

## 1.1. MISSION AND STRATEGY

### **Our Mission,** *Beauty for All*

|

*Offering all women  
and men worldwide*

*the best of cosmetics innovation  
in terms of quality, efficacy and safety  
to satisfy*

*all their desires and all their beauty needs  
in their infinite diversity.*

### **Our Strategy,** *Universalisation*

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*L'Oréal has chosen  
**a unique strategy: Universalisation.***

*It means globalisation that **captures,  
understands and respects differences.**  
Differences in desires, needs and traditions.*

*To offer **tailor-made beauty, and meet the aspirations**  
of consumers in every part of the world.*

*L'Oréal is driven by this **vision of the world.***

## 1.2. HISTORY

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

## 1.3. BUSINESS ACTIVITIES AND STRATEGIC ORIENTATIONS

### 1.3.1. THE FOUNDATIONS OF A WINNING STRATEGY

#### 1.3.1.1. Beauty: Our one and only business

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

Boasting an international portfolio of 32 diverse and complementary brands, the Group is committed to responding to all beauty aspirations worldwide. Present in all distribution channels, L'Oréal generated sales of €25.26 billion in 2015 thanks to the efforts made by its 82,881 employees across the globe.

**1.3.1.2. One mission: Beauty for all**

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

**1.3.1.3. Counting on research, innovation and quality: inventing the future of beauty**

With 3,871 researchers and a budget representing 3.1% of its sales, L'Oréal has the largest research and innovation team in the cosmetics industry. The Group continues to develop its innovation capabilities through its global 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 fuelled by innovation, where consumers are always looking for novel products and improved performances. More than ever, success and growth is driven by "new, different, better" products, which proves the relevance of L'Oréal's business model based on research excellence and creative marketing.

By focusing on innovation, L'Oréal can 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 richest, most varied and most powerful brand portfolio in the cosmetics industry, enabling it to meet the beauty expectations of consumers all over the world. Its brands are constantly being reinvented so that they are always a perfect match with consumer demand.

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

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

Other acquisitions are aimed at extending the Group's geographical footprint: in Colombia with the make-up brand Vogue, in Kenya with Interbeauty, in Brazil with Nieli Cosméticos, and in China with Magic Holdings, a specialist in facial masks. These newly acquired companies are helping to accelerate the Group's penetration of their markets in a spectacular manner and drive organic growth going forward.

**1.3.1.5. A single development strategy: Universalisation**

L'Oréal relies on its single "Universalisation" strategy, meaning globalisation that respects differences. This strategy aims at offering beauty attuned to the specific expectations of consumers in every region of the world. Unlike standardisation, "Universalisation" 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 consumers across the globe. The laboratories on all continents study the specificities of consumers. The Group's innovation policy is based on accessibility and on the adaptation of products to the beauty rituals and lifestyles 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 research and marketing activities. Research therefore has 5 hubs across the globe, led by central teams and fuelled by the Group's core expertise and fundamental knowledge.

**1.3.1.6. A priority focus on Human Resources and an unswerving corporate culture**

L'Oréal has always been guided by humanist values that have led 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 its brands, governance and research.

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

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

*Share & Care* aims at attracting and fostering the loyalty of top-performing employees throughout 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 each:

- ♦ the products offered to consumers meet the highest quality standards;
- ♦ the Group's social commitments are the same in all its subsidiaries;
- ♦ all production centres comply with the same rules aimed at reducing their environmental footprint. Social audits are carried out of suppliers' factories and distribution centres;
- ♦ each subsidiary participates, as far as its resources allow, in the major corporate philanthropy programmes run by 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 addresses all of the Group's impacts in the following four areas: innovating sustainably, producing sustainably, living sustainably and developing sustainably (details of the commitments are set out in chapter 3).

### 1.3.1.8. A group that constantly adapts

L'Oréal relies on strong strategic continuity. But continuity does not prevent renewal. L'Oréal evolves to adapt to changes in the world in order to consolidate its leadership and increase its chances of success going forward. The challenge is twofold: to pursue the strategy which has enabled L'Oréal to be successful over the last century and at the same time to invent the new L'Oréal of the 21<sup>st</sup> century, perfectly matched and attuned to 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 for the L'Oréal Group on a global basis. The subsidiaries develop the Group's business activities in the country or region in which they are located. In this respect, they manufacture – or have manufactured – and commercialise the products that they decide to sell on their market.

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

The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements.

### 1.3.2.2. Cosmetics Divisions

The Cosmetics Divisions represented over 96% of consolidated sales in 2015. They are organised into four operating Divisions present in every zone and in every country, each of which corresponds to a specific marketing channel. Against this backdrop, each Division fully integrates all the opportunities arising from increased digitalisation.

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

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

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

- by region: accelerating growth in the New Markets <sup>(1)</sup> (promotion of the profession through education, development of a customised offering of both products and services, development of complementary distribution channels), revitalising growth in mature countries by making the hair salon experience more engaging (*salon 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 hairdressing profession, will enable the Division to enhance its influence over the professional beauty business as a whole, in hair salons and beauty institutes.

- ♦ The Consumer Products Division: Innovative cosmetics affordable for all

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

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

- by region: defending and expanding 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 skin care, hair care, make-up and hair colours, to achieve the necessary critical mass in every location where the Division is present, and developing the categories that will drive growth going forward (men's cosmetics, deodorants).

(1) See page 11.

◆ L'Oréal Luxe: Creating exceptional experiences

L'Oréal Luxe operates in a large number of countries a unique portfolio of 17 prestigious brands, including iconic mainstream brands, aspirational designer brands and alternative or specialist brands. L'Oréal Luxe's strategy revolves around a vision organised:

- by region: accelerating growth in the New Markets and in Travel Retail – the leading growth drivers for L'Oréal Luxe, consolidating leadership in Western Europe, bolstering positions in the United States, and developing new growth areas (Russia, Middle East);
- by category: developing skin care with three multi-category brands and four specialist brands, developing make-up particularly with the global deployment of the specialist Urban Decay brand and perfumes, by winning major positions in women's perfumes and consolidating its leadership in men's fragrances.

◆ The Active Cosmetics Division: Helping everyone in their quest for healthy and beautiful skin

Thanks to its portfolio of highly complementary brands strongly anchored in science and enjoying close links with healthcare professionals all over the world, the Active Cosmetics Division is a leader in dermocosmetics.

The Division is ideally placed to respond to growing consumer demand for advice, efficacy and safety with 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 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 consumers on all markets.

The Selective Divisions (L'Oréal Luxe, Active Cosmetics, Professional Products, The Body Shop) were created in 2013 in order to accelerate the Group's development in all these distribution channels by harnessing its expertise in each of its selective sales networks.

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

### *The Body Shop*

Founded in 1976 in Great Britain by Dame Anita Roddick, The Body Shop Branch represented nearly 4% of consolidated sales in 2015. The mission of this strongly committed brand is to have a positive impact on the lives of men and women of all origins. A growing number of consumers across the globe are on the look-out for products that combine efficacy with a natural inspiration, and this is proposed by brands with an ethics-based business model. The Body Shop's deployment strategy combines:

- ◆ pioneering, innovative products based on the highest quality natural ingredients;
- ◆ a strong voice in its communications;
- ◆ a personalised purchasing experience in stores or online.

On the New Markets where the brand has a particular resonance, its range of naturally inspired products represents a tremendous opportunity for development in markets in tune with its vision of beauty, its sensorial products and its values.

## SIMPLIFIED GROUP ORGANISATION CHART



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

### 1.3.2.3. Support Divisions

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

- the Research and Innovation Division is responsible for fundamental and applied research;
- the Digital Division seeks to accelerate the Group's digital transformation by helping the brands to create enriched spaces for expression and helping the teams to build more interactive, personalised and closer relationships with consumers, while taking advantage of the business development opportunities offered by Digital as a distribution channel;
- the Operations Division is in charge of co-ordinating production and the supply chain;
- the Human Resources Division is in charge of recruitment, training and talent development policies and of co-ordinating social policy;
- the Administration and Finance Division is in charge of the Group's financial policy, management and consolidation, information systems and legal and tax co-ordination, as well as financial reporting, investor and shareholder relations and strategic planning;

- the Communication and Public Affairs Division is in charge of co-ordinating corporate communication and co-ordinating communication by the Divisions and brands;
- the Sustainability Division is in charge of the Group's Sustainable Development policy through its *Sharing Beauty With All* programme.

### 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.

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

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

## 1.3.2.5. 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 & Innovation
Nicolas Hieronimus	President Selective Divisions
Barbara Lavernos	Executive Vice-President Operations
Brigitte Liberman	President Active Cosmetics Division
Isabelle Marey-Semper	Executive Vice-President Communications, Public Affairs and Sustainable Development
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
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 Resources and Advisor to the Chairman
An Verhulst-Santos	President Professional Products Division
Jochen Zaumseil	Executive Vice-President Western Europe Zone

As from the second quarter of 2016, Nathalie Roos will replace An Verhulst-Santos at the helm of the Professional Products Division.

## 1.4. INTERNATIONALIZATION AND THE COSMETICS MARKET

### 1.4.1. A HISTORICAL PRESENCE IN DEVELOPED MARKETS

L'Oréal is present in 140 countries on all five continents. Founded in France in 1909, the Group developed rapidly in Western Europe. In 2015, this historical market for the Group accounted for over 33% of its cosmetics sales.

In the first half of the 20<sup>th</sup> 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 Cosmair's takeover in 1994, the Group developed in North America with the status of a subsidiary. The acquisition of brands such as Maybelline (1996), Matrix and Kiehl's (2000), or more recently Urban Decay (2012) and NYX Cosmetics (2014) have firmly anchored the Group in North America. In 2015, its sales on that continent increased by 3.5% like-for-like and represented 27.4% 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 adopted in the other major regions of the world.

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

The 1990s witnessed the opening up of New Markets with the fall of the Berlin Wall, giving the brands access to markets in Eastern European countries.

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

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

The Africa, Middle East Zone, where the Group lacked a strong presence, is a new frontier for development in the New Markets, with attractive growth potential.

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

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 39.5% in 2015. Sales in New Markets as a proportion of the Group's total sales increased by nearly 60% between 2005 and 2015 and this trend is expected to continue.

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

In autumn 2013, the Group unveiled its *Sharing Beauty With All* programme and detailed its commitments for 2020 in terms of reducing its environmental impact while confirming its growth ambitions (these commitments are presented in more detail in chapter 3).

### 1.4.3. HUGE DEVELOPMENT POTENTIAL

Besides the major New Market countries, L'Oréal has notably identified the following countries as "growth markets": Poland, Ukraine, Turkey, Argentina, Colombia, Indonesia, Thailand, Philippines, Egypt, Saudi Arabia, Pakistan and South Africa.

In some of these countries, the consumption of cosmetics products per inhabitant is 10 to 20 times lower than in mature countries. Every year across the globe, several tens of millions of people gain access to income levels that make them part of the "middle classes", enabling them to afford modern cosmetics products.

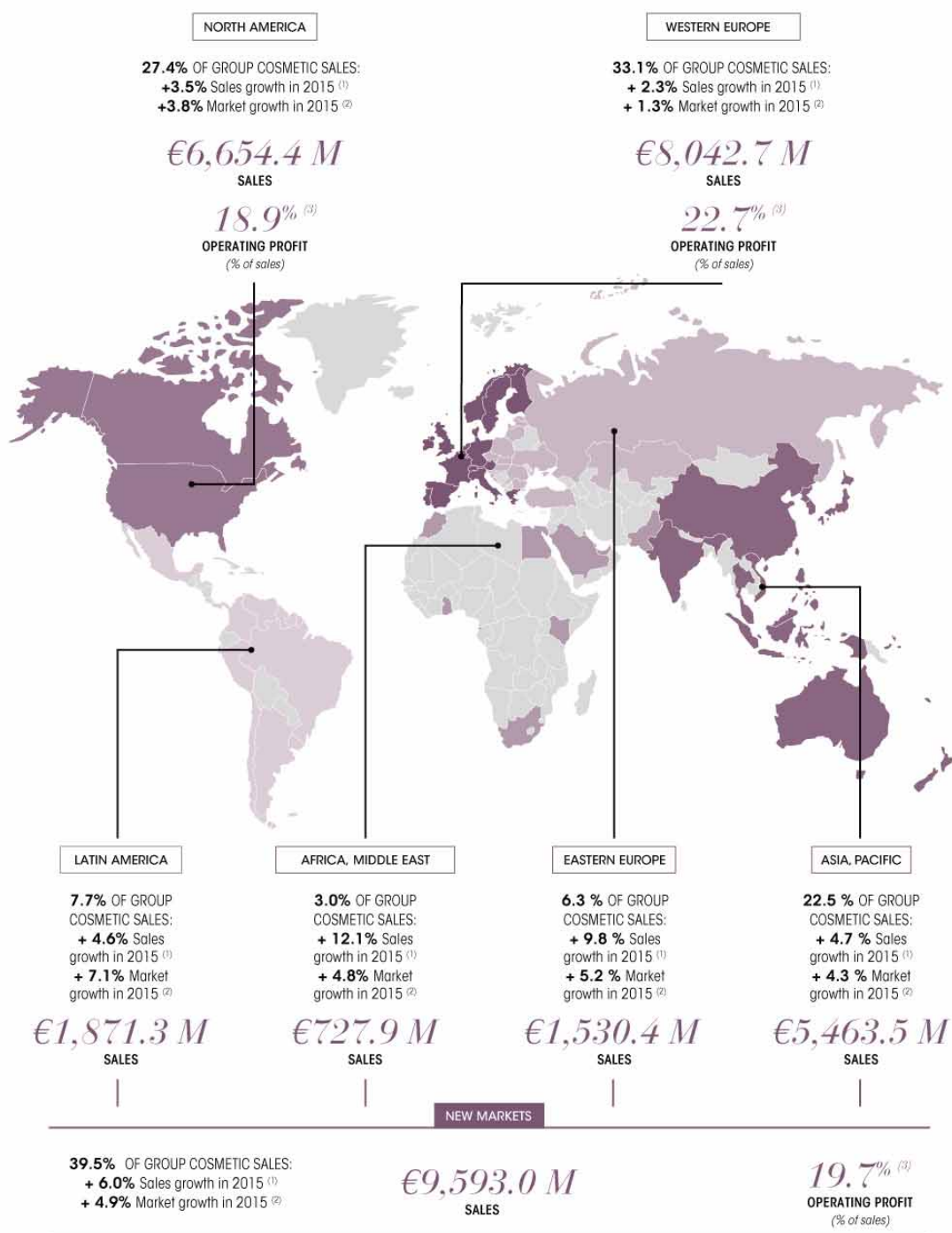
The marketing teams are attuned to these new consumers, particularly in large countries, and the laboratories on all continents study the specific characteristics of those consumers. The Group's innovation policy is based on the accessibility and adaptation of products to the beauty habits and rituals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



# 1

## Presentation of the Group

INTERNATIONALIZATION AND THE COSMETICS MARKET



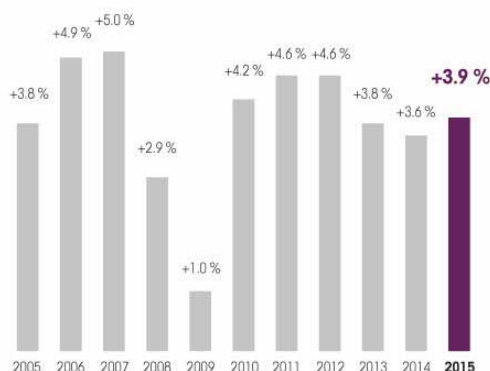
(1) Like-for-like.

