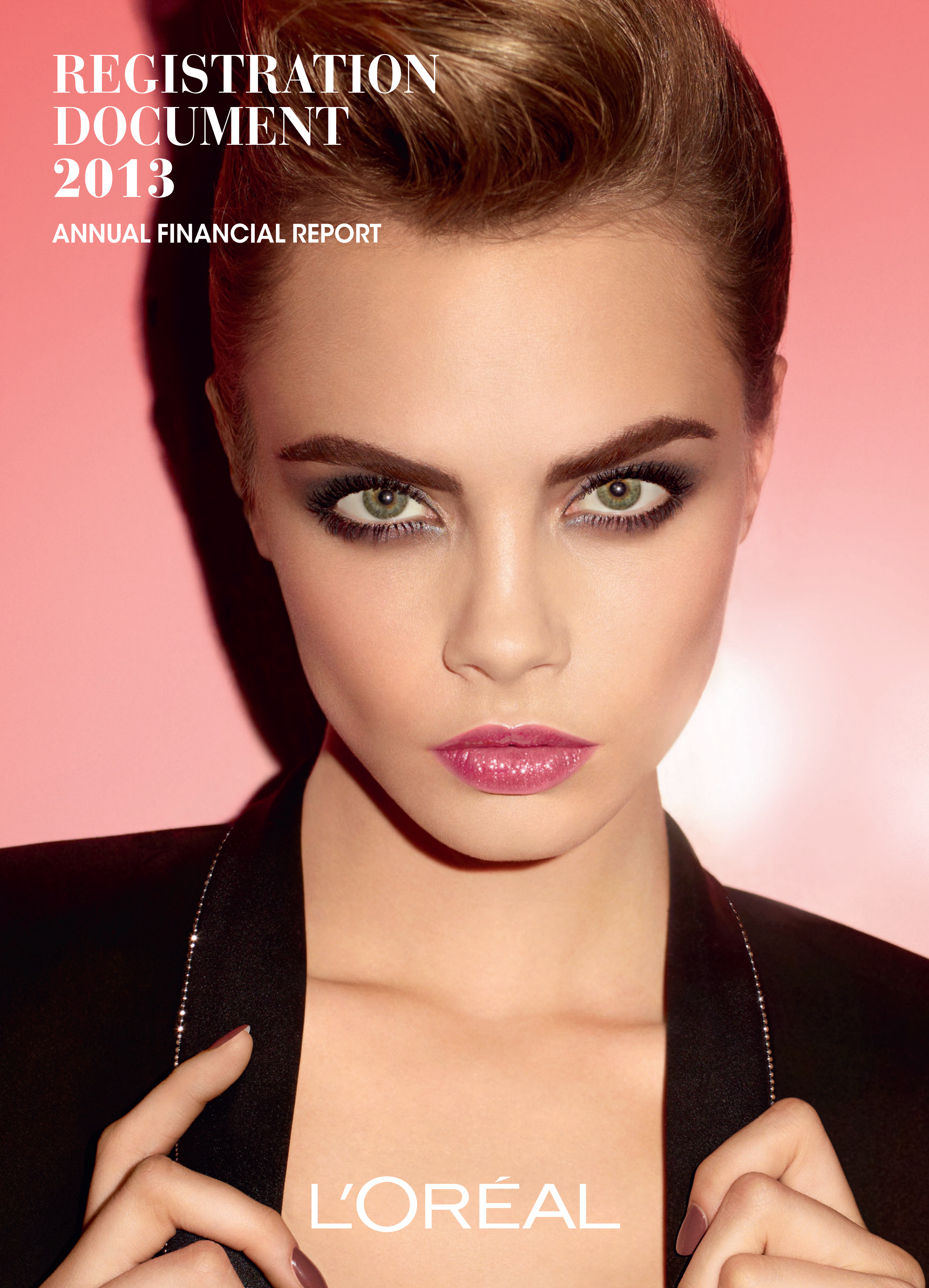
REGISTRATION DOCUMENT 2013

ANNUAL FINANCIAL REPORT



L'ORÉAL

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

L'ORÉAL

REGISTRATION DOCUMENT 2013

ANNUAL FINANCIAL REPORT

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

In application of Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers* (AMF), this Registration Document was filed with the AMF on March 12th, 2014.

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INTERVIEW

/ A THRILLING STAGE IN BUILDING THE NEW L'ORÉAL

MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Jean-Paul AGON
CHAIRMAN AND CEO OF L'ORÉAL

What conclusions can you draw from 2013?

2013 was another good year for L'Oréal. The group outperformed the market across all divisions and geographic zones, posting significant growth in both results and profitability. 2013 was also another year of progress in adapting the company to a changing world, and driving its efficiency, modernity and performance, so as to continue to build dynamic, sustainable and profitable growth.

What were the reasons behind this good performance?

Above all, thanks to our products and our launches. It is essential in our business: cosmetics is a supply-driven market where leadership is built up primarily through the attractiveness and superiority of products. This strong commitment to innovation is at the heart of L'Oréal and enables us to stay one step ahead. To rise to it, we have once again increased our Research and Innovation budgets, which have risen faster than our sales. We are investing in all areas: in Advanced Research and in formulation; in France and in our five regional hubs, anchored in the planet's major cosmetics markets.

Another reason is the vitality of our brands. They play a key role in these successes. The brands are always reinventing themselves, to stay perfectly attuned to consumers who are constantly changing. Today more than ever, our brand portfolio is the most varied, richest and most powerful in the industry. It is this richness that enables us to meet the whole world's beauty expectations so effectively.

Through globalisation, our brands have strengthened their positions across all geographic zones. Moreover, the group's growth is well-balanced: Western Europe remains very solid, North America recorded another year of growth and market share gains in a less buoyant context, and the New Markets excluding Japan posted double-digit growth.

> "WE HAVE OUTPERFORMED THE MARKET ACROSS ALL DIVISIONS AND GEOGRAPHIC ZONES."

And in terms of results?

2013 was also a good year for progress in results and in profitability, which reached a record level. These results once again confirm the strength of L'Oréal's business model, which creates value and generates cash flow. They illustrate the group's ability to continue to deliver sustainable and profitable growth. Their solidity, together with the company's very favourable prospects, have led the Board of Directors to propose to the next Annual General Meeting a further significant increase in dividend of +8.7% to 2.50 euros.

Is governance one of the factors in L'Oréal's success?

There is no doubt about it. The quality of governance is underpinned by highly committed directors endowed with complementary expertise. They ensure that all decisions assist in the implementation of the strategic orientations they have approved. The Board draws on the quality of the contribution made by its specialised committees, whose remits have been expanded since their creation. In 2014, the Board will propose to the Annual General Meeting the appointment as new Board Director of Mrs Belén Garijo, of Spanish nationality, President and CEO of Merck Serono, the pharmaceutical subsidiary of the German group Merck. Out of a total of fourteen directors, five women will have a seat on the Board, and there will be a substantial proportion of independent directors. In governance matters, L'Oréal wants its behavior to be exemplary too.

“UNIVERSALISATION, THE STRATEGY WE HAVE CHOSEN, IS GLOBALISATION THAT RESPECTS DIFFERENCES.”

You have made several acquisitions. Can you explain the reasoning behind them?

On one hand there are acquisitions that complement our portfolio of brands with a global vocation, like the American make-up brand Urban Decay, which is a tremendous addition to our luxury brands. The same applies to Decléor and Carita, which will take us into a new business, professional skincare, broadening the growth potential of Professional Products. On the other hand, there are acquisitions with a local or regional vocation that will reinforce our geographic coverage: in Colombia with the make-up brand Vogue, in Kenya with Interbeauty and in Brazil with Emporio Body Store. These companies are accelerating our penetration of these markets tremendously.

All these acquisitions will make contributions to our organic growth in the future.

You have continued the group’s transformation process. Is a new L’Oréal now emerging?

Yes definitely. Over the last few years, we have been adapting the group in all areas, to make sure it is keeping pace with the major economic, digital and social changes taking place in the world, and ready to grasp all the opportunities of the 21st century. Adaptability is one of the group’s great strengths. A New L’Oréal is emerging, and it is well equipped to continue its mission – beauty for all – by applying its universalisation strategy, and to pursue its quest for one billion new consumers. In 2013, we added several new cornerstones to help build the New L’Oréal: we changed our organisation, continued to rethink our marketing models, and made ambitious new commitments in terms of corporate responsibility.

Why did you decide to further develop the group’s organisation?

To make the group more agile, more efficient and better adapted to our universalisation strategy. We have thus grouped together the selective divisions – L’Oréal Luxe, Active Cosmetics, Professional Products and The Body Shop – under the same leadership, so they can share their expertise and their best practices more effectively. At the same time, we have organised the global market into eight major homogeneous strategic regions and localized the management of distant regions. This means we can be even more attentive to our consumers and closer to their aspirations. And I am certain this will really boost our universalisation strategy. Universalisation, the strategy we have chosen for the group, is globalisation that respects differences.

Where do you stand regarding the “digital revolution”?

We have continued to transform our marketing models to take advantage of the incredible opportunities provided by digital media. Our vision of digital and traditional media is now totally integrated. All our brands across all regions have switched to digital. They have worked intensively to offer their consumers the very best not only in information content but also in service quality on the Internet, which is also an additional distribution channel for our brands.

/ STRATEGIC TRANSACTION BETWEEN L’ORÉAL AND NESTLÉ

In February 2014 you announced a strategic transaction under which L’Oréal will buy 48.5 million of its own shares from Nestlé. What does this deal involve?

This transaction represents a very positive strategic move for L’Oréal, its employees and its shareholders. The buyback of 48.5 million of our own shares, that is 8% of share capital, will be partially financed through the disposal to Nestlé of our 50% stake in Galderma for an enterprise value of 3.1 billion euros, and for the remainder in cash for an amount of 3.4 billion euros. L’Oréal is thus focusing exclusively on its cosmetics business. L’Oréal will benefit from the very significant and reinforced presence of the founding Bettencourt Meyers family, who will continue to fully support the company as it always did in the past. Furthermore, Nestlé, which has always been a loyal and constructive shareholder, will continue to provide its active support. Lastly, all of L’Oréal’s shareholders will benefit from this transaction, with an accretive impact on the company’s earnings, resulting from the buyback and subsequent cancellation of L’Oréal shares held by Nestlé.

1

/ PRESENTATION OF THE GROUP

1.1. MISSION

Beauty for all

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

Beauty is a language

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

Beauty is universal

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

Beauty is a science

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

Beauty is a commitment

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

L'Oréal, offering beauty for all

1.2. HISTORY

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

1.3. BUSINESS ACTIVITIES AND STRATEGIC ORIENTATIONS

1.3.1. The foundations of a winning strategy

1.3.1.1. A GROWTH MARKET: AN IMMENSE POTENTIAL

The world cosmetics market is worth approximately €175 billion in net manufacturer prices. Over the last fifteen years, its average annual growth is estimated at approximately +4.1%. This market, which has experienced strong, regular growth, is also particularly solid and resilient: at the peak of the world economic crisis in 2008-2009, it continued to progress by nearly +3% in 2008 and +1% in 2009 before picking up again in 2010. This market grew +4.6% in 2012 and +3.8% in 2013 (1). Because the world will always need beauty, the world cosmetics market has a glowing future. Under the combined effects of population growth, urbanisation, progress in infrastructure and growth in world GDP, the population with access to modern cosmetics could grow by 50% over the next twenty years, boosted by the rapid rise of the urban middle class in the New Markets.

1.3.1.2. ONE PURPOSE: BEAUTY

For more than a century, L'Oréal has been pushing back the boundaries of science to invent beauty and to offer men and women all over the world the best of cosmetics in terms of quality, efficacy and safety. Giving everyone access to beauty by offering

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

products in harmony with their needs, culture and expectations in their infinite diversity. This is the true meaning of our activity.

1.3.1.3. RESEARCH AND INNOVATION: INVENTING THE FUTURE OF BEAUTY

L'Oréal places research and innovation at the centre of its development model. With 23 research and 16 evaluation centres on all continents, the Group has developed more than 130 molecules during the last 40 years. More than 4,000 researchers play their part in developing new formulas and filed 624 patents in 2013. L'Oréal is now entering the era of universalisation and beauty for everyone. The exploration of new scientific and technological territories is being enriched by this global dimension: with its in-depth knowledge of skin and hair in all latitudes, L'Oréal research creates cosmetics products adapted to the world's diversity.

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

With 28 international brands with diverse cultural backgrounds present in all distribution channels, L'Oréal is able to meet the aspirations of all consumers whatever their origins, beauty habits or revenue levels. The L'Oréal teams design new products in all areas of cosmetics: hair care, hair colour, skin care, make-up and perfumes.

1.3.1.5. THE INTERNATIONALISATION OF DEVELOPMENT: ATTRACTING A BILLION NEW CONSUMERS

Present in 130 countries, the Group has shown its ability over the first 100 years of its existence to attract nearly 1 billion consumers, representing around 15% of the population of the planet. With accelerating globalisation, L'Oréal's mission is being enlarged: based on its international positions and its power of innovation, the Group's ambition is to conquer a billion new consumers by 2020 to 2025.

1.3.1.6. A COMMITMENT TO RESPONSIBLE, SHARED AND SUSTAINABLE GROWTH

With a particularly robust balance sheet and a solid financial situation, the Group can look forward to the future with confidence. Supported by loyal shareholders, vigilant governance and stable management, L'Oréal has always targeted constant, sustainable growth. As a company which seeks to be exemplary, and sets itself demanding standards in order to limit its footprint on the planet, in October 2013, L'Oréal launched its new commitment to sustainability by 2020: "Sharing beauty with all". This programme concerns all the Group's impacts, and covers four areas: innovating sustainably, producing sustainably, consuming sustainably and sharing growth. Details of this programme are set out in chapter 6, on pages 196 to 198.

1.3.2. An organisation that serves the Group's development

1.3.2.1. L'ORÉAL S.A.

L'Oréal S.A. is a French company with its registered office in France and which carries out a commercial business specific to that country. In parallel, L'Oréal S.A. acts as a holding company and has a role firstly of strategic coordination and secondly of scientific, industrial and marketing coordination of the L'Oréal Group on a global basis. The subsidiaries develop the Group's business activities in the country or area in which they are located. In this connection, they manufacture or have produced and commercialise the products that they decide to sell on their market.

The L'Oréal Group owns the entire share capital of the vast majority of its subsidiaries. It also holds 50% of the share capital of Galderma and Innéov developed in a joint venture with Nestlé.

1.3.2.2. BRANCHES AND DIVISIONS

The Cosmetics Branch, which represents most of the Group's activities (nearly 93% of its consolidated sales in 2013), is made up of 4 Operational Divisions which each correspond to a specific marketing channel:

- the **Professional Products Division** markets products used but also sold in hair salons. Privileged partner of hairdressers all around the world, it supports them in every facet of their development and offers them high-level training. Its portfolio of differentiated brands meets the needs of all types of salon. Professional Products Division brands: L'Oréal Professionnel, Redken, Kérastase and Matrix;
- the **Consumer Products Division** offers the best in cosmetic innovations at accessible prices in all mass-market retail channels (hypermarkets, supermarkets, drugstores and traditional stores) on every continent. Consumer Products Division brands: L'Oréal Paris, Garnier, Maybelline, Softsheen Carson and Essie;
- **L'Oréal Luxe** brings together a unique set of prestigious brands. These brands are sold through selective distribution, broken down between department stores, perfumeries, travel retail outlets, but also its own stores and through e-commerce websites. L'Oréal Luxe Division brands: Lancôme, Giorgio Armani, Yves Saint Laurent, Biotherm, Kiehl's, Ralph Lauren, Shu Uemura, Cacharel, Helena Rubinstein, Diesel, Clarisonic, Viktor & Rolf, and Urban Decay;
- the **Active Cosmetics Division** distributes its products worldwide in healthcare products distribution channels, primarily through pharmacies, drugstores, medispas and, in some countries, dermatologists. Its unique portfolio of brands, which meets all the needs of consumers in terms of health-beauty, and its privileged partnership with healthcare professionals have made this Division the world's No. 1 in dermocosmetics. Active Cosmetics Division brands: Vichy, La Roche-Posay, SkinCeuticals, Innéov and Roger & Gallet.

