence and find their mistreated feminity again. It is also a way to help people in a social vulnerability position to project its designs forward into the future thanks to a large education program and professional beauty training, Beauty for a better life, currently rolled out in 20 countries.

Governance

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

The main programmes supported by the Foundation

"L'ORÉAL-UNESCO FOR WOMEN IN SCIENCE"

To fight against the under-representation of women in the scientific world, L'Oréal created the *L'Oréal-UNESCO For Women in Science* programme with UNESCO in 1998 (known as *L'Oréal-UNESCO Pour les Femmes et la Science* in France).

This programme is now international and is born of one conviction: the world needs science and 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. Over 2,000 women have thus been supported by the programme, in over 110 countries. 82 Prize-winners have received the *L'Oréal-UNESCO* award, including Elisabeth Blackburn and Ada Yonath, who have since become Nobel Prize winners in 2009. Research scholarships are thus awarded on a national, regional and international scale to encourage women with promising talent to pursue their scientific career. In 2014, over 250 scholarships were awarded worldwide, including 20 in France.

In October 2014, the *L'Oréal For Girls in Science* programme was launched in France, marking a new stage in the commitment by the Foundation: intended to encourage more scientific vocations among girls at secondary schools and to combat preconceived ideas relating to science and women in science, this programme will be gradually rolled out in the Group's subsidiaries.

"BEAUTY AND SELF-ESTEEM"

Canons of beauty and care taken with the appearance have always reflected the identity of peoples and testified to the changes in society; beauty rituals are part of the cultural heritage of every country. Thus, when someone's appearance is affected by illness or precarious living conditions, relationships with others and with their own community are also impaired, and may even lead to exclusion. Beauty and the image projected to others are essential aspects of the social relationship.

This is the reason for the commitment made by the L'Oréal Foundation to the various hospital or welfare structures for socio-aesthetic programmes intended for cancer patients, or those suffering from anorexia or living in highly precarious social conditions. In 2014, more than 4,500 beneficiaries received socio-aesthetic care and social hairdressing, particularly women with cancer, people with precarious living conditions or young people with serious psychological problems or eating disorders.

Furthermore, due to this constant desire to link beauty in its dimension of solidarity with professional insertion, the L'Oréal Foundation donated nearly 213,000 personal hygiene products to beneficiaries of the Restos du cœur for the 2014/2015 winter campaign.

Finally, the L'Oréal Foundation also supports Médecins du Monde association's reconstructive surgery operations *(Opération Sourire)*. There are indeed dramatic cases where children or women are outcast from society due to an appearance disfigured by illness or accidents. Alongside Médecins du Monde, as its exclusive partner, the L'Oréal Foundation helps to restore the lost dignity of these women and children so that they are accepted back into their communities. This year is the 25th anniversary of *Opération Sourire*. Since 2008, 5,500 patients have been operated on thanks to 100 missions carried out in 13 countries across the world.

"BEAUTY FOR A BETTER LIFE"

Expertise and professions in the Beauty sector involve a human relationship, a dialogue with others and a sense of service.

They are also professions involving passion, creation and imagination, all assets for the people in these jobs, and help to build a social relationship.

Within this framework, the L'Oréal Foundation has launched an education programme to enable the most vulnerable populations to return to society: "Beauty for a Better Life". Initiated and deployed throughout the world by the L'Oréal Foundation, the purpose of this programme is to assist socially fragile people to recover their self-esteem and to bounce back through free high-quality training in the beauty professions (hairdressers, makeup specialists, aestheticians).

The beneficiaries are mostly women from underprivileged environments: some of them are unemployed or have precarious living conditions, others have dropped out of school or left home and others again have been victims of domestic violence, human trafficking or internal conflicts in their country.

"Beauty for a Better Life" develops a made-to-measure training programme offering a high level of supervision by specialist teachers with a limited number of pupils, and both theoretical and practical training in a real beauty salon specially adapted for the purpose.

In each country in which the programme is developed, L'Oréal Foundation works with a local partner (NGO, association) which has perfect knowledge of the specific context in the country concerned and is thus able to identify potential beneficiaries. These partners are recognised as experts in the fields of social assistance and job training.

The programme has now been rolled out in around 20 countries all over the world: from Latin America to Asia, from Europe to the Middle East. Every year, the "Beauty for a Better Life" programme assists nearly 1,400 highly socially or economically vulnerable people.

"HAIRDRESSERS AGAINST AIDS"

For eleven years, L'Oréal and UNESCO have joined forces to fight against HIV/AIDS. This programme for prevention of the infection centres round the close relationship and trust between these professional hairdressers and their customers, which makes them very effective in passing on information and raising awareness. This global programme has been rolled out in 37 countries over the 5 continents and involves more than 1.5 million hairdressers worldwide.

Local initiatives on all continents

In addition to the major global 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 2014, L'Oréal thus supported several hundreds of projects throughout the world, involving actions in the fields of solidarity, education, culture or the environment.

6.4.3. Measures adopted with regard to consumer health and safety

6.4.3.1 POLICY

Protection of consumer safety is one of L'Oréal's absolute priorities: 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 throughout the world so that consumers from all over the world have access to the same quality of products.

The Group has set up an International Product Safety Assessment Department (Worldwide Safety Evaluation) consisting of a team of nearly 100 employees across 3 continents.

6.4.3.2 IMPLEMENTATION

The L'Oréal Group has set up a process to ensure that all products developed, whatever the geographical location of the laboratory in charge of the project, are subject to a rigorous safety evaluation. Thus, the evaluations by L'Oréal's International Safety Assessment Department (WSE, Worldwide Safety Evaluation), based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle. This approach also enables L'Oréal to meet the safety requirements of the national regulations of all the countries in which the Group's products are put on sale.

The product safety evaluation is based on the evaluation of each ingredient and finished product on the basis of existing safety data and the latest medical and scientific knowledge. 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 assessments with regard to cosmetic ingredients and products.

A safety report is issued for each cosmetic product launched on the market in accordance with the requirements of European Regulation EC 1223/2009.

Furthermore, L'Oréal's ethics 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 that are the subject of concern.

L'Oréal's added value, in terms of the safety assessment of its ingredients and finished products, lies in its investment for over 20 years in the development of predictive methods and tissue engineering. For many years, L'Oréal 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 multidisciplinary 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 to anyone else. An exception could be tolerated if an authority so requires for safety or regulatory reasons.

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.

6.4.3.3 COSMETOVIGILANCE AND IMPACT ON THE SAFETY ASSESSMENT

Finally, after the product is launched on the market, L'Oréal continues to evaluate the use and tolerance of its products sold throughout the world via the international cosmetovigilance network. This network collects, validates and analyses, using recognised rigorous methodologies, the adverse effects related to the use of a product. In the countries that are not directly covered by the cosmetovigilance network, the information relating to potential adverse effects due to products transmitted to the agents in charge of putting them on the market, are sent to L'Oréal's correspondent in contact with these agents. L'Oréal's correspondents in the countries are all in relation with a Scientific Department in a Country or Zone, where there is a lead point-of-contact. This information is then passed on by the L'Oréal correspondent to this Scientific Director who is the lead point-of-contact, who transmits them himself to his contact in the cosmetovigilance network.

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 necessary, such as: reprinting of the labelling if it is inappropriate, or affixing of a product warning. If necessary, a change may be made in the composition of the formula.

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

6.4.4. Subcontracting with suppliers

6.4.4.1. GENERAL PURCHASING POLICY WITH REGARD TO SUPPLIERS

Involvement of the suppliers in the Sharing Beauty With All programme

"Sharing Beauty With All" programm

By 2020, within the *Developing Sustainably* pillar of Sharing Beauty With All, 100% of the Group's strategic suppliers will be participating in its sustainability programme.

L'Oréal works with thousands of suppliers throughout the world to cover its needs in terms of packaging, raw materials, subcontracting, production equipment, promotional and advertising items, and non-production-related products and services (commonly referred to as indirect).

The global volume of purchases directly related to production (packaging, raw materials and subcontracting) represented €3.64 billion in 2014 (Cosmetics scope, excluding The Body Shop).

L'Oréal adheres to the United Nations Global Compact and undertakes to make sure that Human Rights are respected throughout its logistics chain.

Since 2002, all buyers have been implementing the responsible purchasing policy known as the L'Oréal Buy & Care programme which contributes to sharing good Responsible Purchasing practices and the Company's values and standards with its suppliers.

In order to maintain sustainable and value-creating relationships between L'Oréal and its suppliers worldwide, the Purchasing teams are widely mobilised around 5 pillars of performance:

1. Competitiveness;
2. Quality;
3. Supply Chain & Service;
4. Innovation; and
5. CSR.

These pillars form the basis both for daily performance and for long-term strategies.

For direct purchases (raw materials, packaging items and subcontracting), the Group wants 80% of the amount of purchases to be covered by this aspect of the programme.

Selection of suppliers on social and environmental performance

"Sharing Beauty With All" programme

Within the scope of the "Sharing Beauty With All" programme, the Group has made a commitment that, by 2020, all its strategic suppliers (1) will be evaluated and selected on social and environmental performance and will have completed a self-assessment of their sustainability policy with the support of the Group. Furthermore, in 2020, all suppliers will have access to L'Oréal's training tools to enable them to improve their sustainability policies. Finally, 20% of strategic suppliers will be associated with the "Solidarity Sourcing" programme.

L'Oréal has thus precisely re-defined the 5 pillars of performance and developed a harmonised global scorecard for all purchasing fields. Each of these areas breaks down into a series of formal indicators in order to make it easier to manage them within the scope of the "Sharing Beauty With All" programme. The CSR & Sustainability pillar – which represents 20% of the final scorecard – covers the environmental, social and societal dimensions.

The suppliers' CSR results are the subject of exchanges of views, action plans and ongoing support measures, where applicable, like their performances with regard to the other 4 pillars.

The CSR strategy and action plans of suppliers are fully integrated into the supplier relationship and are therefore discussed at strategic meetings (Business Reviews). The evaluation of suppliers on the CSR pillar is based, in particular, on their social commitment, their compliance with the social audits, and on their participation in the CDP Supply Chain programme, the main components of which are described below.

In 2014, 43% of the Group's strategic suppliers were thus evaluated. They represent over 60% of the amount of direct purchases (raw materials, packaging items and subcontracting).

Within the framework of this programme, suppliers and subcontractors are asked to comply, to the ethical commitment that refers to compliance with the Fundamental Conventions of the International Labour Organisation as well as local legislation, in particular with regard to minimum wages, working time, and health and safety.

L'Oréal actively seeks to work with suppliers who share its ethical values and commitments and therefore attaches importance to providing these suppliers with support during the registration process. For industrial purchases, dedicated 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 to make sure that the supplier is of real interest, to provide it with all the information, documents and contacts required for it to understand the expectations and processes at L'Oréal, and finally to obtain the supplier's commitment to L'Oréal's values that are shared in this manner.

Social audits

Following on from this commitment, L'Oréal's *Buy & Care* programme consists, since 2002, of a section aimed at an audit of this compliance with social legislation aimed at ensuring that its suppliers comply with the applicable laws, Human Rights and labour law, and that safety for their teams and health and hygiene in the workplace is guaranteed.

Thus, subcontractors, wherever they are based in the world, and 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. To prepare the risk map for the countries presenting risks, L'Oréal uses the MaplecroftTM indexes.

The social audits are carried out on behalf of L'Oréal by independent external service providers.

The initial audits are financed by L'Oréal and the follow-up audits are paid for by the suppliers.

The audits cover the following 10 chapters:

- child labour;
- forced 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.

6

(1) *Strategic suppliers are those who bring significant value added to the Group by contributing, through their importance, their innovations, their strategic alignment and their geographic deployment, to accompanying L'Oréal's strategy on a durable basis.*

Since January 2013, the social audits include questions concerning the environment and in particular compliance with regulations.

L'Oréal's social audit is based to a great extent on the internationally recognised SA 8000 standard, but does comprise a few exceptions, particularly with regard to the minimum age for child labour. In this respect, the Group has chosen to set the compulsory minimum age at 16 for all employees working for its suppliers, a higher age limit than that required by the Fundamental Conventions of the International Labour Organisation (ILO).

With regard to the employment of young workers, suppliers and subcontractors may 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.

Since 2006, when L'Oréal set up a reporting tool, the Group has conducted social audits at over 4,200 supplier sites.

In 2014, 834 audits ☑ were carried out, making a total of 6,129 since 2006.

The social audits conducted have enabled L'Oréal to cover 81% of the portfolio of suppliers subject to audit across the world.

In 2014, 55% of these audits were carried out in Asia.

In 2014, there were major instances of non-compliance at 55% of supplier sites ☑ that were audited for the first time (initial audits). During follow-up audits, there is no longer any major non-compliance at 39% of the suppliers who were initially non-compliant.

Added to this are the social audits conducted by The Body Shop (TBS). Indeed, since its integration into the L'Oréal Group in 2006, 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 developed a programme enabling them to support their responsible sourcing policy. One of the activities under this programme is control of working conditions, defined in the "Supplier Code of Conduct", on the production sites of their suppliers (72 audits were conducted in 2014). 6 factories engaged in focused improvement programmes.

Self-assessment of suppliers

"Sharing Beauty With All" programme

Within the scope of its commitments under the "Sharing Beauty With All" programme, L'Oréal has undertaken that by 2020, all strategic suppliers will have completed a self-assessment of their sustainability policy with its support.

To ensure compliance with these commitments throughout the chain of responsibilities, L'Oréal has initiated a programme for the evaluation of strategic suppliers and their sustainability policies. This evaluation, carried out in partnership with the service provider ECOVADIS is also included in the CSR section of the scorecard.

At the end of 2014, 92 suppliers had thus had their social, environmental and ethical policies evaluated by Ecovadis as well as the deployment of such policies at their own suppliers. This represents over 50% of the Group's strategic suppliers.

Access to training tools

"Sharing Beauty With All" programme

Within the scope of its commitments under the "Sharing Beauty with All" programme, L'Oréal has pledged that all suppliers will have access to L'Oréal training tools to improve their sustainability policies.

This commitment was not covered in 2014. It will be the subject of priority actions in 2015.

Association with the Solidarity Sourcing programmes

"Sharing Beauty With All" programme

L'Oréal made the commitment that 20% of its strategic suppliers would be associated with the Solidarity Sourcing programme by 2020.

In 2014, more than 190 suppliers taking solidarity initiatives (suppliers whose aim is to employ people remote from the labour market) or traditional suppliers are already involved, and certain of them have, furthermore, applied this programme in their own supply chain. At the end of 2014, 4% of the strategic suppliers have implemented a Solidarity Sourcing action.

6.4.4.2. SUPPLIERS AND MEASURES TO COMBAT GLOBAL WARMING: WORKING WITH THE GROUP'S SUPPLIERS ON ENVIRONMENTAL ISSUES

L'Oréal considers that the CO_2 emissions of its suppliers are part of its wider environmental footprint and that they must unite their efforts to succeed in reducing them (see § 6.3.4.3, page 243 "Adaptation to climate change").

6.4.5. *Fair Business practices*

6.4.5.1. ACTIONS TAKEN TO PREVENT ALL FORMS OF CORRUPTION

Commitment

L'Oréal is a signatory of the United Nations Global Compact, supports the fight against corruption, and undertakes to comply with the United Nations Anti-Corruption Convention of

☑ *The Statutory Auditors have expressed a reasonable assurance on this selected information.*

October 31st, 2003 and to apply all the applicable laws, including anti-corruption laws.

This commitment is supported at the highest level of the Company by L'Oréal's 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.

Policy

L'Oréal's Code of Ethics publicly states a zero-tolerance policy on corruption. It applies to all employees, corporate officers, members of the Group's 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.

In 2013, a specific anti-corruption guide was rolled out throughout the Group. This guide, which underlines the need both to respect local practices and regulations and also comply with the Group's ethical commitment, addresses relations with each of L'Oréal's stakeholders and in particular public authorities and intermediaries.

This practical Guide is intended to specify the Group's standards and to assist employees to handle situations which they may encounter in the performance of their duties. It reaffirms L'Oréal's anti-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 our business partners;
- compliance with these commitments by intermediaries or agents representing L'Oréal, particularly in countries where there is a high corruption risk.

To complete the corruption prevention policy, an employee guide was distributed in 2014 on a Groupwide basis to specify the rules with regard to gifts and invitations.

Other policies such as "The Way We Buy", a practical and ethical guide on the relationships between suppliers and all employees involved in purchasing decisions, also address these issues. This document currently exists in 12 languages.

Implementation

The corruption prevention policy is revised periodically by the Executive Committee and presented to the Board of Directors.

The Director of the Risk Management and Compliance Department is in charge of developing the anti-corruption system.

Country Managers or, for Corporate or Zone staff, the members of the Group Executive Committee to whom they report, are responsible for the proper deployment of the corruption prevention programme and are guarantors of compliance with the anti-corruption policy.