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

(3) Operating profit before "non-allocated" items.

## WORLDWIDE COSMETICS MARKET FROM 2005 TO 2015 <sup>(1)</sup>

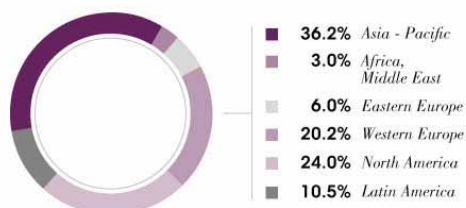
(Annual growth rate as %)



The worldwide cosmetics market is worth approximately €203 billion, and grew by an estimated +3.9% <sup>(1)</sup> in 2015. It is a particularly robust market which is steadily expanding while proving very resilient in times of economic challenges. The cosmetics consumer always looks for quality and novelty value, and puts a premium on leading-edge technology, trends and new ideas. The cosmetics market remains a supply-led market driven by innovation, where consumers are always on the look-out for quality, performance and perceived results.

## BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2015 <sup>(1)</sup>

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



The selective market remains the most dynamic market with growth of +5.7%, powered by e-commerce and make-up. It accounted for over 30% of global growth in 2015.

The dermocosmetics market continues to enjoy robust organic growth (+5.3% in 2015), proving upbeat in both mature (+3.9%) and emerging markets.

Mass-market sales growth came in +4.0% higher driven by mature markets.

The professional market continues to report a small acceleration in growth, up +1.7%.

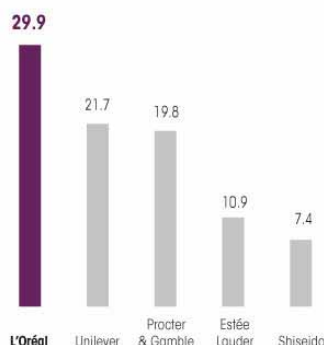
From a geographic viewpoint, the New Markets continue to spearhead growth in beauty, accounting for 70% of worldwide market growth. The pace of growth has slowed slightly, at +4.9%, due mainly to a more difficult situation in Brazil. Asia-Pacific, the world's biggest cosmetics market, remains robust, posting +4.3% growth on the back of an acceleration in South Asia markets which offset the slight slowdown in China.

Growth in mature markets picked up pace at +2.7%: the recovery was confirmed in the US, while Western Europe saw improved performances both north and south of the region buoyed by the selective market.

<sup>(1)</sup> 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 <sup>(1)</sup>**

(2014 Sales in billions of US\$)



(1) Source: Beauty's top 100, WWD, April 2015.

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

## 1.5. KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

In a year marked by a worldwide economic slowdown and increased international volatility, L'Oréal achieved strong growth in 2015, supported by a positive monetary effect, and outperformed the market in three of its four Divisions.

The Active Cosmetics Division has once again demonstrated its great momentum all over the world, and is strengthening its leadership in a dynamic dermocosmetics market. L'Oréal Luxe delivered another year of robust growth, driven by the strength of its brand portfolio and its cutting-edge innovations. The Professional Products Division is reaping the benefits of its initiatives to stimulate the professional beauty market, and continues to improve steadily. Finally, the Consumer Products Division did not outperform its market, but improved in the second half, thanks especially to the powerful acceleration in the make-up category.

Across the geographic zones, L'Oréal has further accentuated its leadership in Europe, and significantly strengthened its performance in North America through the course of the year. Trends in the New Markets were more contrasted, in a context that was challenging in some countries, such as Brazil and Russia.

E-commerce sales<sup>(1)</sup> reached €1.3 billion, reflecting very rapid growth, and accounted for more than 5% of Group sales.

The growth in sales, net earnings per share<sup>(2)</sup> and dividend, supported by the positive currency effect, once again illustrates the quality and robustness of the L'Oréal business model.

### 1.5.1 THE GROUP'S BUSINESS ACTIVITIES IN 2015\*

#### 1.5.1.1. Overview of the results for 2015

2015 sales: €25.26 billion (+12.1% based on reported figures, +3.9% like-for-like)

Operating profit: €4.388 billion, representing 17.4% of sales (+12.8%)

Net profit after non-controlling interests: €3.30 billion (-32.8%)

Net earnings per share: €6.18<sup>(2)</sup>

Dividend: €3.10<sup>(3)</sup> per share (+14.8%), increased by 10% to €3.41 for registered shares.

#### 1.5.1.2. 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 +3.9%. The net impact of changes in consolidation amounted to +1.0%. Currency fluctuations had a positive impact of +7.2%. Growth at constant exchange rates was +4.9%. Based on reported figures, the Group's sales, at December 31st, 2015, amounted to €25.26 billion, an increase of +12.1%.

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

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

(2) Diluted net earnings per share based on net profit excluding non-recurring items attributable to the Group from continuing operations.

(3) Proposed at the Annual General Meeting of April 20th, 2016.

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

### SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

			2014/2015 progression		
€ million	2013	2014	2015	Like-for-like	Reported figures
By Operational Division					
Professional Products	2,973.8	3,032.4	3,399.7	3.4%	12.1%
Consumer Products	10,873.2	10,767.5	11,844.2	2.5%	10.0%
L'Oréal Luxe	5,865.2	6,197.9	7,230.0	6.1%	16.7%
Active Cosmetics	1,576.3	1,660.4	1,816.3	7.8%	9.4%
Cosmetics Total	21,288.5	21,658.2	24,290.2	4.1%	12.2%
By geographical zone					
Western Europe	7,467.6	7,697.7	8,042.7	2.3%	4.5%
North America	5,356.1	5,389.4	6,654.4	3.5%	23.5%
New Markets, of which:	8,464.7	8,571.1	9,593.0	6.0%	11.9%
♦ Asia, Pacific	4,382.2	4,563.6	5,463.5	4.7%	19.7%
♦ Latin America	1,886.2	1,853.7	1,871.3	4.6%	0.9%
♦ Eastern Europe <sup>(1)</sup>	1,691.3	1,585.4	1,530.4	9.8%	-3.5%
♦ Africa, Middle-East <sup>(1)</sup>	505.1	568.4	727.9	12.1%	28.1%
Cosmetics Total	21,288.5	21,658.2	24,290.2	4.1%	12.2%
♦ The Body Shop	835.8	873.8	967.2	-0.9%	10.7%
GROUP TOTAL	22,124.2	22,532.0	25,257.4	3.9%	12.1%

(1) As of July 1<sup>st</sup>, 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 growth of +3.4% like-for-like and +12.1% based on reported figures. Growth is accelerating in North America and in Western Europe.

- ♦ Haircare is the largest contributor to growth, and is continuing to expand, driven by a string of successes: *Pro Fiber* and *Serioxyl* by L'Oréal Professionnel, *Chronologiste*, *Thérapeute* and *Fusio-Dose* by Kérastase, and *Frizz Dismiss* and *Extreme Length* by Redken. Sales of hair colour in all brands have increased, supported by solid core franchises actively promoted throughout the year. Professional skincare with Carita is expanding rapidly in Western Europe.
- ♦ All the geographic zones are growing. Many Latin American countries are accelerating strongly. Eastern Europe is once again posting double-digit growth. The United States, India and the United Kingdom are the top contributors to growth.

#### Consumer products

The Consumer Products Division posted growth of +2.5% like-for-like and +10.0% based on reported figures with an acceleration of its performance in the second semester.

- ♦ The Division has strengthened its leadership in its number one category, make-up, where every brand has posted fast growth. Maybelline, world number one in make-up, has regained strong momentum, particularly in the United States, thanks to a brisk pace of innovation and its successful digital strategy. L'Oréal Paris has rolled out its powerful new "Makeup Designer Paris" platform. NYX Professional Makeup is continuing to demonstrate its magnetism for young, connected make-up addicts wherever the brand is available, especially in the United States.

Haircare sales increased, driven by the worldwide roll-out of the *Extraordinary Oil* range by L'Oréal Paris. *Ultra Doux* by Garnier has launched the new *Olive Mythique* range, and has expanded successfully into Germany and Spain.

- ♦ The Division has returned to a solid growth rate in North America. It is stable in Western Europe with good performances in the United Kingdom and Germany. In all the New Markets it is making progress, with double-digit growth in Eastern Europe and in Africa, Middle East. Finally, e-commerce is enjoying strong growth across all Zones.

#### L'Oréal Luxe

L'Oréal Luxe recorded growth of +6.1% like-for-like and +16.7% based on reported figures. Once again the Division outperformed the market, driven by the dynamism of make-up and fragrances, as well as by e-commerce.

- ♦ Yves Saint Laurent is having an excellent year thanks to the success of *Black Opium*, also launched in the United States, and major lip make-up innovations with *Pop Water* and *Volupté Tint-in-oil*. The dynamic growth of Giorgio Armani is continuing, with strong sales of its fragrances *Si* and *Acqua di Giò Profumo*. The growth of Lancôme is sustained in Europe, driven by the success of the range *La vie est belle* that became number one in France and in Europe, *Miracle Cushion* foundation (*Prix d'Excellence Marie Claire*), mascaras and *Advanced Génifique* skincare. A significant achievement in skincare is Kiehl's chalking up another year of double-digit growth. Urban Decay is today sold in 35 countries, and is maintaining its momentum thanks to the *Naked* palettes and the brand's face make-up.

- ◆ L'Oréal Luxe is growing in all Zones and outperforming the market in Western Europe. North America ended the year well. Despite the volatile economic context in the New Markets, Latin America, Eastern Europe and Africa, Middle East have posted double-digit growth. The Asia, Pacific Zone is performing well, with a good outcome in China.

### Active Cosmetics

The Division is once again demonstrating its great vitality, with sales growth of +7.8% like-for-like and +9.4% based on reported figures, outperforming a very dynamic market.

- ◆ Vichy returned to a solid growth rate in the fourth quarter and the launch of the *Ideal Body* range has enabled the brand to develop strongly in the body care category, while the innovative launch of *Neovadiol Substitutive Complex* in the second half is a success. For the sixth year running, *La Roche-Posay* has posted double-digit growth with outstanding figures for its franchises *Tolériane*, *Effaclar*, *Lipikar* and *Cicaplast*. SkinCeuticals is contributing strongly to the Division's expansion, and is continuing to grow in all Zones. Roger&Gallet is expanding in skincare.
- ◆ All Zones are contributing to growth. In the New Markets, the Asia, Pacific, Latin America and Africa, Middle East Zones have all recorded rapid growth. Western Europe accelerated in the second half.

### Multi-division summary by geographic zone

#### Western Europe

In Western Europe, sales grew by +2.3% like-for-like and +4.5% based on reported figures. Thanks to L'Oréal Luxe, and the Active Cosmetics and Professional Products Divisions, the Group is outperforming the market, particularly in Southern Europe, and is recording strong growth in the United Kingdom and Germany. In this Zone, the luxury and dermocosmetics markets continue to enjoy good momentum. While the mass channel is still sluggish, the Garnier brand is winning market share in haircare and skincare.

#### North America

With growth of +3.5% like-for-like and +23.5% based on reported figures, North America's pace strengthened through the course of the year. At L'Oréal Luxe, Urban Decay, Kiehl's and Yves Saint Laurent all posted double-digit growth. The Professional Products Division is recovering, driven by the impetus of the Redken brand. The Consumer Products Division is fuelled by momentum in make-up, with the breakthrough made by NYX Professional Makeup and the acceleration of Maybelline.