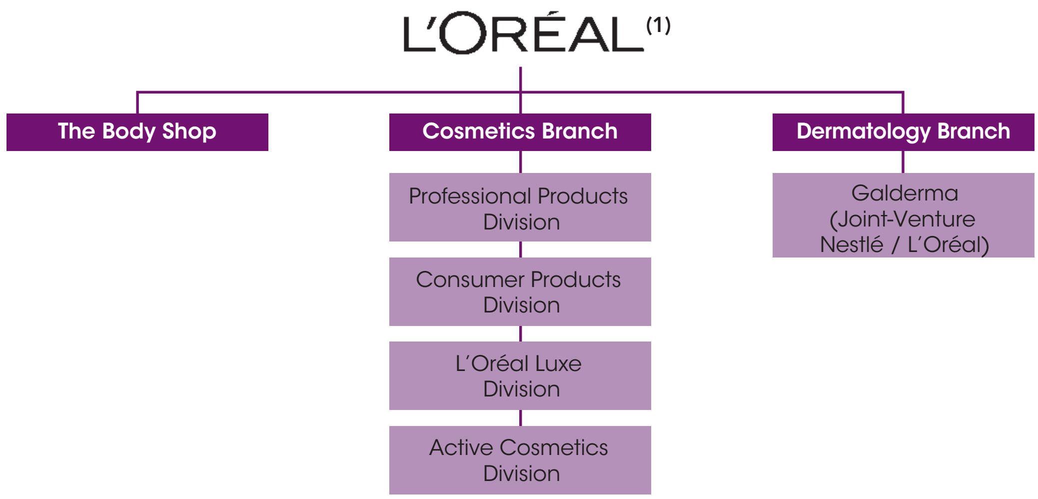
Through its decision, announced on May 17th, 2013, to create a **Group leadership role supervising the Selective Divisions (L'Oréal Luxe, Active Cosmetics, Professional Products, The Body Shop)**, the Group has affirmed its intent to further accelerate its development in all distribution channels, by drawing on its know-how in each of its selective sales networks.

The historic market leader in the Travel Retail beauty segment, the Group announced on November 21, 2013 the creation of a **Group Travel Retail Division** which includes, as well as the L'Oréal Luxe brands, the brands of the other divisions: Active Cosmetics, Professional Products, Consumer Products and The Body Shop.

The Body Shop Branch represents nearly 4% of consolidated sales in 2013. Founded in 1976 in the United Kingdom by Dame Anita Roddick, The Body Shop is known for its ethical commitment and its products with natural ingredients. More than 87% of its products contain ingredients from its Community Fair Trade programme. With a presence in 66 countries, the brand distributes its products and expresses its values through a network of exclusive stores but also complementary distribution channels: Internet sales and airport shops.

The Dermatology Branch which represents approximately 3% of consolidated Group sales (share attributable to L'Oréal), consists of Galderma, a joint venture set up by L'Oréal and Nestlé over 30 years ago. After posting regular growth for many years, the Galderma laboratory is pursuing its development and has made its mark as one of the leaders in dermatology.

A joint news release, issued on February 11th, 2014 by L'Oréal and Nestlé specifies the terms and conditions of the proposed sale by L'Oréal to Nestlé of its stake in Galderma (see chapter 3, paragraph 3.3.2 on pages 103 and 104).



1.3.2.3. SUPPORT DIVISIONS

Several specialist Divisions provide their expertise and support to the Branches and Operational Divisions:

- the Research and Innovation Division, in charge of fundamental and applied research;
- the Operations Division, in charge of coordination of production and the supply chain;
- the Human Relations Division, in charge of recruitment, training and talent development policies and co-ordination of social policy;
- the Administration and Finance Division, in charge of the Group's financial policy, controlling and consolidation, information systems, legal and tax co-ordination as well as financial communications and relations with shareholders and investors;
- the Communication, Sustainability and Public Affairs Division, in charge of co-ordination of corporate communication, co-ordination of communication by the Operational Divisions and brands and Sustainable Development.

1.3.2.4. GEOGRAPHIC ZONES

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

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

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

(1) Almost all subsidiaries are directly attached to L'Oréal parent company with a holding or control percentage equal to or close to 100%. The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements on pages 159 to 162 and pages 186 to 188.

1.3.2.5. EXECUTIVE COMMITTEE

Members of L'Oréal's Executive Committee

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

1.4. INTERNATIONALIZATION AND COSMETICS MARKET

1.4.1. A historical presence in developed markets

L'Oréal is present in 130 countries in all 5 continents. Founded in France in 1909, the Group developed rapidly in Western Europe. In 2013, it made 35.1% of its cosmetics sales in this territory in which the Group is long established.

In the first half of the 20th century, L'Oréal gained a foothold in North America. Initially, the Group entrusted distribution companies with commercializing its products, these companies being united in 1953 around an exclusive agent, Cosmair. Following the Company's takeover in 1994, it ensured the Group's development on the North American continent with the status of subsidiary. The acquisition of brands like Maybelline (1996), Matrix and Kiehl's (2000), or more recently Clarisonic (2011) and Urban Decay (2012) have firmly anchored the Group in North America. In 2013, its sales on that continent increased by 3.8% like-for-like to reach 25.1% of world cosmetic sales.

1.4.2. Rapid development outside Western Europe

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

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

The 1990s witnessed the opening up of New Markets with the fall of the Berlin wall which gave the brands access to the markets in Eastern European countries.

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

In 1997, the Group created a large multi-divisional zone in Asia and opened new subsidiaries, particularly in China where L'Oréal holds 100% of the capital of its entity.

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

The mid 2000s was the turning point: the strong acceleration of the development of the New Markets is leading to a shift of the point of gravity in the economic world.

In all, the percentage of cosmetics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 39.8% in 2013. This progress is expected to continue.

1.4.3. A commitment to shared, sustainable growth

Anxious to protect the future and to lay the foundations for lasting growth, the Group is striving to develop 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 commitments in social matters are the same in all its subsidiaries;
- all production centres comply with the same rules aimed at a reduction in the environmental footprint. Social audits are carried out at suppliers of factories and logistics centres;
- each subsidiary participates, as far as its resources permit, in the large corporate philanthropy programmes of the L'Oréal Foundation such as For Women In Science, Hairdressers against AIDS and Beauty for a Better Life.

In the autumn of 2013, the Group presented its programme on "Sharing beauty with all" and set out its commitments for 2020 to reduce its impact while fulfilling its ambition of growth (details of these commitments are set out in chapter 6, on pages 196 to 198).

1.4.4. Immense development potential

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

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

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

NORTH AMERICA

25.1%
OF GROUP COSMETICS SALES

+3.8%
Sales growth in 2013 [(1)]

+2.6%
Market growth in 2013 [(2)]

SALES:
€5,356 M

OPERATING PROFIT [(3)]***:***
18.7% (% of sales)

WESTERN EUROPE

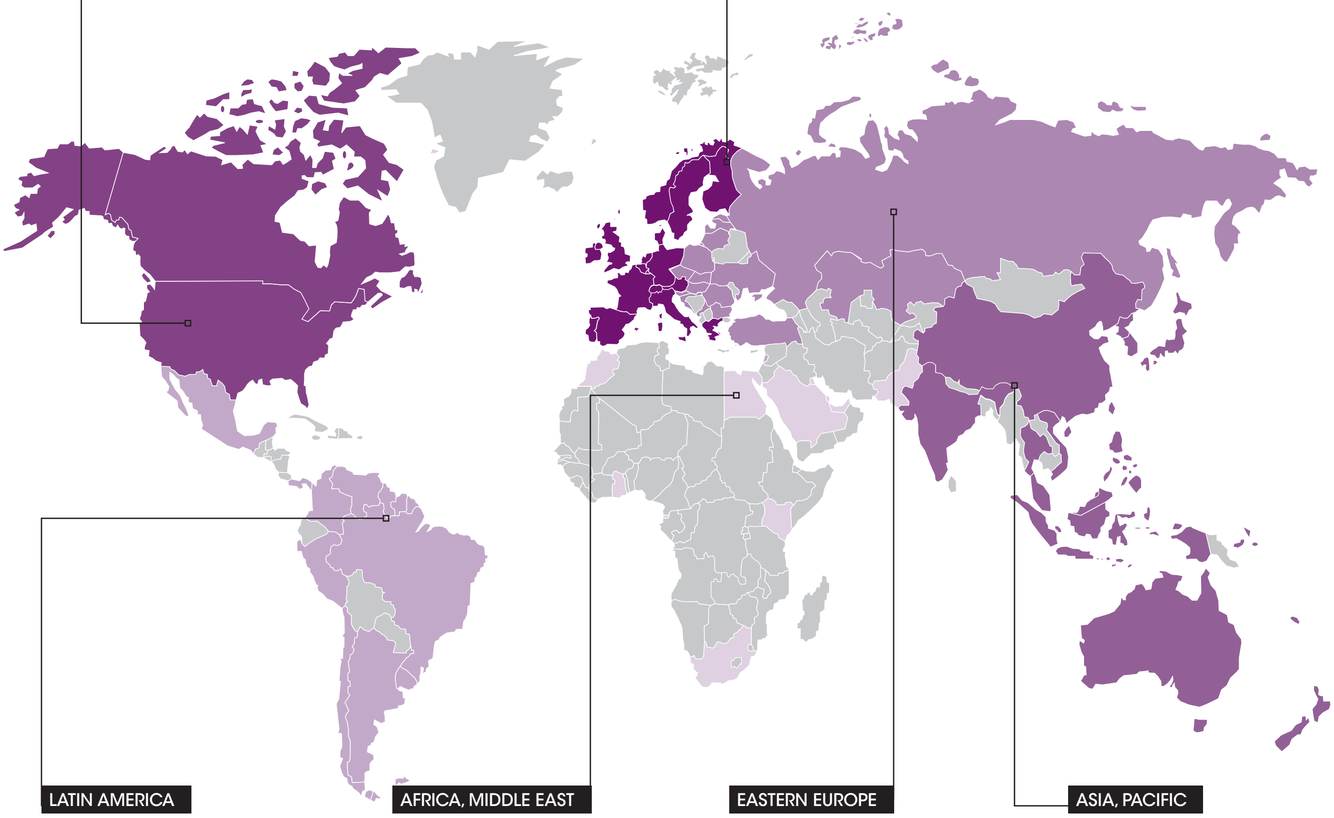
35.1%
OF GROUP COSMETICS SALES

+1.9%
Sales growth in 2013 [(1)]

+0.3%
Market growth in 2013 [(2)]

SALES:
€7,483 M

OPERATING PROFIT [(3)]***:***
22.2% (% of sales)



LATIN AMERICA

8.9%
OF GROUP COSMETICS SALES

+11.5%
Sales growth in 2013 [(1)]

+11.0%
Market growth in 2013 [(2)]

SALES:
€1,895 M

AFRICA, MIDDLE EAST

2.4%
OF GROUP COSMETICS SALES

+14.3%
Sales growth in 2013 [(1)]

+6.5%
Market growth in 2013 [(2)]

SALES:
€505 M

EASTERN EUROPE

7.9%
OF GROUP COSMETICS SALES

+8.2%
Sales growth in 2013 [(1)]

+2.3%
Market growth in 2013 [(2)]

SALES:
€1,693 M

ASIA, PACIFIC

20.6%
OF GROUP COSMETICS SALES

+8.4%
Sales growth in 2013 [(1)]

+4.5%
Market growth in 2013 [(2)]

SALES:
€4,382 M

NEW MARKETS

39.8% *OF GROUP COSMETICS SALES*
+9.4% *Sales growth in 2013* [(1)]
+5.7% *Market growth in 2013* [(2)]
Sales: **€8,475 M**
Operating profit: **19.2%** *(% of sales)* [(3)]

(1) Like-for-like.

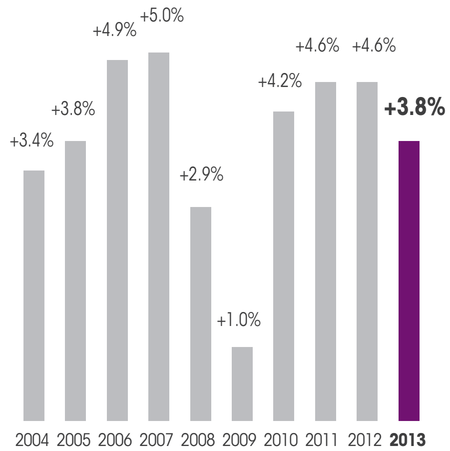
(2) Source: L'Oréal estimates of worldwide cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.

(3) Operating profit before "non-allocated". See note 3, page 96.

1

WORLDWIDE COSMETICS MARKET FROM 2004 TO 2013 [1]

(Annual growth rate as %)

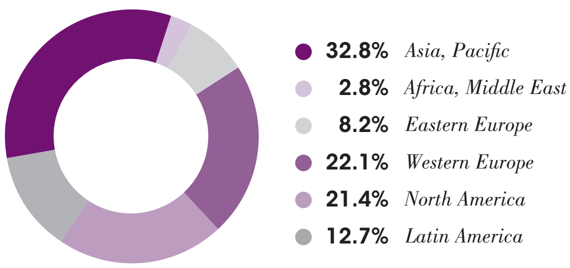


The worldwide cosmetics market represents approximately €175 billion, and in 2013 it grew by an estimated +3.8% [1]. It is a particularly robust market, which is steadily expanding, while proving very resilient when economic conditions are at their most difficult. The cosmetics consumer's behaviour has not changed since the crisis. There has been no devaluation, banalisation or massification of the market. On the contrary, consumers' aspirations for quality are higher than ever, and they are always eager for technology and new ideas. The cosmetics market remains a supply-led market, driven by innovation, and consumers are always looking for quality, performance and perceived results.

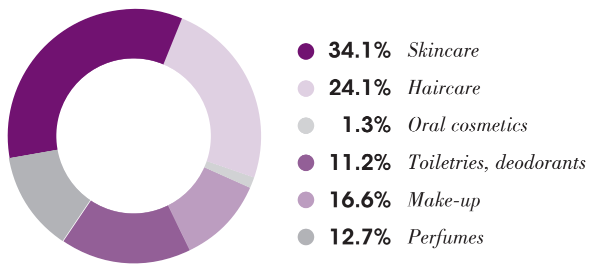
BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2013 [1]

(As %)

BY GEOGRAPHIC ZONE



BY PRODUCT CATEGORY

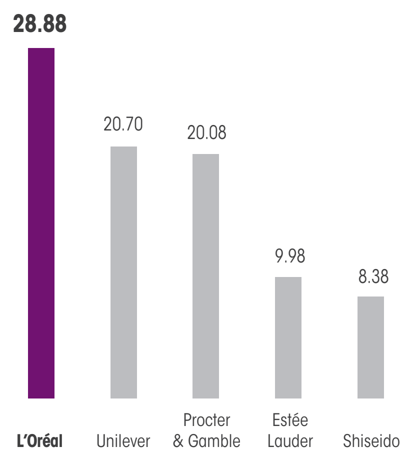


In 2013, the dermo-cosmetics market was the most dynamic with growth of +5.0%. The market was buoyant on all continents, even in Western Europe with growth of nearly +3%. With growth of +4.6%, the selective market continued to grow at a steady pace in 2013; bolstered by Asia and Travel Retail, it contributes 24% of global growth [1]. With growth of +3.9%, mass market sales tailed off particularly due to the United States and Asia.

From a geographic viewpoint, the New Markets continue to attain increasing levels of growth: excluding Japan, they represented 80% of worldwide market growth this year [1], due in equal shares to Asia-Pacific and Latin America.

MAIN WORLDWIDE PLAYERS [2]

(Sales in billions of US$)



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

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

(2) *Source: "Beauty's Top 100" WWD, August 2013, 2012 sales.*

1.5. RESEARCH & INNOVATION: AN OBJECTIVE OF EXCELLENCE

1.5.1. Research, in the Group's genes

Over a century ago, a scientist called Eugène Schueller founded L'Oréal by launching a major innovation: a harmless hair dye. Research immediately became one of the components of the Group's DNA and very quickly one of the keys to its success. By always keeping one step ahead in this area, L'Oréal has integrated research into a Sustainable Development process. The ingredients used and the work carried out respect consumers, the environment and biodiversity.

Today, to engage in the conquest of a billion new consumers, the Group has rethought its innovation model and constantly increases its investments. With a budget of €857 million in 2013, up by +8.4% as compared to the previous year, L'Oréal's research teams innovate to meet beauty aspirations all over the world in their infinite diversity.

L'ORÉAL CREATES A HIGH-LEVEL SCIENTIFIC ADVISORY BOARD

The endless quest for beauty requires scientific research open to the world. At a time when L'Oréal's strategy is one of universalisation of beauty, the creation of a Scientific Advisory Board in 2013 was considered to be necessary in order to nourish the interactions between science and beauty.

Jacques Leclaire, global Scientific Director, has the responsibility of chairing this Board and coordinates its reflections. Its mission is to guide the scientific and technological research focuses to explore the next beauty frontiers. Composed of 9 eminent scientists from different disciplines and backgrounds, the Scientific Advisory Board also respects equality since important discoveries and innovations often come from exchanging ideas.