Employees may, in particular, go to their management, their Legal Director, their Administrative & Financial Director, or their Ethics Correspondent if they have questions about the respect of this commitment.

To ensure that no concern regarding corruption prevention remains unanswered, employees and other stakeholders may contact the Chief Ethics Officer, to whom authority is delegated by the Chairman.

All concerns raised are thoroughly examined, so that appropriate measures can be taken, where applicable.

In a spirit of transparency and in order to exchange ideas, the Group communicates regularly, internally and externally, on the implementation of our anti-corruption policy and programme.

The risk of corruption is included in the Group-level risk assessment: a tool enables Country Managers to assess their possible local ethical risks (including corruption) and to take the necessary corrective action.

L'Oréal's commitment is supported by Human Resources procedures. Thus, an "Obtains results with integrity" competence is now included in the annual appraisal system for all our employees.

Within the framework of L'Oréal's "Open Talk" policy, employees are encouraged to express any concerns they have and a dedicated website provides a secure mechanism for asking questions or raising concerns directly with the Group's Senior Vice-President & Chief Ethics Officer who has access to all the documents and information concerning the Group's activities and can rely on the Group's teams and resources to conduct his assignment successfully.

Any concerns raised in good faith are examined in detail and appropriate measures are taken, where applicable. L'Oréal guarantees that no reprisals will be taken against employees who have reported their concerns in good faith.

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.

Within the scope of the legal due diligence reviews carried out prior to proposed acquisitions, the Group's Legal Department includes an "ethics questionnaire" prepared by the Ethics Department. The answers to this questionnaire are intended to identify, within the Internal Control system existing in the target company, whether corruption risk prevention has been taken into account.

L'Oréal wants to share its anti-corruption commitment with its business partners and compliance with the law is included in the Group's general terms of purchase.

L'Oréal reserves the right to put an end to any relationships with business partners who fail to comply with anti-corruption laws.

6.4.6. Other actions taken in favour of Human Rights

General policy

L'Oréal became a signatory of the United Nations Global Compact in 2003, and is committed to respecting and promoting Human Rights. This includes, in particular, the Fundamental Conventions of the International Labour Organisation.

L'Oréal's Chairman and Chief Executive Officer has given the Senior Vice-President, Chief Ethics Officer, the mission of overseeing the respect of Human Rights.

The Chief Ethics Officer reports regularly to the Chairman and Chief Executive Officer. 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 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.

L'Oréal sets out its Human Rights policy in documents such as *"The L'Oréal Spirit"* or the Code of Ethics (latest edition in 2014).

In the "As an Employer" section of "The L'Oréal Spirit", the Group describes its main commitments to its staff, namely in terms of diversity. Its commitments on the abolition of child labour and forced labour are set out in the "As a Responsible Corporate Citizen" section of that document.

The paragraph on "Respecting Human Rights" of the Code of Ethics set outs the commitments made by L'Oréal to respect and promote Human Rights, namely by reference 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. Present in many countries, L'Oréal is particularly vigilant on issues covered by the Fundamental Conventions of the International Labour Organisation (abolition of child labour and forced labour, respect of freedom of association), the promotion of diversity, women's rights, respect for the rights of peoples use their natural resources and the right to health.

Furthermore, several chapters of the Code of Ethics are devoted to the practical implementation of respect for Human Rights: health, safety and security, diversity, harassment and bullying, sexual harassment, privacy, contribution to the community, and supplier selection and fair treatment of suppliers.

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. This Code of Ethics is available on: **www.loreal.com**.

Training sessions and communications on Ethics also cover Human Rights issues.

Implementation

"ETHICS DAY"

Every year since 2009, L'Oréal organises an **Ethics Day** in order to ensure ongoing internal communication on this topic. In 2014, all the Group's employees were able to ask L'Oréal's Chairman and Chief Executive Officer questions which he answered during a live webchat. All Country Managers also had the opportunity to discuss ethics with their employees. In 2014, more than half the Group's employees took part in this dialogue and over 4,000 questions were asked worldwide.

E-LEARNING – FORMATION

A compulsory e-learning course on ethics covering, namely Human Rights topics (health, safety and security, diversity, harassment and bullying, sexual harassment, privacy) is currently being rolled out in all countries. As of December 31st, 2014, more than 43,000 employees had completed this course. In addition, the Ethics Department provided 11 classroom training sessions to 297 employees, representing 1,042 hours of training. L'Oréal also organises training sessions for the functions more particularly concerned and in particular purchasers. Training in responsible purchasing practices, in the *Buy & Care* programme and in social audits is a compulsory part of the induction program for any new purchaser.

In 2014, 90% of the Group's countries included subjects related to Human Rights (health, safety and security, diversity, harassment and bullying, sexual harassment, privacy, contribution to the community, and supplier selection and fair treatment of suppliers) in their local training programmes. 99% of the countries communicated on at least one of these topics.

CONSIDERATION FOR HUMAN RIGHTS IN ACQUISITION PROJECTS

Within the scope of the legal due diligence reviews carried out prior to proposed acquisitions, the Group's Legal Department includes an "ethics and Human Rights questionnaire" prepared by the Ethics Department. The answers to this questionnaire are intended to identify, within the Internal Control system existing in the target company, whether the risks of non-compliance with Human Rights (abolition of child labour and forced labour, etc.) have been taken into account.

The master agreements signed with suppliers/subcontractors contain a societal clause including the same commitments to comply with the Fundamental Conventions of the International Labour Organisation.

CONSIDERATION FOR THE RIGHTS OF INDIGENOUS PEOPLES IS EMBEDDED IN VARIOUS OPERATING PROCEDURES.

For example, the Sustainable Construction and Design Guide specifies that when choosing a site, land or building for a plant or Research & Innovation centre or at the time of signature an off-plan lease agreement, L'Oréal ensures that the seller became owner and paid compensation to any eventual occupants/users in compliance with international guidelines.

In accordance with the requirements of the Convention on Biological Diversity, which L'Oréal undertook to respect in 2005, the rights of indigenous peoples, includes obtaining a prior agreement, and the guarantee of a fair return to the local populations within the scope of responsible sourcing of raw materials.

Since 2006, and regardless of whether the countries from which the ingredients originate have regulations on Access to genetic resources and Benefit-Sharing (ABS), L'Oréal puts in place "ABS-type" approaches which seeks to respect the rights of indigenous peoples in a highly integrated manner, by jointly considering the ecological, economic and social issues at stake to ensure Sustainable Development throughout the raw materials supply chain.

SECURITY SERVICE PROVIDERS

Where it is locally possible, L'Oréal favours security service providers who have adhered to the International Code of Conduct for Private Security Service Providers initiated by the Montreux Document, an official United Nations document.

ASSESSMENT OF HUMAN RIGHTS RISKS

An ethics risk assessment and analysis tool enables Country Managers to assess their possible ethics risks (including in the field of Human Rights) at the level of their countries and to take the necessary corrective action.

The analysis with regard to supplier and subcontractor risks is carried out by the Purchasing Department, namely through social audits.

The Chief Ethics Officer regularly visits the Group's entities all over the world (head offices, factories, distribution centres and research centres) to meet employees at all levels of the Company and visit the various sites. In 2014, within this framework, he visited 21 countries and was in contact with over 7,000 employees.

ANNUAL ETHICS REPORTING SYSTEM

An annual reporting system on ethical issues covers all the subjects addressed in the Code of Ethics. This information namely helps to assess the Group's performance in terms of the application of Human Rights.

L'Oréal's "Open Talk" policy enables employees to raise concerns they may have directly with the Chief Ethics Officer, including those relating to Human Rights, namely via a secure website. This site is accessible in 26 languages. All allegations are examined in detail and appropriate measures are taken, where applicable, in the event of non-compliance with the Human Rights policy.

Methodological note

SOCIETAL COMMITMENT DATA SCOPE, INDICATORS, REPORTING METHOD AND SYSTEMS

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.

INDICATORS

The indicators chosen are those within the scope of the Grenelle II regulations, with the aim of data comparability.

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 divisions and departments concerned (Communications and Sustainable Development Division, Human Resources Division, Purchasing Department, International Product Safety Assessment Department and the Risk Management and Compliance Department).

6.5. TABLE OF CONCORDANCE IN RESPECT OF SOCIAL, ENVIRONMENTAL AND SOCIETAL MATTERS

Page	Grenelle II – French Decree of April 24th, 2012	GRI	Global Compact
	PRINCIPLES		
210	Scope of reporting	G4-17 to 23	
232	*Comply or explain*	Principe	
245	Data comparability	G4-32	
255	Reference to standards	G4-32	
258	Attestation with regard to the exhaustiveness of information	G4-33	
259	Opinion with regard to the true and fair view given by the information	G4-33	#1 and 2
	SOCIAL INFORMATION		
218	**Employment**		
	◆ Total workforce	G4-9 & G4-10	
	◆ Distribution of employees by gender, by age and by geographic zone	G4-10 & G4-LA12	
	◆ Recruitments	G4- LA1	
	◆ Dismissals	G4- LA1	
	◆ Remuneration and trends	G4- LA13	#3 to 8
	Work organisation		
	◆ Organisation of working time	G4- LA (managerial approach)	
	◆ Absenteeism	G4- LA6	#3 to 8
225	**Labour relations**		
	◆ Organisation of the dialogue between employees and management	G4-LA4 & G4-HR4'	
	◆ Situation with regard to collective agreements	G4- LA4	#3 to 8
226	**Health & Safety**		
	◆ Health and safety conditions at work	G4-LA5 to 8	
	◆ Status report on agreements signed with trade union organisations with regard to health and safety at work	G4- LA8	
	◆ Frequency and severity of accidents at work	G4- LA6	
	◆ Occupational diseases	G4- LA7	# 3 to 8
229	**Training**		
	◆ Training policy implemented	G4-LA9 to LA11	
	◆ Total number of hours of training	G4-LA9 & G4-HR2	#3 to 8
229	**Equality of treatment**		
	◆ Measures taken to promote gender equality	G4-HR3	
	◆ Measures taken in favour of employment and professional insertion of the disabled	G4-LA12 & G4-HR3	
	◆ Policy to combat discrimination	G4-LA12 & G4-HR3	#3 to 8
231	**Promotion & compliance with the provisions of the ILO conventions**		
	◆ Compliance with freedom of association and the right to collective bargaining	G4-HR4	
	◆ Elimination of discrimination in respect of employment and occupation	G4-HR3 & G4-LA13	
	◆ Elimination of forced or compulsory labour	G4-HR6	
	◆ Effective abolition of child labour	G4-HR5	#3 to 8
	ENVIRONMENTAL INFORMATION		
234	**General environmental policy**		
	◆ Organisation of the Company to take into account environmental issues and, where applicable, environmental evaluation or certification measures	G4-EN (managerial approach)	
	◆ Training actions and provision of information to employees with regard to environmental protection	G4-43	
	◆ The means devoted to prevention of environmental risks and pollution	G4-EN31	
	◆ 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	G4-EN31 & G4-EC2	#9 to 11

Page	Grenelle II – French Decree of April 24th, 2012	GRI	Global Compact
235	**Pollution and waste management**		
	• Measures for prevention or reduction of, or to remedy, emissions into the air, water and soil seriously affecting the environment	G4-EN22 to 26	#9 to 11
	• Waste prevention, recycling and elimination measures	G4-EN23 to 27	
	• Taking into account noise pollution and any other form of pollution specific to an activity		#9 to 11
238	**Sustainable use of resources**		
	• Water consumption and water supply depending on local constraints	G4-EN8	
	• Raw material consumption and measures taken to improve efficiency in their use	G4-EN1 to 2 & G4-EN27	
	• Energy consumption, measures taken to improve energy efficiency and use of renewable energies	G4-EN3 to EN7	
	• Soil use	G4-EC2, G4-EN11 to 14; G4-EN27	#9 to 11
242	**Climate change**		
	• Greenhouse gas emissions	G4-EN15 to EN20	
	• Adaptation to the consequences of climate change	G4-EN18 & G4-EC2	#9 to 11
244	**Protection of biodiversity**		
	• Measures taken to preserve or develop biodiversity	G4-EN11 to EN 14 & G4-EN26	#9 to 11
	SOCIETAL INFORMATION		
246	**Territorial, economic and social impact of the Company's activities**		
	• On employment and regional development	G4-EC7 & G4-EC8	
	• On neighbouring or local populations	G4-EC1, G4-EC8; G4-EC 5 & 6	#16 to 18 & 21
247	**Relations maintained with people or organisations who are stakeholders of the Company's activities**		
	• Particularly, associations promoting professional insertion, educational establishments, environmental defence associations, consumer associations and neighbouring populations		
	• The conditions for the dialogue with these people or organisations	G4-24 to 27	#2 & 16
	• Partnership or philanthropy actions	G4-EC7 & 8	to 18
250	**Subcontracting and suppliers**		
	• Taking into account social and environmental issues in purchasing policy	G4-EC9, G4-HR4 to 6, G4-HR 8 to 10	
	• The importance of subcontracting and taking their social and environmental responsibility into account in relations with suppliers and subcontractors	G4-EC9, G4-HR4 to 6; G4-HR8 to 10	#2 to 11
252	**Fair practices**		
	• The actions taken to prevent corruption	G4-56 to 58 & G4-SO3 to 5	
	• The measures taken in favour of consumer health and safety	G4-PR1 to 2	#12 to 14
254	**Other actions taken in favour of Human Rights**	G4-HR1 to 12	#3 to 5

6.6. STATUTORY AUDITORS' REPORT

6.6.1. Report of one of the Statutory Auditors, appointed as independent third-party, on the consolidated environmental, social and societal information published in the Management Report

Year ended December 31, 2014

This is a free translation into English of the original report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as one of the Statutory Auditors of L'Oréal, and appointed as independent third-party, for whom the certification request has been approved by the French National Accreditation Body (COFRAC) under the number 3-1048 (1), we hereby provide you with our report on the social, environmental and societal information presented in the Management Report for the year ended December 31, 2014 (hereinafter the "EHS Management Reports" and the "Country Reporting Definitions"), pursuant to Article L. 225-102-1 of the French Commercial Code *(Code de commerce)*.

RESPONSIBILITY OF THE COMPANY

The Environmental Department and the Human Resources Department of L'Oréal are responsible for preparing a Management Report which includes the CSR Information in accordance with the provisions set forth in Article R. 225-105-1 of the French Commercial Code, in line with the reporting protocols and guidelines used by L'Oréal (hereinafter the "Reporting Guidelines"), which are available for consultation upon request at the Company's headquarters.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory texts, the profession's Code of Ethics as well as by the provisions set forth in Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes the documented policies and procedures designed to ensure compliance with rules of ethics, professional auditing standards and the applicable legal texts and regulations.

RESPONSIBILITY OF THE STATUTORY AUDITORS

Based on our work, our responsibility is:

- to attest that the required CSR Information are presented in the Management Report or, in the event of omission, are explained pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code (Attestation of completeness of the CSR information);
- to express limited assurance on the fact that, taken as a whole, the CSR Information is presented fairly, in all material aspects, in accordance with the Reporting Guidelines (Formed opinion on the fair presentation of CSR Information).

Our work was carried out by a team of seven people between November 2014 and February 2015, *i.e.* a period of around thirteen weeks. To assist us in conducting our work, we referred to our corporate responsibility experts.

We conducted the following procedures in accordance with professional auditing standards applicable in France, with the order of May 13, 2013 determining the methodology according to which the independent third party conducts its assignment and, with regard to the formed opinion on the fair presentation of CSR Information, with the international standard ISAE 3000(2).

(1) The scope of which is available at www.cofrac.fr
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

1. *Attestation of completeness of the CSR Information*

Based on interviews with management, we familiarized ourselves with the Group's Sustainable Development strategy, with regard to the social and environmental impacts of the Company's business and its societal commitments and, where appropriate, any resulting actions or programs.

We compared the CSR Information presented in the Management Report with the list set forth in Article R. 225-105-1 of the French Commercial Code.

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with the third paragraph of the Article R. 225-105 of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope, *i.e.*, the Company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code, subject to the limitations set forth in the methodological note presented in the corporate social responsibility section of the Management Report.

Based on these procedures and considering the limitations mentioned above, we attest that the required CSR Information is presented in the Management Report.

2. *Formed opinion on the fair presentation of CSR Information*

NATURE AND SCOPE OF PROCEDURES

We conducted around sixty interviews with the people responsible for preparing the CSR Information in the departments in charge of data collection process and, when appropriate, those responsible for Internal Control and risk management procedures, in order to:

- assess the suitability of the Reporting Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, taking into consideration, when relevant, the sector's best practices;
- verify that a data-collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the CSR information and review the Internal Control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and controls according to the nature and significance of the CSR Information with regard to the Company's characteristics, the social and environmental challenges of its activities, its Sustainable Development strategies and the sector's best practices.