### New Markets

- ◆ Asia, Pacific: Sales grew by +4.7% like-for-like and +19.7% based on reported figures. Despite a difficult market in Hong Kong, growth at L'Oréal Luxe improved in the fourth quarter, driven by excellent performances in Japan. Yves Saint Laurent, Kiehl's, Giorgio Armani and Urban Decay have made strong contributions to the Division's success. The Consumer Products Division is benefiting from good performances in India, Australia and Thailand, and from L'Oréal Paris, particularly in China. Magic is in a transitional phase. The Active Cosmetics Division is posting strong growth, driven by La Roche-Posay.
- ◆ Latin America: Sales grew by +4.6% like-for-like and +0.9% based on reported figures, thanks to double-digit growth in the Active Cosmetics Division and at L'Oréal Luxe. The very good performances of SkinCeuticals, Vichy, La Roche-Posay, Lancôme and Kiehl's are especially worth noting. If Brazil is excluded, Latin America achieved double-digit like-for-like growth. The environment in Brazil is continuing to hold back the Zone's overall sales.
- ◆ Eastern Europe: The Zone posted figures of +9.8% like-for-like and -3.5% based on reported figures. The Consumer Products and Professional Products Divisions, and L'Oréal Luxe, all recorded double-digit growth, driven by Russia, Turkey and Ukraine. All Divisions are making significant market share gains, particularly the Consumer Products Division in all categories (haircare, hair colour, skincare and deodorants), and the Maybelline brand, boosted by the launch of *Lash Sensational* mascara, recorded the strongest growth increase of the Division.
- ◆ Africa, Middle East: Sales growth amounted to +12.1% like-for-like and +28.1% based on reported figures. Growth was particularly fast in Egypt, Pakistan and Saudi Arabia, where it topped 20%. South Africa remains solid. In a context of recent slowdown in several countries, the Garnier, L'Oréal Paris, Maybelline, Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Kérastase, Vichy and La Roche-Posay brands recorded double-digit growth. All the Divisions are making progress, with market share gains in their respective channels.

### The Body Shop

The Body Shop recorded -0.9% like-for-like and +10.7% based on reported figures, with good momentum in Africa, Middle East and in Europe, notably in the United Kingdom, its home market. The strategy of focusing on skincare is paying off in all markets, with a strong contribution from the new *Oils of Life* range. However, some Asian markets have been subject to a challenging environment, particularly Hong Kong, and sales in the year-end holidays were below expectation in North America.

## 1.5.1.3. Results

## | OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

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

	2013		2014		2015	
	€ millions	% 2013 sales	€ millions	% 2014 sales	€ millions	% 2015 sales
<b>Sales</b>	<b>22,124.2</b>	<b>100%</b>	<b>22,532.0</b>	<b>100%</b>	<b>25,257.4</b>	<b>100%</b>
Cost of sales	-6,379.4	28.8%	-6,500.7	28.9%	-7,277.4	28.8%
<b>Gross profit</b>	<b>15,744.8</b>	<b>71.2%</b>	<b>16,031.3</b>	<b>71.1%</b>	<b>17,980.0</b>	<b>71.2%</b>
Research and development expenses	-748.3	3.4%	-760.6	3.4%	-794.1	3.1%
Advertising and promotion expenses	-6,621.7	29.9%	-6,558.9	29.1%	-7,359.6	29.1%
Selling, general and administrative expenses	-4,614.4	20.9%	-4,821.1	21.4%	-5,438.6	21.5%
<b>OPERATING PROFIT</b>	<b>3,760.4</b>	<b>17.0%</b>	<b>3,890.7</b>	<b>17.3%</b>	<b>4,387.7</b>	<b>17.4%</b>

Gross profit, at €17,980 million, came out at 71.2% of sales, compared with 71.1% in 2014, that is an increase of 10 basis points.

Research and Development expenses, at 3.1% of sales, have decreased in relative value due to a favourable monetary effect. More than 2/3 of these expenses were made in the euro zone.

Advertising and promotion expenses remained stable compared to 2014, at 29.1% of sales.

Selling, general and administrative expenses, at 21.5% of sales, have come out at a slightly higher level, by 10 basis points compared with 2014.

Overall, the operating profit, at €4,388 million, has grown by 12.8% and amounts to 17.4% of sales.

## | OPERATING PROFIT BY OPERATIONAL DIVISION

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

	2013		2014		2015	
	€ millions	% 2013 sales	€ millions	% 2014 sales	€ millions	% 2015 sales
Professional Products	609	20.5%	609	20.1%	678	20.0%
Consumer Products	2,167	19.9%	2,186	20.3%	2,386	20.1%
L'Oréal Luxe	1,174	20.0%	1,269	20.5%	1,497	20.7%
Active Cosmetics	343	21.7%	376	22.7%	415	22.8%
<b>Cosmetics Divisions total</b>	<b>4,293</b>	<b>20.2%</b>	<b>4,440</b>	<b>20.5%</b>	<b>4,976</b>	<b>20.5%</b>
Non-allocated <sup>(1)</sup>	- 605	- 2.8%	- 615	- 2.8%	- 643	- 2.6%
<b>The Body Shop</b>	<b>72</b>	<b>8.6%</b>	<b>65</b>	<b>7.5%</b>	<b>55</b>	<b>5.7%</b>
<b>GROUP TOTAL</b>	<b>3,760</b>	<b>17.0%</b>	<b>3,890</b>	<b>17.3%</b>	<b>4,388</b>	<b>17.4%</b>

(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 20.0% is down by 10 basis points, due mainly to the consolidation of Decléor and Carita, which led to a negative impact of 20 basis points for the Division. If acquisitions are excluded, profitability has increased by 10 basis points. The profitability of the Consumer Products Division at 20.1% is down by 20 basis points compared with 2014, due to the first consolidation of Niely in

Brazil, as anticipated. The profitability of L'Oréal Luxe grew by 20 basis points in 2015. At Active Cosmetics, there was a further increase in profitability to reach 22.8%. The profitability of The Body Shop weakened in 2015, to 5.7%, in a year of major changes, due to disappointing sales in the 4<sup>th</sup> quarter and to the dilutive impact of the acquisition of the Australian franchisee.

**PROFITABILITY BY GEOGRAPHIC ZONE**

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

	2013		2014		2015	
	€ millions	% 2013 sales	€ millions	% 2014 sales	€ millions	% 2015 sales
Operating profit						
Western Europe	1,662	22.3%	1,746	22.7%	1,827	22.7%
New Markets	1,003	18.7%	1,010	18.7%	1,257	18.9%
Nouveaux Marchés	1,628	19.2%	1,684	19.6%	1,893	19.7%
<b>COSMETICS ZONES TOTAL<sup>(1)</sup></b>	<b>4,293</b>	<b>20.2%</b>	<b>4,440</b>	<b>20.5%</b>	<b>4,976</b>	<b>20.5%</b>

(1) Before non-allocated.

Profitability in Western Europe remained stable at 22.7%. In North America, profitability improved by 20 basis points, to reach 18.9%. And in the New Markets, profitability increased again this year by 10 basis points, to reach 19.7%.

**NET PROFIT FROM CONTINUING OPERATIONS**

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

€ millions	2013	2014	2015
Operating profit	3,760.4	3,890.7	4,387.7
Finance Costs excluding dividends received	-31.4	-24.1	-13.8
Sanofi dividends	327.5	331.0	336.9
<b>Pre-tax profit excluding non-recurring items</b>	<b>4,056.5</b>	<b>4,197.7</b>	<b>4,710.8</b>
Income tax excluding non-recurring items	-1,018.0	-1,069.5	-1,219.7
Non-controlling interests	-3.2	+0.1	-1.3
Net profit from equity affiliates excluding non-recurring items	-3.0	-3.0	-
<b>Net profit excluding non-recurring items attributable to owners of the Company<sup>(1)</sup></b>	<b>3,032.4</b>	<b>3,125.3</b>	<b>3,489.8</b>
<b>EPS <sup>(2)</sup> (euros)</b>	<b>4.99</b>	<b>5.34</b>	<b>6.18</b>
<b>Diluted average number of shares</b>	<b>608,001,407</b>	<b>585,238,674</b>	<b>564,891,388</b>

(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 11.4 of the Consolidated Financial Statements (chapter 4)

(2) Diluted net earnings per share excluding non-recurring items after non-controlling interests from continuing operations.

Finance expenses amounted to €14 million.

Sanofi dividends amounted to €337 million.

Income tax excluding non-recurring items amounted to €1,220 million. This represents a tax rate of 25.9%, slightly higher than that of 2014 which came out at 25.5%.

Net profit excluding non-recurring items after non-controlling interests amounted to €3,490 million, up by 11.7%.

Net Earnings per Share, at €6.18, is up by 15.7% compared to Net Earnings per Share of 2014.

Non-recurring items after non-controlling interests amounted to €192 million in 2015, due mainly to the accounting impact of the deconsolidation of the Venezuelan subsidiary and to the French tax of 3% on the dividends distributed.

Net profit came out at €3,297 million.

**NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY: €3,297.4**

€ millions	2013	2014	2015	Evolution 2014/2015
Net profit excluding non-recurring items after non-controlling interests	3,032.4	3,125.3	3,489.8	
Non-recurring items net of tax attributable to owners of the company	-154.1	-357.7	-192.4	
Net profit from non-continuing operations attributable to owners of the company	+79.9	+2,142.7	-	
<b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>2,958.2</b>	<b>4,910.2</b>	<b>3,297.4</b>	<b>-32.8%</b>

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

1

In 2014, after the capital gain on the disposal of Galderma, €2.1 billion, net profit came out at €4,910 million.

### Cash flow Statement, Balance sheet and Net Financial Situation

Gross cash flow amounted to €4,399 million, an increase of +15.5%.

The working capital requirement increased in 2015 to €196 million. This increase is mainly due to the fine paid to the French competition authority for an amount of €189 million.

Investments amounted to €1,172 million, representing 4.6% of sales, slightly higher than in 2014, when it represented 4.5% of sales.

The net cash came out, at December 31<sup>st</sup>, 2015, at €618 million, compared with a net debt of €671 million at December 31<sup>st</sup>, 2014.

The balance sheet remains particularly solid with shareholders' equity amounting to some €24 billion.

### Proposed dividend at the Annual General Meeting of April 20<sup>th</sup>, 2016

The Board of Directors has decided to propose that the Shareholders' Annual General Meeting of April 20<sup>th</sup>, 2016 should approve a dividend of €3.10 per share, an increase of 14.8% compared with the dividend paid in 2015. The dividend will be paid on May 3<sup>rd</sup>, 2016 (ex-dividend date April 29<sup>th</sup>, 2016 at 0:00 a.m., Paris time).

## 1.5.2. FINANCIAL HIGHLIGHTS

### 1.5.2.1. 2015: Growing of sales and profits from continuing operations

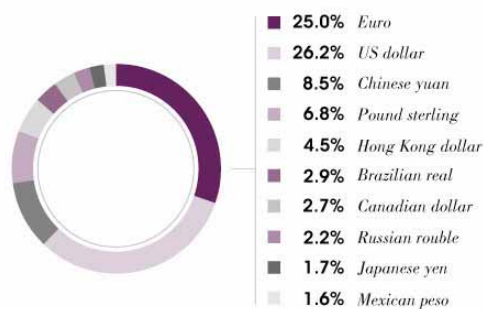
#### CONSOLIDATED SALES

(€ million)



#### 2015 CONSOLIDATED SALES BY CURRENCY <sup>(1)</sup>

(as %)



(1) Breakdown of consolidated sales in the main currencies in 2015, i.e. 82.1% of consolidated sales.

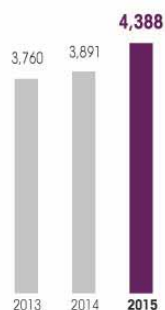


# 1

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

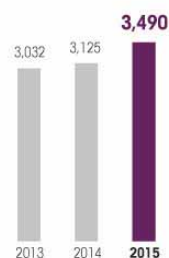
Operating profit  
(€ millions)



Pre-tax profit excluding  
non-recurring items from  
continuing operations <sup>(1)</sup>  
(€ millions)



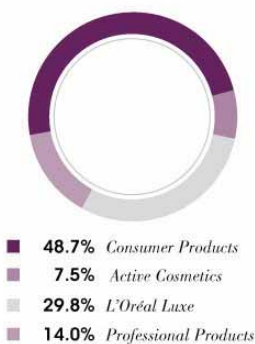
Net profit excluding  
non-recurring items  
attributable to owners  
of the Company from  
continuing operations <sup>(1)</sup>  
(€ millions)



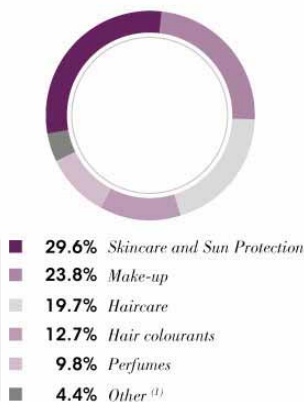
(1) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 11.4 of the Consolidated Financial Statements in Chapter 4.

### 2015 CONSOLIDATED SALES OF THE COSMETICS DIVISIONS

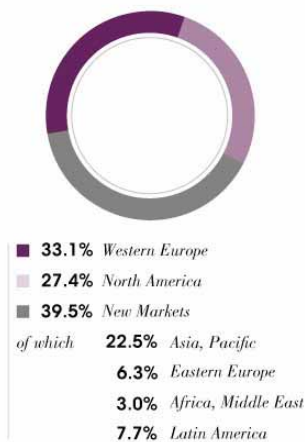
BY DIVISION



BY BUSINESS SEGMENT



BY GEOGRAPHIC ZONE



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

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

### A SOLID BALANCE SHEET<sup>(1)</sup>

(€M)



(1) The balance sheets at December 31st, 2013 and December 31st, 2014 have been restated to reflect the change in accounting policies on recognition of levies resulting from the application of IFRIC 21.

### NET DEBT

	12.31.2013	12.31.2014	12.31.2015
Net cash flow <sup>(1)</sup> /net financial debt (€ millions)	2,320.0 <sup>(2)</sup>	-671.3	618.0 <sup>(2)</sup>
Net gearing	n/a	3.3%	n/a

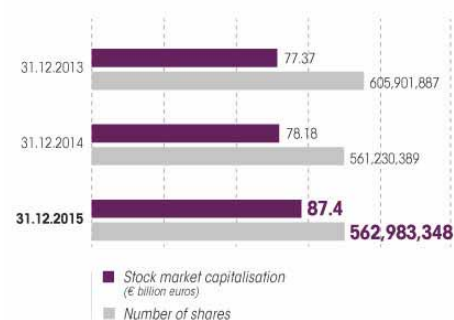
(1) Net cash flow = cash and cash equivalents - current and non-current debt.