The Board will meet twice a year and its work will include dramatic development of science and technology throughout the world, the power of the digital revolution but also changing modes of consumption and social issues. It will bring unexpected ideas and define the contours of beauty science for the next ten years with L'Oréal's own research teams.

1.5.2. One step ahead in active principles

L'Oréal's Fundamental Research Department was set up in 1963. Its conviction: extend the knowledge of skin and hair in order to think up new concepts which lead to the synthesis of new molecules. The Group subsequently multiplied the number of patent filings (624 in 2013) and developed a large number of active principles, the main ones being at the source of the Group's flagship products.

Among these major molecules, it is possible to cite **Ionène G**, launched in 1978 in hair colour with Majirel to ensure real respect for the integrity of hair; **Mexoryl SX**, a sun filter launched in 1993 in the Vichy Capital Soleil range; **Pro-Xylane**, which, launched for the first time in 2006, became part of the Lancôme Absolue range to treat deep wrinkles; and more recently, **LR2412**, used in Lancôme Visionnaire, launched in 2011, which reduces wrinkles while offering a more even skin tone; **Stemoxydine** launched in 2012 in the Vichy Neogenic product range, which favours follicular regrowth and finally **Filloxane**, an effective hair thickener, launched in 2013 in the L'Oréal Paris Fibralogy range.

This capacity to implement long-term research programmes now enables L'Oréal to remain ahead of its competitors.

1.5.3. Animal testing: balancing ethics and innovation

The harmlessness and efficacy of L'Oréal's technological innovations are essential. To meet these requirements, the research team embarked in the 1980s on developing alternative methods to animal testing for the evaluation of the safety of its products and active principles.

Much progress has been made thanks to tissue engineering, which made it possible to reconstruct the first human epidermis in 1979 and then the first complete skin (epidermis and dermis) in 1996. In three decades, thanks to its investment in research and scientific partnerships, the Group has created genuine expertise in this area.

In 2011, L'Oréal inaugurated in Gerland (Lyon, France) its global predictive evaluation centre dedicated to evaluation of the safety and efficacy of ingredients and products, the first cosmetics industry site to produce reconstructed biological tissues (around 130,000 units per year).

12 reconstructed skin and corneal tissue models have been developed to date. These models are fabulous tools to predict the safety and efficacy of products and make it possible to reduce the time-to-market. Thanks to these models, L'Oréal was able to stop testing finished products on animals in 1989 (14 years before it became a legal obligation in Europe) and develop predictive evaluation strategies to satisfy the recent European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after March 11th, 2013. This law has not had any impact on the Group's innovation efforts.

Outside Europe, in all the countries which continue to require or conduct animal testing to evaluate product and cosmetic ingredient safety, L'Oréal shares its breakthroughs and makes available both its models and its substitute methods. L'Oréal has no longer conducted animal testing anywhere in the world since March 2013 and does not delegate responsibility for doing so to anyone else.

Research and innovation budget *(€ million, including 50% of Galderma research expenses)*	
2011	721
2012	791
2013	**857**

Research employees *(including 50% of Galderma research employees)*	
2011	3,676
2012	3,817
2013	**4,009**

Number of patents *(cosmetics and dermatological research)*	
2011	613
2012	611
2013	**624**

1.5.4. A global governance for Research

Applied Research optimises the principles of cosmetic formulation to get the best out of the active ingredients. It transforms knowledge and modules into innovative prototypes to create powerful platforms in each product category. The deployment of its teams in three major geographic zones (Americas, Europe, Asia) supports the international expansion of the Businesses by boosting the Group's innovation potential.

1.5.5. Research in tune with the market

All stages of research which lead up to the launch of an innovative product are connected to the market. There is a veritable interaction between research and marketing.

This approach is closely related to the Group's development strategy in the New Markets. Consumers in India are not the same as those in China or in Europe: their cosmetic needs and aspirations differ. To pay heed to the needs of its customers in their diversity, L'Oréal has created a "Consumer & Market Insights" Department in the Innovation Division to build up a global consumer data bank per product category and per major region of the world. The cosmetic needs and expectations of consumers all over the world in priority markets for the Group are identified through these studies.

1.5.6. A new Research Hub in India

L'Oréal has five regional Applied Research hubs. In 2013, a new hub opened in Bangalore.

India is a country of innovation, and has a scientific fabric in tune with L'Oréal research fields, with well-trained talents and high-level research institutions. This is why the Group inaugurated the Indian research hub in 2013, consisting of two centres, one in Mumbai for Applied Research and Development, the other in Bangalore dedicated to Advanced Research. This hub has a two fold mission: adapting the technologies developed in the global centres to the behaviour of Indian consumers and inventing customer-specific products for the Indian market.

Mumbai is the base for the teams involved in developing new skin or hair care beauty products. The Consumer Insights Department enhances the knowledge of beauty habits and behaviour of Indian consumers, the development teams translate these needs into products and the evaluation teams study their technical, functional and sensorial performances.

In Bangalore, the mission of the Advanced Research centre consists of deciphering Indian knowledge in the fields of traditional medicine and aromatic plants, using advanced methods in biology, physics and chemistry. The aim is to select high-performing active principles, to become a centre for excellence for the evaluation of complex mixtures and to enable local sourcing for accessible innovations. In order to fulfil these targets, the teams have set up partnerships with major research institutions and universities in the region.

Research sites worldwide

LOCAL RESEARCH AND ADAPTATION OF PRODUCTS

To adapt to consumers all over the world, L'Oréal's Research teams are present in all geographic zones through its 23 cosmetics and dermatological research centres and 16 evaluation centres. The research centres are grouped together in 3 global centres in France (Advanced Research, Hair *métiers* and Cosmetic *métiers*) and 5 regional hubs: in the United States, China, Japan, Brazil and India. These regional hubs identify needs, scientific expertise and cosmetic practices. The richness of their science ecosystem promotes cooperation and partnerships for excellence. The data collected then enables the researchers to develop new products that are perfectly in tune with local needs. The innovations developed will then be shared with the other research centres in a coordinated manner, and needs identified in one country may subsequently lead to success on a global scale.

1.6. OPERATIONS

1.6.1. From sourcing to delivery, continuous improvement of industrial efficiency

L'Oréal offers Men and Women worldwide the best of cosmetics. Operations develop, produce on an industrial scale and distribute the products and services corresponding to this offering, by guaranteeing the most effective and the most responsible solutions and those most suited to the specific natures of our brands and markets.

The Operations Division comprises seven areas of expertise with regard to industrial production and logistics: procurement, packaging, production, quality, supply chain, environment, health and safety, and real estate. Three support functions complete the Division's resources: Information Systems, Finance and Human Resources.

1.6.2. A well-oiled industrial model

With locations all over the world, the Group's factories produce 87% of cosmetics units sold. This choice of essentially in-house production offers a guarantee of quality, traceability and corporate social responsibility, which reduces risks. Plants are generally dedicated to the production of one Operational Division and specialised in major industrial technologies located close to the markets that they serve. The rotation of brands on the packaging lines is furthermore assisted by an increased standardisation of industrial processes.

This industrial model helps to improve output year on year and guarantees continuous activity on each site.

1.6.3. Continuous improvement and optimisation of production

L'Oréal has set itself the target of continually improving output and optimising production costs. This ambition is accompanied by a demanding quality system that extends from design to customer. It aims to guarantee the integrity of the formulation of products all over the world and ensures compliance with social and environmental responsibility standards on each production site in accordance with national regulations.

In 2013, L'Oréal obtained the Best Practices award from the AFQP *(Association France Qualité Performance)*. L'Oréal has successfully set up on its industrial sites "the Total Productive Maintenance system", based on the close involvement of its employees in continuous improvement initiatives, which makes it possible to improve performance in a number of areas such as safety, environmental impact, ergonomics and production quality and capacity at the industrial sites, while ensuring cost improvement.

L'Oréal is pursuing its programme to improve the efficiency of its production facilities, based on a whole set of best practices, at all its industrial sites throughout the world.

This triggered, for example, the sharing of the support and procurement functions in the major geographic zones. Efficiency has been improved while the specificities of each region have been maintained. This productive, highly responsive organisation model is particularly adapted to L'Oréal's objective of accelerated growth in the New Markets.

1.6.4. Long-term partnerships with suppliers

L'Oréal's industrial success can also be accounted for by the Group's exacting standards in the choice of its suppliers and the sustainable relationships that it sets up with them. The Group organised its first World Suppliers' Day in 2012 in order to share the Group's vision and strategy with L'Oréal's most strategic suppliers. Durable links with suppliers also require the development of local procurement in strong growth zones. In 2010, the Group initiated the "wall-to-wall" programme which consists in setting up a production unit for packaging items operated by a supplier within the plant itself. This partnership develops responsiveness and industrial flexibility, while reducing the transportation of packaging items and the generation of waste related to their packaging. It is aimed at plants with highly specialised technologies that produce very large volumes and have ongoing needs for external resources.

1.6.5. L'Oréal and its partners: working together to innovate

Innovation is a major challenge for L'Oréal. In order to speed up this process, the Group created an internal trade fair dedicated to innovation called "Cherrypack" in 2010. The third edition of this fair was held in November 2013, enabling ten strategic suppliers from Asia, Europe and Americas, to unveil their latest innovations with regard to product packaging and POS to all the Group's brands and to the Research & Innovation team. This event demonstrates L'Oréal's intention to reinforce its links with its suppliers by gambling on collaborative intelligence. This event, which was organised in the presence of Jean-Paul Agon and Executive Committee members, was attended by around 800 of the Company's employees who were able to discover these innovations. External innovation is also boosted through partnerships set up in Europe and Asia with highly creative and innovative schools.

1.6.6. Strong commitments with regard to social responsibility and safety

The Operations Division, like the Group as a whole, plays a predominant role in the field of social responsibility and safety. L'Oréal incites its suppliers to be more responsible and carries out rigorous monitoring of their commitments through a large number of social audits carried out on suppliers throughout the world; 5,295 social audits have been carried out since 2006. The objective is not to impose sanctions on suppliers but to help them to improve their safety standards and their environmental and social performances. The Group received a prize from VIGEO [(1)] in 2012 for the prevention of social dumping in the supply chain.

By creating the "Solidarity Sourcing" programme in 2010, the Group took the initiative of using local suppliers who make commitments in favour of minorities: disabled workers or workers from deprived communities. It may also involve very small suppliers or fair trade players that L'Oréal calls on to contribute with the help of its suppliers. This programme was officially launched in 2012 to the Group's suppliers in order to encourage them to develop the same approach with their own suppliers. In 2013, the "Solidarity Sourcing" programme provided access to employment to over 22,000 people.

With regard to safety, the Operations Division pays particular attention to employees who work on production sites. They are trained in compliance with safety rules and observe "a safety minute" every day in order to prevent and avoid accidents.

(1) *European extra-financial ratings agency.*

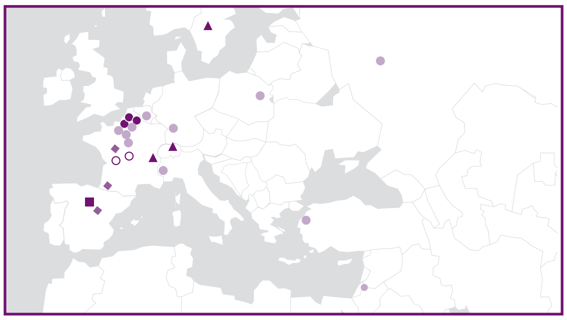
1.6.7. *Environmental protection at the heart of production*

Throughout the whole of the production chain, innovative measures with regard to Sustainable Development are implemented all over the world, from projects with regard to efficient everyday use of resources to breakthrough projects. Many initiatives that are most suited to the local ecosystem are being introduced at the Group's sites (geothermal energy in Vichy, photovoltaic panels in Mexico, biomethanation in Belgium, phytorestoration in Mourenx (France), and so on).

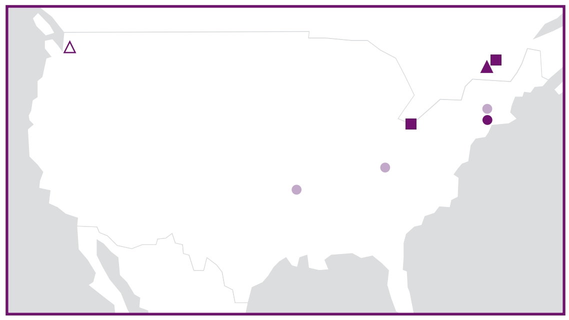
Through "Commitments for 2020", the Group carries on with the approach initiated in 2009 aiming at reducing the environmental footprint of its factories and logistics centres. The pledge to reduce by 50% carbon emissions in absolute terms (both direct and indirect) water consumption and waste generation per finished product unit, by 2015 from a 2005 baseline, is now a pledge to reduce by 60% by 2020 from a 2005 baseline (see chapter 6, paragraph 6.3.1, page 212). Furthermore, the environmental impacts related to packaging, transport and buildings are also taken into consideration.

45 INDUSTRIAL SITES WORLDWIDE

EUROPE

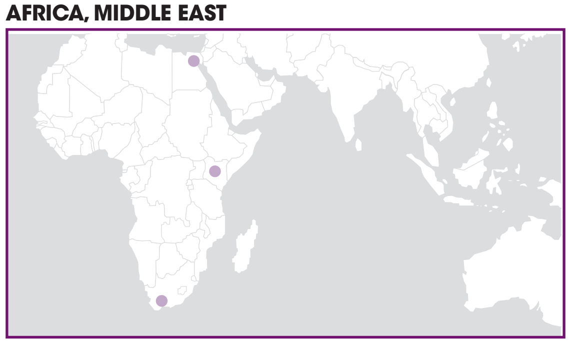


NORTH AMERICA



LATIN AMERICA

AFRICA, MIDDLE EAST



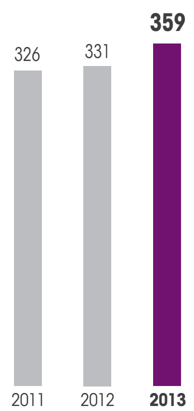
ASIA, PACIFIC

- Active Cosmetics: 2 factories
- Professional Products: 3 factories
- L'Oréal Luxe: 5 factories
- Consumer Products: 26 factories
- Raw Materials: 3 factories
- Devices: 1 factory
- Dermatology: 5 factories

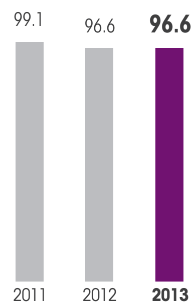
PRODUCING AND CONSUMING LOCALLY

The Group's factories are spread out all over the world in order to fulfil a very simple objective: to reduce as far as possible the distance between consumers and the production zones. The Group's 45 factories are located in areas enabling a rapid supply of all the countries in which the Group is present. The strong growth of products in the Consumer Products Division, particularly in the New Markets, accounts for the number and geographical breakdown of this Division's factories. Furthermore, in order to support the conquest of another billion consumers in the New Markets, the Group started up a new factory in Russia in 2010. In 2012, two new factories started up in Indonesia and Mexico. In 2013, L'Oréal opened its new production site in Egypt, while the Group also integrated two new industrial entities following acquisitions: Vogue in Colombia and Interbeauty in Kenya.

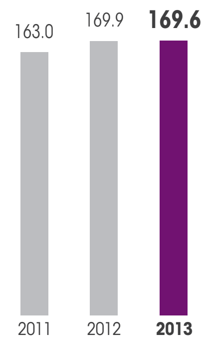
COSMETICS INVESTMENTS
(production and supply chain commitments in € millions)



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

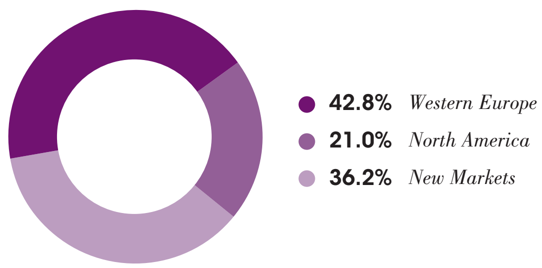


COSMETICS FACTORIES WORKFORCE CUMULATED PRODUCTIVITY INDEX
(index base:100 in 2002, acquisitions included)

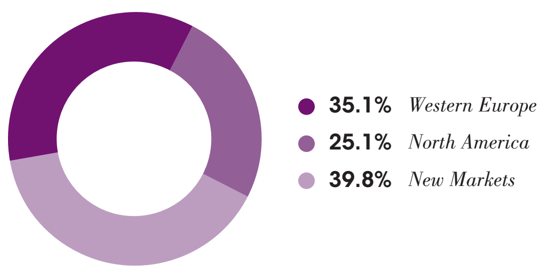


COSMETICS BRANCH PRODUCTION AND SALES BY GEOGRAPHIC ZONE IN 2013

PRODUCTION



SALES



1.7. INVESTMENT POLICY

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

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

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see, in particular, section 1.5. on page 14 and section 1.6. on page 16);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities, particularly in the cosmetics industry. Indeed, in order to win new market share, thorough research has to be conducted all over the world, and advertising and promotional expenses need to be modulated depending on the familiarity of the brands and their competitive position; finally, investments in point-of sale (POS) advertising materials ensure optimal presence for our brands in points of sale.