Concerning the CSR information that we have considered to be most important (see annex):

- for the consolidating entity, we consulted the documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the data consolidation, and we verified their consistency with the other information presented in the Management Report;
- for a representative sample of entities and sites that we have selected (1) according to their activity, their contribution to the consolidated indicators, their location and a risk analysis, we held interviews to verify the correct application of the procedures and performed substantive tests using sampling techniques, consisting in verifying the calculations made and reconciling the data with supporting evidence. The selected sample represented 24% of the headcount, between 12% and 42% of the environmental quantitative information;

Regarding the other consolidated CSR Information, we have assessed its consistency in relation to our understanding of the Group.

Lastly, we assessed the relevance of the explanations relating to, where necessary, the total or partial omission of certain information.

(1) HR data:5 subsidiaries:USA, Brazil, Japan, Italy, Netherlands Health and Safety, environmental data : 12 sites : Rio and Sao Paulo in Brazil, DC Brazil, Fapagau in France, Saipo in Italy and DC Italy, Cosmelor in Japan, Poland, Florence, Piscataway, Franklin and DC S.Brunswick in the United-States.

We believe that the sampling methods and sizes of the samples we have used in exercising our professional judgment enable us to express limited assurance; a higher level of assurance would have required more in-depth verifications. Due to the use of sampling techniques and the other limits inherent to the operations of any information and Internal Control system, the risk that a material anomaly be identified in the CSR Information cannot be totally eliminated.

CONCLUSION

Based on our work, we did not identify any material anomaly likely to call into question the fact that the CSR Information, taken as a whole, is presented fairly, in accordance with the Reporting Guidelines.

Neuilly-sur-Seine, February 17th, 2015

French original signed by one of the Statutory Auditors:

Deloitte & Associés

David Dupont-Noel — Florence Didier-Noaro

Annexes

The CSR Information that we considered to be the most important, on which we conducted detailed tests, are the following:

QUANTITATIVE INFORMATION:

Human Resources Indicators

- Statutory headcount
- Number of employees on fixed term and permanent contracts
- Employees by gender and geographical zone
- Age Pyramid
- Number of hired employees
- Number of dismissals
- World Profit Sharing 2013 (paid in 2014)
- Number of employees with a permanent contract benefiting from a life insurance respecting the Share&Care guidelines
- Number of employees with a permanent contract benefiting from a health insurance respecting the Share&Care guidelines
- Global absenteeism
- Absenteism due to illness
- Number of internal collective agreements signed in the rest of the world (outside France) in 2014
- Number of internal collective agreements in force on December 31st 2014
- Number of training hours

Environmental, Health and Safety Indicators

- FG units produced (millions)
- Quantity of produced bulk (tons)
- VOC emissions (tons)
- SO_2 emissions (tons)
- Transportable wastes including returnable packaging (factories and distribution centres)
- Transportable wastes without returnable packaging (factories and distribution centres)
- Total transportable wastes (in thousands of tons)
- 2014 waste treatment
- COD content before water treatment
- COD content after water treatment
- Water consumption
- Use of water / breakdown by water usage
- Total energy used
- Breakdown by energy source
- CO_2 emissions scope 1 on site (thousands of tons)
- CO_2 emissions scope 2 off site (thousands of tons)
- Total CO_2 emissions scopes 1&2 (thousands of tons)
- TFc – Conventional frequency rate
- TFe – Enlarged frequency rate
- TFg – Severity rate
- Information related to the MESUR program (Managing Effective Safety Using Recognition & Realignment)
- Information related to SIO (Safety Improvement Opportunities)

Societal indicators

- Percentage of the portfolio of suppliers subject to audit covered by the social audits conducted at the closing date.
- Percentage of renewable raw materials derived from species identified as sensitive that has been the subject of improvement plans or actions with the suppliers
- Number of social audits carried out in 2014
- Number and distribution of instances of non-compliance detected during social audits.
- Percentage of shea butter procurement in line with the solidarity sourcing program

QUALITATIVE INFORMATION:

- Information on the special working conditions for employees between 16 and 18 years old
- Information on the dialogue with local or international NGOs on biodiversity topics and the supply of raw materials
- Information on the cosmetovigilance system

6.6.2 Reasonable assurance Report of the Statutory Auditors on selected environmental, social and societal information published in the 2014 Annual Report

This is a free translation into English of the original report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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 selected environmental, social and societal information published in L'Oréal's 2014 Annual Report.

The social information selected by L'Oréal is the following:

- the number of diversity coordinators in the world;
- the number of entities having been awarded the European label "Gender Equality European Standard" – GEES;
- the number of entities having been awarded the European label "Economic Dividend for Gender Equality" – EDGE;
- the number of entities that have undertaken EDGE audits waiting to be awarded;
- the number of entities with a disability insertion project.

The societal information selected by L'Oréal is the following:

- the number of social audits carried out in 2014;
- the number and distribution of non-compliances detected during social audits of supplier sites.

The environmental, hygiene and safety information selected by L'Oréal is the following:

- FG units produced (millions);
- Quantity of produced bulk (tons);
- CO_2 direct emissions (Scope 1 – On site);
- CO_2 indirect emissions (Scope 2 – Off site);
- Total energy used;
- Breakdown by energy source;
- TFc – Conventional frequency rate;
- TFe – Enlarged frequency rate;
- TFg – Severity rate.

This information has been prepared under the responsibility of the Board of Directors of L'Oréal 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 Human Resources and EHS Departments.

Based on our work, it is our responsibility to express a conclusion of reasonable assurance on these selected informations.

NATURE AND SCOPE OF PROCEDURES

We conducted the following procedures in accordance with professional auditing standards applicable in France, with regard to the formed opinion on the fair presentation of CSR Information as part of our diligences directly linked to our Statutory Auditors assignment (French standard NEP9090), and in accordance 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, hygiene 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.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

- We have conducted analytical procedures and verified calculations and data consolidation through various samplings. This work has been completed with interviews with persons from L'Oréal's Corporate Social and Environmental Responsibility Department in charge of data collection and consolidation.
- We have selected a sample of entities for selected Environmental, Hygiene and Safety information:
  - Pour les données hygiène, sécurité et environnement sélectionnées :
    - Burgos (Spain),
    - Cosmelor (Japan),
    - DC Brazil,
    - DC Canada,
    - DC Italy,
    - DC S. Brunswick (USA, New Jersey),
    - Florence (USA, Kentucky),
    - Franklin (USA, New Jersey),
    - Fapagau (France),
    - Kalouga (Russia),
    - Libramont (Belgium),
    - Mexico (Mexico),
    - Montréal (Canada),
    - Piscataway (USA, New Jersey),
    - Randjespark (South Africa),
    - Rambouillet (France),
    - Rio (Brazil),
    - Saipo (Italy),
    - Saint Quentin (France),
    - Sao Paulo (Brazil),
    - Sicos (France),
    - San Luis Potosi (Mexico),
    - Istanbul (Turkey),
    - Warsaw (Poland).
- 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 test on representative samples consisting in calculation verification and corroboration of that with supporting documents.

These selected entities represent 66% Finished Goods Units produced by the Group, and between 54 and 100% of the environmental information reviewed.

Selected social and societal data has been audited in L'Oréal Headquarters.

To assist us in our work, we called on our specialized Sustainable Development teams.

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CONCLUSION

Based on our work, the environmental, social, societal, hygiene and safety information selected by L'Oréal, presented hereinabove and published in its Annual Report, have been presented, in all material aspects, in accordance with the Guidelines used by L'Oréal in 2014.Based on our work, the environmental, social, societal, hygiene and safety information selected by L'Oréal, presented hereinabove and published in its Annual Report, have been presented, in all material aspects, in accordance with the Guidelines used by L'Oréal in 2014.

Neuilly-sur-Seine, February 17th, 2015

French original signed by one of the statutory auditors:

Deloitte & Associés		PricewaterhouseCoopers Audit	PricewaterhouseCoopers Advisory
David Dupont-Noel	Florence Didier-Noaro	Gérard Morin	Florence Didier-Noaro
Audit	Sustainability Services		

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STOCK MARKET INFORMATION SHARE CAPITAL

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

L'Oréal is a French *société anonyme* (limited company) listed on the Paris stock market. This chapter sets out the information relating to its share capital and the main details of its legal form and its Articles of Association. All the information on the L'Oréal share and L'Oréal share market are also included in this chapter.

7.1. INFORMATION RELATING TO THE COMPANY

7.1.1. Legal Form

L'Oréal is incorporated in France as a *société anonyme*.

7.1.2. Law governing the Issuer

French law.

7.1.3. Business Activity

L'Oréal S.A. is a French company, with its head office in France. It performs a sales activity that is specific to France. L'Oréal parent company also functions as a holding company and has a role of strategic coordination role as well as a scientific, industrial and marketing coordination for the 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 chapter 4, on pages 174 to 177.

7.1.4. Date of incorporation and term of the Company (Article 5 of the Articles of Association)

"The Company's term shall be ninety-nine years, which began 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."

7.1.5. 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."

7.1.6. Company registration number

632 012 100 Paris Trade and Companies Registry.

7.1.7. Consultation of documents relating to the Company

The Articles of Association, financial statements, reports and information for shareholders can be consulted at 41, rue Martre, 92117 Clichy, France, preferably by appointment. See also the **www.loreal-finance.com** website.

7.1.8. 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."

7.1.9. 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."

7.1.10. Statutory distribution of profits (Article 15 of the Articles of Association)

"A. From the distributable profits, the following amounts shall be withheld, in the following order:

1. The amount required to pay the "primary dividend" to the shareholders equal to five percent (5%) of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.

2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next 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 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."

7.1.11. Annual General Meetings

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection.

Since the Annual General Meeting of April 29th, 2004, double voting rights have been eliminated.

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7.1.12. 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,Regulate information section.**

7.2. INFORMATION CONCERNING THE SHARE CAPITAL*

7.2.1. Statutory requirements governing changes in the share capital and shareholders' rights

None.

* *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.*

7.2.2. Issued share capital and authorised unissued share capital

The share capital amounted to €112,246,077.80 as of December 31st, 2014. It was divided into 561,230,389 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 22nd, 2015.

	Authorisations in force				Authorisations proposed to the Annual General Meeting of April 22nd, 2015		
Nature of the authorisation	Date of AGM (resolution no.)	Length (expiry date)	Maximum authorised amount	Use made of the authorisation in 2014	Resolution No.	Length	Maximum ceiling
Share capital increases							
Capital increase through the issue of shares with maintenance of preferential subscription rights or via the capitalisation of share premiums, reserves, profits or other amounts	April 26th, 2013 (9th)	26 months (June 26th, 2015)	An increase in the share capital to €169,207,813.88	None	8th	26 months (June 22nd, 2017)	An increase in the share capital to €157,144,508
Capital increase reserved for employees	April 26th, 2013 (11th)	26 months (June 26th, 2015)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 6,054,992 shares)	None	10th	26 months (June 22nd, 2017)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,612,303 shares at December 31st, 2014)
Buyback by the Company of its own shares							
Buyback by the Company of its own shares	April 17th, 2014 (9th)	18 months (October 17th, 2015)	10% of share capital on the date of the buybacks (*i.e.*, as an indication, 60,590,188 shares at December 31st, 2013)	* See note below	7th	18 months (October 22nd, 2016)	10% of share capital on the date of the buybacks (*i.e.*, as an indication, [56,123,038] shares at December 31st, 2014)
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 17th, 2014 (11th)	26 months (June 17th, 2016)	10% of share capital on the date of cancellation per 24-month period (*i.e.*, as an indication, 60, 590,188 shares at December 31st, 2013)	48,500,000			
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	April 17th, 2014 (11th)	26 months (June 17th, 2016)	650,000 shares				
Stock options and free grants of shares							
Grant of existing free shares or shares to be issued to the employees	April 26th, 2013 (10th)	26 months (June 26th, 2015)	0.6% of share capital on the date of the decision to grant the shares	1,068,565 shares	9th	26 months (June 22nd, 2017)	0.6% of share capital on the date of the decision to grant the shares

* *It is specified that, with regard to the 2014 financial year, share buybacks were carried out with regard to 950,000 and 48,500,000 shares within the scope of the authorisation granted by the Annual General Meeting on April 26th, 2013 which expired on October26th, 2014.*

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, 2014, 10,612,628 share subscription options had been allocated. 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, 4,329,875 conditional shares had been granted to Group employees. Out of these, 1,067,565 shares will be created when necessary and, where applicable, by capitalisation of reserves. Accordingly, the potential share capital of the Company amounts to €114,582,116.40, divided into 572,910,582 shares with a par value of €0.20 each.

The Company has not issued any securities which grant indirect entitlement to shares in the capital.

On July 8th, 2014, the Company cancelled 48,500,000 shares purchased from Nestlé; these shares had been purchased pursuant to the decision of the Board of Directors on February 10th, 2014 upon the authorisation of the Annual General Meeting of April 26th, 2013 (8th resolution).

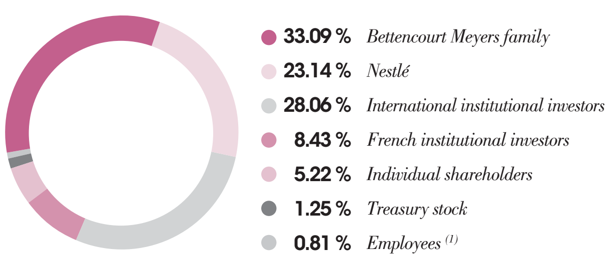
The Chairman, on the delegation of the Board of Directors at its meeting on April 17th, 2014, recorded the amount of the share capital at December 31st, 2014, which was €112,246,077.80 divided into 561,230,389 shares.

7.2.3. *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
12.31.2009				€119,794,482.00		598,972,410
01.01 to 04.26.2010	Exercise of share subscription options	€149,080.00	€44,316,558.00	€119,943,562.00	745,400	599,717,810
04.27.2010	Cancellation of shares	-€100,000.00		€119,843,562.00	-500,000	599,217,810
04.27 to 12.31.2010	Exercise of share subscription options	€354,955.00	€107,450,074.75	€120,198 517.00	1,774,775	600,992,585
01.01 to 05.30.2011	Exercise of share subscription options	€233,719.40	€71,517,702.03	€120,432,236.40	1,168,597	602,161,182
05.30.2011	Conditional grant of shares	€80.00		€120,432,316.40	400	602,161,582
05.31 to 12.31.2011	Exercise of share subscription options	€164,500.00	€51,578,602.50	€120,596,816.40	822,500	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
03.25.2013	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

7.3. SHAREHOLDER STRUCTURE*

/ SHAREHOLDER STRUCTURE AT DECEMBER 31ST, 2014



(1) In the L'Oréal Company savings plan (PEE).

7.3.1. *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 below on *Changes in allocation of the share capital and voting rights* and *shareholders' agreements relating to shares in the Company's share capital*).

* *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.*

7.3.2. Changes in allocation of the share capital and voting rights over the last three years

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 below on Changes in allocation of the share capital and voting rights and *shareholders' agreements relating to shares in the Company's share capital*).

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:

	12.31.2014			12.31.2013			12.31.2012		
	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) (2)	185,704,089	33.09	33.09	185,661,879	30.64	30.64	185,661,879	30.50	30.50
Nestlé S.A. (2)	129,881,021	23.14	23.14	178,381,021	29.44	29.44	178,381,021	29.30	29.30
Concert party (2)	315,585,110	156.23	56.23	364,042,900	60.08	60.08	364,042,900	59.80	59.80
Company savings plan (3)	4,530,801	0.81	0.81	4,252,345	0.70	0.70	4,379,821	0.72	0.72
Public	234,125,967	41.71	41.71	231,498,785	38.21	38.21	229,933,941	37.76	37.76
Treasury stock	6,988,511	1.25		6,107,857	1.01	1.01	10,454,165	1.72	
TOTAL	**561,230,389**	**100.00**	**98.75**	**605,901,887**	**100.00**	**98.99**	**608,810,827**	**100.00**	**98.28**

(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) of which Mrs. Liliane Bettencourt holds almost all the shares and attached voting rights in beneficial ownership. Mrs. Françoise Bettencourt Meyers holds 76,441,389 L'Oréal shares in bare ownership, the beneficial ownership of which is held 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).
(3) Of which 0.74% in the L'Oréal Company savings plan (PEE).
(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, 2014, 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 above.

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, 2014, the Company held, on this basis, 6,988,511 of its own shares (1.25% of the share capital), which, valued at their purchase price, represented €682.4 million in L'Oréal's parent company financial statements. 158,361 of these shares were 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 and 3,262,310 to a plan for the conditional grant of shares to employees.

7.3.3. Employee share ownership

The employees of the Company and its affiliates held 4,530,801 shares as at December 31st, 2014.

The percentage of L'Oréal shares is 0.81% at December 31st, 2014, of which 0.74% in the Company savings plan, as defined by article L.225-102 of the French Commercial Code

At that date, this stake in the capital is held by 10,442 employees participating in the Group Company savings plan.