(2) At December 31<sup>st</sup>, 2013 and 2015 net cash surplus was €2,320.0 million and €618.0 million respectively.

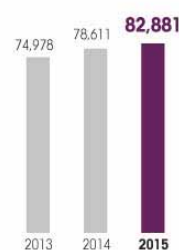
### SHORT-TERM RATINGS

A1+	Standard & Poor's	SEPTEMBER 2015
PRIME 1	Moody's	MAY 2015
F1+	Fitch Ratings	SEPTEMBER 2015

### STOCK MARKET CAPITALISATION



### WORKFORCE AT DECEMBER 31<sup>ST</sup> 2015



**1.5.2.2. 2015 consolidated results***Sales and operating profit***CONSOLIDATED SALES**

€ millions	2013	2014	2015	2014/2015 progression	
				Like-for-like	Reported figures
Cosmetics	21,288.5	21,658.2	24,290.2	4.1%	12.2%
The Body Shop	835.8	873.8	967.2	-0.9%	10.7%
<b>GROUP TOTAL</b>	<b>22,124.2</b>	<b>22,532.0</b>	<b>25,257.4</b>	<b>3.9%</b>	<b>12.1%</b>

**OPERATING PROFIT**

€ millions	2013	2014	2015	2015 Weight	Evolution based on reported sales	% of sales
Cosmetics	3,688	3,825	4,333	98.7%	13.3%	17.8%
The Body Shop	72	65	55	1.3%	-16.1%	5.7%
<b>GROUP TOTAL</b>	<b>3,760</b>	<b>3,890</b>	<b>4,388</b>	<b>100%</b>	<b>12.8%</b>	<b>17.4%</b>

*Sales and operating profit of the cosmetics Divisions***CONSOLIDATED SALES**

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Professional Products	2,973.8	3,032.4	3,399.7	14.0%	3.4%	12.1%
Consumer Products	10,873.2	10,767.5	11,844.2	48.8%	2.5%	10.0%
L'Oréal Luxe	5,865.2	6,197.9	7,230.0	29.7%	6.1%	16.7%
Active Cosmetics	1,576.3	1,660.4	1,816.3	7.5%	7.8%	9.4%
<b>TOTAL COSMETICS SALES</b>	<b>21,288.5</b>	<b>21,658.2</b>	<b>24,290.2</b>	<b>100%</b>	<b>4.1%</b>	<b>12.2%</b>

**OPERATING PROFIT**

	2013		2014		2015	
	€ millions	% 2013 sales	€ millions	% 2014 sales	€ millions	% 2015 sales
Professional Products	609	20.5%	609	20.1%	678	20.0%
Consumer Products	2,167	19.9%	2,186	20.3%	2,386	20.1%
L'Oréal Luxe	1,174	20.0%	1,269	20.5%	1,497	20.7%
Active Cosmetics	343	21.7%	376	22.7%	415	22.8%
<b>TOTAL COSMETICS SALES</b>	<b>4,293</b>	<b>20.2%</b>	<b>4,440</b>	<b>20.5%</b>	<b>4,976</b>	<b>20.5%</b>
Non-allocated <sup>(1)</sup>	-605	-2.8%	-615	-2.8%	-643	-2.6%
<b>TOTAL COSMETICS SALES</b>	<b>3,688</b>	<b>17.3%</b>	<b>3,825</b>	<b>17.7%</b>	<b>4,333</b>	<b>17.8%</b>

(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.

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

### Sales and operating profit of the cosmetics Divisions by geographic zone

#### CONSOLIDATED SALES

€ millions	2013	2014	2015	2014/2015 progression	
				Like-for-like	Reported figures
Western Europe	7,467.6	7,697.7	8,042.7	2.3%	4.5%
North America	5,356.1	5,389.4	6,654.4	3.5%	23.5%
New Markets, of which:	8,464.7	8,571.1	9,593.0	6.0%	11.9%
• Asia, Pacific	4,382.2	4,563.6	5,463.5	4.7%	19.7%
• Latin America	1,886.2	1,853.7	1,871.3	4.6%	0.9%
• Eastern Europe <sup>(1)</sup>	1,691.3	1,585.4	1,530.4	9.8%	-3.5%
• Africa, Middle East <sup>(1)</sup>	505.1	568.4	727.9	12.1%	28.1%
<b>TOTAL COSMETICS SALES</b>	<b>21,288.5</b>	<b>21,658.2</b>	<b>24,290.2</b>	<b>4.1%</b>	<b>12.2%</b>

(1) As of July 1<sup>st</sup>, 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

	2013		2014		2015	
	€ millions	% 2013 sales	€ millions	% 2014 sales	€ millions	% 2015 sales
Western Europe	1,662	22.3%	1,746	22.7%	1,827	22.7%
North America	1,003	18.7%	1,010	18.7%	1,257	18.9%
New Markets	1,628	19.2%	1,684	19.6%	1,893	19.7%
<b>TOTAL GEOGRAPHIC ZONES</b>	<b>4,293</b>	<b>20.2%</b>	<b>4,440</b>	<b>20.5%</b>	<b>4,976</b>	<b>20.5%</b>
Non-allocated <sup>(1)</sup>	-605	-2.8%	-615	-2.8%	-643	-2.6%
<b>TOTAL ZONES AFTER NON-ALLOCATED</b>	<b>3,688</b>	<b>17.3%</b>	<b>3,825</b>	<b>17.7%</b>	<b>4,333</b>	<b>17.8%</b>

(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 of the cosmetics Divisions by business segment

#### CONSOLIDATED SALES

€ millions	2013	2014	2015	2014/2015 progression	
				Like-for-like	Reported figures
Skincare	6,303	6,489	7,190	2.0%	10.8%
Make-up	4,616	4,751	5,784	10.9%	21.8%
Haircare	4,422	4,449	4,782	2.4%	7.5%
Hair colourants	2,931	2,860	3,091	-0.1%	8.1%
Perfumes	2,029	2,123	2,376	6.2%	11.9%
Other <sup>(1)</sup>	987	986	1,067	-0.9%	8.2%
<b>TOTAL COSMETICS SALES</b>	<b>21,288</b>	<b>21,658</b>	<b>24,290</b>	<b>4.1%</b>	<b>12.2%</b>

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

**1.5.2.3. Consolidated sales by geographic zone and by business segment***Professional Products Division***SALES BY GEOGRAPHIC ZONE**

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Western Europe	965.3	1,032.7	1,095.4	32.2%	1.8%	6.1%
North America	1,098.5	1,111.0	1,377.6	40.5%	4.1%	24.0%
New Markets	910.0	888.7	926.7	27.3%	4.1%	4.3%
<b>TOTAL</b>	<b>2,973.8</b>	<b>3,032.4</b>	<b>3,399.7</b>	<b>100%</b>	<b>3.4%</b>	<b>12.1%</b>

**SALES BY BUSINESS SEGMENT**

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Hair colourants	1,035.7	1,039.0	1,152.5	33.9%	3.9%	10.9%
Styling and textures	304.3	328.6	354.2	10.4%	0.1%	7.8%
Shampoos and haircare	1,633.9	1,664.8	1,892.9	55.7%	3.7%	13.7%
<b>TOTAL</b>	<b>2,973.8</b>	<b>3,032.4</b>	<b>3,399.7</b>	<b>100%</b>	<b>3.4%</b>	<b>12.1%</b>

*Consumer Products Division***SALES BY GEOGRAPHIC ZONE**

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Western Europe	3,846.1	3,857.0	3,936.2	33.2%	0.3%	2.1%
North America	2,534.7	2,477.0	3,071.2	26.0%	2.6%	24.0%
New Markets	4,492.4	4,433.5	4,836.8	40.8%	4.3%	9.1%
<b>TOTAL</b>	<b>10,873.2</b>	<b>10,767.5</b>	<b>11,844.2</b>	<b>100%</b>	<b>2.5%</b>	<b>10.0%</b>

**SALES BY BUSINESS SEGMENT**

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Hair colourants	1,895.3	1,821.2	1,938.5	16.4%	-2.3%	6.4%
Haircare and styling	2,712.9	2,723.0	2,885.0	24.4%	1.6%	5.9%
Make-up	3,215.5	3,204.7	3,839.7	32.4%	9.3%	19.8%
Skincare	2,534.7	2,489.1	2,657.0	22.4%	-1.4%	6.7%
Other	514.8	529.6	524.0	4.4%	0.9%	-1.0%
<b>TOTAL</b>	<b>10,873.2</b>	<b>10,767.5</b>	<b>11,844.2</b>	<b>100%</b>	<b>2.5%</b>	<b>10.0%</b>

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

L'Oréal Luxe

### SALES BY GEOGRAPHIC ZONE

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Western Europe	1,870.8	1,976.3	2,135.7	29.6%	5.4%	8.1%
North America	1,560.0	1,629.4	1,996.7	27.6%	4.3%	22.5%
New Markets	2,434.4	2,592.2	3,097.6	42.8%	7.8%	19.5%
<b>TOTAL</b>	<b>5,865.2</b>	<b>6,197.9</b>	<b>7,230.0</b>	<b>100%</b>	<b>6.1%</b>	<b>16.7%</b>

### SALES BY BUSINESS SEGMENT

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Skincare	2,647.6	2,754.3	3,122.3	43.2%	1.2%	13.4%
Perfumes	1,945.9	2,040.0	2,299.2	31.8%	6.3%	12.7%
Make-up	1,271.7	1,403.6	1,808.4	25.0%	15.5%	28.8%
<b>TOTAL</b>	<b>5,865.2</b>	<b>6,197.9</b>	<b>7,230.0</b>	<b>100%</b>	<b>6.1%</b>	<b>16.7%</b>

Active Cosmetics Division

### SALES BY GEOGRAPHIC ZONE

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Western Europe	785.4	831.7	875.4	48.2%	4.4%	5.3%
North America	162.9	172.0	209.0	11.5%	6.7%	21.5%
New Markets	628.1	656.7	731.9	40.3%	12.5%	11.5%
<b>TOTAL</b>	<b>1,576.3</b>	<b>1,660.4</b>	<b>1,816.3</b>	<b>100%</b>	<b>7.8%</b>	<b>9.4%</b>

### SALES BY BUSINESS SEGMENT

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Skincare	1,214.2	1,286.1	1,444.8	79.5%	10.2%	12.3%
Haircare	108.6	105.1	98.5	5.4%	-4.8%	-6.2%
Make-up	97.0	109.2	104.2	5.7%	-8.0%	-4.6%
Other	156.5	159.9	168.8	9.3%	7.6%	5.6%
<b>TOTAL</b>	<b>1,576.3</b>	<b>1,660.4</b>	<b>1,816.3</b>	<b>100%</b>	<b>7.8%</b>	<b>9.4%</b>

# 1

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

### The Body Shop

#### RETAIL SALES <sup>(1)</sup>

€ millions	2013	2014	2015	2015 Weight	2014/2015 progression	
					Like-for-like	Reported figures
Western Europe	544.8	562.0	595.2	38.2%	2.8%	5.9%
North America	168.6	179.1	178.7	11.5%	-10.2%	-0.2%
New Markets	685.5	734.3	785.7	50.4%	1.9%	7.0%
<b>TOTAL</b>	<b>1,398.9</b>	<b>1,475.3</b>	<b>1,559.6</b>	<b>100%</b>	<b>0.7%</b>	<b>5.7%</b>

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

#### SALES

€ millions	2013	2014	2015	2014/2015 Evolution Like-for-like
Retail sales <sup>(1)</sup>	1,398.9	1,475.3	1,559.6	0.7%
Retail sales with a comparable store base <sup>(2)</sup>	1,306.6	1,319.8	1,402.7	0.1%
<b>CONSOLIDATED SALES</b>	<b>835.8</b>	<b>873.8</b>	<b>967.2</b>	<b>-0.9%</b>

(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 1<sup>st</sup> and December 31<sup>st</sup>, 2015 and the same stores and websites present in 2014 and 2013, and for the same periods for 2014 and 2013, including franchisees.

#### NUMBER OF STORES

	At 12.31.2014	At 12.31.2015	Change in 2015
Company owned stores	1,120	1,134	+14
Franchisees	1,999	1,968	-31
<b>TOTAL NUMBER OF STORES</b>	<b>3,119</b>	<b>3,102</b>	<b>-17</b>

## Presentation of the Group

KEY FIGURES AND COMMENTS ON THE 2015 FINANCIAL YEAR\*

1

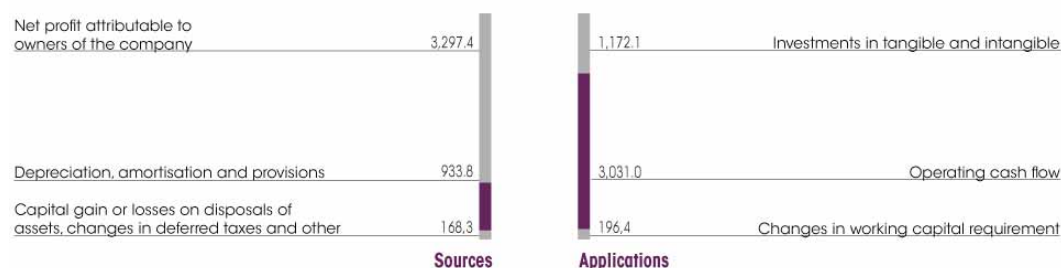
### 1.5.2.4. Simplified consolidated income statements

The announcement on February 11<sup>th</sup>, 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 1<sup>st</sup>, 2014. All figures for earlier periods have been restated accordingly.