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

In 2013, the Group's investments amounted to €1,061 million, *i.e.* 4.6% of its sales, a percentage close to the record levels before the financial crisis. This evolution reflects the constant efforts made by the Group, in particular in the fields of improvement of industrial efficiency, the performance of research teams and enhancement of the value of brands.

The €1,061 million that were invested in 2013 can be broken down as follows:

- production and physical distribution represent approximately 34% of total investments;
- marketing investments, including moulds, POS advertising materials and stores account for 39%;
- the remainder concerns Research and the head offices in different countries;
- IT investments spread over all these categories represented 18% of total investments (see note 12 on page 133, note 14 on page 136 of chapter 4 and note 26 on page 154. Consolidated Financial Statements).

1.8. RISK FACTORS

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

Faced with these risks, L'Oréal has set up an Internal Control system to prevent and control them better. The Internal Control and risk management procedures are thus described in section 2.5, as provided for by Article L. 225.37 of the French Commercial Code (*cf.* pages 75 *et seq.*).

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

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

1.8.1. Business risks

1.8.1.1. IMAGE AND REPUTATION

The Company's reputation and its brand image may be compromised at any time in a globalised world where information is disseminated rapidly. No company is safe from an undesirable event whether this involves the use or misuse of a product or reprehensible individual conduct. The circulation in the media of detrimental information, whether founded or not, which has been facilitated by the introduction of new technologies and development of the social networks, could also affect the Company's reputation and its brand image.

In order to reduce the risks that may arise from events of this kind, L'Oréal has set up a crisis management procedure, whose global task is to prevent, manage and limit the consequences of undesirable events on the Company. The Group crisis management officer reports directly to the Chief Executive Officer. Furthermore, the deployment of the Code of Business Ethics throughout the whole Group aims at reinforcing the spreading of the rules of good conduct which ensure L'Oréal's integrity and strengthen its ethics. The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee. In addition, L'Oréal has implemented a charter of good practices for use of social media by its employees.

1.8.1.2. PRODUCT QUALITY AND SAFETY

Consumer safety is an absolute priority for L'Oréal. The International Safety Assessment Department specifically evaluates the safety of raw materials and finished products. It establishes the toxicological profile of the ingredients which are used and the tolerance of the formulas before they are launched on the market.

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

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

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

1.8.1.3. RESPONSIBLE COMMUNICATION

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

In order to reduce the risk of challenges of this kind being made, the International Product Communication Evaluation Department makes sure of the conformity of product communications before they are put on the market. The Group's Code of Business Ethics sets out the fundamental principles of responsible communication and L'Oréal has made a commitment to implement the Cosmetics Europe Charter on responsible advertising and marketing communication, to which the key global cosmetics industry players in Europe adhere.

1.8.1.4. SEASONAL NATURE OF THE BUSINESS

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

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

1.8.1.5. GEOGRAPHIC PRESENCE AND ECONOMIC AND POLITICAL ENVIRONMENT

L'Oréal has subsidiaries in 70 countries, with 64% of its sales being generated outside Western Europe. Global growth in the cosmetics markets has led L'Oréal to develop its activities in countries of the "New Markets" Zone, which represent over 39.8% of its cosmetic sales in 2013. The breakdown and changes in L'Oréal's sales are given in chapter 3 (Financial highlights) on pages 94 *et seq*.

Besides the currency risks mentioned in chapter 4 in note 24.1. *Hedging of currency risk* on pages 150 to 152 and in the paragraph on currency risk page 26, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.

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

1.8.1.6. DISTRIBUTION NETWORK

To sell its products, L'Oréal uses independent distribution channels, except for a limited number of stores which are owned by the Company. The concentration or disappearance of distribution chains and changes in the regulations with regard to selective distribution could have an impact on the development of the Group's brands in the country or countries concerned.

The presence of the Group's brands in all types of distribution networks helps to attenuate any potential negative effect.

1.8.1.7. COMPETITION

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

This competition is healthy; it leads our teams, all over the world, to always do their best to serve the interests of consumers and the Group's brands. In the context of a constant struggle to obtain the best positions and launch the most attractive and most effective product ranges, with an optimal price/quality ratio, winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge.

1.8.1.8. INNOVATION AND CONSUMER EXPECTATIONS

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

The Consumer & Market Insights Department, which is part of the Innovation Division, constantly watches for changes in consumers' cosmetic expectations by product category and major regions of the world. This work enables the Group's researchers to develop new products that are in line with market needs as mentioned in the paragraph on *Research in tune with the market* on page 15. The development of digital communication and e-commerce creates greater proximity between L'Oréal and its consumers, by setting up decision-making aid services with regard to product purchases and their use. Consumer expectations with regard to Sustainable Development are moreover at the heart of the "Commitments for 2020" published in 2013 (see chapter 6, page 197).

1.8.1.9. EXTERNAL GROWTH TRANSACTIONS

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

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

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

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

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

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

1.8.1.10. RISKS RELATED TO HUMAN RESOURCES MANAGEMENT

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

The Group therefore develops a motivating, engaging professional environment, and encourages the attachment to its values, including those put forward by the Code of Business Ethics. L'Oréal's Human Resources policy is moreover described in the Report of the Chairman on Internal Control (paragraph on *Internal Control organisation and environment*) and in chapter 6, paragraph 6.2. page 198.

1.8.1.11. SECURITY

The Group's presence at more than 350 sites (excluding our own shops and the sales outlets of our distributor customers) exposes it to risks with regard to events of diverse origins – geopolitical risks, malicious acts, natural disasters. The consequences of these risks may adversely affect the Group's assets: people, tangible and intangible property.

For the permanent protection of these items of property (or Group assets) against malicious acts, the Safety Division contributes in particular to preventive implementation of technical and human resources and operational procedures to limit the residual risk of malicious damage and support the Group's international development in high risk countries. It also provides employees making business trips abroad with a monthly report on "travel risks".

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

1.8.1.12. INFORMATION SYSTEMS

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

In order to minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-ups, protection and access to confidential data and security with regard to both computer hardware and software applications. In order to adapt to the evolution of new communication methods, L'Oréal has introduced an Information and Communication Technologies Charter. These measures are described in the Report of the Chairman on Internal Control (see chapter 2, paragraph 2.5.2.4. page 77). To deal with the growing threats in the field of cybercrime, L'Oréal takes continuous steps to strengthen the means dedicated to information system security. This plan relies in particular on anti-intrusion equipment, securing sensitive equipment and overall supervision to detect irregularities.

1.8.1.13. RISK OF AN INTERNAL CONTROL FAILURE

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

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

1.8.2. *Legal risks*

1.8.2.1. INTELLECTUAL PROPERTY: TRADEMARKS AND MODELS

L'Oréal is the owner of the major intangible assets on behalf of the Group's companies, to which it grants licences in exchange for the payment of royalties. Thus, L'Oréal is the owner of most of its brands, which are a strategic asset for the Group, in particular the major international brands described in the paragraph on Branches and Divisions on page 8, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used by *L'Oréal Luxe*, primarily the Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor & Rolf and Diesel brands.

The trademark name, the products themselves and the models may be infringed or counterfeited by economic players wishing to illegally and illegitimately claim the benefits of their reputation.

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

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

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

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

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

1.8.2.2. INDUSTRIAL PROPERTY: PATENTS

Research and innovation are the historic pillars of L'Oréal's development. The dedication of L'Oréal's research teams has made it one of the leading industrial patent filers in its field for many years.

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

1.8.2.3. CHANGES IN THE REGULATIONS

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

The European REACH regulations (Registration, Evaluation and Authorisation of Chemicals) that came into force in June 2007 are aimed at increasing human and environmental safety of chemicals by requiring all user companies to prove that they have implemented appropriate risk management measures. L'Oréal plays an active role in this process for the substances manufactured or imported by its European legal entities concerned. Within the framework of national and European associations, L'Oréal contributes to the analysis and drafting of practical guides for implementation of these regulations.

L'Oréal is also subject in Europe to the 7th amendment to the European Cosmetics Directive on animal testing of cosmetic ingredients. An action plan has been drawn up at L'Oréal in order to improve the conception and the methods of evaluation of the safety of raw materials. This plan is being implemented on an accelerated basis in order to make the best possible preparations for the application of these regulations. L'Oréal was able to stop testing finished products on animals in 1989 (14 years before it became a legal obligation in Europe) and develop predictive evaluation strategies to satisfy the recent European regulations which prohibit the offering for sale of products containing any ingredient that has been tested on animals after March 11th, 2013. See paragraph on "Animal testing: balancing ethics and innovation" page 14.

1.8.2.4 OTHER LEGAL RISKS AND LITIGATION

In the ordinary course of its business, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. It is also the subject of proceedings initiated by national competition authorities, in particular in European countries (see note 22 *Provisions for liabilities and charges* on page 147 in chapter 4 *Consolidated financial statements*).

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

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

We consider that there is currently no exceptional event nor any governmental procedure, legal or arbitration proceeding which has recently materially affected, or is seriously likely to materially affect, the financial situation, assets or operations of the Company and the L'Oréal Group.

1.8.3. Industrial and environmental risks

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 45 factories, each specialising in a specific type of technology.

1.8.3.1. PRODUCTION AND SUPPLY CHAIN

Products must be made available on the market on the scheduled dates to meet time-to-market and customer demands, in order to enable new product ranges to be referenced by distribution in a cosmetics market that requires companies to be more and more responsive.

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

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

1.8.3.2. SUPPLIER DEPENDENCE

L'Oréal is dependent on its external suppliers for the delivery of materials (raw materials and packaging items) that are essential for the manufacture of finished products, which may therefore suffer disruption as the result of a default by an important supplier.

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

1.8.3.3. ENVIRONMENT AND SAFETY

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

To ensure that the Group complies with its commitment to protect the environment and improve occupational health and industrial safety conditions, and to achieve concrete targets, a rigorous Environment, Health and Safety (EHS) policy has been implemented throughout the Group for many years. It was updated in 2010 as described in *Environmental Information* later in this report.

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

L'Oréal Group operates 116 manufacturing sites, of which two are classified as "Seveso high threshold" and are therefore subject to strict regulations through the European Union Seveso Directive on the prevention of major accident hazards due to the storage of chemicals or inflammable products.

1.8.3.4. EHS RISK MAP AND AUDITS

Within the scope of this EHS policy, for the industrial sites, prevention is based on the SHAP (Safety Hazard Assessment Procedure) programme involving the assessment of risks by employees at grassroots level under the responsibility of the Site Manager. This programme contributes to identifying the dangers overall and for each workstation and assessing the corresponding risks. The SHAP method thus makes it possible to prepare a risk mapping for the sites, to evaluate the level of risks and to put in place the necessary means of control. It is supported by dialogue between persons in charge, thus contributing to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly depending on changes at sites and experience on the ground. EHS audits are conducted every three or four years in each factory and distribution centre. The site risk map is reviewed within the scope of this audit. In 2013, an EHS risk audit was carried out at 17 factories and 12 distribution centres.

1.8.3.5. CONSTANT CONCERN FOR THE SAFETY OF EMPLOYEES

Preservation of employee health and safety is one of L'Oréal's priorities and is an integral part of the EHS policy and the Group's human and social policy. It rests on the evaluation and prevention of professional risks in the Company as described in detail in chapter 6, page 207. Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.

The Group implements the necessary means to ensure that it is in compliance with the legal provisions and the regulations relating to health and safety in the various countries where it operates.

1.8.4. *Counterparty risk*

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

When the Group makes financial investments, in the form of either bank deposits or marketable securities (see note 19 *Cash and cash equivalents* on page 138 in chapter 4 "Consolidated financial statements"), it gives priority to short-term transferable instruments from first-rate financial institutions.

The Group therefore considers that its exposure to the counterparty risk is weak (see note 24.4. *Counterparty risk* on page 152 in chapter 4).

1.8.5. *Customer risk*

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

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

Furthermore, due to the large number and variety of distribution channels at worldwide level, the likelihood of occurrence of significant damage on the scale of the Group remains limited. The 10 largest customers/distributors represent 19.6% of the Group's sales. The amount considered as posing a risk of non-collection for which a provision for liability is therefore booked is set out in note 17 *Trade accounts receivable* on page 138 in chapter 4. It does not exceed 2% of gross accounts receivable.

1.8.6. *Liquidity risk*

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

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

To this effect, the Group has unused confirmed credit lines from several first-rate banks totalling €3,236 million. Their terms are less than 1 year for €1,086 million and ranging from 1 to 3 years for €2,150 million (see note 23.9. *Confirmed Credit lines* on page 150 in chapter 4).

These credit lines are not subject to any conditionality clause based on financial criteria. Furthermore, the Group uses the financial markets, on a very regular basis, to meet liquidity needs through the use of short-term papers in France and short-term commercial paper in the United States. None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants) (see notes 23.1. *Debt by type* and 23.2. *Debt by maturity date* on page 149 and note 24.5. *Liquidity risk* on page 152 in chapter 4).

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

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

- A-1+, awarded in June 2013 by Standard & Poor's;
- Prime 1, awarded in June 2013 by Moody's; and
- F1+, awarded in August 2013 by FitchRatings.

These ratings are unchanged compared to those assigned in 2012.

1.8.7. *Financial and market risks*

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

1.8.7.1. INTEREST RATE RISK

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term papers. The Group mainly refinances at floating rates, as mentioned in note 23.4. *Breakdown of fixed rate and floating rate debt* on page 150 in chapter 4. Other details with regard to debt and interest rates are also provided in notes 23.5. *Effective interest rates*, 23.6. *Average debt interest rates* and 23.7. *Fair value of borrowings and debts* on page 150 in chapter 4.

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

In order to limit the negative impact of interest rate variations, the Group has a non-speculative interest rate management policy using derivatives, as described in notes 24.2. *Hedging of interest rate risk* and 24.3. *Sensitivity to changes in interest rates* on page 152 in chapter 4.

1.8.7.2. CURRENCY RISK

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

In order to limit currency risk, the Group adopts a conservative approach of hedging at year-end a significant portion of annual requirements for the following year through forward purchases or sales contracts or through options. Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress. In order to benefit from better visibility of the flows generated, currency risk management is centralised with the Treasury Department at head office (Financial Services Department) which uses a specific tool for centralising the subsidiaries' requirements by currency (FX report).

The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 24.1. *Hedging of currency risk* on pages 150 to 152 in chapter 4.

The breakdown of consolidated sales for 2013 by currency is specified in chapter 3 *Financial highlights*.

Significant changes in the monetary environment could have an impact on the Group's results and on its shareholders' equity. The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 20.4 *Other Comprehensive Income* on page 142 in chapter 4. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 6 *Foreign exchange gains and losses* on page 124 in chapter 4.

1.8.7.3. RISK RELATING TO THE IMPAIRMENT OF INTANGIBLE ASSETS

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

As described in note 1.15 *Intangible assets* on page 114 in chapter 4, goodwill and brands with an indefinite life span are not subject to depreciation but to periodic impairment tests which are carried out at least once a year. Where the recoverable value of the brand is lower than its net book value, an impairment loss is recognised. Similarly, any variance between the recoverable value of each Cash-Generating Unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the income statement. The amounts for the last 3 financial years are provided in note 7 *Other operational income and expenses* on page 125 in chapter 4.

The data and assumptions used in the impairment tests for the Cash-Generating Units with significant goodwill and non-depreciable brands are described in note 13 *Impairment tests on intangible assets* on page 135 in chapter 4.

1.8.7.4. EQUITY RISK

L'Oréal does not invest its cash in shares. For L'Oréal, the main equity risk lies in the 8.93% stake that it holds in the capital of Sanofi as of December 31st, 2013, for an amount described in note 15 *Non-current financial assets* on page 137 in chapter 4.

If the Sanofi share price were to fall below the initial share price significantly or on a prolonged basis, this would potentially expose L'Oréal to impairing its assets through the income statement as explained in note 24.6. *Shareholding risk* on page 152 in chapter 4.

