

1.1. THE L'ORÉAL GROUP: FUNDAMENTALS

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

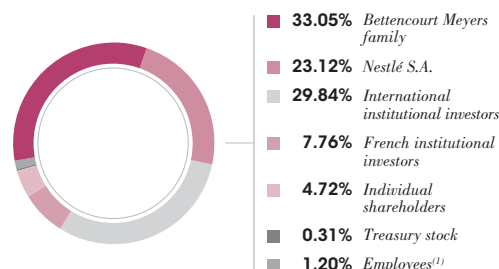
For over 100 years, L'Oréal has devoted itself to one business: beauty, in which it is the world's leading company. It is the Group's *raison d'être*, because, far from being futile and superficial, cosmetics are full of meaning. They give everyone self-confidence, enable them to blossom and open up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

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

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

Loyal shareholders, stable capital structure

THE SHAREHOLDERS AT DECEMBER 31ST, 2016



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

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

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

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

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

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

COMPOSITION OF THE BOARD AT DECEMBER 31ST, 2016

1

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

◆ Independence within the meaning of the criteria of the AFEP-MEDEF Code as assessed by the Board of Directors.

● Committee Chairman/Chairwoman ● Committee Member

58

Average age
of the Directors at
12/31/2016

7

independent
Directors

46%

female Directors
(excluding the Directors representing
the employees)

Activities of the Board and its Committees in 2016

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

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

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

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

BOARD OF DIRECTORS			
6 meetings in 2016 98% attendance rate			
Main work in 2016: <ul style="list-style-type: none"> Monitoring of business activities Financial issues Market and competitor analysis Development challenges (by zone and by business segment) Acquisitions and follow-up of business plans Digital development Monitoring Sustainable Development commitments Ethics and Human Resources Policies Strategic seminar in New York: visit to the main sales channels, analysis of the American market and review of the challenges and opportunities for L'Oréal USA 			
STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE	AUDIT COMMITTEE	APPOINTMENTS AND GOVERNANCE COMMITTEE	HR AND REMUNERATION COMMITTEE
4 meetings 100% attendance rate	4 meetings 96% attendance rate	4 meetings 95% attendance rate	5 meetings 97% attendance rate
Main activities in 2016 <ul style="list-style-type: none"> Analysis of sales, update on business activities, markets and competition. Analysis of the performance of the latest product launches. Examination of the Group's strategic development prospects. Review of the main acquisition projects 	Main activities in 2016 <ul style="list-style-type: none"> Review of the accounts and financial situation Risk review and monitoring Review of Internal Control and Internal Audit Follow-up of business plans for acquisitions Examination of the procedure for the approval of non-audit services Information systems security Audit of CSR reporting Policy with regard to insurance 	Main activities in 2016 <ul style="list-style-type: none"> Reflection on the composition of the Board and its Committees Review of the succession plans Review of the independence of Directors Methods of organisation of executive sessions (meetings held without the presence of the executive officers) Topical issues with regard to Governance (reports of the <i>Haut Comité de Gouvernement d'Entreprise</i> and of the AMF, etc.) Review of the voting policies of the main investors and proxy advisors 	Main activities in 2016 <ul style="list-style-type: none"> Analysis of the performance of the Chairman & CEO and recommendations with regard to setting the remuneration for 2016 Recommendations concerning the 2017 remuneration policy. Recommendations concerning the bonus structure and objectives for the Chairman & CEO for 2017 Preparation of the <i>Say On Pay</i> resolutions (ex ante and ex post). Long-Term Incentive policy (proposed resolutions, 2016 Plan and proposed grant of performance shares to the Chairman & CEO) Attendance fees

1.1.2. KEY FIGURES

2016 Key figures

1



Present
in 140 countries



89,331
employees



473
patents

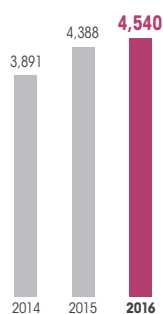


Research & innovation
budget: €850 million

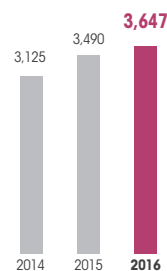
Consolidated sales
(€ million)



Operating profit
(€ million)

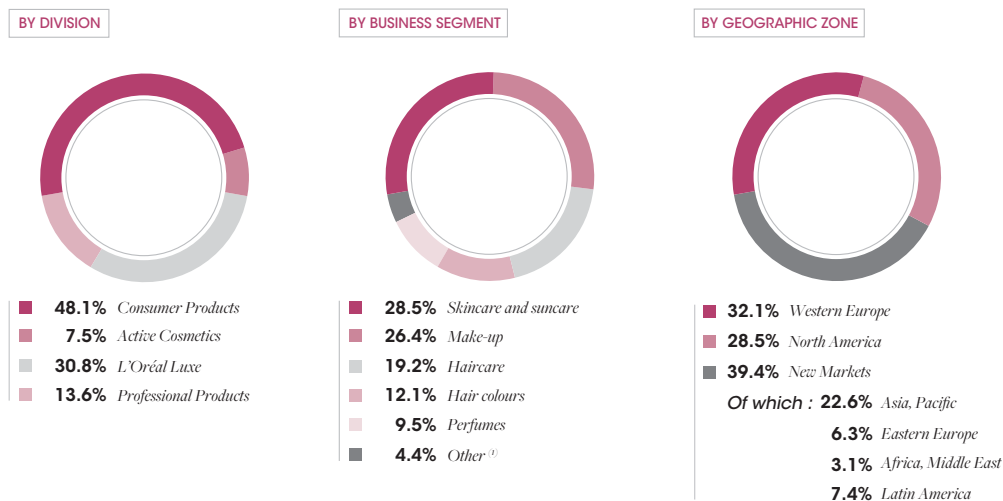


Net Profit from continuing
operations excluding
non-recurring⁽¹⁾ item
(€ million)