€ millions	12.31.2013	12.31.2014	12.31.2015	% 2015 sales
Sales	22,124.2	22,532.0	25,257.4	100.0%
Gross profit	15,744.8	16,031.3	17,980.0	71.2%
Research and development	-748.3	-760.6	-794.1	3.1%
Advertising and promotion	-6,621.7	-6,558.9	-7,359.6	29.1%
Selling, general and administrative expenses	-4,614.4	-4,821.1	-5,438.6	21.5%
Operating profit	3,760.4	3,890.7	4,387.7	17.4%
Operational profit	3,631.8	3,583.5	4,194.3	
Finance costs excluding dividends received	-31.4	-24.1	-13.8	
Sanofi dividends	327.5	331.0	336.9	
Income tax	-1,043.6	-1,111.0	-1,222.9	
Non-controlling interests	-3.2	-1.6	-1.1	
Net profit attributable to owners of the company	2,958.2	4,910.2	3,297.4	13.0%
Non-recurring items (expense +/income -)	-154.1	-348.7	-192.4	
Net profit excluding non-recurring items after non-controlling interests*	3,032.4	3,125.3	3,489.8	13.8%
Diluted earnings per share attributable to owners of the company (euros)	4.87	8.39	5.84	
Diluted earnings per share attributable to owners of the company excluding non-recurring items (euros)	4.99	5.34	6.18	

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

### 1.5.2.5. Sources and applications of funds (€ millions)



Gross cash flow: 4,399.5

### 1.5.2.6. Financial ratios

	2013	2014	2015
(% of sales) Operating profit/Sales	17.0%	17.3%	17.4%
(% of shareholders' equity) Net profit excluding non-recurring items after non-controlling interests/Opening shareholders' equity	14.5%	13.8%	17.3%
(% of shareholders' equity) Net gearing <sup>(1)</sup>	n/a	3.3%	n/a
Gross cash flow/Investments	3.7x	3.8x	3.8x

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



### 1.5.2.7. L'Oréal 2009-2015

The announcement on February 11<sup>th</sup>, 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 1<sup>st</sup>, 2014. All figures for earlier periods have been restated accordingly.

€ millions	2009	2010	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(6)</sup>	2014 <sup>(6)</sup>	2015
<b>Results</b>							
Consolidated sales	17,473	19,496	20,343	21,638	22,124	22,532	25,257
Operating profit	2,578	3,057	3,293	3,558	3,760	3,891	4,388
As a percentage of consolidated sales	14.8%	15.7%	16.2%	16.4%	17.0%	17.3%	17.4%
Profit before tax excluding non-recurring items	2,749	3,305	3,563	3,874	4,056	4,198	4,711
Net profit excluding non-recurring items after non-controlling interest <sup>(2)</sup>	1,997	2,371	2,583	2,861	3,032	3,125	3,490
Net profit attributable to owners of the company	1,792	2,240	2,438	2,868	2,958	4,910	3,297
Total dividend	899	1,082	1,212	1,397	1,523	1,507	1,756
<b>Balance sheet</b>							
Non-current assets	17,350	17,048	19,141	20,903	21,485	23,284	24,458
Current assets excl. cash and cash equivalents	4,768	5,446	6,070	6,096	6,730	6,858	7,854
Cash and cash equivalents	1,173	1,550	1,652	2,235	2,659	1,917	1,400
Equity <sup>(3)</sup>	13,598	14,866	17,627	20,925	22,651	20,197	23,617
Net current and non-current debt <sup>(4)</sup>	1,958	41	- 504	- 1,948	- 2,320	671	-618
Gross cash flow	2,758	3,171	3,226	3,507	3,758	3,808	4,399
<b>Per share data (euros)</b>							
Diluted earnings per share attributable to owners of the company excluding non-recurring items <sup>(2)</sup>	3.42	4.01	4.32	4.73	4.99 <sup>(5)</sup>	5.34	6.18
Dividend	1.50	1.80	2.00	2.30	2.50	2.70	3.10 <sup>(6)</sup>
Share price at December 31 <sup>st</sup> <sup>(7)</sup>	78.00	83.08	80.70	104.90	127.70	139.30	155.30
Highest share price during the year <sup>(7)</sup>	79.32	88.00	91.24	106.40	137.85	140.40	181.30
Lowest share price during the year <sup>(7)</sup>	46.00	70.90	68.83	79.22	103.65	114.55	133.40
Diluted weighted average number of shares outstanding <sup>(7)</sup>	583,797,566	591,392,449	597,633,103	605,305,458	608,001,407	585,238,674	564,891,388

(1) The 2011 and 2012 balance sheets have been restated to allow for the change in accounting method relating to revised IAS 19.

(2) For 2012, 2013, 2014 and 2015 it is the net profit from continuing operations.

(3) Plus non-controlling interests.

(4) The net cash surplus is €504 million in 2011, €1,948 million in 2012, €2,320 million in 2013 and €618 million in 2015.

(5) Net profit to owners of the company per share, excluding non-recurring items, published on December 31<sup>st</sup>, 2013 was €5.13.

(6) Dividend proposed to the Annual General Meeting of April 20<sup>th</sup>, 2016.

(7) The L'Oréal share has been listed in euros on the Paris Stockexchange since January 4<sup>th</sup>, 1999, where it was first listed in 1963. The share capital is €112,596,669.60 at December 31<sup>st</sup>, 2015; the par value of one share is €0.2.

(8) The balance sheets at December 31<sup>st</sup>, 2013 and December 31<sup>st</sup>, 2014 have been restated to reflect the change in accounting policies on recognition of levies resulting from the application of IFRIC 21.

### 1.5.3. SIGNIFICANT, RECENT EVENTS AND PROSPECTS

#### 1.5.3.1. Significant events of 2015

- On February 3<sup>rd</sup>, 2015, The Body Shop announced the acquisition of its Australian franchisee Adidem Pty Limited, which operates 91 stores in Australia.
- On March 6<sup>th</sup>, 2015, L'Oréal and CFAO announced the signing of a protocol agreement covering the production and distribution of cosmetic products in Ivory Coast. This new partnership will enable L'Oréal to step up the presence and accelerate the expansion of its brands in Ivory Coast and French-speaking West Africa.
- On March 31<sup>st</sup>, 2015, L'Oréal finalised the acquisition of Niely Cosméticos in Brazil, announced on September 8<sup>th</sup>, 2014, for

which the regulatory authorities' approval was obtained in January 2015.

- On April 16, L'Oréal unveiled the first results of its *Sharing Beauty With All* programme for Sustainable Development, including a 50% reduction of CO<sub>2</sub> emissions from the Group's production in absolute terms, from a 2005 baseline.
- At the Annual General Meeting on April 22<sup>nd</sup>, 2015, at the Palais des Congrès in Paris, L'Oréal shareholders adopted all the resolutions by a very large majority, including the appointment of Mrs Sophie Bellon as a Director, the renewal of the tenure of Mr Charles-Henri Filippi as a Director and the decision to maintain simple voting rights. At its meeting at the end of the Annual General Meeting, the Board of Directors decided to cancel 2,905,000 shares acquired under the buyback programme approved by the Board on November 29<sup>th</sup>, 2013.

- ♦ On June 3<sup>rd</sup>, 2015, L'Oréal announced the signing of a license agreement with Proenza Schouler for the creation and development of fine fragrances. A New York-based women's wear brand, Proenza Schouler was founded by designers Jack McCollough and Lazaro Hernandez in 2002, and is considered to be one of today's most exciting American fashion brands.
- ♦ On September 3<sup>rd</sup>, 2015, three months ahead of COP 21, L'Oréal announced its ambition to become a "carbon balanced" company by 2020, reinforcing its commitment to fighting climate change. Through its sustainable sourcing projects, the Group aims to generate carbon gains equivalent to the amount of greenhouse gas emissions resulting from its activities.
- ♦ On January 4<sup>th</sup>, 2016 L'Oréal USA announced the acquisition of Raylon Corporation, a full-service wholesale distributor of salon professional products. The acquisition expands the SalonCentric distribution network and extends coverage of American hair salons.

### 1.5.3.2. Significant events that have occurred since the beginning of 2016

No significant event has occurred between the beginning of the 2016 financial year and the meeting of the Board of Directors finalizing the consolidated financial statements ended December 31, 2015.

### 1.5.3.3. Prospects

In a volatile and uncertain economic environment, particularly in some emerging countries, the Group can rely on its balanced footprint across beauty categories, distribution channels and geographic zones.

L'Oréal is entering 2016 with the ambition to outperform the cosmetics market and achieve another year of sales and profit growth.

## 1.6. RESEARCH & INNOVATION: EXCELLENCE STEP-BY-STEP

### 1.6.1. RESEARCH: PART OF THE GROUP'S DNA

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

To win over one billion new consumers, the Group constantly increases its investments, and had a budget of €794 million in 2015.

#### The Scientific Advisory Board continues its work

Created in 2013 to explore the future boundaries of beauty and chaired by Jacques Leclaire, Global Scientific Director, this year the Scientific Advisory Board looked at sustainable innovation.

After their recommendation in 2014 to undertake in-depth studies on ageing, the Board's experts expressed their deep-rooted belief that future cosmetics can significantly benefit from the sustainable resources that result from green chemistry (see also chapter 3, "Innovating responsibly"). This path, along which the Group's teams have already covered quite a distance, could result in even more exciting innovations in the short term. Over the longer term, the Board's experts have identified synthetic biology as a highly promising avenue for cosmetic treatment in the future.

### 1.6.2. A PERTINENT MULTI-HUB ORGANISATION

The international organisation implemented by the Group around six hubs is beginning to bear fruit. Thanks to their close proximity to consumers, these hubs innovate with genuine local relevance and nourish the flow of innovations.

In order to ensure a successful transition from a largely centralised system to a 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.

## RESEARCH FACILITIES AROUND THE WORLD



## Local research and product adaptation

To better meet the expectations of consumers across the world, L'Oréal's research teams have a global presence through 18 cosmetics research centres and 16 evaluation centres. The research centres are grouped together in three global centres in France (Advanced Research, Hair *métiers* and Cosmetic *métiers*) and five regional hubs: in the United States, Japan, China, Brazil and India. These regional hubs

identify the needs of consumers and their 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 phase with local expectations and aspirations. The innovations developed are shared in a co-ordinated manner to promote the fluidity of exchanges.

## Research and Innovation budget

2013	748
2014	761
<b>2015</b>	<b>794</b>

## Research and Innovation employees

2013	3,590
2014	3,782
<b>2015</b>	<b>3,871</b>

## Number of patents

2013	564
2014	501
<b>2015</b>	<b>497</b>

### 1.6.3. BALANCING ETHICS AND INNOVATION

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

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

These models are fabulous tools for predicting product safety and efficacy and for reducing time-to-market. Thanks to these models, L'Oréal was able to stop testing finished products on animals in 1989 and to develop predictive evaluation strategies to meet European regulations prohibiting the offering for sale of products containing any ingredient that has been tested on animals after March 11<sup>th</sup>, 2013. This law has not had any impact on the Group's innovation efforts.

To protect its lead in skin engineering, L'Oréal evaluates cutting-edge technologies such as microfluidic systems and "organs-on-a-chip". It has signed a partnership with Californian start-up Organovo which specialises in three-dimensional bioprinting, a technique which allows it to build 3D human tissue layer-by-layer by generating multi-cellular building blocks (bio-ink).

#### Validation and predictive evaluation

In its unrelenting quest for progress in testing for safety without using animals, L'Oréal continues to participate in the validation of new alternative methods, such as to treat eye irritation and sensitivity in Europe and eye irritation and corrosion in Japan, and the pre-validation of alternative methods such as for treating skin irritation on a Chinese Episkin model in China.

#### Episkin continues to develop

The Group's ethical commitment led to the creation of Episkin, a subsidiary in Lyon which produces and sells validated skin models. This commitment took on an international dimension in response to legal and regulatory changes such as those in Brazil, India and China. For example, reconstructed skin of Asian origin manufactured locally will be marketed and sold by Shanghai Episkin Biotechnology Co.Ltd and users will be taught about the new technique in training sessions delivered by the Episkin Academy in China.

### 1.6.4. RESEARCH FURTHERS KNOWLEDGE

#### Key role of long UVAs in sun protection

Among the sun's rays to which our skin is exposed every day, long UVA rays account for almost 80% of total UVs and profoundly alter the dermis. They are more abundant and have a greater penetration range than other UVs and yet their biological impact has long been underestimated because of their lower energy as compared to UVB or short UVA rays. Today, we know the effects long UVAs have over time on premature aging of the skin and recent studies have emphasised their role in skin cancer and involvement in sun-induced immuno-suppression.

L'Oréal's researchers have meticulously identified the biological effects of long UVA rays, which put real stress on both the epidermis and dermis. In particular, the researchers based their work on "omics" studies to show the impact of long UVAs on the skin's deepest layers. Their work proves the importance of sun protection better addressing long UVAs and repairing damage through antioxidants.

#### The ravages of pollution

More than a decade ago, L'Oréal began scientific studies looking at the impact of the environment on the skin's health. Clinical studies run in Mexico and China have clearly shown the impacts of pollution on the skin, including increased sebum secretion and modified sebum composition, oxidation-induced skin disorders and ultimately skin hypersensitivity. Based on clinical research results, laboratories have revealed that this oxidation can cause severe skin problems, deepen wrinkles, and impair the skin barrier. Air pollution could be a potent catalyst for these effects and almost triple the oxidative stress caused by UVs.

In response, L'Oréal has devised a triple protection solution: "Purify, Repair and Protect". Group brands such as La Roche-Posay, Clarisonic, Shu Uemura, Yue-Sai, L'Oréal Paris and Maybelline offer an array of products to help consumers better protect their beauty from pollution.

#### Silanes make their entrance in cosmetics

Born of a glass industry technology transfer, sol-gel technology is a chemical process capable of transforming certain materials from a liquid to a solid, gel-like state. Thanks to the work of L'Oréal's chemical specialists on the family of silanes produced from sol-gels, this process proved an innovative solution to treat fine, damaged hair, by creating a supple yet resistant molecular network within the hair fibre to redensify and strengthen it. Combined with a cationic polymer, its long-lasting action is particularly effective on damaged hair. The Professional Products Division has successfully introduced the technology to its range of products.