1.8.7.5. RISKS WITH REGARD TO THE ASSETS HEDGING EMPLOYEE COMMITMENTS

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

Pursuant to the provisions of the Internal Charter on the Management of assets dedicated to the hedging of the Group's employee commitments, the allocation by category of assets is subject to limits aimed in particular at reducing volatility risks and correlation risks between these different categories of assets. A Supervisory Committee for the pension and benefit schemes offered by the Group's subsidiaries, ensures that these principles are implemented and monitored, as described in the section under *Social information on Benefit and Pension schemes and other benefits* on page 203. However, a large, lasting fall in the financial markets could have an impact on the value of the portfolios set up (see note 21 *Post-employment benefits, termination benefits and other long-term employee benefits* on pages 143 *et seq.* in chapter 4). Furthermore, the Group chooses insurers and custodians with robust ratings from the three main specialist rating agencies.

1.8.7.6 RISK RELATING TO THE CHANGE IN TAX REGULATIONS

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

1.8.7.7 CORE COMMODITY RISK

The production of cosmetics depends on the purchase of raw materials, at fluctuating prices. These raw materials or components enter into the composition of products or their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally large increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. It is nevertheless estimated that the impact of this rise on gross margin would remain limited.

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

Also, in order to offset market volatility, L'Oréal makes ongoing efforts by carrying out projects to cut costs and actions to improve industrial productivity. Furthermore, the pooling of responsibility for purchases has made it possible to reinforce these measures.

1.8.8. Insurance

1.8.8.1. THE GROUP'S OVERALL INSURANCE POLICY

The objective of the Group's policy on insurance is to protect the Group's assets and people from the occurrence of identified material risks that could adversely affect it. For that purpose, the Group has implemented global insurance programmes (in particular for the Property Damage & Interruption of Operations, Third Party Liability and Transport insurance policies) which make it possible to manage the insurance cover and provide for uniform insurance cover for all its subsidiaries throughout the world, except in countries where this type of structuring is not permitted.

This policy is applied as follows:

- at parent company level, the Group has negotiated worldwide insurance programmes to cover its main risks on the basis of the cover available;
- in a local context, subsidiaries have to implement insurance cover to meet their local regulatory obligations and supplement the Group's worldwide programmes for any specific risks.

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

1.8.8.2. INTEGRATED WORLDWIDE PROGRAMMES

Third party liability

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

Claim activity under this programme has historically been low, which shows the extremely high quality requirements and safety standards applied by the Group in managing its operations and in designing and manufacturing its products. The health and safety of consumers and employees is a constant priority at all levels of Group operations.

Property damage and interruption of operations

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

The Group has set up an integrated global programme to cover all the property (fixed assets and inventories) of its subsidiaries. This programme also covers operating losses directly resulting from an insured property loss or damage. The level of insurance cover has been selected to cover the maximum reasonably foreseeable loss, taking into account the prevention and protection measures implemented at the Group's manufacturing sites together with the business continuity plans.

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

Transport

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

Customer credit risk

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

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

Self-insurance

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

2

/ CORPORATE GOVERNANCE*

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

This chapter describes the way in which the Board's work is prepared and organised and includes, in particular, a summary of the principles of organisation guaranteeing a balance of powers. It includes the complete text of the Internal Rules of the Board of Directors. All components of the remuneration of the Directors and executive officers are mentioned as well as the trading by Directors and executive officers in L'Oréal shares in 2013. The Internal Control procedures implemented by the Company are also described. The Statutory Auditors' Reports related to Corporate Governance, namely their report on the report prepared by the Chairman and that on regulated agreements and commitments are included here.

2.1. SUMMARY OF THE PRINCIPLES

AFEP-MEDEF Code: the reference Code

The Board of Directors considers that the recommendations of the AFEP-MEDEF Code of Corporate Governance for listed companies of June 2013 fit in with the Company's approach to corporate governance. The Code, which introduced new self-regulation rules with regard to governance in 2013, the most important of which concerns the introduction of a procedure for consultation of the Annual General Meeting on the remuneration of the executive officers ("Say on Pay"), led to a specific presentation to the Board of Directors made at the end of the year.

Accordingly, this is the Code referred to by the Company to prepare this "corporate governance" chapter, approved by the Board at its meeting on Monday, February 10th, 2014.

The Code may be consulted on the website at the following address: http://www.medef.com/.

In accordance with Article L. 225-37 of the French Commercial Code, this chapter includes the report of the Chairman on the Board's composition and on the ways in which the Board's work is prepared and organised as well as on the Internal Control procedures implemented by the Company.

Under the terms of Article L. 225-37, paragraph 6, of the French Commercial Code, the Chairman is required to present a supplementary report, attached to the Management Report:

"[…] The Chairman of the Board of Directors gives an account, in a report attached to the report mentioned in Articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26, of the Board's composition and of the application of the principle of balanced representation of men and women on the Board, of the ways in which the Board's work is prepared and organised, and on the Internal Control and risk management procedures put in place by the Company, describing in particular those of its procedures that relate to the preparation and processing of accounting and financial information for the parent company financial statements and, where applicable, for the consolidated financial statements. Without prejudice to the provisions of Article L. 225-56, the report also indicates any limitations that the Board of Directors imposes on the powers of the Chief Executive Officer."

This same article of the French Commercial Code states that:

"Where a Company voluntarily refers to a code of corporate governance drawn up by organisations representing businesses, the report […] also specifies the provisions which have not been applied and the reasons for this non-application […]

The report provided for in this Article also describes the specific terms and conditions of participation by shareholders in the General Meeting or refers to the provisions of the Articles of Association which set out such terms and conditions.

This report furthermore describes the principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the directors and executive officers […]"

In accordance with Article L. 255-37, paragraph 9, of the French Commercial Code, it is specified that the information provided for in Article L. 225-100-3 of the French Commercial Code is published in chapter 7, page 236 *et seq.*

In application of this same Article, the Board of Directors of L'Oréal approved this chapter at its meeting on February 10th, 2014.

In accordance with the updated recommendations of the AFEP-MEDEF Code, this chapter identifies in a summary table (page 74), those provisions of the Code which were not applied and explains the reasons for that choice pursuant to Article L. 225-37 of the French Commercial Code.

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

"The quality of governance relies on an extremely strong commitment by all your company's Directors. The Board provides the General Management with valuable support and assistance in making strategic decisions. The balance of powers is ensured by a very precise sharing of the tasks to be carried out by everyone."

(Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal)

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

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

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

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

The Board of Directors considers that the combination of these roles is particularly adapted to the specificities of L'Oréal: a stable and loyal shareholder base, clear identification of its businesses, gradual, steady development of its international activities, the extreme loyalty that has always existed among its senior managers and corporate officers, who have precise knowledge of the business, and top-quality financial and economic performances. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times (see section 2.2.1.1. on page 32).

Within this general framework, the *modus operandi* of the Board of Directors has been subject to particular attention so that the Board is in a position to fully carry out its role and the balance of powers on the Board is ensured. At the end of 2013, like in 2012, at the time of the evaluation of their work and their relations with the general management, the Directors noted that the organisation that has been put in place works well. Decision-making processes are clear, as is the division of powers.

THE BALANCE OF POWER

The balance of powers on the Board is ensured through a very precise definition and sharing of the tasks to be carried out by everyone, with, on the one hand, the Chairman and CEO and, on the other, thirteen Directors who are independently-minded and free to exercise their judgement. All the Directors receive information on an ongoing basis and have suitable means, within the framework of a code of operation, with well-structured, specialised committees and remits that have been added to since their creation.

WELL-INFORMED, INDEPENDENT DIRECTORS

L'Oréal's Directors are informed on an ongoing basis of all the aspects of the state of the Company's business and its performances.

Beyond the presence of strongly committed Directors with complementary experience (financial, industrial or business expertise, etc.), some of whom carry the memory of the Company's history, as they have longstanding in-depth knowledge of the Company and its environment, the Directors all attend meetings regularly and are vigilant. The Board's work is carried out and deliberations are made perfectly independently of the operational commitments by the General Management (see section 2.2.1.2. page 33).

THE BOARD OF DIRECTORS HAS A WIDE ARRAY OF MEANS

The Board has the means to enable it to handle the questions that concern it with complete freedom and particularly when this involves determining the Company's strategic orientations, ensuring and monitoring their implementation and overseeing the good management thereof. The General Management communicates transparently and has the support of the Board of Directors in the strategic choices that it proposes and which are finally decided by the Board. The Chairman conducts the Board's work to build this cohesion without which General Management and its Executive Committee would not be able to commit themselves completely and ensure the Company's development with complete confidence and tranquillity. It is naturally in the interest of all the shareholders but also of all the stakeholders for the Chairman to lead the debates and encourage discussions on the Board of Directors. It can hold meetings at any time depending on topical issues that may arise (see section 2.2.2.1. on page 48).

THE BOARD OF DIRECTORS' ACTION IS FULLY ORGANISED

The Board acts in all circumstances in the Company's corporate interests. This mission is reinforced inasmuch as the Board has adopted a code of operation defining rules with regard to conduct and formally providing for the conditions in which it will be given the means it needs to fully perform its role, for example, by deciding to handle any issue with regard to the good running of the Company, within the framework of the law.

Thus, L'Oréal's Board of Directors has adopted Internal Rules which it updates from time to time, both with regard to the formal aspects of its missions and with regard to the rights and obligations of the Directors (knowledge of, and compliance with, the regulatory provisions, recommendations and obligations, respect for the Company's interests, a duty of diligence and provision of information, confidentiality and secrecy, responsibility in the field of insider trading, etc.), in the light of the findings of the evaluation of its work and within the scope of good corporate governance practices that it has put in place. The complete text of the Internal Rules, which were last updated on February 10th, 2014, is published in full in this Registration Document, on pages 54 *et seq.* It may be amended by the Board in light of the changes in the laws and regulations, but also in its own *modus operandi*.

Finally, a Director formally reports potential conflicts of interest which might concern him/her and, in any event, in this case he/she does not take part in the voting in this respect (see section 2.2.1.2. on page 33 and page 46).

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

In 2011, additions were made to the remits of the Board's committees, with a greater number of Directors serving on these committees and more opportunities to meet with high-level managers. Only the Strategy and Sustainable Development Committee is chaired by the Chairman and CEO, who does not serve on any other committee.

They include independent Directors, who represent half of the members of the Audit Committee and the Remuneration Committee and include the Chairman of each Committee. These committees are completely free to define their respective agendas. They report regularly on their work to the Board of Directors, prepare for its meetings and make proposals to it. Within the scope of the review of its own work at the end of 2013, the Board once again appreciated the quality of the contribution made by its committees in relation with the decisions that it takes, in an increasingly detailed manner (see section 2.2.2.1. on page 48).

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

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

2.2.1 *Composition of the Board of Directors*

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

At December 31st, 2013, the Board of Directors comprises 14 members: the Chairman and Chief Executive Officer, six Directors appointed by the majority shareholders, three of whom are appointed by the Bettencourt Meyers family and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and seven independent Directors: Ms. Annette Roux, Ms. Virginie Morgon (since April 26th, 2013), Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

The changes in the Board of Directors in 2014 are described later in this chapter, on pages 47-48.

Four elected employee representatives also attended Board meetings in 2013; they have an advisory vote.

The breakdown of L'Oréal's share capital at December 31st, 2013 is included in this Registration Document, in section 7.3.2. on page 240).

2.2.1.1 METHOD OF GENERAL MANAGEMENT CHOSEN

In 2011, the Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and entrusted Mr. Jean-Paul Agon with such duties.

The separation of the duties of Chairman of the Board of Directors from those of Chief Executive Officer from 2006 to 2011 made it possible to ensure a smooth transition between Sir Lindsay Owen-Jones and Mr. Jean-Paul Agon. In 2011, the Board of Directors considered that the environment was favourable to reunifying these duties. This governance model is indeed specifically adapted to the specificities of L'Oréal and its shareholder structure: a stable and loyal shareholder base, clear identification of its businesses, gradual, steady development of its international activities, and top-quality financial and economic performances. L'Oréal has always had senior managers and executive officers who are loyal to the Company and have precise knowledge of the business. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times.

At the end of 2013, at the time firstly of the evaluation of their work (see section 2.2.2.2. page 53), and secondly of that of their relations with the Company's executives, the Directors confirmed that this organisation operated in an efficient, balanced manner.

2.2.1.2 DIRECTORS

The 14 Directors of L'Oréal, who are strongly committed and responsible, exercise complete freedom of judgement, both in terms of independence and gender parity. The composition of the Board of Directors is therefore in compliance with the recommendations of the June 2013 AFEP-MEDEF Code of Corporate Governance.

At December 31st, 2013, the members of the Board of Directors were as follows:

List of offices and directorships held by Directors and executive officers at December 31st, 2013

Jean-Paul Agon

French.
Age: 57.
He joined L'Oréal in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, President and CEO of L'Oréal USA, Jean-Paul Agon was appointed as Deputy Chief Executive Officer of L'Oréal in 2005 and then Chief Executive Officer in April 2006 and finally Chairman and CEO in 2011. A Director of L'Oréal since 2006, he is also Chairman of the L'Oréal Corporate Foundation and Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also a Director of Air Liquide.

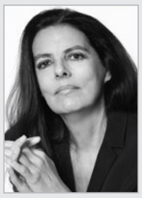
Expiry date of term of office 2014

Director since 2006
Chairman and Chief Executive Officer
Chairman of the Strategy and Sustainable Development Committee
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy Cedex – France
Holds 76,500 L'Oréal shares

Other corporate offices and directorships held	
French company	
L'Air Liquide S.A.*	Director
Foreign companies	
Galderma Pharma S.A. (Switzerland)**	Director
L'Oréal USA Inc. (United States)	Director
Other	
L'Oréal Corporate Foundation	Chairman of the Board of Directors Director

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Vice-Chairman and Director	April 2012
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director	March 2012

* *Listed company.*
** *50%-owned by L'Oréal.*



Françoise Bettencourt Meyers

French.
Age: 60.
The daughter of Mrs. Liliane Bettencourt, who is herself the daughter of the founder of L'Oréal, Eugène Schueller, she has been the Chairwoman of the family-owned holding company since January 31st, 2012 and is the Chairwoman of the Bettencourt Schueller Foundation. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since April 2012.

Expiry date of term of office 2017

Director since 1997
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 283 L'Oréal shares in absolute ownership and 76,441,389 shares in bare ownership

Other corporate offices and directorships held

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

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Clymène SAS	Chairwoman	June 28th, 2012

Peter Brabeck-Letmathe

Austrian.
Age: 69.
His main position outside L'Oréal is that of Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal and Vice-Chairman of the Board of Directors since 1997. He has been a member of the Strategy and Sustainable Development Committee and of the Appointments and Governance Committee and the Human Resources and Remuneration Committee since 2007.

Expiry date of term of office 2017

Director since 1997
Vice-Chairman of the Board of Directors
Member of the Appointments and Governance Committee
Member of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
Holds 27,500 L'Oréal shares

Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland)*	Chairman of the Board	
Other corporate offices and directorships held		
Foreign companies		
Credit Suisse Group (Switzerland)*	Vice-Chairman of the Board of Directors Director	
Delta Topco Limited (Jersey)	Chairman of the Board	
Exxon Mobil (USA)*	Director	
Nestlé Health Science S.A. in Lutry (Switzerland)	Director and Chairman of the Board	
Other		
World Economic Forum (Switzerland)	Member of the Foundation Board	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign companies		
Table Ronde des Industriels Européens (Belgium)	Member of the Executive Committee Chairman of the Working Group on External Economic Relations	2013
Nestlé Institute of Health Science S.A in Feublens (Switzerland)	Member of the Steering Committee	2013
Roche Holding S.A. (Switzerland)	Director	March 2010
Others		
Uprona Ltd (Canada)	Director and Chairman	February 2011
World Economic Forum (Switzerland)	Chairman of IBC (Internat. Business Council)	November 2010

* *Listed companies.*

Paul Bulcke

Belgian.
Age: 59.
He joined Nestlé in 1979, and has been its Chief Executive Officer since 2008. Paul Bulcke has been a Director of L'Oréal since 2012, a member of the Strategy and Sustainable Development Committee since April 2012 and is a Board member of Roche Holding in Switzerland.

Expiry date of term of office 2016

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

Main corporate offices held outside L'Oréal		
Nestlé S.A. (Switzerland)*	Chief Executive Officer	
Nestlé Health Science S.A in Lutry (Switzerland)	Director	
Nestlé Institute of Health Science S.A in Eclubens (Switzerland)	Member of the Steering committee	
Other corporate offices and directorships held		
Foreign companies		
Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board	
Roche Holding Ltd (Switzerland)*	Director	
Other		
The Consumer Goods Forum (France)	Director and Co-Chairman of the Governance Committee	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign company		
Alcon Inc. (Switzerland)	Director	August 2010

* *Listed companies.*

Charles-Henri Filippi

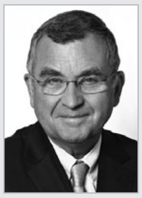
French.
Age: 61.
He spent his career within the HSBC Group, in which he was notably Chairman and Chief Executive Officer of HSBC France from 2004 to 2007, and Chairman of the Board of Directors in 2007 and 2008. Charles-Henri Filippi has been a Director of L'Oréal since 2007, is a member of the Audit Committee (Chairman until February 2013), and is also a Board member of Orange, a member of the Supervisory Board of Euris and a non-voting member of the Board of Directors of Nexity. He is currently the Chairman of Citigroup for France.