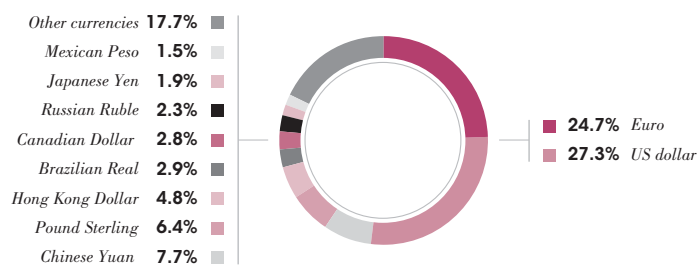
⁽¹⁾ Non-recurring include mainly capital gains and losses and long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, no recurring and significant regarding the consolidated performance. See note 11.4 of the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

OPERATIONAL DIVISIONS SALES – 2016



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

CONSOLIDATED SALES BY CURRENCY⁽¹⁾



NET DEBT

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

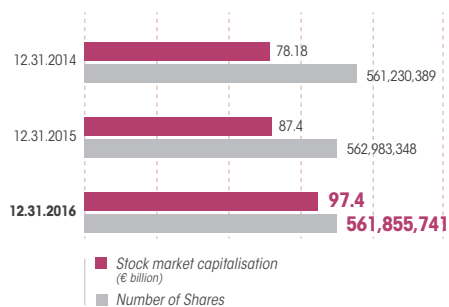
(1) Net cash (+) or net debt (-) = cash and cash equivalents – current and non-current debt.

SHORT-TERM RATINGS

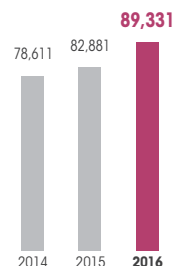
A1 +	Standard & Poor's	SEPTEMBER 2016
PRIME 1	Moody's	MAY 2016
F1 +	Fitch Ratings	SEPTEMBER 2016

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

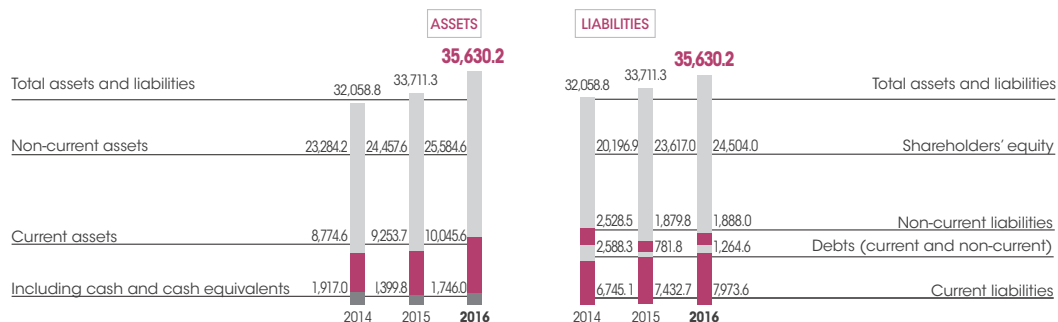
STOCK MARKET CAPITALISATION



WORKFORCE AT DECEMBER 31ST



A SOLID BALANCE SHEET ⁽¹⁾ (€ MILLION)



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

1.2. A CLEAR STRATEGY: BEAUTY FOR ALL

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

1.2.1. UNIVERSALISATION, TO MEET GLOBAL DEMAND FOR BEAUTY

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

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

1.2.2. AN INTERNATIONAL PRESENCE

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

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

HISTORY: THE IMPORTANT DATES IN THE GROUP'S DEVELOPMENT

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

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

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

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

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

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

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

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

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

In total, the percentage of cosmetics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 39.4% in 2016. Sales in New Markets increased greatly as a

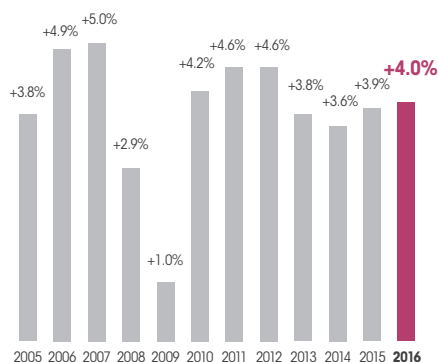
proportion of the Group's total sales between 2006 and 2016. This trend is expected to continue.

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

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

1.2.3. THE BEAUTY MARKET, HUGE DEVELOPMENT POTENTIAL

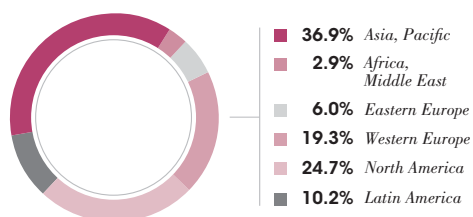
WORLDWIDE COSMETICS MARKET FROM 2005 TO 2016 ⁽¹⁾



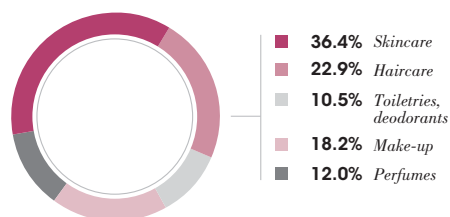
The worldwide cosmetics market is worth approximately €205 billion and grew by an estimated +4.0% ⁽¹⁾ in 2016. It is a particularly robust market which is steadily expanding while proving very resilient during difficult economic times. The cosmetics consumer always looks for quality and novelty value,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

BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2016

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY



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

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

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

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

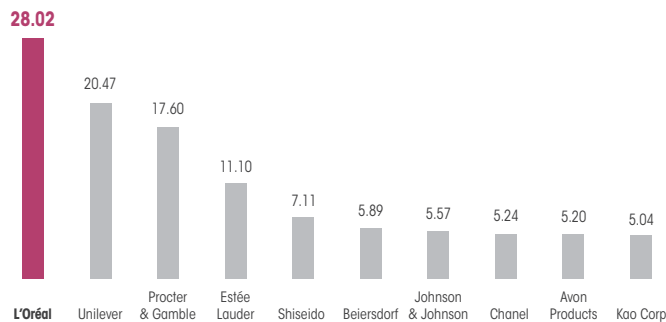
Growth in the professional market accelerated slightly, and was up +2.2%.