# 1 | Presentation of the Group

## OPERATIONS

This research work and particularly its industrial applications in cosmetics were applauded during the XVIII edition of the International Sol-Gel Conference in Kyoto, which brings together the world's leading experts in this field of chemistry.

### 1.6.5. QUINOA CONTAINS A NEW INGREDIENT FOR GREEN CHEMISTRY

L'Oréal's researchers have discovered a new gentle exfoliating active principle in quinoa husk, which protects the quinoa grain. Quinoa husk not only contains saponins and polyphenols which make it very interesting for skin care, but, obtained through an eco-friendly process, it is a renewable resource and has a positive environmental profile which make it a new active principle in the Group's green chemistry. This has given rise to an original responsible procurement programme (*Solidarity Sourcing* - see section 1.7.3 herebelow) and to the development by chemists of a green

chemistry-based extraction method which is both gentle and robust and can be applied on an industrial scale by Chimex, the Group's molecular industrial production centre.

### 1.6.6. CONNECTED BEAUTY

The digital revolution is starting to profoundly change how beauty products are consumed. This is why the multi-skilled teams of the Connected Beauty Incubator are stepping up their collaboration with centres of excellence in biology, biophysics or biotechnology so that they take on board the latest technological advances, the power of data and new consumption patterns. At the June 2015 World Congress of Dermatology in Vancouver, they used MC10 to show the relevance of stretchable electronics for beauty applications and unveiled the first results of their collaborative work culminating in the launch of My UV Patch, a sun protection solution.

## 1.7. OPERATIONS

### 1.7.1. EXPERTISE AND SERVICES ON HAND TO HELP OUR CUSTOMERS

The Operations Division allows all of the Group's brands to offer consumers across the globe the very latest cosmetic solutions, harnessing the most advanced, agile and effective technological expertise from design through to distribution.

To meet consumers' needs, the Operations Division rolls out its expertise in its three core areas of responsibility: quality (brand protection), safety (protection of Human Resources and assets) and Sustainable Development (environmental protection) within the context of the Group's *Sharing Beauty With All* programme.

### 1.7.2. THREE MAJOR FUNDAMENTAL RESPONSIBILITIES

The Operations Division manages three major fundamental responsibilities for L'Oréal throughout the world.

#### 1.7.2.1. Protection of Human Resources and assets

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

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

A managerial safety culture, a safety system and audits to monitor procedures have been rolled out for several years on all the Group's sites, including administrative sites, research and innovation centres, factories and distribution centres. The culture defines high standards and involves staff at all levels.

Thanks to its powerful systems and ongoing improvement in its results, the Group is today one of the world's top performers in terms of safety.

#### 1.7.2.2. Protection of quality

The excellence of its quality management across the value chain (from design and sourcing through to production and distribution) is world-famous and enables L'Oréal's brands to offer consumers high-quality products and superior performance. This demanding quality system mainly aims to guarantee product integrity with the same standard of quality all over the world, while complying with local regulations.

#### 1.7.2.3. Environmental protection – *Sharing Beauty With All*

L'Oréal's Operations Division makes a vital contribution to the success of the Group's strategic programme and rolls out initiatives across the value chain, from design through to distribution.

- ♦ "Innovating sustainably": improving the environmental profile of new packaging;

- ◆ "Producing sustainably": reducing CO<sub>2</sub> emissions from production and transport, water consumption and waste generation;
- ◆ "Living sustainably": designing a Product Assessment Tool to determine the environmental and societal profile of all new products;
- ◆ "Developing sustainably": evaluating suppliers on their CSR performance, and rolling out the responsible procurement programme *Solidarity Sourcing*.

### 1.7.3. A MAJOR CONTRIBUTION ACROSS THE VALUE CHAIN

#### 1.7.3.1. Design

##### *Contributing to innovation*

The Operations Division plays 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, design, and processes. In 2015, L'Oréal filed 90 patents for packaging and processes.

To accelerate the innovation process, a host of initiatives exist promoting exchanges and meetings between the Group and its suppliers. *Cherrypack*, a global in-house trade fair dedicated to innovation, was created to enable suppliers to present on an exclusive basis their latest innovations with regard to finished product packaging and Point-of-Sale (POS) advertising to all of the Group's brands and to research and innovation teams. Other multi-annual events include *Marketplace*, days dedicated to packaging innovations organised by Division, cosmetics category or geographic zone.

#### 1.7.3.2. Sourcing

##### *360° management of supplier performance*

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 forged with those suppliers.

L'Oréal's strategic suppliers<sup>(1)</sup> are regularly assessed using a scorecard tracking five equally important areas of performance: innovation, quality, competitiveness, supply chain and Corporate Social Responsibility including sustainability. Each of these areas is broken down into a series of specific indicators which have been formally laid down in order to make it easier to rate them and give guidance.

Forging durable links with suppliers entails the development of local sourcing in fast-growing zones. Since 2010, the Group has implemented the wall-to-wall programme, whereby a packaging production facility operated by a supplier is set up within the Group's own factories. This partnership develops responsiveness and industrial flexibility, while reducing the transportation of packaging items and the generation of the related waste. 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, the Istanbul facility in Turkey or the São Paulo factory in Brazil, which source their plastic bottles in this manner.

##### *A strong commitment to social responsibility*

The Operations Division plays a crucial role in the field of social responsibility and actively participates in the *Sharing Beauty With All* programme. L'Oréal encourages its suppliers to step up their Sustainable Development practices and rigorously monitors their commitments through a large number of social audits conducted throughout the world. A total of 7,080 social audits have been carried out since 2006, including 951 in 2015. The aim of these audits is to provide suppliers with support in improving their safety standards and their environmental and social performance (see chapter 3).

In launching *Solidarity Sourcing* 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 of social inclusion. *Solidarity Sourcing* involves making certain purchases from local suppliers who make commitments in favour of minorities, disabled workers or workers from underprivileged backgrounds. It may also involve very small suppliers or fair trade players that L'Oréal calls on to contribute through its suppliers. In 2015, the *Solidarity Sourcing* programme provided access to employment for over 57,200 people in vulnerable situations all over the world, as compared to 27,000 people in 2014. L'Oréal wishes to expand this approach to include its suppliers' suppliers and this new initiative aimed at encouraging the Group's suppliers in turn to use the approach for their own suppliers was officially launched in 2012.

#### 1.7.3.3. Production

##### *Regionalised production*

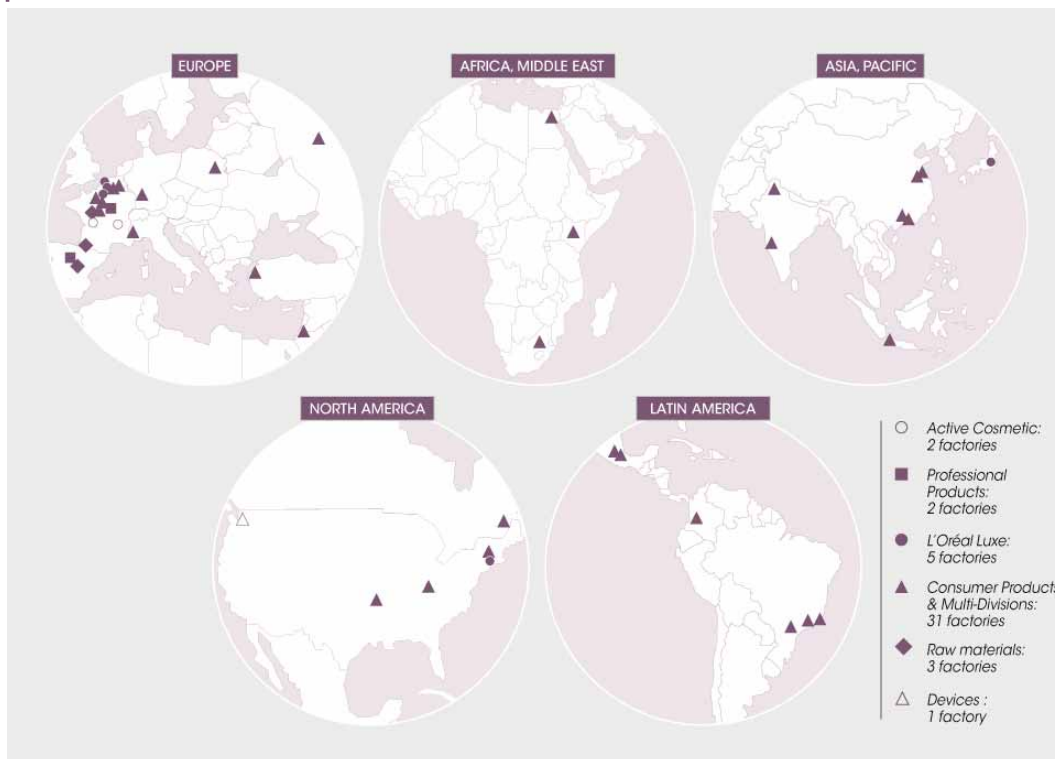
L'Oréal's 44 factories are located in order to supply all the countries in which the Group is present. The strategy is to produce locally in order to meet the needs of local and regional consumers. To support the drive to win over another one billion consumers, notably in the New Markets, the Group has, for example, production sites in Egypt, Kenya, China, Indonesia as well as India, which have resulted from the construction of new facilities or from the integration of acquired companies.

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

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## OPERATIONS

### 44 FACTORIES WORLDWIDE



#### Factory specialisation

Factories generally cover the production requirements of one Operational Division, are specialised in a given major industrial technology and are located close to the markets that they serve. The rotation of brands on the packaging lines is also assisted by the increased standardisation of industrial processes. This industrial model helps to improve output, quality and safety management performance year after year.

#### Cost and quality management

Quality has improved across the entire cycle, from design and production through to distribution. This resulted in a sharp drop in customer claims in 2015, which stood at 51 per one million products.

In 2015, the System of Operational Excellence continued to be rolled out in all factories. This continuous improvement process is based on the close involvement of employees in a number of areas such as safety, environmental impact, ergonomics and production quality and capacity at industrial sites, while at the same time reducing costs.

L'Oréal has set itself the goal of continually improving its economic performance. In 2015, it focused particularly on managing and reducing material losses and on reducing washing water used in the factories (this fell by 18% in the

year). Besides economic gains, these cutbacks reinforce the factories' commitment to Sustainable Development in terms of reducing water consumption and waste generation.

#### Environmental protection at the heart of production

In the field of sustainable production, the Group's environmental policy looks to roll out best practices with regard to energy efficiency, efficient resource consumption and waste reduction, and the best possible waste treatment, as well as to implement breakthrough projects in an ongoing quest for operational efficiency combined with environmental performance. In 2015, the Operations Division once again showed its ability to decouple growth in production (up +26%) from the consumption of resources (CO<sub>2</sub> emissions down 56% and water consumption down 45% since 2005).

Through the *Commitments for 2020* made under the *Sharing Beauty With All* programme, the Group continues to pursue the approach initiated in 2009 aimed at reducing the environmental footprint of its factories and distribution centres. The pledge to slash its CO<sub>2</sub> emissions in absolute terms (both direct and indirect), water consumption and waste generation per finished product (FP) by 50% by 2015 from a 2005 baseline is now a pledge for a 60% reduction by 2020 (see chapter 3). Furthermore, the environmental impacts related to packaging and transportation are also taken into consideration.



In many of the Group's sites, initiatives are in place to choose the alternative energy sources that are best suited to the local ecosystem, such as geothermal energy in Vichy in France, photovoltaic panels in Mexico, biomethanation in Belgium, phytorestation in Mourenx in France, a biomass facility in Burgos in Spain, and hydraulic power in Yichang, China.

Nine Operations Division sites were carbon neutral in 2015: 5 factories (Libramont in Belgium, Settimo Torinese in Italy, Burgos in Spain, Rambouillet in France and Yichang in China) and 4 distribution facilities (Cranbury and Brunswick in the United States, a facility in Mexico and another in Australia).

In 2015, L'Oréal obtained very high Carbon Disclosure Project (CDP) scores for performance (A) and information transparency (99) (versus A and 98, respectively, in 2014) and was recognised as a leading player in the fight against climate change. Chapter 3 provides more details of these scores.

#### 1.7.3.4 Logistics

L'Oréal's supply chain covers all information flows and physical flows in the value chain, from the supplier to the point of sale. It ensures that the right product is delivered at the right time in accordance with the expectations of its distributor customers while controlling costs. In 2015, L'Oréal's supply chain achieved a record global service level in all channels, which now include a growing proportion of deep trade outside the traditional channels and points of sale, particularly in the New Markets, and e-commerce. The 2015 ranking published by Gartner, an independent company evaluation specialist, applauded L'Oréal for placing its supply chain at the heart of its business and increasing its proximity to its distributor customers: L'Oréal's supply chain was ranked among the Top 5 supply chains in Europe and moved up four places in the world ranking.

Over the past few years, the L'Oréal Group has invested significantly in upgrading its supply chain information systems in order to synchronise all stages of the supply chain and adjust production to fit market needs as closely as possible. Further, in order to improve the quality of its sales forecasts, a key issue for its commercial entities, the Operations Division launched an integrated information system which is being gradually rolled out worldwide. In 2015, it was rolled out to Brazil and to countries in Africa and the Middle East and now covers 60% of L'Oréal's 2015 sales.

The geographical location of the distribution centres enables L'Oréal to be as close as possible to the 515,000 direct delivery points of the Group or its distributor customers. The modernisation of tools and practices in these distribution centres, for example as part of projects run in 2015 to automate preparative tools in the United States, Australia and Germany, and the permanent synchronisation between our distribution network and changing customer needs in each country and distribution channel, make it possible to adjust our physical distribution network on an ongoing basis in order to increase our agility.