Expiry date of term of office 2015

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

Main corporate office held outside L'Oréal		
Citigroup France	Chairman	
Other corporate offices and directorships held		
French companies		
Euris	Member of the Supervisory Board	
Femu Qui SA	Member of the Supervisory Board	
Orange*	Director	
Nexity*	Non-voting member of the Board of Directors	
Piasa S.A.	Director	
Foreign company		
ABERTIS	Member of the International Advisory Board [since July 2013]	
Others		
ADIE *(Association pour le Droit à l'Initiative Économique)*	Director	
Association des Amis de l'Opéra-Comique	Chairman	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Viveris Reim SA	Member of the Supervisory Board	July 2012
Octagones (parent company) and Alfina (subsidiary)	Chairman	May 2012
CVC Capital Partners ("CVC")	Senior Advisor	December 2010
Foreign company		
HSBC Private Banking Holdings (Switzerland) S.A.	Director	2009
Others		
Centre National d'Art et de Culture Georges Pompidou	Director	March 2013
Association des Amis du Festival d'Automne à Paris	Director	September 2009

* *Listed companies.*



Xavier Fontanet

French.
Age: 65.
He is a former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012), a member of the Supervisory Board of Schneider Electric, and has been a Director of L'Oréal since May 2002 and is Chairman of the Appointments and Governance Committee.

Expiry date of term of office 2014

Director since May 2002
Chairman of the Appointments and Governance Committee
Professional address: Essilor – 147 rue de Paris – 94227 Charenton Cedex – France
Holds 1,050 L'Oréal shares

Main corporate office held outside L'Oréal		
Essilor International S.A.*	Director	
Other corporate offices and directorships held		
French company		
Schneider Electric S.A.*	Member of the Supervisory Board	
Other		
Association Nationale des Sociétés par Actions	Permanent representative of Essilor International and member of the Board of Directors	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Crédit Agricole S.A.	Director	May 2012
Essilor International S.A.	Chairman of the Board of Directors	January 2012
Fonds Stratégiques d'Investissement S.A.	Director	June 2011
Essilor International S.A.	Chairman and Chief Executive Officer	January 2010
Foreign companies		
Essilor Amico (L.L.C) (United Arab Emirates)	Director	December 2011
Nikon and Essilor International Joint Research Center Co. Ltd.	Chairman and Director	December 2011
Nikon Essilor Co. Ltd (Japan)	Director	December 2011
EOA Holding Co. Inc. (United States)	Chairman and Director	October 2010
Essilor India PVT Ltd (India)	Director	June 2010
Essilor Manufacturing India PVT Ltd (India)	Director	June 2010
Transitions Optical Holding B.V. (Netherlands)	Director	May 2010
Transitions Optical Inc. (United States)	Director	May 2010
Shanghai Essilor Optical Company Ltd (China)	Director	April 2010
Essilor of America Inc. (United States)	Director	March 2010

* *Listed companies.*

Bernard Kasriel

French.
Age: 67.
He is a former Chief Executive Officer of Lafarge. He has been a Director of L'Oréal since 2004, the Chairman of the Human Resources and Remuneration Committee since 2007 and is a member of the Strategy and Sustainable Development Committee. He is also a Board member of Arkema and Nucor (United States).

Expiry date of term of office 2016

Director since 2004
Chairman of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: 1 rue Saint-James – 92200 Neuilly-sur-Seine – France
Holds 1,525 L'Oréal shares

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

* *Listed companies.*

Christiane Kuehne

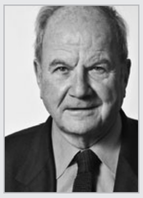
Swiss.
Age: 58.
She is the Head of the Food Strategic Business Unit at Nestlé which she joined in 1977. Christiane Kuehne has been a member of L'Oréal's Board of Directors and the Audit Committee since April 2012.

Expiry date of term of office 2016

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

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

* *Listed company.*



Marc Ladreit de Lacharrière

French.
Age: 73.
A member of the Institut de France and with L'Oréal from 1976 to 1991, Marc Ladreit de Lacharrière has been a Director of L'Oréal since 1984, is Chairman and Chief Executive Officer of Fimalac, former Chairman of Fitch (United States), and a Board member of Casino, Lucien Barrière and Renault.

Expiry date of term of office 2014

Director since 1984
Professional address: Fimalac – 97 rue de Lille – 75007 Paris – France
Holds 30,340 L'Oréal shares

Main corporate office held outside L'Oréal	
F. Marc de Lacharrière (Fimalac)*	Chairman and Chief Executive Officer
Other corporate offices and directorships held	
French companies	
Agence France Museums	Chairman of the Board
Casino*	Director
Gilbert Coullier Productions SAS	Director
Lucien Barrière	Director
Groupe Marc de Lacharrière	Chairman of the Management Board
Nextradio TV	Permanent representative of Fimalac [since May 22nd, 2013]
Renault S.A.*	Director
Renault s.a.s.	Director
Société Fermière du Casino Municipal de Cannes – SFCMC	Director
Webedia	Member of the Supervisory Board [since July 2013]
Foreign companies	
Fimalac Participations Sarl (Luxembourg)	Managing Director
Fitch Group (United States)	Chairman
Others	
Comité National des Conseillers du Commerce Extérieur de la France	Honorary Chairman
Conseil Artistique des Musées Nationaux	Member
Fonds de dotation Abbaye de Lubilhac	Chairman
Fondation d'Entreprise Culture et Diversité	Chairman
Fondation des Sciences Politiques	Member
Institut de France	Member

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Fimalac Participations	Managing Director	September 2010
Foreign companies		
Fitch Ratings (United States)	Chairman	2012
Algorithmics (Canada)	Director	2009
Others		
Musée des Arts Décoratifs	Director	March 2013
Bettencourt Schueller Foundation	Member	January 2013
L'Oréal Corporate Foundation	Director	2012

* *Listed companies.*

Jean-Pierre Meyers

French.
Age: 65.
He has been a Director of L'Oréal since 1987 and Vice-Chairman of the Board of Directors since 1994, and is a member of the Strategy and Sustainable Development Committee, the Audit Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned holding company Téthys, a Board member of Nestlé and Vice-Chairman of the Bettencourt Schueller Foundation.

Expiry date of term of office 2016

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

Other corporate offices and directorships held		
French company		
Téthys SAS	Chief Executive Officer Vice-Chairman of the Supervisory Board	
Foreign company		
Nestlé S.A. (Switzerland)*	Director	
Other		
Bettencourt Schueller Foundation	Vice-Chairman of the Board of Directors	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Clymène SAS	Chief Executive Officer	June 2012

* *Listed company.*

Jean-Victor Meyers

French.
Age: 27.
He has been a member of the Supervisory Board of the family-owned holding company Téthys since January 2011, and a Director of L'Oréal since February 2012.

Expiry date of term of office 2016

Director since 2012
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine
Holds 1,500 L'Oréal shares

Other corporate offices and directorships held

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

Corporate offices and directorships over the last five years that have expired

None

Virginie Morgon

French.
Age: 44.
Chief Operating Officer of Eurazéo (leader of the investment team) which she joined in 2008 after sixteen years with Lazard. She has been a Director of L'Oréal since April 26th, 2013 and is a member of the Audit Committee. She is a Board member of Accor.

Expiry date of term of office 2017

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

Main corporate office held outside L'Oréal		
Eurazeo *	Member of the Management Board Chief Operating Officer	
Other corporate offices and directorships held		
French companies		
Accor *	Director	
Eurazeo PME	Chairwoman of the Supervisory Board	
Holdelis (holding company for investment in Elis)	Chairwoman of the Management Board	
LH APCOA (holding company for investment in APCOA)	CEO	
Legendre Holding 33	Chairwoman [since November 2013]	
Foreign companies		
APCOA Parking AG (Germany)	Chairwoman of the Supervisory Board	
APCOA Group GmbH (Germany)	Managing Director	
APCOA Parking Holdings GmbH (Germany)	Chairwoman of the Advisory Board	
Broletto 1 Srl (holding company with an investment in Intercos) (Italy)	Chairwoman of the Board of Directors	
Euraleo Srl (Italy)	Managing Director	
Intercos SpA (Italy)	Managing Director	
Moncler SpA (Italy)	Vice-Chairwoman of the Board of Directors	
Other		
Women's Forum (WEFCOS)	Member of the Management Board	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Sportswear Industries Srl (Italy)	Director	November 2013
Edenred	Director	March 2013
OFI Private Equity Capital (now Eurazeo PME capital)	Chairwoman of the Supervisory Board	March 2012
LT Participations (holding company with an investment in IPSOS)	Permanent representative of Eurazeo on the Board of Directors	August 2011
B&B Hotels	Chairwoman of the Supervisory Board	May 2009

* *Listed companies.*

Annette Roux

French.
Age: 71.
Chairperson and Managing Director of Bénéteau from 1976 to 2005, then Vice-Chairperson of the Supervisory Board, Annette Roux has been a member of L'Oréal's Board of Directors since 2007. She is also Chairperson of the Bénéteau Corporate Foundation.

Expiry date of term of office 2015

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

Main corporate office held outside L'Oréal		
Bénéteau S.A. (1) (2)	Vice-Chairperson of the Supervisory Board	
Other corporate offices and directorships held		
French companies		
Beri 21 S.A.	Chairwoman of the Supervisory Board	
BH S.A.S. (2)	Director	
Construction Navale Bordeaux S.A.S (2)	Director	
O'Hara S.A. (2)	Director	
SPBI S.A. (2)	Director	
Foreign company		
Bénéteau España (2)	Director	
Other		
Bénéteau Corporate Foundation	Chairperson	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Beri 3000 S.A.	Chairperson and Chief Executive Officer	August 2010
Other		
Fédération des Industries Nautiques	Chairperson	March 2009

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

Louis Schweitzer

French.
Age: 71.
Chairman and Chief Executive Officer of Renault from 1992 to 2005, Chairman of the Board of Directors until 2009, Louis Schweitzer has been a Director of L'Oréal since 2005, is a member of the Audit Committee and its Chairman since February 2013, and a member of the Strategy and Sustainable Development Committee. He is also a member of the Advisory committees of Allianz S.E. (Germany) and Bosch (Germany).

Expiry date of term of office 2017

Director since 2005
Chairman of the Audit Committee
Member of the Strategy and Sustainable Development Committee
Professional address: Renault – Bât. Pierre Dreyfus – 37 avenue Pierre Lefaucheux – 92109 Boulogne-Billancourt Cedex – France
Holds 2,000 L'Oréal shares

Other corporate offices and directorships held	
French companies	
Veolia Environnement*	Vice-President
Foreign companies	
Allianz S.E. (Germany)*	Member of the Advisory Committee
Bosch (Germany)	Member of the Advisory Committee
Others	
Comité d'Echanges franco-japonais (CEFJ)	Special Advisor
Comité des Salons	Chairman
Festival d'Avignon	Chairman
Fondation Nationale des Sciences Politiques	Member of the Board
Initiative France	Chairman
Maison de la Culture MC93	Chairman
Musée du Quai Branly	Director
Société des Amis du Musée du Quai Branly	Chairman
Institut Français des Relations Internationales	Vice-President
Institut d'Études Politiques de Paris	Member of the Board

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
BNP Paribas	Director	May 2013
Le Monde (ILPA, LMSA, SEM)	Chairman of the Supervisory Board	December 2010
Renault	Chairman of the Board	April 2009
Foreign companies		
AstraZeneca (United Kingdom)	Director Chairman of the Board	June 2012
AB Volvo (Sweden)	Chairman of the Board	April 2012
Others		
Haute Autorité de Lutte contre les Discriminations et pour l'Egalité	Chairman	March 2010
Banque de France	Member of the Advisory Board	

* *Listed companies.*

EXPERIENCED DIRECTORS WHO COMPLEMENT ONE ANOTHER

L'Oréal's Directors come from different backgrounds; they complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and strongly committed. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

REPRESENTATION OF WOMEN AND MEN THAT COMPLIES WITH THE PROVISIONS OF THE FRENCH LAW OF JANUARY 27th, 2011

Out of a total of 14 Directors, four women have seats on L'Oréal's Board of Directors, representing a proportion of female directors of 28.6%. The Board is thus in advance of the French Law of January 27th, 2011 relating to the balanced representation of men and women, which provides for a proportion of 20% of women to be reached by 2014. The Board is doing everything it can to appoint more female Directors.

The Appointments and Governance Committee continued its selection process and made proposals to the Board of Directors in 2013. A female candidate will be proposed to the Annual General Meeting on April 17th, 2014, which will thereby lead to an increase in the proportion of women on the Board to 35.7%, with a total of 14 Directors in 2014.

In any event, in 2017, the composition of the Board will be in compliance with the French law which requires balanced representation of men and women, namely a minimum proportion of 40% of Directors of the same gender.

The changes in the Board of Directors in 2014 are described later on pages 47-48.

INDEPENDENT DIRECTORS

The balance of powers on the Board is ensured through a very precise definition and sharing of the tasks to be carried out by everyone, with, on the one hand, the Chairman and CEO and, on the other, thirteen Directors who are independently-minded and free to exercise their judgement. All the Directors receive information on an ongoing basis and have suitable means, within the framework of the Internal Rules of the Board of Directors, with well-structured, specialised committees and remits that have been added to since their creation.

The Directors have a duty of vigilance and have complete freedom of judgement, which enables them in particular to participate, in total independence, in the decisions and work of the Board and its committees.

At the end of 2013, the Board of Directors reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria provided for in the AFEP-MEDEF Code. A member of the Board is considered as independent when he/she does not maintain any relationship of any kind with the Company, its group or its General Management which may interfere with his/her freedom of judgement.

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

- the member must not be an employee or corporate officer of the Company, an employee or director of its parent company or a company which it consolidates in its financial statements, and must not have held any of these positions during the previous five years;
- the member must not be a corporate officer of a company in which the Company directly or indirectly holds the office of director or in which an employee designated as such or a corporate officer of the Company (either currently or having performed such duties within the last five years) holds an office as director;
- the member must not be a customer, supplier, investment banker or financial banker:
  - which is important for the Company or its group, or
  - for which the Company or its group represents a significant portion of activities;
- the member must not have any close family links with a corporate officer;
- the member must not have been the Company's auditor over the five previous years.

The Board failed to adopt one of the criteria specified by the AFEP-MEDEF Code as it considers that the fact that a member has performed a term of office for over 12 years does not lead to such member losing his independent status.

When a person has been a Director of L'Oréal for over 12 years, his professional experience and his freedom of judgement, combined with good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective.

Indeed, the quality of a Director is also measured by his experience, his skills, his authority and his good knowledge of the Company, which are all assets which make it possible to conduct a long-term strategy.

At December 31st, 2013, out of the 14 members of the Board of Directors, seven Directors qualify as independent: Ms. Annette Roux, Ms. Virginie Morgon, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

It is furthermore specified that a review was carried out of the financial flows that took place in 2013 between L'Oréal and the companies in which the seven independent Directors also hold an office. It appears from this that the nature of these business relationships is not significant.

The Board's tasks are carried out with the necessary objectiveness and independence and all the Directors take account of the interests of all the shareholders.

RESPONSIBLE DIRECTORS

Handling of conflicts of interest

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

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

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

Family relationships existing between the corporate officers or Directors (Article 14.1 of the Annex)

Mrs. Françoise Bettencourt Meyers is Mrs. Liliane Bettencourt's daughter and Mr. Jean-Pierre Meyers' wife. Mr. Jean-Victor Meyers, Mrs. Liliane Bettencourt's grandson, is the son of Mrs. Françoise Bettencourt Meyers and Mr. Jean-Pierre Meyers.

No conviction or incrimination of the corporate officers and Directors (Article 14.1 of the Annex)

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

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

Paragraph 2.2.1.2. on page 33 reviews the situation of each of the Directors with regard to the independence criteria provided for in the AFEP-MEDEF Code. The method of organisation and *modus operandi* adopted by the Board would allow it, where applicable, to prevent any wrongful exercise of control by a shareholder, in particular due to the presence of seven independent Directors on the Board of Directors. See also paragraph 7.3.5. on page 242 which concerns agreements relating to shares in the Company's capital.

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

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

Stock market ethics

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

On the basis of the legal provisions, regulations and recommendations, this Code points out that inside information must only be passed on and used for professional purposes.