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

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

MAIN WORLDWIDE PLAYERS ⁽¹⁾

(2015 revenue in billions of US\$)



1.2.4. A PORTFOLIO OF DIVERSE AND COMPLEMENTARY BRANDS

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

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

Some of these acquisitions are of global brands such as the US make-up brands Urban Decay and IT Cosmetics, a tremendous contribution to L'Oréal Luxe; or NYX Professional

Makeup, an affordable, make-up artist-inspired brand; or Decléor and Carita, which extend the growth potential of Professional Products to the field of professional skincare.

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

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

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

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

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

The leading research force in the cosmetics industry

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

Research adapted to the market

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

RESEARCH FACILITIES AROUND THE WORLD



Research and Innovation budget	
2014	761
2015	794
2016	850

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

Number of patents	
2014	501
2015	497
2016	473

A pertinent multi-hub organisation

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

Ethically respectful research

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

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

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

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

Towards ever more sustainable innovation

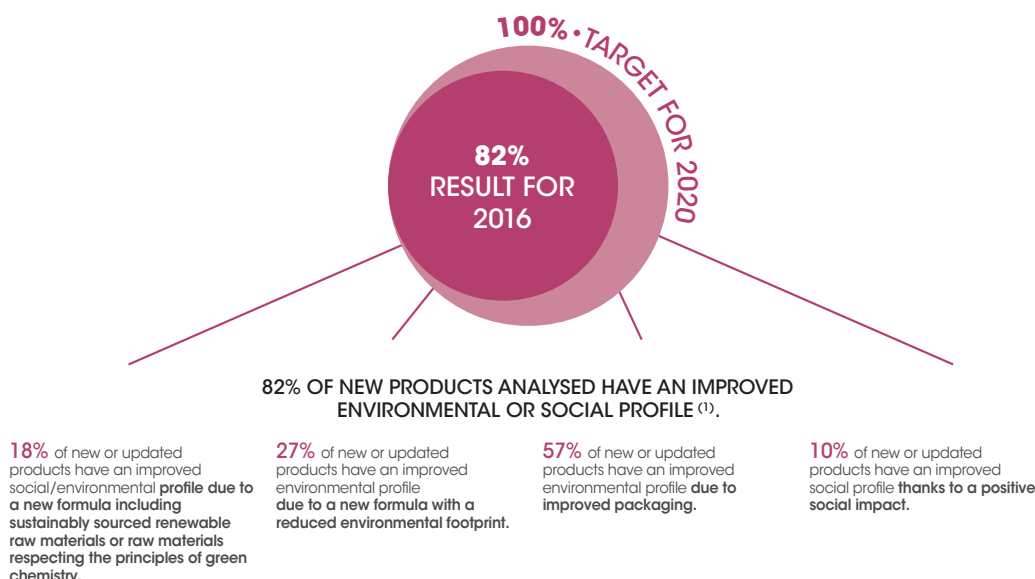
Within the framework of its *Sharing Beauty With All* programme launched in 2013 (see section 3.2.1), one of the main commitments made by L'Oréal with regard to Sustainable Development consists in improving the environmental or social profile of 100% of its products by 2020. This is a major paradigm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

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

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

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

INNOVATING SUSTAINABLY: 2016 RESULTS



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

Research unveils the territories of tomorrow

Ageing beautifully by integrating exposome data

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

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

Created in 2013 to explore the future boundaries of beauty and chaired by Jacques Leclaire, the Group's Global Scientific Director, this year the Scientific Advisory Board focused its work on the rapidly growing field of regenerative medicine. In 2016,

it also welcomed its tenth member, Clément Sanchez, the holder of the Chair in chemistry of hybrid materials at the Collège de France, who will provide original ideas in the search for new materials offering immediately visible effects on skin and hair.

1.2.6. OPERATIONS, EXPERTISE AND SERVICES CLOSE TO CONSUMERS

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

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

At the centre of design and development, innovation of packaging

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

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

A Purchasing programme combining economic and social value

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

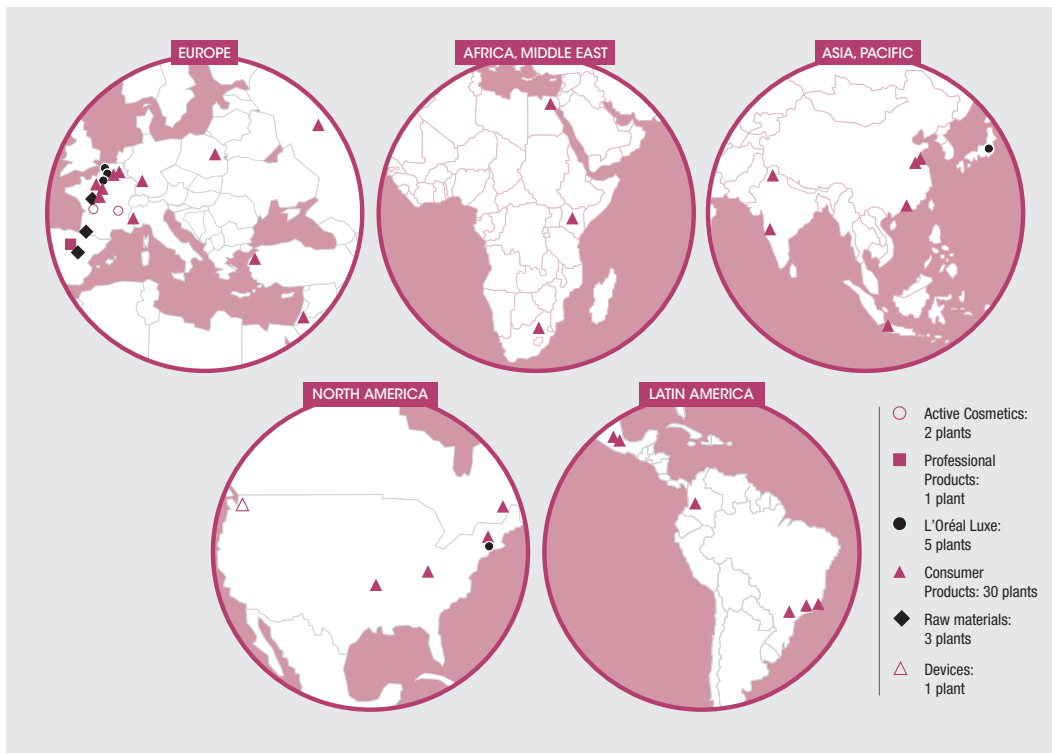
ability to innovate and to meet the Group's requirements in terms of quality, service and competitiveness.