#### 1.7.4. GLOBAL ECONOMIC PERFORMANCE AT THE SERVICE OF THE BRANDS AND THE COMMERCIAL ENTITIES

The Operations Division has major economic responsibility for the brands and markets and this has an impact on total product costs.

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



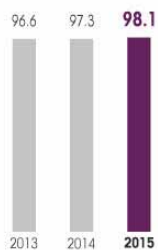
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## OPERATIONS

**Cosmetics investment commitments**  
(production and supply chain commitments in € million)



**Comparable annual product purchasing price index**  
(index base: 100 year n-1)

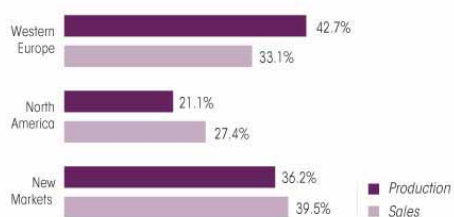


**Cosmetics factories workforce cumulated productivity index<sup>(1)</sup>**  
(index base: 100 in 2002)



(1) Ratio calculated for cosmetics factories, excluding device factories. 2015 acquisitions are not included in the 2015 figure.

**Cosmetics Divisions production and sales by geographic zone in 2015 <sup>(2)</sup>:**  
production close to the markets



(2) Excluding Niely.

## 1.8. INVESTMENT POLICY

1

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

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

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see in particular section 1.7. on page 34 and section 1.6. on page 31);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities in the cosmetics industry. To capture new market share, in-depth research must be conducted all over the world, and advertising and promotional expenses need to be attuned to the familiarity of the brands and their competitive position. Lastly, investments in point-of sale (POS) advertising materials ensure optimal presence for our brands in points of sale.

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

In 2015, the Group's investments totalled €1,172 million, or 4.6% of its sales, close its highest levels. This trend reflects the

Group's constant efforts in terms of improving industrial efficiency and research performance and enhancing brand value.

Investment commitments in 2015 can be broken down as follows:

- ◆ production and the supply chain represent approximately 27% of total investments;
- ◆ marketing investments, including moulds, POS advertising materials and stores account for 44%;
- ◆ IT investments spread over all these categories represent 17% of total investments.
- ◆ Research and the head offices in different countries account for the remainder;

See notes 3.2.2, 7.2 and 13.2 of chapter 4, *Consolidated financial statements* for more details of these investments.

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

## 1.9. RISK FACTORS\*

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♦ 1.9.3. Industrial and environmental risks	page 44
♦ 1.9.4. Counterparty risk	page 45
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♦ 1.9.8. Insurance	page 47

The Group operates in a changing environment. Like any company, it is necessarily exposed to risks which, if they were to materialise, could have a negative impact on its business activities, its financial situation and its assets, particularly in terms of reputation and image.

This chapter presents the main risks to which the Group considers that it is exposed, namely risks specific to its business activities, followed by legal, industrial and environmental risks, and finally risks of an economic and financial nature.

L'Oréal has set up an Internal Control system to prevent and manage these risks more effectively. The Internal Control and risk management procedures are described in the chapter 2 as provided for by Article L. 225.37 of the French Commercial Code.

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

The risks to which the Group considers it is exposed are described below.

### 1.9.1. BUSINESS RISKS

#### 1.9.1.1. 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. Circulation of detrimental information in the media, regardless of whether or not such information is founded, has been facilitated by the introduction of new technologies and the development of social networks, and could also affect the Company's reputation and brand image.

In order to reduce the risks relating to events of this kind, L'Oréal has set up a system which monitors English- and French-language websites on an ongoing basis. The subsidiaries deploy their own social media and web monitoring system under the aegis of their Director of

Communications and report on monitoring to the Corporate Communications Department. L'Oréal has also set up a crisis management procedure which is tasked with preventing, managing and limiting the consequences of undesirable events on the Company across the globe. The Group crisis management officer reports directly to General Management. The deployment of the Code of Ethics throughout the Group aims at reinforcing the dissemination of rules of good conduct which form the basis of L'Oréal's integrity and ethics. These rules of good conduct seek to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee. L'Oréal has also implemented a Code of Good Practice for the use of social media by its employees.

#### 1.9.1.2. Product quality and safety

Consumer safety is an absolute priority for L'Oréal: assessing safety is at the heart of any new product development process and a prerequisite before any new product can be launched on the market. The principles governing the Group's quality and safety policy are:

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

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

The same safety standards are applied worldwide to ensure that consumers from across the globe have access to products of identical quality.

L'Oréal goes one step further in safety assessments by monitoring the potential adverse effects that may arise once the product is on the market through its cosmo-vigilance network. This network compiles, validates and analyses any adverse effects related to use of a product based on rigorous, proven methodologies, allowing the appropriate corrective measures to be taken where necessary (see chapter 3, *Cosmo-vigilance and impact on safety assessment*).

In terms of questions that civil society may ask regarding certain substances and their effects on health and the environment, three points summarise L'Oréal's position:

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

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

The Group has also put in place insurance policies protecting it against third party liability claims related to its products (see section 1.9.8.2 *Integrated worldwide programmes* below). The measures taken in favour of consumer health and safety are described in further detail in chapter 3.

### 1.9.1.3. Responsible communication

L'Oréal provides consumers with innovative products whose success is based on their quality and performance. The benefits of these products are highlighted in the Group's communications. Despite all due care taken to guarantee the accuracy and fairness of the claims made in these communications, there is always a possibility that they may be challenged by the authorities, organisations or consumers.

In order to reduce the risk of any such challenges being made, the International Product Communication Evaluation Department ensures the conformity of product communications before they are put on the market. The Group's Code of Ethics sets out the fundamental principles of responsible communication and L'Oréal has made a commitment to implement the International Chamber of Commerce Consolidated Code of Advertising and Marketing Communication Practice and the Cosmetics Europe Charter and Guiding Principles on responsible advertising and marketing communication to which the key global cosmetics industry players in Europe adhere.

### 1.9.1.4. Seasonal nature of business

In certain cases and for specific products, the timing of sales can be linked to climate conditions, such as for example sun care products. Products and brands sought after by consumers as gifts see particularly strong sales at year-end and during holiday periods. This is particularly the case for fragrances and The Body Shop products. A major disruption in any of these factors could affect L'Oréal's sales.

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

### 1.9.1.5. Geographic presence and economic and political environment

L'Oréal has subsidiaries in 69 countries, with 66.9% of its sales being generated outside Western Europe. Global growth in the cosmetics market has led L'Oréal to develop its activities in countries within the "New Markets" Zone, which represented over 39.5% of its cosmetics sales in 2015. The breakdown of sales and sales trends are set out in chapter 1 of this Document.

Besides the currency risks mentioned in note 10.1. in chapter 4, *Hedging of currency risk* and in the *Currency risk* section below, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.

However, its broad global presence helps to maintain a balance in sales and enables results to be offset between countries and geographic zones. In periods of major economic slowdown or sovereign debt crises in certain countries, the Group's sales growth could however be affected.

### 1.9.1.6. 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 combination or disappearance of distribution chains and changes in regulations with regard to selective distribution could impact the development of the Group's brands in the country or countries concerned.

The presence of the Group's brands in all types of distribution networks helps mitigate any potential negative impact.

### 1.9.1.7. Competition

Due to its size and brand positioning, L'Oréal is subject to constant pressure from local and international competitors across the globe.

Competition is healthy: it drives the Group's teams around the world to do their utmost to serve the interests of consumers and the Group's brands. Winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge in a context where companies constantly strive to obtain the best positions for their products and launch the most attractive and effective product ranges offering an optimal price/quality ratio.

With a view to the roll-out of its "Universalisation" strategy, the Group has rethought its innovation model and is constantly increasing its investments in research. L'Oréal's research teams innovate to respond to the infinite diversity of beauty aspirations all over the world. Thanks to this ability to implement long-term research programmes, L'Oréal can maintain its lead over its competitors (see chapter 1.6. of this document, *Research & Innovation: Excellence step-by-step*).

### 1.9.1.8. Innovation and consumer expectations

The development of innovative products and their adaptation to market requirements is an ongoing priority for the Group. If it fails to anticipate or interpret changes in consumer expectations and new trends, especially with regard to digital solutions and connected tools, its sales could be affected.

The Consumer & Market Insights Department, part of the Innovation Division, is constantly monitoring changes in consumers' cosmetic expectations by product category and major regions of the world. Its work enables the Group's researchers to develop new products that are in step with market needs, as discussed in paragraph *Local research and product adaption* in section 1.6 of this Document.

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## RISK FACTORS\*

The Digital Division is responsible for accelerating the Group's digital transformation by helping the brands create enriched spaces for expression and helping teams to establish more interactive, close-knit and bespoke relationships with consumers, while leveraging the opportunities for developing business through digital media as a distribution channel.

Consumers' expectations with regard to Sustainable Development are also at the heart of the *Sharing Beauty With All* programme unveiled in 2013 (see chapter 3).

### 1.9.1.9. External growth transactions

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

However, implementation of this strategy depends on L'Oréal identifying development opportunities at an acceptable cost and under acceptable conditions.

The Group has put in place a monitoring process for such transactions, which includes:

- ♦ setting up multidisciplinary teams to prepare projects and due diligence work;
- ♦ a review by the Board of Directors' Strategy and Sustainable Development Committee and then by the Board of Directors, of acquisition or equity investment opportunities that represent significant amounts or fall outside the scope of the Group's usual business activities, and of the conditions for their implementation.

These operations may have a negative impact on the Group's results if the Group fails to successfully integrate the activities of the acquired companies and their personnel, products and technologies under the expected conditions, or if it fails to achieve the expected synergies or to successfully handle liabilities not anticipated when the transaction was completed and for which L'Oréal has little or no protection from the seller.

Board-approved acquisitions are regularly monitored by the Board of Directors which is informed of the conditions for integration and the progress made.

### 1.9.1.10. Risks related to Human Resources management

One of the keys to L'Oréal's success lies in the talent of its staff. If L'Oréal fails to identify, attract, retain and train competent employees who behave responsibly, the development of its activities and its results could be affected.

The Group therefore looks to create a motivating, engaging professional environment which also encourages employees to take on board the Group's values, including those put forward by the Code of Ethics. The launch of the international *Share & Care* programme, which meets the essential needs of each of the Group's employees (in terms of social protection,

healthcare, parenthood and quality of life at work) helps the Group to be more competitive and plays out its belief that social and economic performance are not just closely related but mutually reinforcing. L'Oréal's Human Resources policy is described in chapter 2 and in chapter 3.

### 1.9.1.11. Safety and security

The Group's presence at more than 400 sites (excluding own stores and the point-of-sales outlets of our distributor customers) exposes it to risks with regard to events stemming for example from geopolitical tensions, malicious acts or natural disasters. The consequences of these risks may adversely affect the Group's assets, namely people and tangible and intangible assets.

In order to permanently protect these resources (or Group assets) against malicious acts, the Security Department helps in the preventive implementation of technical, HR and operational procedures to limit the residual risk of malicious damage and support the Group's international development in high-risk countries. It also provides employees travelling abroad for business with a monthly report on travel risks.

As regards the occurrence of natural disasters, since 2010 the Real Estate Department has deployed a global programme to assess site vulnerability to seismic risk in the most exposed areas. At the same time, the Information Systems Department ensures that seismic risk is taken into consideration in the IT continuity plans for the countries most at risk.

### 1.9.1.12. Information systems

The day-to-day management of activities such as purchasing, production and distribution, invoicing, reporting and consolidation, as well as internal data exchange and access, relies on the proper functioning of all technical infrastructure and IT applications.

As part of the ongoing development of information technologies and their applications, the Group's business activities, expertise and more generally its relations with all stakeholders in its social and economic environment depend on being able to function in a more virtual, digital environment.

The risk of a malfunction/ breakdown in these systems or misappropriation of confidential or personal data for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) cannot be ruled out. To minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-up and protection, access to confidential data and data security with regard to both computer hardware and software applications. In order to adapt to new communications technologies, L'Oréal has introduced an Information and Communication Technologies Charter. These measures are described in page 106 of Chapter 2.

To address the growing threat of cybercrime, L'Oréal takes continuous steps to strengthen the resources dedicated to information system security. This plan relies in particular on anti-intrusion equipment, an information system security audit programme, protecting sensitive equipment and providing global oversight for identifying irregularities (see also the Report of the Chairman on Internal Control). L'Oréal's approach is part of an ongoing improvement process and its safety focus is constantly adjusted in line with new cyber threats. For example, the Group is increasingly investing in systems for detecting and reacting to warnings and security incidents and in the periodic oversight of the effectiveness of such solutions.

### 1.9.1.13. Risk of an Internal Control failure

L'Oréal has set up an Internal Control system which, however effective it may be, can only provide reasonable and not absolute assurance that the Company's objectives can be achieved due to the inherent limitations of any control system. Accordingly, the Group cannot rule out the risk of an Internal Control failure that may expose it to an act of fraud in particular.

A process designed to raise the awareness of fraud risk has been rolled out to all the Management Committees of the Group's subsidiaries (setting out the main operational scenarios that could occur, the alert systems and the existing procedures and controls) and helps reduce the Group's exposure to this risk. The Group has also published a corruption prevention guide which rounds out the commitments and principles set out in L'Oréal's Code of Ethics, as described in chapter 3, *L'Oréal's Corporate social, environmental and societal information*.

## 1.9.2. LEGAL RISKS

### 1.9.2.1. Intellectual property: trademarks and models

L'Oréal is the owner of key intangible assets on behalf of the Group's companies to which it grants licences in exchange for the payment of royalties. L'Oréal thereby owns most of its brands, which are a strategic asset for the Group, particularly the major international brands described in the *Cosmetics Divisions* section. This does not include several 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 this responsibility is entrusted to a special unit of the Group's Legal Department, which has responsibility for registering trademarks in all countries. This unit also keeps a close watch on the market and takes the necessary actions against infringers and counterfeiters.