Inside information is precise information of a non-public nature, which, if made public, could have a significant influence on the share price. Such inside information may, in particular, fall into one of three main categories: strategic, linked to the definition and application of the Group's growth strategy; recurring, linked to the annual schedule for production and publication of annual and interim financial statements, regular releases or periodic meetings devoted to financial information; exceptional, linked to a specific programme, project or financial transaction.

The Stock Market Code of Ethics states that any person in possession of inside information must proceed with the greatest caution when trading in or enabling others to trade in L'Oréal shares, and emphasises that any misconduct in this area may result in criminal proceedings. The Internal Rules of the Board point out specifically that a Director, who has permanent insider status, is requested to refrain from trading in L'Oréal shares precisely in certain periods and when he/she has access to inside information.

Lastly, Directors are required to notify the Autorité des Marchés Financiers (AMF) of each transaction carried out by them or their close relatives and friends related to L'Oréal shares. The Company reminds them regularly of this obligation (see Summary of trading by Directors and corporate officers in L'Oréal shares in 2013 in section 2.4. on page 75).

CORPORATE OFFICES AND DUTIES OF THE EXECUTIVE OFFICERS AND DIRECTORS

The Board of Directors complies with the AFEP-MEDEF Code of Corporate Governance which provides that "the staggering of the terms of office must be organised in order to avoid renewal all at once and favour the harmonious renewal of the Directors".

End of the term of office of Sir Lindsay Owen-Jones in 2013

Sir Lindsay Owen-Jones, Honorary Chairman, chose to put an end to his tenure as Director at the close of the Annual General Meeting on Friday, April 26th, 2013. At that time, Mr. Jean-Paul Agon, Chairman and Chief Executive Officer, thanked him sincerely, in the name of the Board of Directors, personally and on behalf of all the shareholders, not only for his action throughout the 30 years he spent at L'Oréal, including 22 years as its Chairman, but also simply because he made a big mark on the Company. For a quarter of a century, Sir Lindsay Owen-Jones drove the Group, gave it its dimension and success, with imagination, energy and courage.

Renewal of tenures as Directors in 2013

The Annual General Meeting held on April 26th, 2013 renewed the tenures of Ms. Françoise Bettencourt Meyers, Mr. Peter Brabeck-Letmathe and Mr. Louis Schweitzer for a term of four years.

Appointments of Directors in 2013

The Annual General Meeting held on April 26th, 2013 proceeded with the appointment of Ms. Virginie Morgon as a Director for a term of four years.

Tenures as Directors that are due to expire in 2014

The tenure as Director of Mr. Marc Ladreit de Lacharrière is due to expire at the close of the Annual General Meeting on April 17th, 2014. Mr. de Lacharrière does not want his tenure to be renewed. From 1976 to 1984, he held the position of Finance Director then Executive Vice-President of Finance and then Group Executive Vice-President from 1984 to 1991. Mr. de Lacharrière was appointed as a Director of L'Oréal in 1984. His professional experience and his freedom of judgement, combined with his good knowledge of the Company, have made a big contribution to the operation of the Company and the discussions and decisions of the Board. His length of office was an asset for the Board, and contributed to putting L'Oréal's main strategic options into perspective.

The tenures as Directors of Mr. Jean-Paul Agon and Mr. Xavier Fontanet are due to expire at the close of the Annual General Meeting on Thursday, April 17th, 2014. The renewal of their tenure will be put to the vote of the shareholders on that occasion. With the exception of a meeting of the Board of Directors which Mr. Fontanet was unable to attend, these two Directors were present at all Board meetings and all the meetings of the committees of which each of them is a member in 2013.

Appointment of a new Director in 2014

Once again in 2013, the Appointments and Governance Committee looked at the changes in its composition in order to make sure that its composition in 2017 would be in line with the French Law of January 27th, 2011 requiring the balanced representation of men and women, namely a minimum proportion of 40% of Directors of the same gender. The Board of Directors is already in advance of this law which provides for a proportion of 20% of women to be reached by 2014 and is doing everything it can to gradually appoint more female Directors. In 2013, female representation on the Board was 28.6%.

On the proposal of the Appointments and Governance Committee, which has introduced a selection process for possible new candidates, the Board wishes to increase the number of women on the Board once again in 2014. The appointment of Ms. Belén Garijo will be proposed to the Annual General Meeting on April 17th, 2014.

Ms. Belén Garijo, age 53, who is Spanish, is a graduate of the University of Medicine of Madrid. After a few years spent as a researcher in pharmacology at the University of Madrid, she joined the pharmaceutical industry, the business sector in which she has worked for 25 years. Since 2011 she has been the President and CEO of Merck-Serono, a pharmaceutical subsidiary of the German Group Merck.

In 1992, Ms. Garijo was elected as a member of the New York Academy of Sciences. She has received several awards as a female executive officer, and in particular the title of "CEO for 2009" given by the "Expansion" magazine in Spain. In 2012, she was appointed as a member of the Board of Directors of BBVA, the second largest Spanish bank, present in 40 countries.

Ms. Garijo will bring to the Board of Directors of L'Oréal her expertise in the health sector, her international experience, her knowledge of a wide variety of corporate cultures and her sense of business opportunity.

This appointment of Ms. Garijo as an independent Director for a period of four years would lead to an increase in the number of women on the Board to 5 out of 14 Directors, thus leading to a percentage of representation of women of 35.7%, and in the number of independent Directors to 7 out of 14, thus giving a percentage of independent Directors of 50%.

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

2.2.2.1 GENERAL INFORMATION ON BOARD AND COMMITTEE MEETINGS IN 2013

Committed Directors, with in-depth knowledge of the Company

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

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

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

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

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

Regularity of attendance at meetings by Directors

In 2013, the Board, with 14 Directors in office throughout the year, met 5 times. Some Directors, who were either at the beginning or the end of their tenures, were only in office for part of the year. The membership of the Audit Committee was increased in 2013 with the arrival of an additional independent Director.

The average attendance rate at Board meetings was 91.4% on average in 2013.

Attendance fees

The allocation of attendance fees, established on the basis of the regularity of attendance of each of the Directors at Board meetings and the presence on its committees, is described in detail in chapter 2, section 2.3, page 62.

At the end of 2013 and for the attendance fees to be allocated in respect of the 2014 financial year, the Board has decided to adopt, in accordance with the recommendations of the AFEP-MEDEF Code, a predominantly variable portion overall rewarding regularity of attendance at Committee meetings as is already the case for Board meetings.

In addition, in order to take account firstly of the appointment of two employee Directors in 2014, and secondly the increase in the number of meetings held, the Board will propose to the Annual General Meeting on April 17th, 2014 to increase the maximum authorised amount of attendance fees.

THE ACTIVITIES OF THE BOARD OF DIRECTORS

The Board constantly strives to apply a *modus operandi* that strictly complies with legal requirements, and is also conducive to good corporate governance.

Appointed by shareholders, the Directors oversee the economic and financial management of the Group and participate in determining its strategy. They review and approve the main lines of action adopted by the General Management, which implements them.

The Board's work is based on Internal Rules (published in paragraph 2.2.2.3. on pages 54 *et seq.*) designed to supplement the legal, regulatory and statutory rules upheld by the Board as a whole and by each Director individually. The Internal Rules define the *modus operandi* of the Board, in the interest of the Company and all its shareholders, as well as that of its committees made up of Directors to which it gives preparatory assignments with regard to its work. These Internal Rules were updated by the Board on February 10th, 2014 to reflect, in particular, firstly, the changes in the AFEP-MEDEF Code in June 2013 and, secondly, the French Law on Employment Security of June 14th, 2013. The new Internal Rules, like the previous versions, are made public in this Registration Document and published on L'Oréal's website.

The Board's work focused on business activities, strategy and the Company's environmental, social and societal responsibility commitments

In 2013, besides the regular monitoring of business activities, the Board of Directors continued its work, as it had chosen to do, on the components of strategy in the presence of several senior managers, particularly with regard to proposed acquisitions. Each presentation by a senior manager gives the Directors the opportunity to take stock, in an ever more detailed manner, of an aspect that characterises its business and its organisation, enabling them to forge an opinion and to make their decisions in full knowledge of the facts.

For example, in 2013, at the request of the Directors, a Board meeting was held at L'Oréal's Global Hair Research Centre. Another meeting was organised at the Professional Products Division for a concrete analysis of the assets of the haircare market throughout the world and related market developments. In addition, the Board had the occasion to review the Human Relations policy and its challenges with regard to identifying and developing talents on all continents.

As attested to by the preparatory work of its Committees (see below), the Board also analyses other aspects of strategy, the Group's economic and financial management and the Company's commitments in the environmental, social and societal fields.

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

The financial situation and the cash position are reviewed at least twice a year at a Board meeting, at the time of closing of the annual financial statements and the review of the interim financial statements or at any other time if necessary. The balance sheet structure remains solid and the Group is not in debt.

The Company's commitments are reviewed within the framework of the annual renewal of the authorisations given to the Chairman and Chief Executive Officer and the delegations of authority he grants.

THE ACTIVITIES OF THE BOARD COMMITTEES

The Board's discussions and decisions are assisted by the work performed by its Committees, which report to it after each of their meetings. The remits of each Committee are described in detail in the Internal Rules of the Board of Directors, which were updated at the beginning of 2014.

The Committees were again given responsibility by the Board for preparing its decisions in 2013. The composition of these committees, their remits and their work in 2013 are clarified and described in detail in this chapter.

The Board's Committees act strictly within the framework of the remits given to them by the Board. They prepare actively for its work and make proposals but they do not have any decision-making powers. Their remits are set out in the Internal Rules of the Board of Directors (published in paragraph 2.2.2.3. on pages 54 *et seq.*).

The Strategy and Sustainable Development Committee

This Committee clarifies, through its analyses, the strategic orientations submitted to the Board of Directors and monitors the implementation and progress of significant operations that are under way. It ensures that the main financial balances are preserved.

Within this framework, the Committee reviews the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences, acquisition opportunities, and financial transactions liable to significantly change the balance sheet structure. The Committee also makes sure that the Company's commitments with regard to Sustainable Development have been duly taken into consideration, in light of the issues specific to the Group's business activities and its objectives. Finally, the Committee reviews the proposed strategic orientations, as defined by the Board of Directors, with a view to consultation of the Central Works Council.

Composition of the Committee

The Committee, which consists of seven Directors, is chaired by the Chairman and Chief Executive Officer (Mr. Jean-Paul Agon). It is also composed of two members of the Bettencourt family (Mrs. Françoise Bettencourt Meyers and Mr. Jean-Pierre Meyers), two members from Nestlé (Mr. Peter Brabeck-Letmathe and Mr. Paul Bulcke) and two independent Directors (Mr. Bernard Kasriel and Mr. Louis Schweitzer). All these Directors participate in Committee meetings with complete freedom of judgement and in the interest of all the shareholders.

The Committee met five times in 2013, with an attendance rate of 100%.

The Committee's work

As in the past, at each of its meetings in 2013, the Committee examined the performance of the latest product launches, analysed business activities in terms of sales and results, and discussed the prospects and development opportunities of the Group and its Divisions within the scope of changes in markets and competition.

Approach to strategy

At the end of the year, in light of the performances for the financial year, the Group's strategic development prospects were examined by the Committee before being presented to the Board, which validated them. The Board noted the regular growth of the market share of L'Oréal Cosmetics over the last few years. L'Oréal's ambition is to continue to win market share, outperform market growth and increase profitability by looking to achieve performances in all areas.

Acquisitions

Throughout the year, acquisition projects were reviewed by the Committee before some of them were presented to the Board for its decision. Thus, the Board of Directors authorised the General Management to enter into strategic acquisitions in 2013, with:

- the acquisition of the Beauty and Personal Care business of Interconsumer Products Limited in Kenya, a significant player on the Kenyan beauty market, with strong positions in skin and hair care;
- the acquisition of a majority stake in Brazil's Emporio, which offers complete ranges of cosmetic products sold through a franchise network;
- the acquisition of Cheryl's Cosmeceuticals in India, a pioneer in professional skin care products and treatments in beauty salons across the country;
- the acquisition at the beginning of 2014 of Decleor and Carita;
- the acquisition of Magic Holdings, the Chinese market leader in the facial masks industry which should be completed in 2014.

Sustainable Development

The Committee shares the commitment made by the Group within the scope of the Sharing beauty with all programme. This programme was presented to the Board of Directors as a whole and covers four areas: innovating sustainably, producing sustainably, consuming sustainably and sharing growth with the men at women at L'Oréal, with suppliers and with communities.

Ethics at the heart of L'Oréal's governance and commitments

The Board of Directors attaches particular importance to compliance with L'Oréal's ethics principles – integrity, respect, courage and transparency – and more generally with the Code of Business Ethics. These commitments are the cornerstone, in particular, for the Group's policies with regard to responsible innovation, the environment, corporate social and societal responsibility and corporate philanthropy. L'Oréal was recognised for the fourth time as one of the "World's Most Ethical Companies" by the Ethisphere Institute and has been part of the United Nations Global Compact 100 stock market index since it was created in 2013.

The Audit Committee

The main remit of the Audit Committee involves, in accordance with the ordinance of December 2008 and in line with the recommendations made by the AMF in 2010, monitoring the process for preparation of financial information, the effectiveness of the Internal Control and risk management systems, the statutory audit of the annual and consolidated financial statements by the Statutory Auditors and finally the Statutory Auditors' independence.

Furthermore, if, in the course of its work, the Committee detects a substantial risk, which in its view is not adequately dealt with, it warns the Chairman of the Board accordingly. The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its duties, particularly managers with economic and financial responsibilities and those in charge of processing financial information.

The Audit Committee is responsible for monitoring the Group's main risk exposures and sensitivities. The Committee's review of the financial statements is accompanied by a presentation by the Vice-President, Finance describing the Company's exposure to significant risks.

The Committee examines the programme and objectives of the Internal Audit Department and reviews the main topics that it identifies as well as the Internal Control systems methods and procedures used.

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

Composition of the Committee

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

In 2013, another Director, Ms. Virginie Morgon, was appointed to the Committee, meaning that the Committee now has five members, with independent Directors representing 60% of its composition.

Since February 2013, the Committee has been chaired by Mr. Louis Schweitzer, an independent Director, who has been a Committee member since 2011 and who has recognised financial expertise. It is also composed of Ms. Christiane Kuehne, appointed as member in 2012, Mr. Jean-Pierre Meyers, a Committee member since its creation in 1999, and Mr. Charles-Henri Filippi, appointed to the Committee in 2008 and Chairman until February 2013.

Mr. Filippi is currently the Chairman of Citigroup for France. It is noted that Citigroup does not have, and has never had, a significant position with regard to L'Oréal's banking transactions. Nevertheless, Charles-Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent.

The Directors who are members of the Audit Committee have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures which are presented to them on a regular basis. They participate actively in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

The Audit Committee met four times in 2013, in the presence of all its members.

On several occasions, the Committee interviewed the Executive Vice-President, Administration and Finance and the senior managers in charge of the areas in which the Committee reviews activities, in particular within the scope of the processes related to risk management and control. The Statutory Auditors attend meetings. The Committee did not consider it appropriate to use outside experts.

Quality of the results

The Committee examines in depth all the aspects of the Group's annual and interim results, and the main items on the Company's balance sheet.

Time frame for provision of documents

Within the scope of the publication of the annual and interim results, the Audit Committee's meeting relating to the review of these financial statements is held on a date close to that of their presentation to the Board of Directors. But it should be noted that the Board and its committees are regularly given the appropriate information to carry out their supervisory assignment, in this field in particular. Furthermore, the corresponding documents are systematically sent to them prior to the meetings.

Internal Audit and Internal Control activities

Within the scope of more extensive control of the data making up the financial statements, the Committee looked at the Internal Audit department's activities again in 2013 and noted that the quality of the organisation and the results of the assignments were being constantly improved. The findings make it possibly to enhance the quality of the standards, the procedures and the tools for processing and secure treatment of information.

In relation with Internal Control, the Committee is informed of the risk mapping showing the risks identified on the basis of an in-depth process of identification and analysis within the regulatory framework and within the scope of the recommendations made by the AMF. The Committee noted that risks are taken into consideration at operational level, which is controlled, and that there is a process for a regular review of risks by the Executive Committee.

Fraud risk

The Committee was informed of the deployment of a programme to raise awareness of the risk of fraud (presenting the main operational scenarios that could occur, the alert systems and the existing procedures and controls) which is aimed at reducing the Group's exposure to this risk.

Corruption prevention

L'Oréal's policy with regard to corruption prevention and a document on this subject sent to all the Group's employees were presented to the Committee.