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

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

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

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



Product quality and safety: a priority

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

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

Operational excellence

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

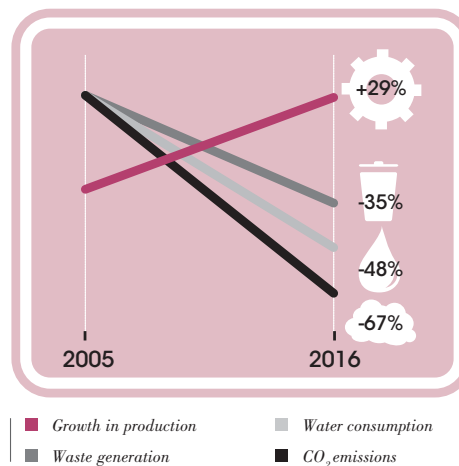
The Group is continuing to roll out its Operational Excellence System in all its plants to meet the challenges of a constantly changing world and go even further in adapting its industrial facilities to the needs of consumers. This process is based on the close involvement of all employees in technical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

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

At the heart of production: environmental protection

The Group's environmental policy looks to roll out best practices with regard to sustainable production in order to preserve resources: energy efficiency, use of renewable energy, optimisation of water consumption and its recycling, reduction of waste generation, etc. Results in 2016 once again show L'Oréal's ability to decouple growth in production (+29%) from its environmental impact with, since 2005, CO₂ emissions down -67% in absolute value, water consumption down -48% per finished product and waste generation down -35% per finished product. It should be noted that 98% of residual waste was recovered in 2016, meaning that it was reused, recycled or used for energy recovery.

RESPONSIBLE PRODUCTION

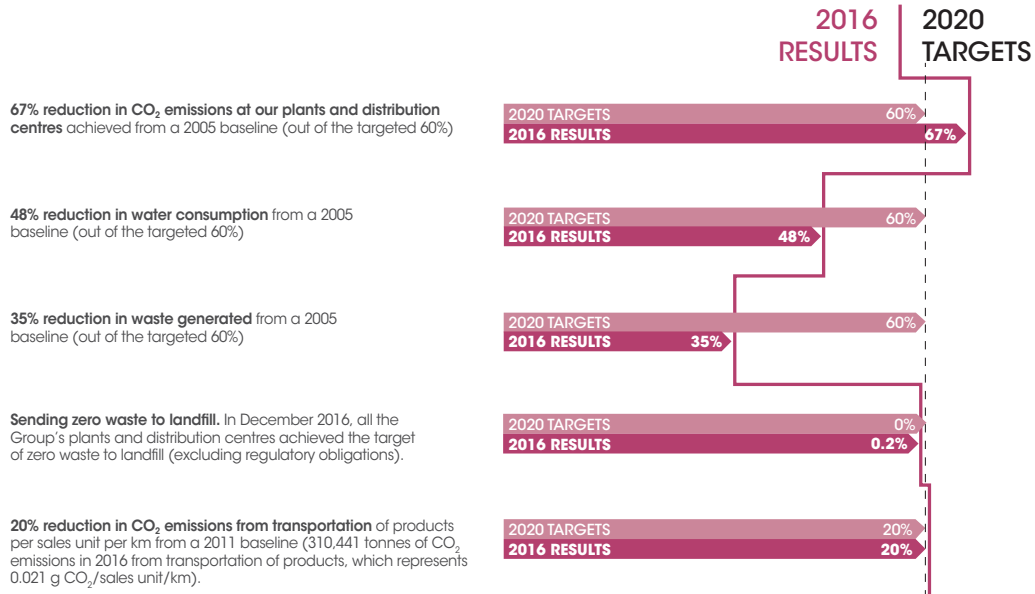


Through the commitments for 2020 made under the *Sharing Beauty With All* programme, the Group continues to pursue the process initiated in 2009 aimed at reducing its environmental footprint. 15 of L'Oréal's industrial sites were "carbon neutral" at the end of 2016, as against 9 sites at the end of 2015: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

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

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

THE SHARING BEAUTY WITH ALL COMMITMENTS



The Supply chain at the service of consumers

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

An omnichannel supply chain

L'Oréal is characterised by a unique particularity on the cosmetics market: its ability to handle a wide variety of product categories and an omnichannel presence in all distribution channels (hair salons, mass-market retail channels,

perfumeries, pharmacies, drugstores, medispas, branded retail, travel retail, e-commerce).

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



A distribution network suited to the markets

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

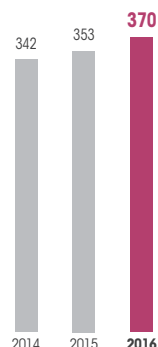
The Group is continuing to invest in the performance of its information systems in order to continually improve the ability to adjust the physical distribution network to market requirements.

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

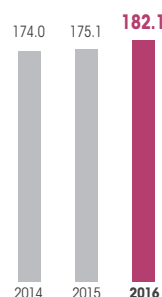
Operations have major economic responsibility for all the brands and markets and that impact total product costs.

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

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

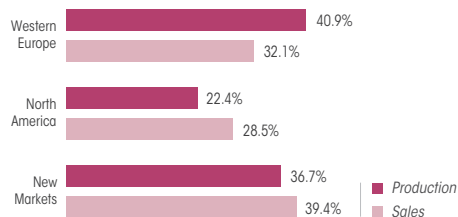


COSMETICS PLANTS WORKFORCE CUMULATIVE PRODUCTIVITY INDEX ⁽¹⁾ (INDEX BASE: 100 IN 2002)