7.3.4. Disclosures to the Company of legal thresholds crossed

Nestlé declared that, on July 8th, 2014, it had individually crossed downwards the thresholds of 25% of the capital and voting rights of the Company and that it individually held 129,881,021 shares of the Company representing the same number of voting rights on the date the thresholds were crossed, namely 23.20% of the capital and voting rights .

The crossing of these thresholds results from the buyback of 48,500,000 L'Oréal shares by the Company from Nestlé and the resultant cancellation of these shares.

The concert party consisting of Nestlé and the Bettencourt Meyers family reported that it had not crossed any threshold, and that it holds 315,585,110 shares representing the same number of voting rights, namely, at July 8th, 2014, 56.37% of the capital and voting rights of the Company.

7.3.5. 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:

7.3.5.1. 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.

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.

Pre-emption clause (expiring 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 expiring 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.

7.3.5.2. 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 Meyers 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.

7.3.5.3. 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.

7.3.5.4. 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 Meyers 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."

7.3.5.5. 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."

7.3.6. Buyback by the Company of its own shares

7.3.6.1. INFORMATION CONCERNING SHARE BUYBACKS DURING THE 2014 FINANCIAL YEAR

In 2014, the Company bought back 49,450,000 of its own shares, in accordance with the authorisations voted by the Annual General Meeting of April 26th, 2013.

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	April 26th, 2013 (8th resolution)
Expiry date of the authorisation	October 26th, 2014
Maximum amount of authorised buybacks	10% of capital on the date of the share buybacks (*i.e.*, as an indication, 60,549,917 shares at April 26th, 2013), for a maximum amount of €10,293.5 million
Maximum purchase price per share	€170
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meetings that decided on the buybacks	11.29.2013 and 02.10.2014 and 04.17.2014
Purpose of buybacks	Cancellation
Period of buybacks made	From January 2nd to January 10th, 2014 and July 8th, 2014
Number of shares purchased	€950,000 and €48,500,000 *
Average purchase price per share **	€124.93 ** and €124.48 **
Use of shares purchased	Cancellation of 48,500,000

* *Shares purchased from Nestlé at a price of €124.48 per share and cancelled on July 8th, 2014.*
** *Before costs.*

7.3.6.2. TRANSACTIONS CARRIED OUT BY L'ORÉAL WITH RESPECT TO ITS SHARES IN 2014

Percentage of share capital held by the Company directly and indirectly *of which*: at December 31st, 2014	1.245%
◆ those intended to cover existing share purchase option plans	0.028%
◆ those intended to cover conditional shares	0.581%
◆ those intended for cancellation	0.518%
Number of shares cancelled during the last 24 months	57,608,641
Number of shares held in the portfolio at 12.31.2014	6,988,511
Net book value of the portfolio at 12.31.2014	€682.4 million
Market portfolio value at 12.31.2014	€973.5 million

	Total gross transactions	
	Purchases	Sales/Transfers *
Number of shares	49,450,000	66,791
Average transaction price	€124.49 **	
Average exercise price		€62.94
Amounts	€6,156.0 million	€4.20 million

* *Exercise of stock options for the purchase of shares granted to employees and executive officers of Group companies.*
** *Before costs.*

No use was made of derivatives to make the share buybacks. There is no open purchase or sale position at December 31st, 2014.

7.3.6.3. RENEWAL BY THE ANNUAL GENERAL MEETING OF THE AUTHORISATION GIVEN TO THE BOARD TO TRADE IN THE COMPANY'S SHARES

By voting a new resolution, the Annual General Meeting could give the Board of Directors the means to enable it to continue with the buyback policy.

This authorisation would be given for a maximum period of 18 months as from the date of the Annual General Meeting and the purchase price per share could not exceed €230 (excluding expenses).

The Company would be able to buy its own shares for the following purposes:

- their cancellation;
- their transfer 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 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 authorisation would concern up to 10% of the share capital, *i.e.* for information purposes at December 31st, 2014, 56,123,038 shares for a maximum amount of €12,908,298,740, it being stipulated that the Company may at no time hold over 10% of its own share capital.

The purchase, sale, exchange or transfer of these shares may be carried out by any means on one or more occasions, on or off the stock market, including in whole or in part, through the acquisition, sale, exchange or transfer of blocks of shares. These means include, where applicable, the use of all financial instruments and derivatives.

7.4. LONG-TERM INCENTIVE PLANS*

7.4.1. Presentation of the stock option plans for the purchase or subscription of shares and plans for the Conditional Grant 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 grant 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 2010, this policy remained unchanged, and was applied to an even larger number of beneficiaries.

In 2011, L'Oréal's Board of Directors decided to make plans for the conditional grant of shares to employees the primary tool for its long-term incentive policy by extending the grant of shares to the main senior managers of the Group who up till 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.

In 2013 and 2014, 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) for all beneficiaries including the Chairman and Chief Executive Officer, to the exclusion of the awarding 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 by a 2 year waiting period for France during which these shares cannot be sold.

In all, over 3,000 employees (*i.e.* over 12% of the senior managers throughout the world) benefit from at least one

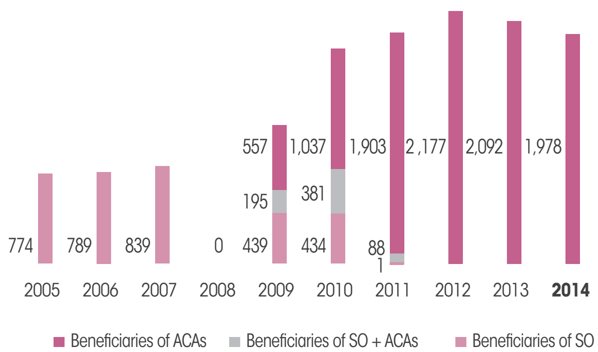
* *This information forms an integral part of the Annual Financial report as provided in the Article L. 451_1_2 of the French Monetary and Financial Code.*

currently existing stock option plan or plan for the conditional grant of shares.

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./

/ CHANGE IN THE NUMBER OF BENEFICIARIES OF STOCK-OPTIONS AND ACAS SINCE 2009



7.4.2. Stock option plans for the subscription and purchase of L'Oréal parent company shares

No stock options for the purchase or subscription of shares were granted in 2014, as the Board of Directors has decided since 2012, on the proposal of the Human Resources and Remuneration Committee, to replace the grant of stock options with ACAs for all beneficiaries including the Chairman and Chief Executive Officer.

7.4.2.1. CURRENTLY EXISTING L'ORÉAL PARENT COMPANY SHARE PURCHASE OR SUBSCRIPTION OPTION PLANS (1)

The main features of the plans that existed at December 31st, 2014 are included in the tables set out hereafter:

AGM authorisation date	05.22.2003	05.22.2003	04.25.2006	04.25.2006
Date of Board of Directors' meeting	**06.29.2005**	**11.30.2005 (3)**	**04.25.2006**	**12.01.2006**
Total number of beneficiaries	3	771	1	788
Total number of shares that may be subscribed or purchased,	400,000	6,000,000	2,000,000	5,500,000
Of which may be subscribed or purchased by the executive officers (2):				
Mr. Jean-Paul Agon				*500,000*
Sir Lindsay Owen-Jones		*1,000,000*	*2,000,000*	
Start date for exercise of the options	06.30.2010	12.01.2010	04.26.2011	12.02.2011
Date of expiry	06.29.2015	11.30.2015	04.25.2016	12.01.2016
Subscription or purchase price *(euros)*	60.17 (S)	61.37 (S)	72.60 (S)	78.06 (S)
		62.94 (A)		
Number of stock options exercised at 12.31.2014	400,000	5,068,088	1,000,000	3,735,245
Of which shares subscribed	*400,000*	*3,569,249*	*1,000,000*	*3,735,245*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	0	476,000	0	608,750
Number of option shares remaining to be subscribed or purchased at year-end	**0**	**455,912**	**1,000,000**	**1,156,005**
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 or purchased,	4,000,000	3,650,000	4,200,000	1,470,000
Of which may be subscribed or purchased by the executive officers (2):				
Mr. Jean-Paul Agon	*350,000*	*0 (4)*	*400,000*	*200,000 (5)*
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 or purchase price (euros)	91.66 (S)	50.11 (S)	80.03 (S)	83.19 (S)
Number of stock options exercised at 12.31.2014	2,306,767	1,733,561	20,000	7,500
Of which shares subscribed	*2,306,767*	*1,733,561*	*20,000*	*7,500*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	461,600	199,000	203,500	229,000
Number of option shares remaining to be subscribed or purchased at year-end	**1,231,633**	**1,717,439**	**3,976,500**	**1,233,500**

(1) There are no share purchase or subscription option plans at subsidiaries of L'Oréal.
(2) This is the number of stock options granted to the executive officers during their terms 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) The stock option plan of November 30th, 2005 is composed, for 70%, of a share subscription option offer at a price of €61.37 (S) and for 30%, of a share purchase option offer at a price of €62.94 (A). Each beneficiary received an offer comprising share subscription and purchase options, in the above proportions. There were no fractional share rights.
(4) As Mr. Jean-Paul Agon informed the Board of Directors that he did not wish to be granted any subscription option with respect to 2009, he did not receive any subcription option under the Plan dated March 25th, 2009
(5) The Board of Directors' meeting of April 22nd, 2011 allocated 400,000 share subscription options to Mr. Jean-Paul Agon. Mr. 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 10,770,989 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, 2014, at an average price of €75.28, namely 1.92% of the 561,230,389 shares making up the share capital at such date.

7.4.2.2. STOCK OPTIONS TO PURCHASE OR SUBSCRIBE FOR SHARES GRANTED TO EMPLOYEES OTHER THAN EXECUTIVE OFFICERS OF L'ORÉAL OR EXERCISED BY THEM DURING THE 2014 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 2014	NA

(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 03/24/04 (S)	Plan of 12/01/04 (S)	Plan of 06/29/05 (S)	Plan of 11/30/05 (A)	Plan of 11/30/05 (S)	Plan of 04/25/06 (S)	Plan of 12/01/06 (S)	Plan of 11/30/07 (S)	Plan of 03/25/09 (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**	**495,123**	**€61.90**	0	0	**50,000**	0	**6,950**	0	**130,000**	**39,000**	**269,173**

(1) Employees other than executive officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

7.4.2.3. OPTIONS THAT MAY BE EXERCISED UNDER THE APRIL 27TH, 2010 PLAN

The exercise period for the stock options granted on April 27th, 2010 will be open as from April 28th, 2015 and until April 27th, 2020.

The exercise of the options granted to the Executive Committee members at the date of grant was subject to fulfilment of performance conditions.

At its meeting on February 12th, 2015, the Board of Directors recorded that the performance levels achieved during the 4 years taken into account within the scope of the April 27th, 2010 plan, namely 2011, 2012, 2013 and 2014, exceeded the levels set to make it possible to exercise all the stock options granted.

Accordingly, as the Executive Committee members will fulfil the conditions of the plan on April 27th, 2015, in particular the condition of continued presence in the Company, they will be able to exercise 100% of their options until April 27th, 2020.

7.4.2.4. TABLES MONITORING THE PERFORMANCE CONDITIONS UNDER THE STOCK OPTION PLANS IN PROCESS

Stock option plan of April 27th, 2010

Performance conditions related to the stock options granted to the members of the Executive Committee at the date of grant	2011	2012	2013	2014	Arithmetical average of the performances for financial years 2011/2012/2013 and 2014
50% growth in comparable cosmetics sales as compared to the increase in the cosmetics market*	**+0.4 point** (+5%/+4.6%)	**+0.9 point** (+5.5%/+4.6%)	**+1.4 point** (+5.2%/+3.8%)	**+0.2 point** (+ 3.8 %/+ 3.6%)	**+0.7 point**
50% operating profit + advertising and promotional expenses as compared to cosmetic sales	**47.80%** (9,017.9/18,870.8)	**47.20%** (9,815.7/20,811.9)	**47.60%** (10,146.6/21,341.5)	**47.10%** (10,201/21,658)**	**47.4%**

** Evolution of cosmetics market: source L'Oréal (see chapter 1).*
*** Data restated to reflect exclusion of Galderma and Inneov*

Stock option plan of April 22nd, 2011

Performance conditions related to the stock options granted to all the beneficiaries	2012	2013	2014	2015
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+0.8 point** (+5.5%/+4.7%)	**+1.3 point** (+5.2%/+3.9%)	**+1.2 point** (+3.8%/ +2.6%)	To come
50% increase in the Group's operating profit	**+12.30%** (3,292.6/3,697.3)	**+4.80%** (3,697.3/3,874.8)	**+3.47%** (3,760.4/3,890.7)**	To come

** Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*
*** Data has been restated to reflect exclusion of Galderma and Inneov*

7.4.3. *Plans for the Conditional Grant of Shares (ACAs)*

7.4.3.1. AUTHORISATION OF THE ORDINARY AND EXTRAORDINARY GENERAL MEETING OF APRIL 26TH, 2013

The Ordinary and Extraordinary General Meeting of April 26th, 2013 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, 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 grant of such shares to their beneficiaries will become final and binding, subject to satisfaction of the other conditions set at the time of grant, for all or part of the shares granted:

- either at the end of a minimum vesting period of four years, in such case without any minimum holding period; or
- at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of the final award thereof.

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. 3411 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 of June 2013 and in particular:

- any conditional grant of shares to the executive officers will be decided by the Board of Directors after assessment of their performance;
- the final vesting of all or part of the shares will be linked to performance conditions to be met that are set by the Board;
- the executive officers will be obliged to retain 50% of the shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties;
- an executive officer may not be granted any shares at the time of his departure.

7.4.3.2. CONDITIONAL GRANTS OF SHARES GRANTED WITHIN THE FRAMEWORK OF THE AUTHORISATION OF APRIL 26TH, 2013 (ACAS PLAN OF APRIL 17TH, 2014)

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 17th, 2014, to make a conditional grant of shares within the scope of the authorisation granted by the Annual General Meeting April 26th 2013.

The share capital at April 17th, 2014 consisted of 606,667,804 shares, which gave the possibility to distribute 3,640,006 shares.

Since 1,057,820 shares were granted on April 26th, 2013, 2,582,186 shares remained to be granted. The Board of Directors used this authorisation at its meeting of April 17th, 2014, by granting 1,068,565 free shares to 1,978 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);
- **performance:**
  - vesting of all or part of 50% of the shares granted will depend on the **growth in comparable cosmetics sales** for financial years 2015, 2016 and 2017 as compared to those of a panel of L'Oréal's biggest direct competitors consisting of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden,
  - 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 2015, 2016 and 2017 financial years.

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 of the vesting period, L'Oréal must achieve a performance which is at least as good as the average increase in sales of the panel of competitors.

Below this level, the acquisition is digressive.

The Board defines a minimum level (not disclosed for confidentiality reasons) under which no share will finally vest pursuant to this criterion.

With respect to the criterion relating to operating profit, for all the free shares granted to be finally acquired for the beneficiaries at the end at the vesting period, a growth level defined by the Board (not disclosed for confidentiality reasons) must be reached or surpassed.

Below this level, the acquisition is digressive.

No share will finally vest with respect to the criterion relating to operating profit if it does not increase in absolute value over the period.

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 the Annual Financial Report (cf. 7.4.3.6. p 281)

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.

At the end of the vesting period, beneficiaries who are French residents at the date of grant of the shares will be obliged to retain the shares that have vested for an additional period of 2 years during which these shares are non-transferable.

7.4.3.3. EXISTING CONDITIONAL GRANTS OF SHARES AT DECEMBER 31ST, 2014

Date of authorisation by the Extraordinary General Meeting	04/22/2011	04/22/2011	04/26/2013	04/26/2013
Date of grant by the Board of Directors	04/22/2011	04/17/2012	04/26/2013	04/17/2014
Total number of shares conditionally granted	1,038,000	1,325,050	1,057,820	1,068,565
Of which the ten employees other than executive officers granted the largest number of shares (1)	92,000	185,000	146,700	153,400
Number of beneficiaries	1,991	2,177	2,092	1,978
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	04/22/2015	04/17/2016	04/26/2017	04/17/2018
Date of final vesting for non-French tax residents at the date of grant	04/22/2015	04/17/2016	04/26/2017	04/17/2018
End of the waiting period for French tax residents at the date of grant	04/22/2017	04/17/2018	04/26/2019	04/17/2020

(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) Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden

7.4.3.4. 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 2014 to the ten employees other than corporate officers who received the largest number of shares amounts to 153,400 shares.

7.4.3.5. SHARES THAT HAVE FINALLY VESTED WITHIN THE SCOPE OF THE APRIL 27TH, 2010 PLAN

The Board of Directors recorded at its meeting on February 12th, 2015 that the performance levels achieved during the three years taken into consideration within the scope of the April 22nd, 2011 plan, namely 2012, 2013, 2014, exceeded the levels set for the conditional grant of all the shares (ACAs).

Accordingly, the beneficiaries who meet the conditions under the plan on April 22nd, 2015 and, in particular, the condition of presence in the Company, will receive all the shares that were granted to them.