The L'Oréal Group is also an active member of organisations which have set themselves the goal of combating

counterfeiting and promoting good commercial practices. In particular these include the French Manufacturers' association (*Union des Fabricants*), the International Chamber of Commerce and Business Europe.

Before any trademark and model is registered, searches are conducted to identify any prior rights that may exist.

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

This potential risk has to be cited in order to provide a comprehensive risk account, even though the likelihood of it occurring is low due to the care taken when conducting prior rights searches.

### 1.9.2.2. 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 now.

In order to protect the Group against the risk of another company claiming one of its molecules, a production process or packaging, L'Oréal has set up the International Industrial Property Department, part of the Research and Innovation Division. This specific department is responsible for filing the Group's patents, exploiting them and defending them on a worldwide basis. However, one cannot exclude that third parties could contest the validity of certain patents held by the Group.

### 1.9.2.3. Regulatory changes

L'Oréal is subject to the laws which apply to all companies and it requires its subsidiaries to comply with the regulations of the countries in which it operates.

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 helps analyse and draft practical guides for the implementation of these regulations.

L'Oréal is also subject in Europe to the 7<sup>th</sup> amendment to the European Cosmetics Directive on animal testing of cosmetic ingredients. An action plan has been drawn up at L'Oréal in order to improve the design and methods used to assess the safety of raw materials. This plan is being implemented on an accelerated basis in order to prepare as effectively as possible for the application of these regulations. L'Oréal was able to stop testing finished products on animals in 1989 (14 years before it became a legal obligation in Europe) and develop predictive evaluation strategies to meet European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after March 11<sup>th</sup>, 2013 (see the *Balancing ethics and innovation* section in 1.6.3).

Certain countries are subject to export restrictions, embargoes, economic sanctions or other trade restrictions levied by the US, the European Union or other countries or organisations.

As an active member of professional associations in the countries in which its industry is represented, L'Oréal is involved in an ongoing dialogue with national or regional authorities in charge of specifically regulating products in its industrial sector in order to anticipate or manage any risks that may arise from changes in the regulatory landscape.

#### 1.9.2.4. 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 12.2. of the *Consolidated financial statements* in chapter 4).

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 *"The way we compete"*, an ethical and legal guide on the conditions of fair competition.

A provision is set aside in the parent company and consolidated financial statements whenever the Group has an obligation towards a third party likely to involve an outflow of economic resources whose cost can be reliably estimated.

There are no other governmental procedures, legal or arbitration proceedings, including any proceedings or procedures of which the Company is aware, which are pending or threatened, that may have, or have had over the last 12 months, material effects on the financial situation or profitability of the Company and/or the Group.

### 1.9.3. 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 44 factories, each specialising in a specific type of technology.

#### 1.9.3.1. 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 distributors in a cosmetics market that requires companies to be increasingly responsive.

A major stoppage of activity at a factory or distribution centre could therefore have an adverse effect on the achievement of commercial objectives.

To prevent this risk, business continuity plans exist for each operational site. These aim at planning for the unavailability of part of the Group's supply chain as far as possible and resuming business activities as quickly as possible.

#### 1.9.3.2. 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 a disruption as the result of a failure by an important supplier.

In order to prevent these risks, L'Oréal has prepared production continuity plans which aim to identify replacement solutions (e.g., supplier back-up, availability of several moulds for articles for strategic products, etc.).

#### 1.9.3.3. Environment and safety

The cosmetics industry has a limited environmental risk profile. However, as is the case for any production, distribution, research and general administration operations, L'Oréal is exposed to safety and environmental issues (for example related to the use of certain raw materials, the use of machines or electrical equipment in production or storage areas, handling operations liable to cause accidents involving bodily injury, waste water treatment, etc.). The main risk for the Group's industrial sites is the risk of fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals.

The Group's Environment, Health and Safety (EHS) policy aims to minimise the impact on the environment and guarantee the health and safety of employees, customers and the communities in which L'Oréal carries out its activities. As a result of this policy, the risks inherent in our business activities are systematically identified and brought under control. Moreover, under its *Sharing Beauty With All* programme, the Group pursues its initiatives aimed at reducing its environmental footprint by setting itself ambitious, concrete targets (see chapter 3).

This rigorous EHS policy has been implemented throughout the Group for many years.

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



The L'Oréal Group operates 104 industrial 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.

#### 1.9.3.4. EHS risk map and audits

Within the scope of this EHS policy, prevention for the industrial sites is based on the Safety Hazard Assessment Procedure (SHAP), whereby employees on the ground assess risks under the responsibility of the Site Manager. This programme helps identify dangers both overall and for each workstation, and assesses the corresponding risks. Using the SHAP method, a risk map is drawn up for the sites, the level of risk is assessed and the necessary oversight measures are put in place. The approach is based on a dialogue between those in charge and contributes to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly in line with changes at sites and experience on the ground. EHS audits are conducted every three or four years in each factory and distribution centre. The risk map is reviewed within the scope of these audits. In 2015, an EHS risk audit was carried out at 12 factories and 16 distribution centres.

#### 1.9.3.5. Constant concern for employee safety

Employee health and safety is one of L'Oréal's priorities and is an integral part of the EHS policy and the Group's human and social policy. It is rooted in the evaluation and prevention of professional risks in the Company as described in detail in chapter 3. Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.

The Group implements the necessary means to ensure that it is in compliance with the applicable health and safety legislation and regulations in the various countries where it operates. Within the scope of the *Commitments for 2020* under the *Sharing Beauty With All* programme, L'Oréal employees will notably have access to healthcare coverage and social protection wherever they are in the world. L'Oréal wants its geographical expansion to go hand-in-hand with social protection for L'Oréal employees all over the world. L'Oréal's employees will benefit from healthcare coverage aligned with the best practices in the country in which they are based. Financial protection will also be provided for all L'Oréal employees should unforeseen life events such as permanent disability occur.

#### 1.9.4. COUNTERPARTY RISK

The Group deals primarily with international banks and insurance companies which have been ranked investment grade 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 9.2., *Cash and cash equivalents* of the Consolidated financial statements in chapter 4), it gives priority to short-term transferable instruments from first-rate financial institutions.

The Group therefore considers that its exposure to counterparty risk is low (see note 10.5., *Counterparty risk* of the Consolidated financial statements in chapter 4).

#### 1.9.5. CUSTOMER RISK

Customer risk may result from a failure to collect receivables due to cash problems encountered by customers or to customers no longer being in business.

However, this risk is limited by the Group's policy of taking out receivables insurance cover as far as this is permitted by local conditions. The risk associated with credit insurance is mentioned below in section 1.9.8.2.

Due to the large number and variety of distribution channels worldwide, the likelihood of a significant impact on the Group as a whole remains limited. The 10 largest distributor customers represent 19.4% of the Group's sales. The amount provisioned which is considered at risk of non-collection is set out in note 3.3.2., *Trade accounts receivable* of the Consolidated financial statements in chapter 4. This amount does not exceed 2% of gross accounts receivable.

#### 1.9.6. LIQUIDITY RISK

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

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 €3,813 million, including 450 million in USD facilities (€413 million). In all, €350 million matures within 1 year and €3,463 million matures within 1 to 4 years (see note 9.1.9., *Confirmed credit lines* of the consolidated financial statements in chapter 4).

These credit lines are not subject to any conditionality clause based on financial criteria. The Group also regularly uses the financial markets through the use of short-term paper in France and commercial paper in the United States. None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants) (see note 9.1.1., *Debt by type*, 9.1.2., *Debt by maturity date*, and note 10.6., *Liquidity risk* of the Consolidated financial statements in chapter 4).



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## RISK FACTORS\*

When the Group makes financial investments, in the form of either bank deposits or marketable securities, it gives priority to short-term transferable instruments from first-rate financial institutions.

The L'Oréal Group benefits from the following short-term credit ratings:

- ◆ A-1+, awarded in September 2015 by Standard & Poor's;
- ◆ Prime 1, awarded in May 2015 by Moody's; and
- ◆ F1+, awarded in September 2015 by FitchRatings.

These ratings are unchanged compared to those assigned in 2014.

### 1.9.7. FINANCIAL AND MARKET RISKS

Financial risks include interest rate risks, currency risks, risks relating to the impairment of intangible assets, equity risks, risks with regard to assets covering employee benefit commitments (plan assets), risks relating to changes in tax regulations and core commodity risks.

#### 1.9.7.1. Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term paper. The Group mainly refinances at floating rates, as mentioned in note 9.1.4., *Breakdown of fixed rate and floating rate debt* of the Consolidated financial statements in chapter 4. Other details with regard to debt and interest rates are also provided in notes 9.1.5., *Effective interest rates*, 9.1.6., *Average debt interest rates* and 9.1.7., *Fair value of borrowings and debts* of the Consolidated financial statements in chapter 4.

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

In order to limit the negative impact of interest rate fluctuations, the Group has a non-speculative interest rate management policy using derivatives as appropriate, as described in notes 10.3. *Hedging of interest rate risk* and 10.4. *Sensitivity to changes in interest rates* of the Consolidated financial statements in chapter 4.

#### 1.9.7.2. Currency risk

Due to its international presence, L'Oréal is naturally exposed to currency fluctuations. Fluctuations between the main currencies may therefore have an impact on the Group's results when translating the foreign currency financial statements of subsidiaries into euros, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows resulting from purchases and sales of items and products arise between subsidiaries in different countries. Procurement by subsidiaries is mainly in the currency of the supplier's country.

In order to limit currency risk, the Group adopts a conservative approach whereby it hedges a significant portion of its annual requirements for the following year through forward purchases or sales contracts or through options at year-end.

Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress. In order to obtain better visibility over the flows generated, currency risk management is centralised with the Treasury Department at head office (Corporate Finance Department), which uses a specific tool for centralising the subsidiaries' requirements by currency (FX report).

The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 10.1., *Hedging of currency risk* of the Consolidated financial statements in chapter 4.

Significant changes in the monetary environment could have an impact on the Group's results and shareholders' equity. The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 11.3., *Other comprehensive income* of the Consolidated financial statements in chapter 4. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 10.2., *Foreign exchange gains* of the Consolidated financial statements.

#### 1.9.7.3. Risk relating to the impairment of intangible assets

As stated in the section on legal risks, L'Oréal's brands are a strategic asset for the Group.

As described in note 7., *Intangible assets* of the Consolidated financial statements in chapter 4, goodwill and brands with an indefinite useful life are not amortised but are tested for impairment at least once a year. Where the recoverable amount of a brand is lower than its net book value, an impairment loss is recognised. Similarly, any difference between the recoverable amount of each cash-generating unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the income statement. The amounts of impairment for the last three financial years are provided in note 4.1., *Other operational income and expenses* of the Consolidated financial statements in chapter 4.

The data and assumptions used in impairment tests carried out on cash-generating units that comprise material amounts of goodwill and non-amortisable brands are set out in note 7.3., *Impairment tests on intangible assets* of the Consolidated financial statements in chapter 4.

#### 1.9.7.4. Equity risk

L'Oréal does not invest its cash in shares. Its main equity risk is the 9.05% stake it held in Sanofi as of December 31<sup>st</sup>, 2015, for an amount described in note 9.3., *Non-current financial assets* of the Consolidated financial statements in chapter 4.

If the Sanofi share price suffered a significant or prolonged decline in value below the initial share price, this would potentially lead L'Oréal to write down its asset through the income statement as explained in note 10.7., *Shareholding risk* of the Consolidated financial statements in chapter 4.

#### 1.9.7.5. Risks with regard to assets financing employee benefit commitments (plan assets)

By nature, assets used to finance employee benefit commitments are exposed to fluctuations on the markets in which such assets are invested.

A sharp, prolonged downturn in the financial markets may have an impact on the value of the portfolios created (see note 5.4., *Post-employment benefits, termination benefits and other long-term employee benefits* of the Consolidated financial statements in chapter 4).

Pursuant to the provisions of the Group's Internal Charter on the Management of Plan Assets, the allocation by category of assets is subject to limits aimed in particular at reducing volatility and correlation risks between these different asset categories. A Supervisory Committee for the Group's pension and employee benefit schemes ensures that these principles are implemented and monitored, as described in the *Employee benefit and pension schemes* section in the *Social information* section in chapter 3. Moreover, the Group chooses insurers and custodians with robust ratings from the three main specialist rating agencies.

#### 1.9.7.6. Risk relating to changes in tax regulations

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

#### 1.9.7.7. Core commodity risk

The production of cosmetics depends on the purchase of raw materials whose prices vary. These raw materials or components are used in the manufacture of products or in their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally sharp increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. However, it is estimated that the impact of this rise on gross margin would remain limited.

In order to anticipate the impact of these fluctuations and as a preventive measure, L'Oréal negotiates price indices with its main suppliers of raw materials and packaging items. The Group therefore does not use hedging.

Also in order to offset market volatility, L'Oréal rolls out ongoing efforts in terms of cost-cutting projects and actions to improve industrial productivity. Pooled responsibility for purchases has made it possible to reinforce these measures.

### 1.9.8. INSURANCE

#### 1.9.8.1. 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 arrangement 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;
- ♦ at local level, subsidiaries have to put in place mandatory insurance cover in order to meet their local regulatory obligations.

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

#### 1.9.8.2. Integrated worldwide programmes

##### *Third party liability*

For several years, the Group has had in place a programme for all of its subsidiaries across the globe. This programme covers the financial consequences of the third party liability of Group entities. It includes various aspects of third party liability, and notably operating liability, third party liability related to products, 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, ever-present priority at all levels of Group operations.

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RISK FACTORS\*

### *Property damage and interruption of operations*

The purpose of this policy is to protect the Group's assets against events such as fire, lightning, explosion, theft and natural disasters within the limits of the terms and conditions available on the insurance market.

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

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

### *Transport*

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

### *Customer credit risk*

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

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

### *Self-insurance*

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