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

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



1.3. GOOD GROWTH MOMENTUM FOR SHARED, LASTING DEVELOPMENT*

1

1.3.1. 2016 RESULTS*

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

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

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

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

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

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

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

1.3.1.1. Overview of the results for 2016

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

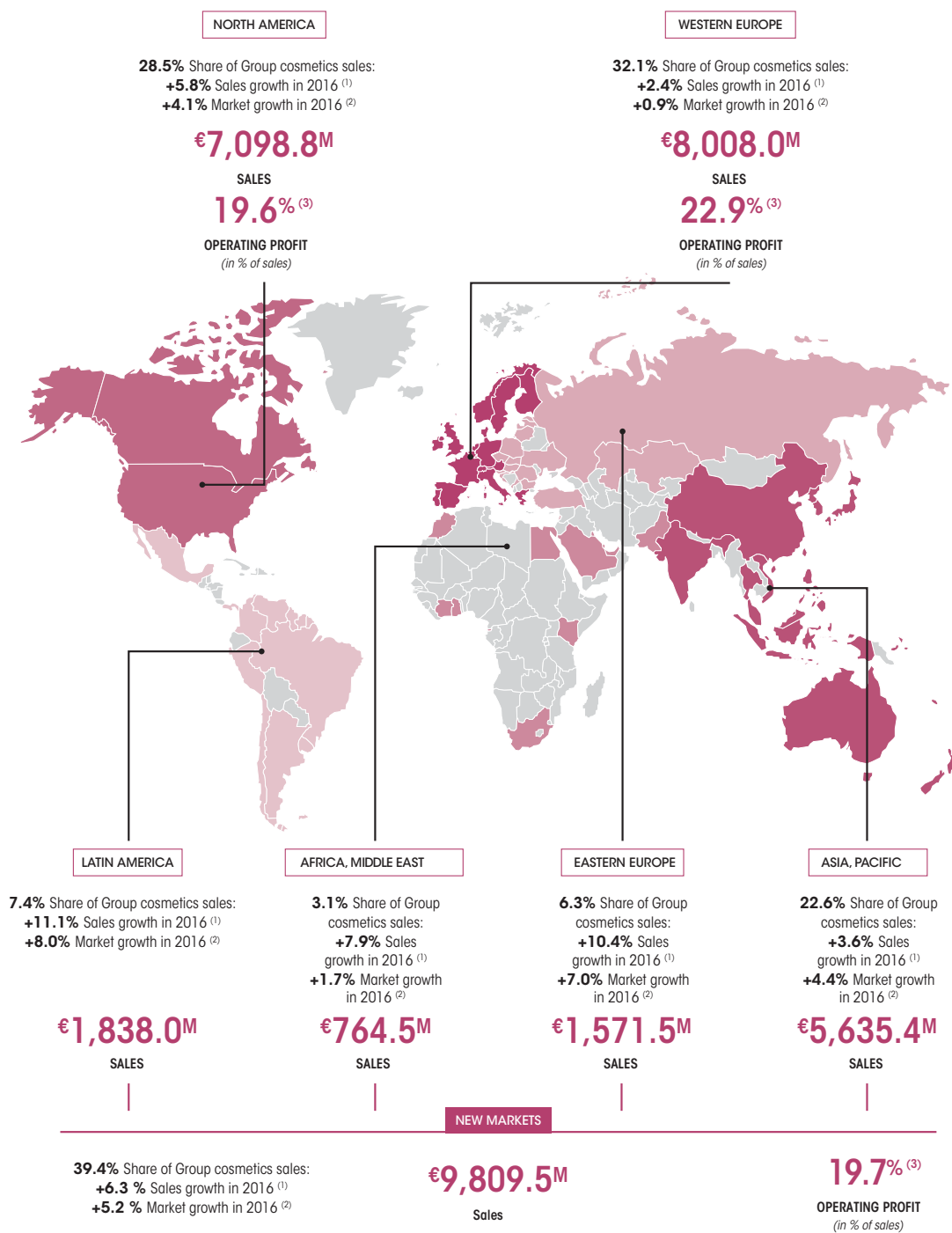
* This information forms an integral part of the Annual Financial Report as provided in the Article L. 451-1-2 of the French Monetary and Financial Code.

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

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

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

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



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

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

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

1.3.1.2. Consolidated sales

Like-for-like, i.e. based on a comparable structure and constant exchange rates, the sales trend of the L'Oréal Group was +4.7%. The net impact of changes in the scope of consolidation amounted to +0.4%. Currency fluctuations had a

negative impact of -2.8%. Growth at constant exchange rates was +5.1%. Based on reported figures, the Group's sales, at December 31, 2016, amounted to 25.84 billion euros, an increase of +2.3%.

SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

	2015/2016 progression					
€ million	2014	2015	2016	% 2016 sales	Like-for-like	Reported figures
By Operational Division						
Professional Products	3,032.4	3,399.7	3,399.7	13.6%	1.8%	0.0%
Consumer Products	10,767.5	11,844.2	11,993.4	48.1%	4.4%	1.3%
L'Oréal Luxe	6,197.9	7,230.0	7,662.4	30.8%	6.9%	6.0%
Active Cosmetics	1,660.4	1,816.3	1,860.7	7.5%	5.7%	2.4%
Cosmetics Total	21,658.2	24,290.2	24,916.3	100.0%	4.9%	2.6%
By geographical zone						
Western Europe ⁽¹⁾	7,647.2	7,968.4	8,008.0	32.1%	2.4%	0.5%
North America	5,389.4	6,654.4	7,098.8	28.5%	5.8%	6.7%
♦ New Markets, of which:	8,621.6	9,667.4	9,809.5	39.4%	6.3%	1.5%
♦ Asia, Pacific ⁽¹⁾	4,614.1	5,537.9	5,635.4	22.6%	3.6%	1.8%
♦ Latin America	1,853.7	1,871.3	1,838.0	7.4%	11.1%	-1.8%
♦ Eastern Europe	1,585.4	1,530.4	1,571.5	6.3%	10.4%	2.7%
♦ Africa, Middle-East	568.4	727.9	764.5	3.1%	7.9%	5.0%
Total Cosmetics	21,658.2	24,290.2	24,916.3	100.0%	4.9%	2.6%
♦ The Body Shop	873.8	967.2	920.8	3.6%	0.6%	-4.8%
TOTAL GROUP	22,532.0	25,257.4	25,837.1	100.0%	4.7%	2.3%

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

Professional Products

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

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

Consumer Products

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

- ♦ As announced, the Division's growth accelerated sharply in 2016 thanks to the success of its two strategic choices. First in make-up, the Division achieved double-digit growth thanks to the outstanding success of NYX Professional Makeup, clearly becoming a new major global make-up brand, and to the continuing development of Maybelline, L'Oréal Paris and Essie. Secondly, in haircare, with the

worldwide roll-out of *Ultra Doux* and the success of key *Elsève* launches.