For information purposes, no conditional grant of shares (ACAs) was made to the executive officers under this plan.

/ TABLE MONITORING PERFORMANCE CONDITIONS: ACAS PLAN OF APRIL 22ND, 2011

ACAs plan of April 22nd, 2011	2012	2013	2014	Arithmetical average of the financial performances for financial years 2012, 2013 and 2014
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+0.8 point** (+5.5%/+4.7%)	**+1.3 point** (+5.2%/+3.9%)	**+1.2 point** (+3.8%/+2.6%)	**+1.1 point**
50% increase in the Group's operating profit	**+12.30%** (3,292.6/3,697.3)	**+4.80%** (3,697.3/3,874.8)	**+3.47%** (3,760.4/3,890.7)**	**+6.85%**

** Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*
*** Data has been restated to reflect exclusion of Galderma and Inéeov*

7.4.3.6. TABLES MONITORING PERFORMANCE CONDITIONS FOR THE ACAS PLANS THAT ARE CURRENTLY IN PROGRESS

ACAs plan of April 17th, 2012	2013	2014	2015
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+1.3 point** (+5.2%/+3.9%)	**+1.2 point** (+3.8%/2.6%)	to come
50% increase in the Group's operating profit	**+4.80%** (3,697.3/3,874.8)	**+3.47%** (3,760.4/3,890.7)**	to come

* Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

** Data has been restated to reflect exclusion of Galderma and Inéeov

ACAs plan of April 26th, 2013	2014	2015	2016
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+1.2 point** (+3.8%/+2.6%)	to come	to come
50% increase in the Group's operating profit	**+3.47%** (3,760.4/3,890.7)**	to come	to come

* Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

** Data has been restated to reflect exclusion of Galderma and Inéeov

ACAs plan of April 17th, 2014	2015	2016	2017
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: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

** Data has been restated to reflect exclusion of Galderma and Inéeov

7.4.4. *Renewal of the authorisation for the conditional grant of shares submitted to the Ordinary and Extraordinary General Meeting on April 22nd, 2015*

The authorisation granted by the Annual General Meeting on April 26th, 2013 to the Board of Directors to make free grants of shares to the Group's employees and certain of its corporate officers is due to expire in 2015.

Within the scope of the requested authorisation, the number of free shares that may be granted may not represent more than 0.6% of the share capital on the date of the Board of Directors' decision.

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

The free grant of shares to beneficiaries would only become final and binding, subject to satisfaction of the other conditions set at the time of grant, including in particular the condition of presence in the Company, for all or part of the shares granted:

- either at the end of a minimum vesting period of four years, in such case without any minimum holding period;
- or at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years as from the date of final award thereof.

The Board of Directors will have the possibility, in any case, to set vesting or holding periods that are longer than the above minimum periods.

If the Annual General Meeting votes in favour of this resolution, any free grants of shares will be decided by the Board of Directors on the basis of the proposals of the Executive Management examined by the Human Resources and Remuneration Committee.

The Board of Directors will determine the identity of the beneficiaries of the grants, the number of shares granted to each of them and the performance conditions to be met for final vesting of all or part of the shares.

These performance conditions would take into account:

- partly the growth in L'Oréal's comparable cosmetics sales as compared to that of a panel of L'Oréal's biggest direct competitors;
- partly the increase in L'Oréal's consolidated operating profit.

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

The Board of Directors would once again apply the performance criteria that it uses pursuant to the authorisation in force which was voted by the Annual General Meeting on April 26th, 2013.

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. They are exacting but remain a source of motivation for beneficiaries.

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

In order for all the free shares granted to finally vest for the beneficiaries 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 reasons of confidentiality, 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.

These performance conditions will apply to all the individual grants of more than 200 free shares per plan, with the exception of those for the executive officers and the Executive Committee members, to which they will apply in full.

The free grant of shares may be carried out without any performance conditions within the scope of grants made to all the employees of the Group, or for shares granted in respect of cash subscriptions made within the scope of an increase in capital reserved for the Group's employees pursuant to the tenth resolution.

Any grants of shares to the executive officers will be decided by the Board of Directors on the basis of the proposals of the Human Resources and Remuneration Committee after assessment of their performance.

L'Oréal's executive officers will be obliged to retain 50% of the free shares that will be 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 free shares at the time of termination of his duties.

The authorisation requested from the Annual General Meeting would be granted for a period limited to 26 months as from the decision by the Annual General Meeting.

7.5. THE L'ORÉAL SHARE/L'ORÉAL SHARE MARKET

7.5.1. *The L'Oréal share*

7.5.1.1. INFORMATION ON THE L'ORÉAL SHARE

ISIN code: FR0000120321.

Loyalty Bonus codes:

- Shares that already benefit from the preferential dividend: FR0011149590;
- Dividend +10% in 2015: FR0011356229;
- Dividend +10% in 2016: FR0011636133;
- Dividend +10% in 2017: FR0012332245.

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.

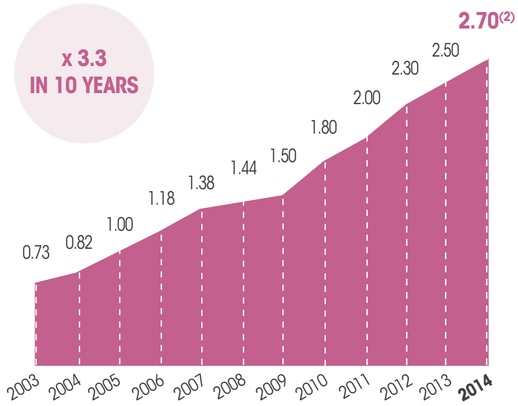
7.5.1.2. STOCK MARKET DATA

Price at December 31st, 2014	€139.30
Average of last 30 days' closing prices for 2014	€136.12
High	€140.40
	December 30th, 2014
Low	€114.55
	March 24th, 2014
Annual share price increase at December 31st, 2014	
◆ L'Oréal	+9.08%
◆ CAC 40	-0.54%
◆ Euronext 100	+3.64%
◆ DJ Euro Stoxx 50	+1.20%
◆ Stoxx Europe 600 Personal and Household Goods	+9.21%
Market capitalisation at December 31st, 2014	€78.18 billion (1)
At December 31st 2014, the L'Oréal share weighed:	
◆ in the CAC 40	4.07%
◆ in the Euronext 100 (2)	3.82%
◆ in the DJ Euro Stoxx 50	1.71%
◆ in the Stoxx Europe 600 Personal and Household Goods	6.62%

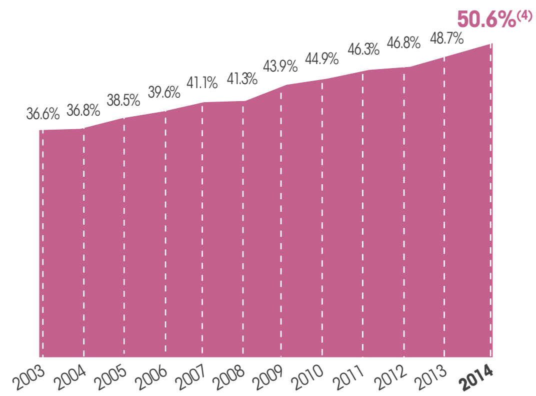
(1) *Out of the number of shares at December 31st, 2014, i.e. 561,230,389.*
(2) *Based on the total number of shares for the Euronext 100 index.*

7.5.1.3. DYNAMIC SHAREHOLDER RETURN POLICY

- Net earnings per share: €**5.34** (1)
- Dividend per share: €**2.70** (2)
- A regular increase in the dividend per share (in euros):



- Share of profits dedicated to dividends(1) (as %): **50.6%**



(1) Diluted net profit excluding non-recurring items, group share, per share.
(2) Dividend proposed to the Annual General Meeting of April 17th, 2014.
(1) Dividend distribution rate based on diluted net profit excluding non-recurring items, group share, per share. Taking into account Sanofi not consolidated in the period 2002-2003.
(4) On the basis of the dividend proposed to the Annual General Meeting of April 17th, 2014.

7.5.2. L'Oréal share market

7.5.2.1. TRADING VOLUMES AND CHANGE IN THE PRICE OF THE COMPANY'S SHARE

According to NYSE-Euronext data, the only stock market for which reliable retrospective statistics could be collected.

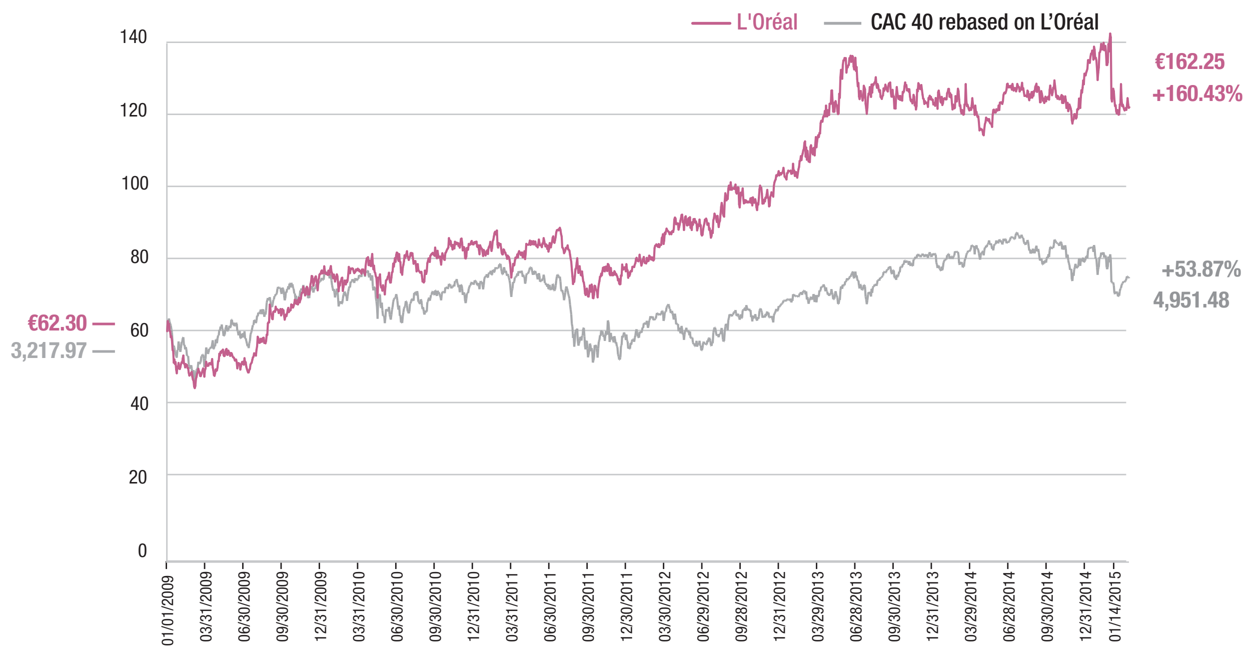
Date	Price *(€)*			Average daily trading volume *(€ millions)*
	High	Low	Average	
2012				
January	83.47	79.22	81.39	57.75
February	86.12	80.93	83.94	73.93
March	92.53	85.27	88.87	78.27
April	94.80	88.82	91.89	123.11
May	93.98	88.85	91.44	77.67
June	93.27	86.80	90.24	78.67
July	99.80	89.80	94.28	77.32
August	102.50	95.54	100.12	63.04
September	101.15	96.17	97.84	88.43
October	101.85	94.55	97.98	64.40
November	105.85	95.80	100.94	57.64
December	106.40	103.20	104.86	52.32

Date	Price *(€)*			Average daily trading volume *(€ millions)*
	High	Low	Average	
2013				
January	114.50	103.65	107.78	51.95
February	115.90	107.55	111.11	73.20
March	124.40	113.60	119.55	86.67
April	136.05	120.30	126.23	93.74
May	137.85	130.35	134.57	82.46
June	131.25	120.15	125.80	75.29
July	131.00	123.40	127.68	61.67
August	130.35	121.00	126.78	61.81
September	129.80	123.60	126.71	61.25
October	130.60	120.50	126.02	64.63
November	126.50	120.80	124.41	66.41
December	127.75	122.30	125.17	86.89

Date	High	Low	Average Price *(€)*	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	118.60	90.1
April	124.6	116.35	120.60	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	125.957	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 *(€)*			Average daily trading volume *(€ millions)*
	High	Low	Average	
2015				
January	160.20	133.40	146.59	133.35
February	162.70	152.05	157.69	131.55

Change in the L'Oréal share price compared to the CAC 40 index from January 1st, 2009 to February 28th, 2015:



7.5.2.2. TOTAL SHAREHOLDER RETURN

Amongst the various economic and financial indicators used to measure value creation, L'Oréal has chosen to apply the criterion of Total Shareholder Return (TSR). *This indicator is a synthetic measurement that takes into account not only the value of the share but also the dividend income received (excluding tax credits before January 1st, 2005).*

7.5.2.2.1. 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
12/31/2009	Purchase of 192 shares, at €78.00	14,976.00		192
05/05/2010	Dividend: €1.50 per share		288.00	192
	Reinvestment: purchase of 4 shares at €76.77	307.08		196
05/04/2011	Dividend: €1.80 per share		352.80	196
	Reinvestment: purchase of 5 shares at €85.79	428.95		201
05/03/2012	Dividend: €2.00 per share		402.00	201
	Reinvestment: purchase of 5 shares at €92.84	464.20		206
05/10/2013	Dividend: €2.30 per share		473.80	206
	Reinvestment: purchase of 4 shares at €134.05	536.20		210
05/05/2014	Dividend: €2.50 per share		525.00	210
	Reinvestment: purchase of 5 shares at €123.90	619.50		215
TOTAL		**17,331.93**	**2,041.60**	
TOTAL NET INVESTMENT		**15,290.33**		

Portfolio value at 12/31/2014 (215 shares at €139.30): €29,949.50.

The initial capital has thus been multiplied by 2 over 5 years (5 year inflation rate = 6.48% – Source: INSEE) and the final capital is 1.96 times the total net investment.

The Total Shareholder Return of the investment is thus 14.53% per year (assuming that the shares are sold on December 31st, 2014, 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.

7.5.2.2.2. 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
12/31/2004	Purchase of 269 shares, at €55.85	15,023.65		269
05/11/2005	Dividend: €0.82 per share, excluding tax credit		220.58	269
	Reinvestment: purchase of 4 shares at €56.05	224.20		273
05/10/2006	Dividend: €1.00 per share, excluding tax credit		273.00	273
	Reinvestment: purchase of 4 shares at €72.65	290.60		277
05/03/2007	Dividend: €1.18 per share, excluding tax credit		277.00	277
	Reinvestment: purchase of 4 shares at €86.67	346,68		281
04/30/2008	Dividend: €1.38 per share, excluding tax credit		331.58	281
	Reinvestment: purchase of 5 shares at €76.21	381.05		286
04/24/2009	Dividend: €1.44 per share, excluding tax credit		394.68	286
	Reinvestment: purchase of 8 shares at €52.02	416.12		294
05/05/2010	Dividend: €1.50 per share, excluding tax credit		423.36	294
	Reinvestment: purchase of 6 shares at €76.77	460.62		300
05/04/2011	Dividend: €1.80 per share, excluding tax credit		450.00	300
	Reinvestment: purchase of 6 shares at €85.79	514.74		306
05/03/2012	Dividend: €2.00 per share, excluding tax credit		550.80	306
	Reinvestment: purchase of 6 shares at €92.84	557.04		312
05/10/2013	Dividend: €2.30 per share, excluding tax credit		624.00	312
	Reinvestment: purchase of 5 shares at €134.05	670.25		317
05/05/2014	Dividend: €2.50 per share, excluding tax credit		729.10	317
	Reinvestment: purchase of 6 shares at €123.90	743.40		323
TOTAL		**19,628.35**	**4,274.10**	
TOTAL NET INVESTMENT		**15,354.25**		

Portfolio value at 12/31/2014 (323 shares at €139.30): €44,993.90

The initial capital has thus been multiplied by 2.99 over 10 years (10-year inflation rate = 14.76% – Source: INSEE) and the final capital is 2.93 times the total net investment.