- ♦ 2016 was also a fine vintage for innovations in other categories, with the worldwide success in skincare of Micellar Cleansing Waters by Garnier as well as Pure Clay Masks and *Magic Retouch* in hair colour for L'Oréal Paris.
- ♦ The Division has delivered an excellent performance in North America, where it is significantly strengthening its leadership. It is growing exceptionally strongly in the United Kingdom, and is also accelerating in Spain and Germany. The Division's expansion in the New Markets is continuing.

L'Oréal Luxe

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

- ♦ Yves Saint Laurent has achieved an exceptional year, with sales breaking the one billion euro mark, thanks to the strong dynamism of its make-up and success in fragrances, with *Black Opium* and the new women's perfume *Mon Paris*. Giorgio Armani had a very good year, driven by make-up and the success of the men's fragrance *Code Profumo*. Urban Decay, today in 45 countries, is growing strongly, and is launching *Vice Lipstick* worldwide. The rise

of Kiehl's in skincare is continuing. Lancôme, the number one luxury brand for women, has posted another year of growth with notably *Absolu Rouge*, *Énergie de Vie* skincare for Millennials ⁽¹⁾ and *La Vie Est Belle*, number one in Europe and already in the top 5 women's fragrances in the United States;

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

Active Cosmetics

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

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

Multi-division summary by geographic zone

Western Europe

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

North America

In a dynamic market, North America posted growth of +5.8% like-for-like and +6.7% based on reported figures. L'Oréal Luxe is growing faster than its market, driven by the strong growth of Urban Decay and Yves Saint Laurent, as well as good performances from Lancôme and IT Cosmetics. The Consumer Products Division is significantly strengthening its leadership:

the continuing success of NYX Professional Makeup has been added to the momentum of Maybelline and Essie, and Garnier is accelerating thanks to its Whole Blends (*Ultra Doux*) and Micellar Cleansing Waters launches.

New Markets

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

The Body Shop

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

(1) Generation born between 1980 and 2000.

1.3.1.3. 2016 consolidated results

OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

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

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

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

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

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

NET PROFIT FROM CONTINUING OPERATIONS

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

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

(1) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational income and expenses, non-recurring and significant regarding the consolidated performance.

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

Finance expenses came out at 19 million euros.

Sanofi dividends amounted to 346 million euros.

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

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

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

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

Net profit came out at 3,105 million euros.

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

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

Cash flow statement, Balance sheet and Cash position

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

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

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

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

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

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

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

Share capital

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

Operating profit, by operational division and geographic zone

GROUP

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

BY OPERATIONAL DIVISION

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

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

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

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

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

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

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

BY GEOGRAPHIC ZONE

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

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

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

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

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

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

Sales of the cosmetics branch by business segment

CONSOLIDATED SALES

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

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

The Body Shop

RETAIL SALES ⁽¹⁾

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

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

SALES

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

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

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

NUMBER OF STORES

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

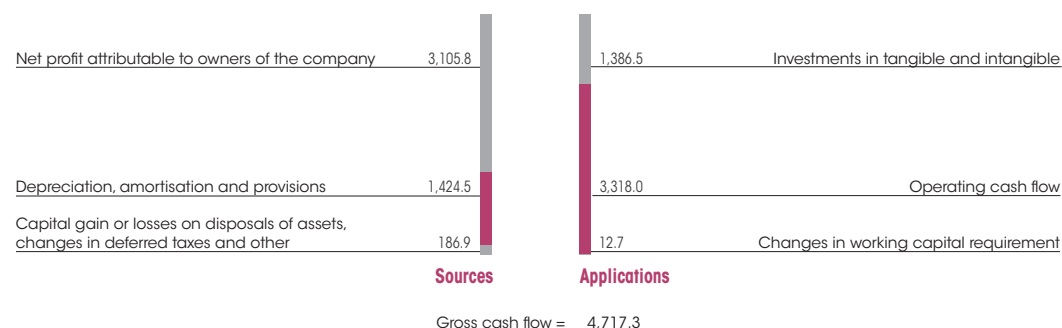
Simplified consolidated income statements

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

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

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

Sources and application of funds



Financial ratios

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

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

L'Oréal 2010-2016

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

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

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

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

(3) Plus non-controlling interests.

(4) The net cash surplus is €504 million in 2011, €1,948 million in 2012, €2,320 million in 2013, €618 million in 2015 and €481 million in 2016.

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

(6) Dividend proposed to the Annual General Meeting of April 20th, 2017.

(7) The L'Oréal share has been listed in euros on the Paris Stockexchange since January 4th, 1999, where it was first listed in 1963. The share capital is €112,371,148.20 at December 31st, 2016; the par value of one share is €0.2.

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

1.3.1.4. Significant, recent events and prospects

Significant events of 2016

- On January 4th, 2016, L'Oréal USA announced the acquisition 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.
- Between February 15th and March 18th, 2016, L'Oréal purchased 3,202,500 of its own shares for the purpose of their cancellation, in accordance with the authorisation approved by the Annual General Meeting of April 22nd, 2015, and with the decision of the Board of Directors of February 11th, 2016.
- On April 18th, 2016, L'Oréal announced the appointment of Mr Alexis Perakis-Valat as President Consumer Products

Division, to replace Mr Marc Menesguen who retired at the start of 2017. Mr Jochen Zaumseil replaces Mr Perakis-Valat as Executive Vice-President Asia, Pacific Zone. Mr Vianney Derville replaces Mr Zaumseil as Executive Vice-President Western Europe Zone. The appointments were effective from September 1st, 2016.