The Total Shareholder Return of the investment is thus 11.44% per year (assuming that the shares are sold on December 31st, 2014, excluding tax on capital gains).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7.5.2.2.3. 20-YEAR EVOLUTION OF A PORTFOLIO OF APPROXIMATELY €15,000 INVESTED IN L'ORÉAL SHARES WITH REINVESTMENT OF DIVIDENDS AND SHARE ATTRIBUTION RIGHTS

Date of transaction	Nature of transaction	Investment *(€)*	Income *(€)*	Number of shares after the transaction
12/31/1994	Purchase of 90 shares, at €166.017	14,941.53		90
06/28/1995	Dividend: €1.85988 per share, excluding tax credit		167.39	90
	Reinvestment: purchase of 1 share at €185.84	185.84		91
06/28/1996	Dividend: €2.02757 per share, excluding tax credit		184.51	91
	Reinvestment: purchase of 1 share at €260.54	260.54		92
07/01/1996	Issue of bonus shares (1 for 10)			101
07/31/1996	Compensation for 2 unused shares attribution right at €22,85668 per right		45.71	101
	Reinvestment: purchase of 1 share at €236.91	236.91		102
07/01/1997	Dividend: €2.13429 per share, excluding tax credit		217.70	102
	Reinvestment: purchase of 1 share at €393.93	393.93		103
06/12/1998	Dividend: €2.43918 per share, excluding tax credit		251.24	103
	Reinvestment: purchase of 1 share at €473.05	473.05		104
06/15/1999	Dividend: €2.82031 per share, excluding tax credit		293.31	104
	Reinvestment: purchase of 1 share at €586.50	586.50		105
06/15/2000	Dividend: €3.40 per share, excluding tax credit		357.00	105
	Reinvestment: purchase of 1 share at €825.00	825.00		106
07/03/2000	Ten-for-one share split			1,060
06/08/2001	Dividend: €0.44 per share, excluding tax credit		466.40	1,060
	Reinvestment: purchase of 6 shares at €78.15	468.90		1,066
06/04/2002	Dividend: €0.54 per share, excluding tax credit		575.64	1,066
	Reinvestment: purchase of 8 shares at €74.95	599.60		1,074
05/27/2003	Dividend: €0.64 per share, excluding tax credit		687.36	1,074
	Reinvestment: purchase of 12 shares at €61.10	733.20		1,086
05/14/2004	Dividend: €0.73 per share, excluding tax credit		792.78	1,086
	Reinvestment: purchase of 13 shares at €63.65	827.45		1,099
05/11/2005	Dividend: €0.82 per share		901.18	1,099
	Reinvestment: purchase of 16 shares at €56.50	904.00		1,115
05/10/2006	Dividend: €1.00 per share		1,115.00	1,115
	Reinvestment: purchase of 16 shares at €72.65	1,162.40		1,131
05/03/2007	Dividend: €1.18 per share		1,334.58	1,131
	Reinvestment: purchase of 16 shares at €86.67	1,386.72		1,147
04/30/2008	Dividend: €1.38 per share		1,582.86	1,147
	Reinvestment: purchase of 21 shares at €76.21	1,600.41		1,168
04/24/2009	Dividend: €1.44 per share		1,681.92	1,168
	Reinvestment: purchase of 33 shares at €52.02	1,716.50		1,201
05/05/2010	Dividend: €1.50 per share		1,801.50	1,201
	Reinvestment: purchase of 24 shares at €76.77	1,842.48		1,225
05/04/2011	Dividend: €1.80 per share		2,205.00	1,225
	Reinvestment: purchase of 26 shares at €85.79	2,230.54		1,251
05/03/2012	Dividend: €2.00 per share		2,502.00	1,251
	Reinvestment: purchase of 27 shares at €92.84	2,506.68		1,278
05/10/2013	Dividend: €2.30 per share		2,939.40	1,278
	Reinvestment: purchase of 22 shares at €134.05	2,949.10		1,300
05/05/2014	Dividend: €2.50 per share		3,250.00	1,300
	Reinvestment: purchase of 27 shares at €123.90	3,345.30		1,327
TOTAL		**40,176.58**	**23,352.48**	
TOTAL NET INVESTMENT		**16,824.10**		

Portfolio value at 12/31/2014 (1,327 shares at €139.30): €184,851.10.

The initial capital has thus been multiplied by 12.37 over 20 years (20-year inflation rate = 34.31% – Source/INSEE) and the final capital is 10.99 times the total net investment.

The Total Shareholder Return of the investment is thus 13.04% per year (assuming that the shares are sold on December 31st, 2014, excluding tax on capital gains).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7.5.2.3. DIVIDENDS

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the *Caisse des Dépôts et Consignations*.

7.6. INFORMATION POLICY

L'Oréal is committed to pursuing its policy of improvement in the quality of its financial information and takes steps to ensure it maintains a regular dialogue with its shareholders and 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 market and the potential of the beauty market.

7.6.1. Complementary communications media

In 2014, L'Oréal's Financial Communications Department shared with the entire financial community a wealth of information *via* a whole range of communication tools, using to a large extent digital media.

L'Oréal publishes two annual, highly complementary publications, the Activity Report 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.

L'Oréal Finance Mag, the L'Oréal shareholders' e-magazine, available at www.magazine.loreal-finance.com, is intended for the shareholders and all those who are looking for complete information on the Group's strategy and the life of the brands from a business angle, enriched with multimedia content.

The L'Oréal Finance mobile application is available in French and English versions on Apple Store and Google Play. Greatly appreciated by professionals and individual shareholders, it makes it possible to keep L'Oréal Finance news within easy reach.

The shareholders' newsletters and the digital version, the e-newsletters, make it possible to keep subscribers regularly informed of all major events in the life of the Group.

L'Oréal continues to update its publications for individual shareholders such as the brochure giving the "5 reasons to take part in the L'Oréal adventure" and the leaflet explaining the advantages of becoming a registered shareholder to better answer the questions from the Group's shareholders regarding this method of holding shares.

Committed to the transparency and accessibility of information, the Group provides freedom of access to all its materials so everyone can access or download them or ask to receive them free-of-charge.

7.6.2. 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 foreign countries, 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 over 2.000 participants. In 2014, the Individual Shareholder Relations Department organised site visits (to plants) and shareholder meetings in the Group's hair academies, which were a great success.
- Participation in the Actionaria Stock Market Fair for the eleventh year running offered an opportunity for over 700 people to attend a presentation by Mr. Jean-Paul Agon, Chairman and Chief Executive 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 6.000 individual shareholders in 2014.

- Testimony to the loyalty of our shareholders who accompany the Group's development over the long term is the fact that more and more shareholders are showing an interest in becoming registered shareholders. Thanks to the preferential dividend and the numerous advantages offered by 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" consisting of 18 shareholders appointed for three years (both registered and bearer shareholders) who 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, digital communication, Research and Innovation or overhaul of the www.lorealfinance.com website. In 2014, 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 Brazil in September 2014 to discover the Brazilian beauty market and the formidable potential for development that this country offers our brands. In all, in 2014, they thus met nearly 650 investors.
- Finally, a freephone serviceis 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.

7.6.3. Financial calendar for 2015

02.12.2015	2014 Annual results
04.20.2015 *	First quarter 2015 sales
04.22.2015	Annual General Meeting
07.30.2015	First-half 2015 results
October.2015 *	Sales at September 30th, 2015

* *Subject to changes, please refer to the www.loreal-finance.com website.*

7.6.4. Financial news releases in 2014

02.10.2014	Annual Results 2013: Further strengthening of worldwide positions, record operating margin
02.11.2014	Strategic Transaction Approved by Boards of Nestlé and L'Oréal
03.14.2014	Annual General Meeting on April 17th, 2014/2013 Reference Document
03.24.2014	Signing of the share purchase agreement for the sale to Nestlé of L'Oréal's holding in Galderma
04.08.2014	L'Oréal's acquisition of Magic Holdings marks firm's biggest investment in Chinese beauty market
04.14.2014	First-Quarter 2014 Sales: An Encouraging and Contrasted First Quarter
04.17.2014	Annual General Meeting and Board of Directors' meeting
04.30.2014	L'Oréal finalises the Acquisition of Decléor and Carita
06.18.2014	L'Oréal signs agreement to acquire NYX Cosmetics
07.08.2014	L'Oréal finalises the Strategic Transaction with Nestlé
07.31.2014	First-Half 2014 Results: A Solid First Half
08.01.2014	Posting online of 2014 Half-year Financial Report
09.08.2014	L'Oréal signs an agreement to acquire Niely Cosmeticos in Brazil
09.26.2014	PUMA and L'Oréal sign a license agreement
11.03.2014	Sales at September 30th, 2014
11.27.2014	L'Oréal and Nestlé announce the project to end the activity of their joint venture Innéov
12.18.2014	L'Oréal denies anticompetitive activity

8

ANNUAL GENERAL MEETING

This chapter sets out the Board of Directors Report on the draft resolutions and the full text of resolutions wich will be submitted to L'Oréal's General Meeting.

This meeting will be held on April 22nd at the Palais des Congrès,in Paris.

8.1. DRAFT RESOLUTIONS AND REPORT OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING TO BE HELD ON APRIL 22 ND, 2015 (AS OF FEBRUARY 12 TH, 2015)

ORDINARY PART

1. Approval of the 2014 parent company financial statements
2. Approval of the 2014 consolidated financial statements
3. Allocation of the Company's net income for 2014 and declaration of the dividend
4. Appointment of Mrs. Sophie Bellon as Director
5. Renewal of the tenure as Director of Mr. Charles-Henri Filippi
6. Advisory vote by the shareholders on the components of remuneration due or allocated to the Chairman and Chief Executive Officer in respect of the 2014 financial year
7. Authorisation for the Company to buy back its own shares

EXTRAORDINARY PART

8. Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts
9. Authorisation to the Board of Directors to make free grants to employees and executive officers of existing shares and/or of shares to be issued entailing waiver by the shareholders of their preferential subscription right
10. Delegation of authority to the Board for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right
11. Amendment of Article 12 of the Articles of Association related to the introduction of double voting rights by French Law No. 2014-384 of March 29th, 2014 in order to continue to apply simple voting rights
12. Removal from the Articles of Association of the reference to the time periods to be taken into account to participate in the Annual General Meeting
13. Powers for formalities

8.1.1. Ordinary part

RESOLUTIONS 1, 2 AND 3: APPROVAL OF THE ANNUAL PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS, ALLOCATION OF THE COMPANY'S NET INCOME FOR 2014 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 €4,937,957,395.33 for 2014, compared with €2,366,052,070.73 in 2013;
- The 2014 consolidated financial statements.

The details of these financial statements are set out in the 2014 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 €2.70 per share, representing an increase of 8% 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-recurrent items, diluted, Group share, per share) would be 50.6% and would thus continue to rise:

Year	2009	2010	2011	2012	2013
Rate of distribution	43.9%	44.9%	46.3%	46.8%	48.7%

- A preferential dividend of €2.97 per share.

The preferential dividend will be granted to the shares held in registered form since December 31st, 2012 at the latest, and which continuously remain in registered form until the dividend payment date in 2015. 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 May 5th, 2015 at zero hour (Paris time) and they will be paid on May 7th, 2015.

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 2014 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 2014, parent company financial statements, as presented and the transactions included in these financial statements and summarised in these reports, showing net income of €4,937,957,395.33, compared with €2,366,052,070.73 for 2013.

/ SECOND RESOLUTION: APPROVAL OF THE 2014 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 2014 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 2014 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 2014 financial year amounting to €4,937,957,395.33 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)	€1,524,207,527.28
Balance that will be allocated to the "Other reserves" item	**€3,413,749,868.05**

* *Including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. on the total amount of the share capital.*

This amount is calculated on the basis of the number of shares forming the capital at December 31st, 2014 and will be adjusted to reflect:

- the number of shares issued between January 1st, 2015 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, 2015 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid of €2.70 per share, the preferential dividend entitling eligible holders to a total of €2.97 per share. The preferential dividend will be granted to the shares held in registered form since December 31st, 2012 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 May 5th, 2015 at zero hour and they will be paid on May 7th, 2015.

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:

	2011	2012	2013
Ordinary dividend per share	€2.00	€2.30	€2.50
Preferential dividend per share	€0.20	€0.23	€0.25

RESOLUTIONS 4 AND 5: 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 one Director whose tenure expires at the close of this Annual General Meeting.

1. L'Oréal's Board of Directors at December 31st, 2014

COMPOSITION

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 judgment. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its Committees whose remits have been added to since 2011.

Jean-Paul Agon, age: 58, 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, 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 also Chairman of the L'Oréal Corporate Foundation and Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also a Director of Air Liquide.

Françoise Bettencourt Meyers, age: 61, the daughter of Mrs. Liliane Bettencourt, herself the daughter of the founder of L'Oréal, Eugène Schueller, has been the Chairwoman of the family-owned holding company Téthys since January 31st, 2012 and is the Chairwoman of the Bettencourt Schueller Foundation. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since April 2012.

Peter Brabeck-Letmathe, age: 70, of Austrian nationality, holds the main position outside L'Oréal of Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal and Vice-Chairman of the Board of Directors since 1997. He has been a member of the Strategy and Sustainable Development Committee since 2005, and is a member of the Appointments and Governance Committee and the Human Resources and Remuneration Committee.

Jean-Pierre Meyers, age: 66, 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. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned holding company Téthys and Vice-Chairman of the Bettencourt Schueller Foundation.

Ana Sofia Amaral, age: 49, of Portuguese nationality, 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 in 2014.

Charles-Henri Filippi, age: 62, 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 and the Human Resources and Remuneration Committee and of the Appointments and Governance Committee since 2014. He is a Director of Orange and Chairman of Citigroup for France.

Xavier Fontanet, age: 66, former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012) and member of the Supervisory Board of Schneider Electric. He has been a Director of L'Oréal since 2002 and is the Chairman of the Appointments and Governance Committee.

Belén Garijo, age: 54, of Spanish nationality, is Chief Executive Officer of Merck Healthcare, a company bringing together the pharmaceutical business of German group Merck. She is also a member of the company's Executive Commitee. Belén Garijo has been a Director of L'Oréal since April 2014. She is also a Director of BBVA (Spain).

Bernard Kasriel, age: 68, a former Chief Executive Officer of Lafarge, has been a Director of L'Oréal since 2004, Chairman of the Human Resources and Remuneration Committee since 2007 and is a member of the Strategy and Sustainable Development Committee. He is also a Board member of Arkema and Nucor (United States).

Christiane Kuehne, age: 59, of Swiss nationality, is the Head of the Food Strategic Business Unit at Nestlé which she joined in 1977. Christiane Kuehne has been a member of L'Oréal's Board of Directors and a member of the Audit Committee since 2012.

Georges Liarokapis, age: 52, of French and Greek nationality, Coordinator of Sustainability for L'Oréal Western Europe, Georges Liarokapis was appointed in 2014 by the CFE-CGC as a Director representing the employees in 2014.

Jean-Victor Meyers, age: 28, has been a member of the Supervisory Board of the family holding company Téthys since January 2011. He has been a Director of L'Oréal since February 2012 and a member of its Audit Committee since April 2014.

Virginie Morgon, age: 45, is the Chief Executive Officer of Eurazeo which she joined in 2008 after working for 16 years at Lazard. She has been a Director of L'Oréal since, 2013 and is a member of the Audit Committee. She is also a Board member of Accor and Vivendi.

Annette Roux, age: 72, Chairperson and Managing Director of Bénéteau from 1976 to 2005, then Vice-Chairperson of the Supervisory Board, Annette Roux has been a member of L'Oréal's Board of Directors since 2007. She is also Chairperson of the Bénéteau Corporate Foundation.

Louis Schweitzer, age: 72, Chairman and Chief Executive Officer of Renault from 1992 to 2005, Chairman of the Board of Directors until 2009. Louis Schweitzer has been a Director of L'Oréal since 2005, is a member of the Audit Committee and Chairman of that committee since February 2013, and a member of the Strategy and Sustainable Development Committee. He is also General Commissioner for Investment.

Within the scope of the buyback of 48,500,000 L'Oréal shares held by Nestlé and the sale of L'Oréal's holding in Galderma to Nestlé, which were finalised on July 8th, 2014, the number of representatives of Nestlé on the Board of Directors of L'Oréal was reduced from 3 to 2 following the resignation by Mr. Paul Bulcke as of that date.

Percentage of independence

As the two Directors representing the employees are not taken into account pursuant to the AFEP-MEDEF Code, the number of independent Directors is 7 out of 13, representing a percentage of independent Directors of 54%.

Balanced representation of men and women on the Board of Directors

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 is 5 out of 13 Directors appointed by the Annual General Meeting, namely a percentage representation of women of 38.5%.

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. The AFEP-MEDEF Code provides that, with regard to the representation of men and women, the objective is for each Board to reach, and maintain, a percentage of at least 40% of women within a period of six years, as from the Annual General Meeting in 2010, namely by April 27th, 2016 at the latest.

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. The full list of the offices and directorships held by the Directors is set out on page 40 *et seq.* of the Company's Registration Document for the 2014 financial year.

2. Review of the 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 Board of Directors of L'Oréal is well-balanced. It comprises 15 members at December 31st, 2014: Jean-Paul Agon, Chairman and Chief Executive Officer, five Directors appointed by the largest shareholders, three from the Bettencourt Meyers family and two appointed by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members), seven independent Directors (Annette Roux, Virginie Morgon, Belén Garijo, Charles-Henri Filippi, Xavier Fontanet, Bernard Kasriel, and Louis Schweitzer) and two Directors representing the employees, (Ana Sofia Amaral and Georges Liarokapis).

The review of the independence of these Directors was carried out by the Appointments and Governance Committee at the end of 2014 on the basis, in particular, of a study of the relations existing between the Company and the companies in which the Directors hold offices. The Directors have no conflicts of interest. The other corporate offices and directorships held, their availability, their personal contributions and their participation in the work and discussions of the Board and its Committees in 2014 were taken into consideration by the Appointments and Governance Committee to evaluate the composition and *modus operandi* of the Board.

3. Appointment of a new Director in 2015

The Appointments and Governance Committee reviewed the candidacy of a new Director that was approved by the Board of Directors. The proposed appointment of Mrs. Sophie Bellon is submitted to the Annual General Meeting.

Mrs. Sophie Bellon, 53 years of age, who is French, is a graduate of the French graduate business school EDHEC and began her career in 1985 in the United States, in finance, as a Mergers and Acquisitions Advisor, then in the fashion industry as an agent for major international fashion brands. After this experience working in the United States for nearly 10 years, Mrs. Sophie Bellon returned to France and joined Sodexo in 1994 where, for over 20 years, she has taken part, through each of the positions she has held, in the major stages of growth of the Sodexo group: first of all in the Finance Department where she participated in important acquisition projects; she continued her career in the Sales and Marketing Department and in 2008 she became the Managing Director for Sodexo's Corporate segment in France.

Sodexo is an international group, the world leader in quality of life services, with 420,000 employees in 80 countries.

Since January 2013, Mrs. Sophie Bellon has been responsible for Research, Development and Innovation Strategy at Sodexo.

In November 2013, the Board of Directors of Sodexo appointed Mrs. Sophie Bellon as Vice-Chairman of the Board of Directors, so that she succeeds Mr. Pierre Bellon, Chairman and Founder of Sodexo, as Chairman of the Board of Directors in January 2016.

Strongly committed to diversity and gender mix, Mrs. Sophie Bellon is also Co-Chair of SWIFT (Sodexo Women's International Forum for Talent), a programme aimed at increasing the representation of women in Sodexo's decision-making bodies.

Mrs. Sophie Bellon will bring to the Board her multi-disciplinary knowledge of companies at the highest level and her strategic vision, her human values and strong convictions with regard to societal responsibility, one of the L'Oréal Group's priorities for development within the scope of the *Sharing Beauty With All* programme.

4. Renewal of the tenure of a Director in 2015

Ms. Annette Roux, an independent Director, did not want her tenure to be renewed.

The representation of women and the number of independent directors would remain unchanged compared December 31st 2013 in the event that the Annual General Meeting approved the appointment of Mrs. Sophie Bellon as Director.

As the tenure of Mr. Charles-Henri Filippi as Director is due to expire in 2015, the renewal of such tenure for a term of four years is submitted to the Annual General Meeting.

In 2014, Mr. Charles-Henri Filippi attended all the meetings of the Board of Directors and all the meetings of the three Committees of the Board of Directors of which he is a member (Audit Committee, Human Resources and Remuneration Committee and Appointments and Governance Committee), except for one meeting of the Appointments and Governance Committee.

A member of the Audit Committee since 2008, he smoothly and efficiently rounds out the Board's competencies in the financial field. Also a member of the Human Resources and Remuneration Committee and the Appointments and Governance Committee, Mr. Charles-Henri Filippi thus has cross-functional expertise which is useful for the work of each of these Committees.

Mr. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent.

The business relations between L'Oréal and Citigroup France, of which he is the Chairman, are analysed in detail every year in relation with the assessment of the independence of the Directors. The Board noted that they were not significant either with regard to their nature or in terms of their volume, as they mainly involve foreign exchange commissions. The possibility for L'Oréal to use a panel of banks, in a competitive context, moreover 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 decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal.

For information purposes, if the Annual General Meeting votes in favour of the appointment and renewal proposed to it in 2015, the expiry dates of the terms of office of the 15 Directors of L'Oréal would be as follows:

	Expiry dates of terms of office			
Directors	2016	2017	2018	2019
Jean-Paul Agon			X	
Françoise Bettencourt Meyers		X		
Peter Brabeck-Letmathe		X		
Jean-Pierre Meyers	X			
Ana Sofia Amaral			X	
Sophie Bellon				X
Charles-Henri Filippi				X
Xavier Fontanet			X	
Belén Garijo			X	
Bernard Kasriel	X			
Christiane Kuehne	X			
Georges Liarokapis			X	
Jean-Victor Meyers	X			
Virginie Morgon		X		
Louis Schweitzer		X		
Number of renewals per year	4	4	5	2

/ FOURTH RESOLUTION: APPOINTMENT OF MRS. SOPHIE BELLON 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 Mrs. Sophie Bellon as Director for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2019 to review the financial statements for the previous financial year.

/ FIFTH RESOLUTION: RENEWAL OF THE TENURE AS DIRECTOR OF MR. CHARLES-HENRI FILIPPI

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 Mr. Charles-Henri Filippi as Director for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2019 to review the financial statements for the previous financial year.

RESOLUTION 6: 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 2014 FINANCIAL YEAR

/ STATEMENT OF REASONS

In accordance with the AFEP-MEDEF Code revised in June 2013 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 2014 financial year are presented to the Annual General Meeting for an advisory vote.

/ SUMMARY TABLES OF THE COMPONENTS OF THE REMUNERATION

Components of the remuneration due or allocated in respect of 2014	Amounts or value put to the vote	Description
Fixed remuneration	€2,200,000	At its meeting on February 10th, 2014, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to increase the fixed gross annual remuneration of Mr. Jean-Paul Agon, in the context of renewal of his term of office, from €2,100,000, which had been unchanged since 2008, to €2,200,000, representing an increase of 4.8%.
Annual variable remuneration	€1,760,000	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 cmay reach a maximum of 100% of fixed remuneration. **The evaluation criteria for 2014 are as follows:** ◆ **Financial objectives** (**60%** of the annual variable remuneration): ◆ comparable sales as compared to the budget; ◆ market share as compared to the main competitors; ◆ operating profit as compared to 2013; ◆ net earnings per share as compared to 2013; ◆ cash flow as compared to 2013. The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria. A summary of the results for 2014 on which the assessment of the objectives is based is available on page 81 of the Registration Document. ◆ **Extra-financial objectives** (**40%** of the annual variable remuneration) : ▶ CSR criteria: "Sharing Beauty With All" programme, which defines 4 priority areas for development: ◆ Innovating sustainably ◆ Producing sustainably ◆ Living sustainably ◆ Developing sustainably ▶ Human Resources criteria: ◆ Gender balance ◆ Talent development ◆ Access to training ▶ Qualitative criteria: ◆ Company's image/Reputation/Dialogue with stakeholders ◆ Handling of the priorities for the year The assessment is carried out on a criterion-by-criterion basis without offsetting among the criteria. A summary of achievements in 2014 is available on page 81 of the Registration Document. **Assessment for 2014 by the Board of Directors on February 12th, 2015:** 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 €1,760,000,000 for 2014, namely 80% of the maximum objective. For reasons of confidentiality, L'Oréal does not give details of the amounts paid per criterion; the elements of assessment are set out in detail on pages 80 and 81 of the Registration Document.

Components of the remuneration due or allocated in respect of 2014	Amounts or value put to the vote	Description
Multi-annual variable remuneration	€0	Not applicable inasmuch as the Board of Directors has not allocated any multi-annual variable remuneration.
Exceptional remuneration	€0	Not applicable inasmuch as the Board of Directors has not allocated any exceptional remuneration.
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.
Stock options, performance shares (and any other component of long-term remuneration)	40,000 performance shares valued at €4,183,200 (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 26th, 2013 (resolution No. 10), the Board of Directors decided on April 17th, 2014, on the proposal of the Human Resources and Remuneration Committee, to make a conditional grant of 40,000 shares ("ACAs") to Mr. Jean-Paul Agon. 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 17th, 2014 plan is €104.58 for French tax and/or social security residents, which is the case for Mr. Jean-Paul Agon. This fair value was €112.37 on April 26th, 2013. The estimated fair value according to the IFRS of the 40,000 performance shares granted to Mr. Jean-Paul Agon in 2014 is therefore €4,183,200. 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 Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden; 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 2015. Monitoring of the performance conditions year after year is described in detail on page 282 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, the performance of l'Oréal must be at least as good as the average performance of the competitor's panel. Below this level, attribution is digressive. The Board defines a threshold, which remains undisclosed for confidentiality reasons, below which no share is permanently vested pursuant to this criterion. Concerning the criterion related to operating profit, a level of growth defined by the Board, but not made public for reasons of confidentiality, 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 2014 represents: ◆ 3.74% of the total number of ACAs granted to the 1,978 beneficiaries of this same plan ◆ 3.65% of their estimated fair value according to the IFRS. In accordance with the authorization granted by the Annual General Meeting on April 26th, 2013, the amount of shares granted does not exceed 0.6% of the share capital, it being understood that the maximum amount granted to executive officers cannot exceed 10% of the maximum number of free shares that may be granted. No purchase option or any other long-terme incentive instrument was granted to Mr. Jean-Paul Agon in 2014.
Benefits in kind	€0	Mr. Jean-Paul Agon benefits from the necessary material resources for performance of his term of 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, cannot be considered as benefits in kind.
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 2014 which have previously been voted by the Annual General Meeting under the regulated agreements and commitments procedure	Amount put to the vote	Description
Termination indemnity and non-competition indemnity	Not applicable	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, 2015 the fixed remuneration amounts to €1,671,000 and variable remuneration to €1,392,500. 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 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 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. 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 been terminated on December 31st, 2014 through dismissal, 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 2014 as a corporate officer.
Supplementary pension scheme	Not applicable	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 calendar 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, 2014, after more than 35 years' length of service at L'Oréal, would represent around 40% of the fixed and variable remuneration he received as an executive officer in 2014. 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, 2014 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.
Valuation of benefits of any kind	Not applicable	Mr. Jean-Paul Agon continues to be treated in the same way as a senior manager during the term of his corporate office entitling him to continue to benefit from the additional social protection schemes and in particular the employee benefit and healthcare scheme applicable to the Company's employees. For information purposes, the amount of the employer's contributions to these schemes totals €5,892 in 2014. The continued possibility to benefit from this treatment was approved by the Annual General Meeting on April 27th, 2010.

/ SIXTH 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 2014 FINANCIAL YEAR

The Annual General Meeting, consulted pursuant to the recommendation in § 24.3 of the AFEP-MEDEF Code of June 2013 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, casts 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 2014 financial year as set out in particular on the statement of reasons of this resolution.

RESOLUTION 7: AUTHORISATION FOR THE COMPANY TO BUY BACK ITS OWN SHARES

/ STATEMENT OF REASONS

As the existing authorisation is due to expire in October 2015, 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 back its own shares for the purpose of:

- their cancellation by a reduction in capital;
- Their sale within the scope of employee ownership programs and their allocation to free grants of shares in favor 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 transaction.

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 period of validity of this authorisation would be 18 months as from the date of this Annual General Meeting. The purchase price per share may not exceed €230 (excluding expenses). The authorisation would concern 10% of the capital at most, namely, for information purposes, at December 31st, 2014, 56,123,038 shares for a maximum amount of €12,908,298,740, it being stipulated that the Company may at no time hold over 10% of its own share capital.

/ SEVENTH 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 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, 2014, 56,123,038 shares for a maximum amount of €12,908,298,740, it being stipulated that the Company may at no time hold over 10% of its own share capital.

In the event of any transaction affecting the Company's capital, 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 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 renders ineffective as from the date hereof any prior authorisation for the same purpose.

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.

8.1.2. Extraordinary part

RESOLUTION 8: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL EITHER THROUGH THE ISSUE OF ORDINARY SHARES WITH MAINTENANCE OF PREFERENTIAL SUBSCRIPTION RIGHTS, OR 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 either through the issue of ordinary shares with maintenance of preferential subscription rights, 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 delegation of authority during the public offer period without the prior authorisation of the Annual General Meeting, or via the capitalisation of share premiums, reserves, profits or other amounts.

The total amount of the capital increases that may thus be carried out may not lead to the share capital, which amounts to €112,246,077.80, as of December 31st, 2014, being increased to over €157,144,508. The increases that may be carried out pursuant to Resolutions 9 and 10 will also be deducted from 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, stock options for the subscription and purchase of shares and other rights giving access to the share capital. It corresponds to a maximum increase of 40% of the capital.

In the event of a free share allotment, the allotment rights forming 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 these rights.

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.

/ EIGHTH RESOLUTION: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL EITHER THROUGH THE ISSUE OF ORDINARY SHARES WITH MAINTENANCE OF PREFERENTIAL SUBSCRIPTION RIGHTS, OR 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 Extraordinary General Meetings, having reviewed the Report of the Board of Directors and in accordance with Articles L. 225-109 *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 the authority to decide on one or more increases in the share capital:

a) through the issue of ordinary shares of the Company, and/or

b) via the capitalisation of share premiums, reserves, profits or other amounts of which the capitalisation is admissible in the form of the allotment of free shares or an increase in the par value of existing shares or by the combined use of these two processes.

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 thus be carried out may not lead to the share capital, which amounts to €112,246,077.80 as of December 31st, 2014, being increased to over €157,144,508. The increases that may be carried out pursuant to Resolutions 9 and 10 will also be deducted from 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, stock options for the subscription and purchase of shares and other rights giving access to the share capital. It corresponds to a maximum increase of 40% of the capital.

3) decides, if the Board of Directors uses this delegation of authority within the scope of the share issues referred to in paragraph 1) a) that:

a) the shareholders will have a preferential subscription right to the shares issued pursuant to this resolution, in proportion to the amount of their shares;

b) if subscriptions made by shareholders by way of right on the basis of the shares they hold and, where applicable, their subscriptions for excess shares, have not covered the full number of shares issued, the Board of Directors will be able to use, under the conditions set by law and in the order it determines, one and/or both of the possibilities set out below:

- limit the issue to the amount of the subscriptions on condition that it reaches at least three-quarters of the share issue decided;
- offer to the public all or some of the shares not subscribed on the French or foreign market;

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 use this delegation of authority during the public offer period without the prior authorisation of the Annual General Meeting.

4) decides that, if the Board of Directors uses this delegation of authority within the scope of capitalisations of share premiums, reserves, profits or other amounts referred to in paragraph 1) b), where applicable, in accordance with the provisions of Article L. 225-130 of the French Commercial Code, the fractional share rights will not be negotiable or transferable and the corresponding shares will be sold; the amounts derived 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;

5) records that this delegation of authority renders ineffective any prior delegation for the same purpose.

RESOLUTION 9: AUTHORISATION TO THE BOARD OF DIRECTORS TO MAKE FREE GRANTS OF SHARES TO EMPLOYEES AND EXECUTIVE OFFICERS ENTAILING WAIVER BY THE SHAREHOLDERS OF THEIR PREFERENTIAL SUBSCRIPTION RIGHT

/ STATEMENT OF REASONS

The authorisation granted by the Annual General Meeting on April 26th, 2013 to the Board of Directors to make free grants of shares to the Group's employees and to certain of its corporate officers is due to expire in 2015.

Within the scope of the authorisation requested in this ninth resolution, the number of free shares that may be granted may not represent more than 0.6% of the share capital on the date of the Board of Directors' decision.

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

The free grant of shares to beneficiaries would only become final and binding, subject to satisfaction of the other conditions set at the time of grant, including in particular the condition of presence in the Company, for all or part of the shares granted:

- either at the end of a minimum vesting period of four years, in such case without any minimum holding period;
- or at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of final award thereof.

The Board of Directors will have the possibility, in any case, to set vesting or holding periods which are longer than the minimum periods set.

If the Annual General Meeting votes in favour of this ninth resolution, any free grants of shares will be decided by the Board of Directors on the basis of the proposals of the General Management examined by the Human Resources and Remuneration Committee.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares, the number of shares granted to each of them and the performance conditions to be met for the final vesting of all or part of the shares.

These performance conditions would take into account:

- partly, the growth in L'Oréal's comparable cosmetics sales as compared to those of a panel of L'Oréal's biggest direct competitors;
- partly, the growth in L'Oréal's consolidated operating profit.

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

The Board of Directors would once again apply the performance conditions that it uses in application of the authorisation in force which was voted on by the Annual General Meeting of April 26th, 2013.

The Board of Directors 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 specificities and should make it possible to promote balanced, continuing growth over the long term. They are exacting but remain a source of motivation for beneficiaries.

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

In order for all the free shares granted to finally vest for the beneficiaries 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 reasons of confidentiality, 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.

These performance conditions will apply to all the individual grants of more than 200 free shares per plan, with the exception of those for the executive officers and the Executive Committee members, to which they will apply in full.

The free grant of shares may be carried out without any performance condition within the scope of grants that are made to all the employees of the Group, or for shares granted in respect of cash subscriptions made within the scope of an increase in capital reserved for the Group's employees pursuant to the tenth resolution.

Any grants of shares to the executive officers will be decided by the Board of Directors on the basis of the proposals of the Human Resources and Remuneration Committee, after assessment of their performance.