- On April 20th, 2016, the Annual General Meeting of L'Oréal shareholders appointed two new Directors: Mrs Béatrice Guillaume-Grabisch and Mrs Eileen Naughton; and renewed the tenure as Director of Mr Jean-Pierre Meyers, Mr Jean-Victor Meyers and Mr Bernard Kasriel.
- On April 20th, 2016, the Board of Directors' meeting, held at the close of the Annual General Meeting, decided, pursuant to the authorisation voted by the Annual General Meeting on the same day, on the cancellation of 3,202,500 shares acquired within the scope of the share buyback programme decided by the Board of Directors on

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

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

Significant events that have occurred since the beginning of 2017

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

2017 Prospects

The fundamentals of L'Oréal are unique advantages in the bright new world of beauty that is emerging: clearly defined mission and strategy, highly engaged expert teams, a global

flotilla of emblematic brands, a long-haul investment in research and innovation, a critical engagement in digital, a unique, flexible and agile organisation, and a strong entrepreneurial culture.

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

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

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

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

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

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

Investment commitments in 2016 can be broken down as follows:

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

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

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

1.3.2. CONSTANT, SHARED GROWTH

Priority to human capital

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

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

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

L'Oréal has always targeted constant, sustainable growth.

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

Each subsidiary participates, as far as its resources allow, in the major programmes of the L'Oréal Foundation, particularly *For Women in Science* and *Beauty for a Better Life* or the Group's corporate philanthropy projects like *Hairdressers against AIDS* (see chapter 3). Above and beyond its solid long-term economic performances, the Company seeks to be

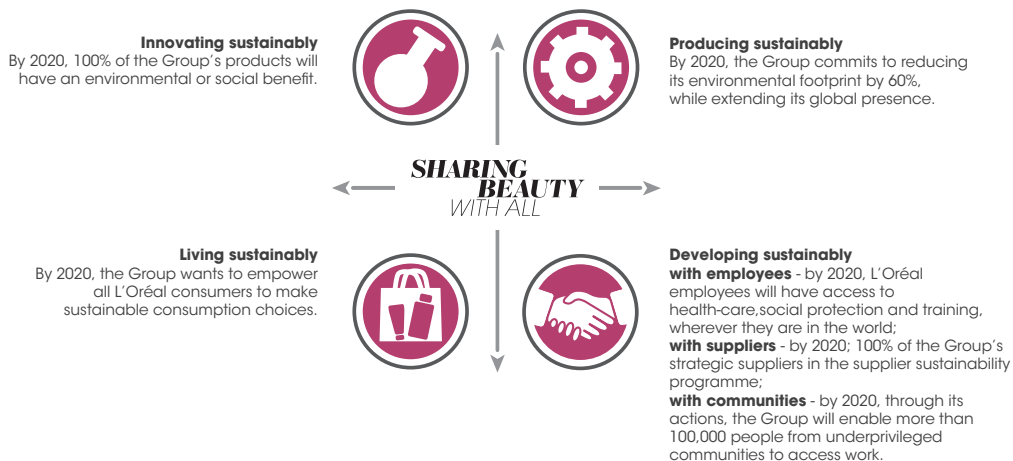
exemplary and sets itself demanding standards in order to limit its environmental footprint. In October 2013, all the L'Oréal Group's Sustainable Development commitments were formally provided for and structured at a strategic level within the scope of the *Sharing Beauty With All* programme.

Sharing Beauty With All

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

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

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

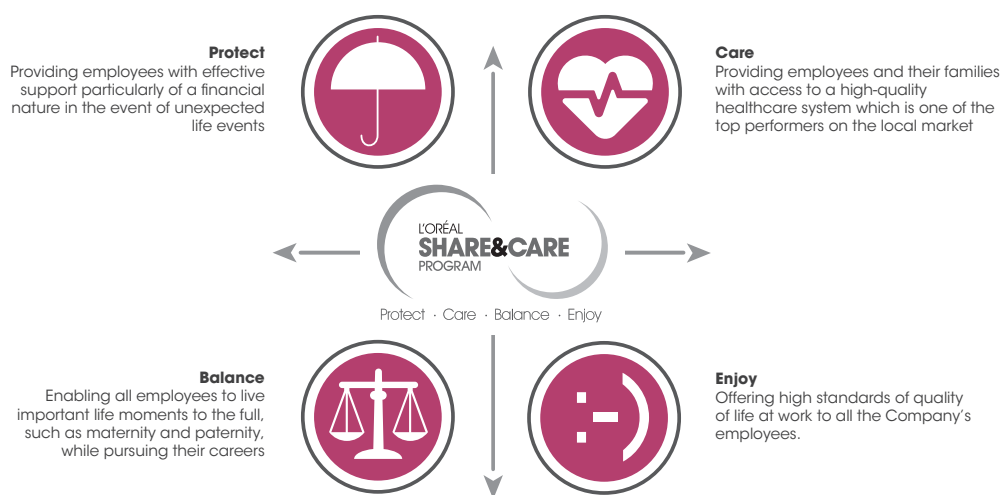


Sharing growth

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

... with the employees

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



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



(1) Calculated on a Total Group basis (Cosmetic Divisions and The Body Shop)

(2) All figures related to a global Group basis.

... with suppliers

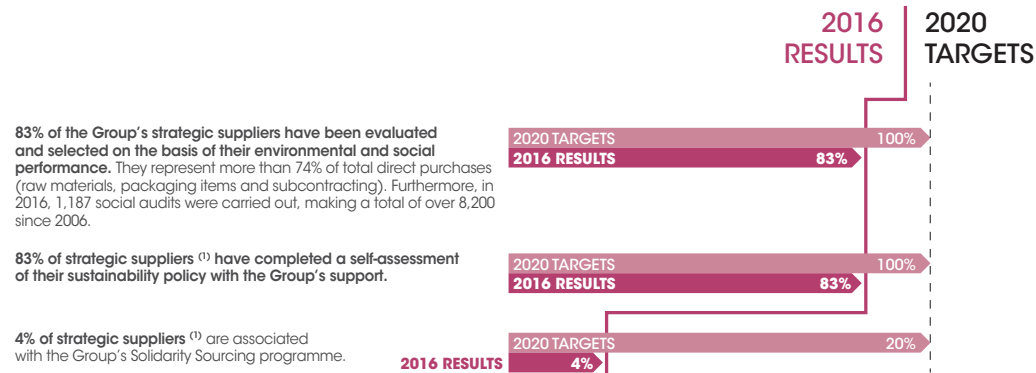
"By 2020, 100% of the Group's strategic suppliers will be participating in our supplier sustainability programme."