L'Oréal's executive officers will be required to retain 50% of the free shares that will be definitively allocated 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 free shares at the time of termination of his duties.

The authorisation requested from the Annual General Meeting would be granted for a period limited to 26 months as from the decision by the Annual General Meeting.

/ NINTH RESOLUTION: AUTHORISATION TO THE BOARD OF DIRECTORS TO MAKE FREE GRANTS TO EMPLOYEES AND EXECUTIVE OFFICERS OF EXISTING SHARES AND/OR OF SHARES TO BE ISSUED ENTAILING WAIVER BY THE SHAREHOLDERS OF THEIR PREFERENTIAL SUBSCRIPTION RIGHT

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 the Special Report of the Statutory Auditors, in accordance with Articles L.225-197-1 *et seq.* of the French Commercial Code:

- authorises the Board of Directors to make, on one or more occasions, to employees and executive officers of the Company and of French and foreign affiliates as defined by Article L. 225-197-2 of the French Commercial Code or certain categories of such employees or executive officers, free grants of existing shares or shares to be issued of L'Oréal;
- sets at 26 months as from the date of this Annual General Meeting, the period of validity of this authorisation which may be used on one or more occasions;
- decides that the number of free shares thus granted may not represent more than 0.6% of the share capital determined at the date of the decision made by the Board of Directors, it being specified that this maximum number of shares, either existing or to be issued, does not take into account the number of additional shares that may be allocated due to an adjustment in the number of shares granted initially as the result of a transaction affecting the Company's capital;
- decides that the maximum nominal amount of the increases in share capital carried out on the basis of this authorisation will be deducted from the amount of the overall ceiling provided for in paragraph 2) of the eighth resolution.
- decides that the number of free shares granted to executive officers of the Company during a financial year pursuant to this resolution may not represent more than 10% of the total number of free shares granted during a financial year pursuant to this resolution;
- decides that the Board of Directors will determine the identity of the beneficiaries of the grants, and the number of free shares granted to each of them as well as the conditions to be met for the grant to finally vest, and in particular the performance conditions, it being stipulated that the free grant of shares may be carried out without any performance condition within the scope of a grant made (i) to all the employees and executive officers of L'Oréal and, where applicable, of its affiliates as defined by Article L. 3332-14 of the French Labour Code or Article 217 *quinquies* of the French Tax Code, or (ii) to employees and executive officers of foreign companies subscribing to an increase in capital carried out pursuant to the tenth resolution of this Annual General Meeting or participating in an employee share ownership transaction through the sale of existing shares or (iii) to employees who are not members of the Executive Committee for at most 200 of the free shares that are granted to them within the scope of each of the plans decided by the Board of Directors;
- decides that the grant of such shares to beneficiaries will become final and binding, subject to satisfaction of the other conditions set at the time of grant, for all or part of the shares granted:

- either at the end of a minimum vesting period of four years, in such case without any minimum holding period,
- or at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of final award thereof;

- decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to 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 that 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;
- authorises the Board of Directors to make, where applicable, during the vesting period, adjustments to the number of shares, related to any potential transactions with regard to the Company's share capital within the meaning of Article L. 225-181 of the French Commercial Code, in order to preserve the rights of the beneficiaries;
- records that this authorisation automatically entails, in favour of the beneficiaries of free shares granted, the waiver by the shareholders of their preferential subscription right and the portion of the reserves which, where applicable, will be used in the event of the issue of new shares;
- delegates full powers to the Board, with the possibility to delegate within the legal limits, to implement this authorisation, it being specified that the Board of Directors will be able to provide for vesting and holding periods which are longer than the minimum periods set above.

RESOLUTION 10: 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

/ STATEMENT OF REASONS

The delegation of authority granted to the Board of Directors to decide to increase the share capital, and the authorisations to make free grants of shares to be issued, give 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.

In accordance with the French Labour Code, 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. It also may not be over 20% lower than 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 of 20%, in particular to take into account legal and tax regimes applicable in the countries of residence of certain beneficiaries of the capital increase.

The Annual General Meeting is therefore asked to delegate to the Board of Directors the authority to decide to carry out the increase in capital of the Company on one or more occasions, for a period of 26 months and within the limit of 1% of the share capital, namely for information purposes at December 31st, 2014 through the issue of 5,612,388 new shares. The amount of the increase or increases in capital that may be carried out in this respect would be deducted from the overall ceiling for increases in capital provided for in the eighth resolution.

/ TENTH RESOLUTION: DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS FOR THE PURPOSE OF CARRYING OUT A CAPITAL INCREASE RESERVED FOR EMPLOYEES WITH CANCELLATION OF THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT

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 the special Report of the Statutory Auditors, and acting in accordance with the provisions of Articles L. 225-129-2, L. 225129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code:

- 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 a company savings scheme;
- 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 a company savings scheme, the preferential subscription right of shareholders 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 in accordance with 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;

- sets the period of validity of this delegation at 26 months as from the date of this Annual General Meeting, and records that this delegation renders ineffective any prior delegation for the same purpose, for the unused part thereof;
- 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, 2014, an increase in the share capital by a maximum nominal amount of €1,122,477 through the issue of 5,612,388 new shares);
- decides that the amount of the increases in capital that may be carried out pursuant to this resolution will be deducted from the overall ceiling for increases in capital provided for in the eighth resolution offered to this Annual General Meeting for approval;
- 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;
- decides, pursuant to Article L. 3332-21 of the French Labour Code, that the Board of Directors may 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;
- 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,
  - in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be appropriate 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 or capital increases made pursuant to this delegation of authority and amend the Articles of Association accordingly.

RESOLUTION 11: AMENDMENT OF ARTICLE 12 OF THE ARTICLES OF ASSOCIATION RELATING TO THE INTRODUCTION OF DOUBLE VOTING RIGHTS BY FRENCH LAW NO. 2014-384 OF MARCH 29TH, 2014 IN ORDER TO CONTINUE TO APPLY SIMPLE VOTING RIGHTS

/ STATEMENT OF REASONS

French Law No. 2014-384 of March 29th, 2014 "*aimed at reconquering the real economy*" known as the "*Florange law*" introduced the principle of double voting rights in companies whose shares are admitted for trading on a regulated market, unless there is a clause in the Articles of Association providing to the contrary adopted after promulgation of the law.

Article L. 225-123 of the French Commercial Code, as amended by such law, provides in fact in its third and last paragraph that:

> "*In companies whose shares are admitted for trading on a regulated market, the double voting rights provided for in the first paragraph are automatic, unless there is a clause in the Articles of Association providing to the contrary adopted after promulgation of Law No. 2014-384 of March 29th, 2014 aimed at reconquering the real economy, for all the fully paid-up shares for which proof is provided that they have been registered in the name of the same shareholder for two years. The same applies for the double voting right granted immediately upon their issue to the registered shares granted free of charge pursuant to the second paragraph*".

At the time of the Annual General Meeting of April 29th, 2004, on the proposal of the Board of Directors, the shareholders of L'Oréal amended the Articles of Association in order to remove the double voting right.

The Board of Directors repeats its attachment to the principle whereby each share gives a right to one vote by proposing to the Annual General Meeting to amend the Articles of Association in order to continue to apply simple voting rights.

/ ELEVENTH RESOLUTION: AMENDMENT OF ARTICLE 12 OF THE ARTICLES OF ASSOCIATION RELATING TO THE INTRODUCTION OF DOUBLE VOTING RIGHTS BY FRENCH LAW NO. 2014-384 OF MARCH 29TH, 2014 IN ORDER TO CONTINUE TO APPLY SIMPLE VOTING 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, decides to amend the penultimate paragraph of Article 12 of the Articles of Association as follows:

Current version:	Proposed new version:
"Each member of the Meeting has as many votes as the number of shares he owns or represents without limitation. The proxy of a shareholder can cast the votes of the shareholder he represents in the same conditions."	***"Applying the provisions of French Law No. 2014-384 of March 29th, 2014, the General Meeting of April 22nd, 2015 confirmed that each shares entitles the holder to only one vote at Annual General Meetings.*** The proxy of a shareholder can cast the votes of the shareholder he represents in the same conditions."

RESOLUTION 12: REMOVAL FROM THE ARTICLES OF ASSOCIATION OF THE REFERENCE TO THE TIME PERIODS TO BE TAKEN INTO ACCOUNT TO PARTICIPATE IN THE ANNUAL GENERAL MEETING

/ STATEMENT OF REASONS

The new wording of Article R. 225-85 of the French Commercial Code, introduced by the French Decree of December 8th, 2014 changes the date of preparation of the list of persons duly empowered to participate in the Annual General Meeting.

Pursuant to this article, the list of persons duly empowered to participate in the Annual General Meeting is prepared on the second working day prior to the Annual General Meeting at zero hour, Paris time (instead of the third working day provided for previously by law and mentioned in the Articles of Association of L'Oréal).

These new provisions, like the previous provisions, are public policy provisions and are effective even in the absence of provisions in the Articles of Association.

It is proposed to remove all reference concerning the time periods to be taken into account. This modification would make it possible to have a communication by the Company in line with the latest progress in the regulations with regard to participation in Annual General Meetings and to avoid all contradiction between the Articles of Association that can only be amended at an Annual General Meeting and the Company's other communication materials that can be updated immediately.

/ TWELFTH RESOLUTION: REMOVAL FROM THE ARTICLES OF ASSOCIATION OF THE REFERENCE TO THE TIME PERIODS TO BE TAKEN INTO ACCOUNT TO PARTICIPATE IN THE ANNUAL GENERAL MEETING

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 amend Article 12 of the Articles of Association in order to remove the reference relating to the legal period to prepare the list of persons duly empowered to participate in the General Meeting of shareholders, in particular within the scope of exercise of voting rights by electronic means:

Current version:	Proposed new version:
Article 12	**Article 12**
[…]	*[…]*
"If the Board of Directors so decides when the meeting is called, the shareholders may use a form of admission request, of proxy or of vote by correspondence in electronic form; the used electronic signature must result from a reliable identification process which ensures its link with the vote form to which it is related; it may consist, in particular, of an identification code and a password, or any other way provided or authorized by the legislation currently in force. *As a result, the vote expressed before the General Shareholders' Meeting by this electronic method, and the acknowledgement of receipt given, shall be considered as irrevocable written evidence that is enforceable with regard to all the parties involved,* ***it being specified that in the event of a sale of shares that takes place before the third working day prior to the Meeting at zero hour (Paris time), the Company shall invalidate or amend the proxy form or vote cast prior to such date and time accordingly, where applicable."***	"If the Board of Directors so decides when the meeting is called, the shareholders may use a form of admission request, of proxy or of vote by correspondence in electronic form; the used electronic signature must result from a reliable identification process which ensures its link with the vote form to which it is related; it may consist, in particular, of an identification code and a password, or any other way provided or authorized by the legislation currently in force. *As a result, the vote expressed before the General Shareholders' Meeting by this electronic method, and the acknowledgement of receipt given, shall be considered as irrevocable written evidence that is enforceable with regard to all the parties involved. "*
[…]	[…]

RESOLUTION 13: 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.

/ THIRTEENTH RESOLUTION: POWERS FOR FORMALITIES

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

8.2. STATUTORY AUDITORS' SPECIAL REPORT ON THE AUTHORIZATION FOR THE FREE GRANTING OF EXISTING SHARES AND/OR SHARES TO BE ISSUED TO EMPLOYEES AND CORPORATE OFFICERS OF THE COMPANY

(Annual General Meeting of April 22, 2015 – Ninth resolution)

This is a free translation into English of the Statutory Auditors' Special Report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of your Company and in accordance with Article L. 225-197-1 of the French Commercial Code *(Code de commerce),* we have prepared this report on the proposed free granting of existing shares and/or shares to be issued to employees and corporate officers of L'Oréal and affiliated companies within the meaning of Article L. 225-197-2 of the French Commercial Code, or to certain categories of employees and corporate officers, a transaction on which you are asked to vote.

On the basis of its report, the Board of Directors asks you to authorize, for a period of twenty-six months commencing the day of this Annual General Meeting, the free granting on one or more occasions of existing shares and/or shares to be issued. The total number of shares likely to be granted could not exceed 0,6% of the Company's share capital existing as of the date of decision of the Board of Directors, it being specified that the total share capital increases likely to be carried out under this resolution shall be allocated to the overall limit stipulated in the eight resolution.

It is the role of the Board of Directors to prepare a report on the transaction which it wishes to conduct. It is our role, where necessary, to comment on the information which is communicated to you on the proposed transaction.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying that the proposed terms and conditions presented in the Board of Directors' Report comply with the provisions provided for by law.

We have no comments to make on the information given in the Board of Directors' Report relating to the proposed free granting of shares.

Neuilly-sur-Seine, February 17th, 2015

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

8.3. STATUTORY AUDITORS' SPECIAL REPORT ON THE SHARE CAPITAL INCREASE RESERVED FOR EMPLOYEES OF THE COMPANY

(Annual General Meeting of April 22, 2015 – Tenth resolution)

This is a free translation into English of the Statutory Auditors' Special Report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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, on one or more occasions, 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, corporate officers and eligible former employees of your Company and French or foreign affiliated companies, within the meaning of 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 total share capital increases likely to be carried out under this resolution shall be allocated to the overall limit stipulated in the eight resolution.

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 your preferential subscription rights and on certain other information concerning the issue, presented in this report.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying the content of the Board of Directors' Report in respect of this transaction and the terms and conditions for determining the share issue price.

Subject to the subsequent review of the terms and conditions of each share capital increase that the Board of Directors may decide, we have no comment to make on the terms and conditions for determining the share issue price as set forth in the Board of Directors' Report.

As the final terms and conditions governing the share capital increase(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 for each share capital increase that your Board of Directors may decide to perform.

Neuilly-sur-Seine, February 17th, 2015

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

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APPENDIX

9.1. STATUTORY AUDITORS

9.1.1. Auditors

2010, 2011, 2012, 2013 and 2014	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 27th, 2010	6 years	
Deloitte & Associés				
Auditor, member of the Compagnie Régionale de Versailles, represented by David Dupont-Noel				
185 avenue Charles de Gaulle				
92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	AGM reviewing the financial statements for 2015 to be held in 2016
Substitute auditors				
Mr. Yves Nicolas				
63 rue de Villiers				
92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Société BEAS				
195 avenue Charles de Gaulle				
92200 Neuilly-sur-Seine (France)	April 27th, 2010	April 27th, 2010	6 years	

9.1.2. Fees of auditors and members of their networks charged to the Group

See note 33 of the *Consolidated financial statements* on page 173 of this document.

9.2. HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European Regulation EC No. 809/2004 of April 29th, 2004, this 2014 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31st, 2013, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 105 to 162 of the 2013 Registration Document filed with the *Autorité des Marchés Financiers* on March 12th, 2014 under the number D. 14-0136, and also information extracted from the 2013 Management Report presented on pages 87 to 104 of the Registration Document 2013;
- the consolidated financial statements for the year ended December 31st, 2012, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 96 to 153 of the 2012 Registration Document filed with the Autorité des Marchés Financiers on March 18th, 2013 under the number D. 13-0171, and also information extracted from the 2012 Management Report presented on pages 78 to 93 of the 2012 Registration Document.

9.3. 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.

9.4. 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 9.8. page 317, 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 13th, 2015

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez

Executive Vice-President Administration and Finance

9.5. 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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9.6. 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*.

9.7. 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).

9.8. 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 2013 Management Report	Pages
The Group's situation and business activities in 2014 **Comments on the financial year**	
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THE ANNUAL REPORT

L'Oréal in 2014, with its Divisions, brands and countries, driven by its mission – Beauty for All – and by its strategy – the Universalisation of beauty.

L'Oréal in 2014/ The world of brands / Expertise to drive growth

THE REGISTRATION DOCUMENT

This document includes the 2014 financial statements, the Annual Financial Report, the Management Report of the Board of directors including a section on Social and Environmental Responsibility.

Presentation of the Group / Corporate governance / Key figures and comments on the financial year / Consolidated financial statements / Parent company financial statements / Corporate social, environmental and societal responsibility / Stock market information and share capital / Annual General Meeting / Appendix

THE PROGRESS REPORT

2014 Progress Report on the Group's achievements with respect to the "Sharing Beauty with All" programme.

Innovating sustainably / Producing sustainably / Living sustainably / Developing sustainably

These documents can be downloaded at www.loreal.com and at www.loreal-finance.com, and are available on request from the Image and Corporate Communication and the Financial Communications departments.

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L'ORÉAL

Incorporated in France as a "Société Anonyme"
with registered capital of 112,246,077.80 euros
632 012 100 R.C.S. Paris

Headquarters:
41, rue Martre
92117 Clichy Cedex – France
Tel.: +33 1 47 56 70 00
Fax: +33 1 47 56 86 42

Registered office:
14, rue Royale
75008 Paris – France

www.loreal.com
www.loreal-finance.com