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

Following on from the responsible purchasing policy it has implemented since 2002 known as the L'Oréal Buy & Care

programme, the *Sharing Beauty With All* programme has enabled the Group to associate its suppliers more with its CSR initiatives by developing a twofold approach:

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



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

... with the communities

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

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

This ambition led to a commitment in the *Sharing Beauty With All* programme: enabling over 100,000 people from socially or

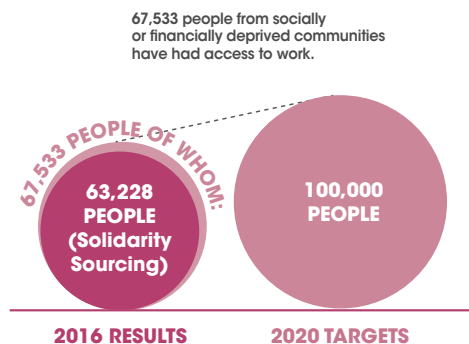
financially deprived communities to access work by 2020. This means that L'Oréal will support as many people outside the Company as there are employees in the Group.

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

Solidarity Sourcing

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

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



Towards more sustainable consumption behaviors

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

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

1.4. AN ORGANISATION THAT SERVES THE GROUP'S DEVELOPMENT

1

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

1.4.1. L'ORÉAL S.A.

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

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

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

1.4.2. OPERATIONAL DIVISIONS

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

- ♦ The Professional Products Division's task is to offer the best of professional beauty. It has built up a unique brand portfolio (Kérastase, L'Oréal Professionnel, Redken, Matrix, Decléor, Carita and Pureology) in all its historical business categories (haircare, hair colours, styling and shaping).

- ♦ The Consumer Products Division has the ambition of providing innovative cosmetics that are affordable for all. It has built its development around the deployment of its main global brands (L'Oréal Paris, Garnier, Maybelline, NYX Professional Makeup), supported by several specialist or regional brands (Essie, Dark and Lovely, Niely Cosmetics, Nice & Lovely, Vogue, Magic, LaSCAD brands: Dop, Narta, Mixa, etc.).

- ♦ L'Oréal Luxe creates exceptional experiences and products, for the most demanding consumers. It develops in a large number of countries a unique portfolio of prestigious brands, including iconic mainstream, aspirational or alternative or specialist brands (Lancôme, Yves Saint Laurent, Kiehl's, Giorgio Armani, Urban Decay, Ralph Lauren, Biotherm, IT Cosmetics, Cacharel, etc.).

- ♦ The aim of the Active Cosmetics Division is to help everyone in their quest for healthy and beautiful skin. With the help of a portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals, Roger&Gallet), strongly anchored in science and enjoying close links with healthcare professionals all over the world, the Active Cosmetics Division is a leader in dermocosmetics.

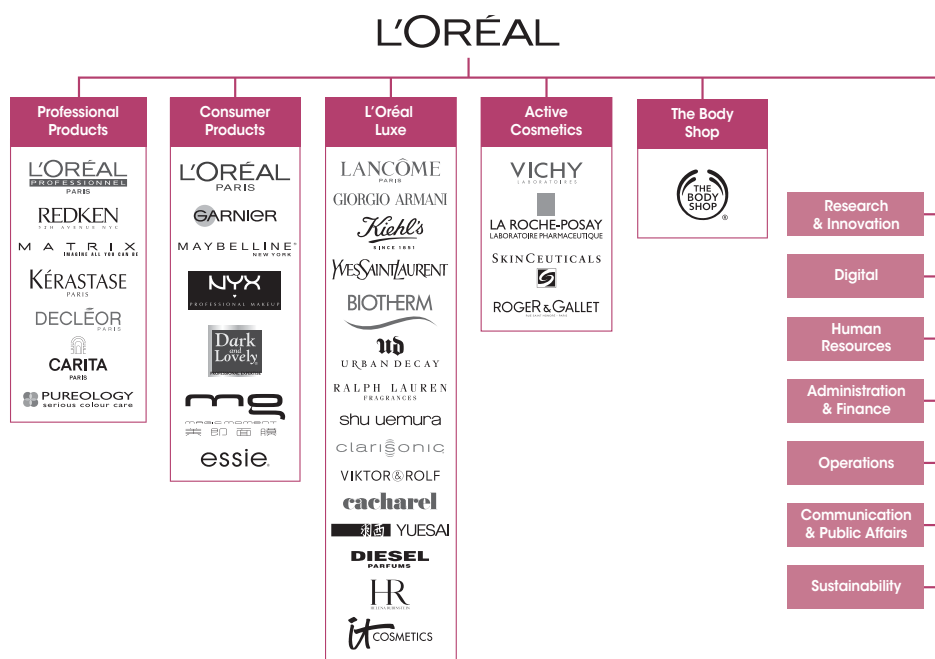
Founded in 1976 in Great Britain by Dame Anita Roddick, The Body Shop Branch represented 3.6% of consolidated sales in 2016. The mission of this strongly committed brand is to have a positive impact on the lives of men and women of all origins, by offering sensorial products combining efficacy with a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

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

1 | Presentation of the Group – Integrated report

AN ORGANISATION THAT SERVES THE GROUP'S DEVELOPMENT

SIMPLIFIED ORGANIZATION CHART



Travel retail is a fast-growing channel that conveys an image. Already the leader in travel retail, the Group created the Travel Retail Worldwide Division, including multi-division activities. This Division's ambition is to continue to develop travel retail

supported by a "global shopper" strategy: a bespoke approach tailored according to language, culture and beauty rituals, enabling the Group to respond to the aspirations of this new generation of travellers.

1.4.3. SUPPORT DEPARTMENTS

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



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

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

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

1.4.4. MEMBERS OF L'ORÉAL'S EXECUTIVE COMMITTEE

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

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

1.5. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM



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

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

L'Oréal's risk management consists in identifying, managing and controlling risks that may affect the smooth running of the Company. It also participates in value creation by promoting the good use of resources to minimise the impact of negative events and maximise the realisation of opportunities.

Risk management therefore goes beyond a strictly financial framework.

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

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

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

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

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

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

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