Legal risks

The Committee is regularly informed of the legal risks and the potential litigation and major events liable to have a significant impact on L'Oréal's financial position and its assets and liabilities. No major event or litigation of this kind was noted by the Committee in 2013.

Information Systems Security

The principles adopted by the Group in relation with Information Systems Security were presented to the Committee, which noted that L'Oréal's development was taking place through a solid, durable and innovative infrastructure, in a secure environment, with costs under control.

Changes in the regulations on animal testing

The Committee reviewed the conditions in which L'Oréal complies with the prohibition on selling products if animal testing has to be conducted for their evaluation. L'Oréal has engaged in developing safety prediction tools for over thirty years. Major breakthroughs in the prediction of sensitisation risk have been made over the last two years, with the development of new methods that make it possible to evaluate the performance of new raw materials.

Statutory Auditors

Within the scope of the auditing of the accounts by the Statutory Auditors, the Committee took note of the results of their audits, their recommendations and the follow-up action taken further to such recommendations.

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

The Statutory Auditors presented their audit plan in 2013. L'Oréal requires a great deal of rigour on the part of its Statutory Auditors and the level of coverage of their work is high. The audit focuses on a prior analysis of the risks and assessment of the Internal Control system to bring them under control.

Like it does every year, the Committee met with the Statutory Auditors outside the presence of management.

The Appointments and Governance Committee

The main remits of the Appointments and Governance Committee involve assisting in the decisions made by the Board with regard to the conditions of performance of General Management and the status of the executive officers, making proposals to the Board for the choice of Directors, discussing the classification of Directors as independent, which is reviewed by the Board every year before the publication of the Annual Report, issuing an opinion on the proposals of the Chairman of the Board for the appointment of the Chief Executive Officer, making sure that the Code of Corporate Governance to which the Company refers is properly applied, ensuring the implementation of a procedure for the preparation of succession plans for the executive officers in the event of an unforeseen vacancy and conducting the reflection process with regard to the committees that are in charge of preparing the Board's work and preparing for the Board's decisions with regard to the updating of its Internal Rules.

Composition of the Committee

Three Directors are members of this Committee at December 31st, 2013: Mr. Xavier Fontanet, Committee Chairman, Mr. Jean-Pierre Meyers and Mr. Peter Brabeck-Letmathe. These Directors actively participate in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

On February 10th, 2014, the Board of Directors decided to appoint another independent Director to the Committee, thus bringing the number of Committee members to four. With regard to the provision of the AFEP-MEDEF Code which recommends that the number of independent Directors should be greater than the majority, it is pointed out that, under these conditions, half its members will be independent.

In 2013, the Committee met three times in the presence of all its members. The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly.

Combination of the roles of Chairman and Chief Executive Officer
The Committee once again reviewed the conditions for performance of the roles of Chairman and of Chief Executive Officer, with the combination of the roles. In this chapter the measures put in place to ensure the balance of powers on the Board of Directors have been described to show the specific nature and also the effectiveness of the organisation.

Review of the independence of the Directors
The Appointments and Governance Committee proposes to the Board of Directors every year to examine on a case-by-case basis the situation of each of the Directors with regard to their independence according to the criteria set out in the AFEP-MEDEF Code.

Renewal of tenures of Directors and appointment of a Director in 2013
As mentioned in paragraph 2.2.1.2. on page 33, the Committee made proposals to the Board of Directors for renewals of tenures and the appointment of a new Director in 2013.

Balanced representation of men and women
In 2013, the Appointments and Governance Committee once again examined the changes in its composition in order for it to be in line, in 2017, with the French Law of January 27th, 2011 requiring the balanced representation of men and women, namely a minimum proportion of 40% of Directors of the same gender.

New provisions with regard to Governance in 2014
New provisions with regard to Governance and supervision of the remuneration of the corporate officers have to be applied in listed companies in 2014. These provisions result essentially, firstly, from the French Law on Employment Security of June 14th, 2013, one of the objectives of which is to create new individual and collective rights for the employees and, secondly, the new AFEP-MEDEF Code of Corporate Governance for listed companies of June 16th, 2013 which introduces new self-regulation rules with regard to governance.

The Committee took due note of these provisions and reported on them to the Board, proposing to it the terms and conditions of implementation. The Internal Rules of the Board of Directors were amended accordingly.

The Board of Directors in 2014
The Appointments and Governance Committee examined the composition of the Board and the terms of office that were due to expire in 2014 and made proposals to the Board, which approved them.

Appointment of a new Director in 2014
The Appointments and Governance Committee looked at the profile of a new candidate for office as a Director in 2014 which was approved by the Board of Directors. This will be put to the Annual General Meeting on Thursday, April 17th, 2014 (see page 48 above).

Non-renewal of a tenure as Director in 2014
Mr. Marc Ladreit de Lacharrière informed the Board of Directors that he did not want his tenure as Director to be renewed after the Annual General Meeting on Thursday, April 17th, 2014 (see page 47 above).

Renewal of tenures as Director in 2014
As the tenures as Director of Mr. Jean-Paul Agon and Mr. Xavier Fontanet are due to expire in 2014, the renewal of their tenures for a term of four years was proposed to the Board of Directors and is being submitted to the Annual General Meeting of April 17th, 2014 (see page 47 above).

Continuity of General Management
The Committee continued with its work which it begun a long time ago, reflecting on and proposing the conditions in which the continuity of L'Oréal's General Management would be ensured if the Chief Executive Officer is unable to act.

The Human Resources and Remuneration Committee

The main remits of the Human Resources and Remuneration Committee are in particular to make proposals with regard to the remuneration of the Chairman of the Board of Directors and that of the Chief Executive Officer, the total amount of the attendance fees to be submitted for approval to the Annual General Meeting and the method of distribution of such fees, and the implementation of long-term incentive plans such as for example, plans for free grants of shares or performance share plans.

The Committee's role has been enlarged to include all the components of the Human Resources policy such as, for example, labour relations, recruitment, diversity, talent management and fostering employee loyalty. The Committee also makes sure that the rules of ethical conduct, as set out in a Code of Business Ethics, and the Group's strong values, such as respect and integrity, are widely disseminated, known and put into practice.

Four Directors are members of the Committee: Mr. Bernard Kasriel, an independent Director and Committee Chairman, Mr. Jean-Pierre Meyers, Mr. Peter Brabeck-Letmathe and Mr. Charles-Henri Filippi. These Directors actively participate in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

In light of the provision of the AFEP-MEDEF Code which recommends that the number of independent Directors should exceed the majority, it is pointed out that half of the Committee's members are independent.

In 2013, the Committee met six times with an attendance rate of 91%.

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

Remuneration of the executive officers and Directors and the conditional grant of shares
The Committee made new proposals to the Board with regard to the remuneration of the executive officers and Directors (see section 2.3. on page 62) and proposed to the Board to make a conditional grant of shares to employees.

Once again this year, the Human Resources and Remuneration Committee looked at the remuneration of the Chairman and Chief Executive Officer in light of the Company's performances over time. Its independent, well-documented analysis and its proposals gave rise to decisions by the Board, which are the subject of precise, comprehensive communication for the attention of the shareholders. Within this framework, a resolution is put to the shareholders at the Annual General Meeting for an advisory vote.

Attendance fees

In light of the changes in the remits and work of the committees, the Committee asked the Board to approve the rules for the allocation of attendance fees, which remain unchanged for 2013, then proposed the amounts allocated in respect of the financial year in light of the actual presence of Directors at Board meetings and on a prorated basis according to their membership of one or more committees.

For the 2014 financial year, on the proposal of the Committee, the Board decided that the attendance fees would consist of a predominantly variable portion, in accordance with the recommendations of the AFEP-MEDEF Code. As for Board meetings, the presence at Committee meetings will be taken into account in the allocation of the variable portion.

Conditional grant of shares

The Committee made proposals to the Board for changes in the long-term incentives offered to employees. It wants to make conditional grants of shares the only instrument in its incentive policy, for all beneficiaries including the Chairman and Chief Executive Officer, consequently without any stock options also being granted.

The grants are made after the closing of the annual financial statements. They associate those who have made big contributions with the future evolution of the Group's results and help to instil a Group spirit by fostering the loyalty of employees. Vesting of the free shares depends on the fulfilment of performance conditions. They align the interests of beneficiaries with those of the shareholders, secure employee loyalty and are a medium- to long-term source of motivation thanks to long vesting periods and strict performance conditions in line with the Group's economic objectives, calculated over several years.

The vesting period is 4 years for all the beneficiaries plus an additional 2-year holding period for French tax residents and/or French social security residents.

The free share grants are subject to performance obligations that the Board records at the end of the vesting period.

At the time of closing of the annual financial statements, the Board of Directors records the performances achieved over a period of three full financial years, *i.e.* over a long period.

Recognising this performance makes it possible to set the exact number of shares which will become the property of each of the beneficiaries of the conditional grant of shares at the date on which the four-year vesting period comes to an end.

In February 2014, the Board reviewed the performances for financial years 2013, 2012 and 2011 and recorded that the performances under the plan for the free grant of shares made in 2010 had been achieved.

Human Resources

The Committee noted with satisfaction that the Group has high potential talents, with an increase in the number of women and international employees, and with new areas of experience.

Ethics

The Committee noted that the Group's employees are kept permanently informed of Ethics and the rules that apply in this respect. Measures are taken when the rules are not complied with.

2.2.2.2 SELF-EVALUATION BY THE BOARD OF DIRECTORS

Every year, the Board reviews its composition, its organisation and its *modus operandi*, in particular in order to verify that, under these conditions, the agenda for its work duly covers the scope of its assignments, that important questions have been appropriately prepared for and discussed and to assess the contribution made by each member to the Board's work.

This evaluation is carried out within the framework of the AFEP-MEDEF Code, to which the Board refers and market recommendations like those of the AMF. On the basis of the summary of prior individual interviews between the Director and the Secretary of the Board of Directors, such interviews being conducted on the basis of a guide which sets out the principles provided for in the Code and the recommendations, the Board considers the avenues of progress that still remain open and, at the end of the discussion that takes place, adopts the improvement measures that it considers appropriate.

The Directors again exercised their complete freedom of judgement in 2013. This freedom of judgement allowed them to participate, in total independence, in the work and collective decisions of the Board, and, where applicable, in conducting preparatory work and making proposals through the Board committees.

The Board considered that the quality of its meetings has continued to improve, in light of what were considered as avenues of progress following the self-evaluation carried out at the end of 2012, particularly with regard to the strategic challenges faced by the Group which are regularly debated and discussed, in the presence of the senior managers who are members of the Executive Committee.

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

In this respect, the day devoted to strategy at L'Oréal Professional Products and that on Research & Innovation at one of its laboratories, in the presence of a large number of senior managers, were particularly appreciated.

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

In 2013, the Board once again appreciated the pace, frequency and format of the information provided to it in connection with business activities in general and the main events in the life of the Group. Making documentation available prior to Board or Committee meetings, in compliance with the requirements of confidentiality and the time constraints with which the Company is faced, favours the quality of the debates.

The Directors made new proposals of topics to be included on the agenda for meetings in 2014, principally in relation with universalisation strategy, the geographic deployment of the business activities of the Divisions and the organisation of the regions in light of local specificities.

2.2.2.3 APPENDIX: COMPLETE TEXT OF THE INTERNAL RULES OF THE BOARD OF DIRECTORS

In February 2014, the Board decided to update its Internal Rules in order to add to the remits of two of its Committees in particular, to give a reminder of the need to strictly respect the confidentiality of the information that it is called on to handle and specify that Board members are prohibited from trading in the Company's shares during certain specific periods.

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

L'Oréal's Board of Directors refers to the principles of corporate governance as presented by the AFEP-MEDEF Code.

Preamble

The Board of Directors of L'Oréal ("the Company") is a collegial body which is mandated by all the shareholders. It has the authority given to it by Law to act in all circumstances in the best interests of the Company.

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

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

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

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

1. Duties and authority of the Board of Directors

1.1. THE GENERAL POWERS OF THE BOARD

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

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

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

The Board sets the remuneration of the Directors and executive officers. It reports on its policy and its decisions in its Management Report and in the report of its Chairman. The General Shareholders' Meeting is consulted every year on the components of remuneration due or allocated to each executive officer for the past financial year.

The Board is a collegial body which is legally unable to delegate its authority, except to the General Management in those cases expressly provided for by Law. Within the scope of its work, it may decide to set up committees which do not have decision-making powers but have the task of providing all useful information for the discussions and decisions which it is called upon to make. The Board decides on the composition of the committees and the rules with regard to their *modus operandi*.

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

1.2. RELATIONS BETWEEN THE GENERAL MANAGEMENT AND THE BOARD

1.2.1. Form of General Management

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

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

1.2.2. Powers of General Management

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

The Board has the possibility to provide for limitations on the powers of the General Management. Thus, transactions which may materially impact the scope of consolidation of the

Company, in particular, transactions involving an amount in excess of €150,000,000, and all new transactions which are outside the normal course of business, must be submitted to the Board. In any event, the Board of Directors must be informed of the conclusion and implementation of all transactions.

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

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

1.2.3. The duties of the General Management

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

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

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

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

2. Composition of the Board

2.1. THE DIRECTORS

The Directors of the Company:

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

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

2.1.1. Independence

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

2.1.2. Diversity

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

2.1.3. Renewal of tenures

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

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

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

2.2. THE CHAIRMAN OF THE BOARD

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

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

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

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

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

The Chairman of the Board must use his best efforts to promote the values and image of the Company at all times. The Chairman expresses his views in that capacity.

He is provided with the material resources required to perform his duties.

The Chairman of the Board takes care, particularly in the event of separation of roles, to develop and maintain a trustful and regular relationship between the Board and the General Management, in order to guarantee continuous, ongoing implementation by the General Management of the orientations defined by the Board.

3. Rights and obligations of Directors

3.1. AWARENESS OF AND COMPLIANCE WITH REGULATORY TEXTS, RECOMMENDATIONS AND OBLIGATIONS

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

- the Company's Articles of Association;
- the legal and regulatory texts that govern French *Sociétés Anonymes* within the framework of the functioning of a Board of Directors and in particular the rules relating to:

- the number of offices that may be held simultaneously,
- the agreements and transactions concluded between the Director and the Company,
- the definition of the powers of the Board of Directors,
- the rules relating to the holding and use of privileged information, which are set out hereafter in point 3.6;

- recommendations defined by the AFEP-MEDEF Code;
- L'Oréal's Code of Business Ethics;
- L'Oréal's Stock Market Code of Ethics; and
- the provisions of these Rules.

3.2. RESPECT FOR THE INTERESTS OF THE COMPANY

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

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

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

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

3.3. OBLIGATION OF DILIGENCE AND PROVISION OF INFORMATION

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

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

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

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

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

Each Board member undertakes to be diligent:

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

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

3.4. TRAINING OF DIRECTORS

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

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

3.5. OBLIGATION OF RESERVE AND CONFIDENTIALITY

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

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

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

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

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

3.6. RULES GOVERNING INSIDER TRADING

3.6.1. Principles

The Company has put in place a Stock Market Code of Ethics that is regularly updated, in particular to take into account changes in the regulations in force. The Board complies with the Principles of Stock Market Ethics "relating to the use and communication of privileged information" provided for by such Code.

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

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

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

3.6.2. Periods of abstention

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

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

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

3.6.3. Insider trading

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

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

In accordance with the applicable regulations, the Directors and individuals closely related to them, as defined by decree, must inform the AMF of all acquisitions, sales, subscriptions or exchanges involving the Company's shares and of transactions involving related instruments where the cumulative amount of such transactions is higher than €5,000 for the calendar year in progress.

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

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

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

3.7. HOLDING OF A MINIMUM NUMBER OF SHARES

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

Each Director owns at least 1,000 shares in the Company.

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

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

4. Modus operandi of the Board of Directors

4.1. CONVENING THE BOARD

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

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

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

4.2. BOARD MEETINGS AND METHOD OF PARTICIPATION

The Board meets as often as required in the best interest of the Company, and at least 5 times per year.

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

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

In accordance with the legal and regulatory provisions and with Article 9 paragraph 2 of the Articles of Association, Directors who take part in Board meetings by means of videoconference or telecommunication facilities are deemed to be present for the purpose of calculating the quorum and the majority.

These means must guarantee simultaneous, continuous retransmission of the debates.

However, these means of participation are excluded when the Board so decides and in any event when it decides with regard to closing of the Company's parent company and consolidated financial statements and on the preparation of the Management Report.

A Director who participates by means of videoconference or teletransmission must ensure that the confidentiality of the debates is preserved.

The attendance register mentions the Board members who attend Board meetings by means of videoconference or telecommunication facilities, with the Secretary of the meeting having the task of initialling the register for them.

4.3. MINUTES OF THE BOARD

Minutes are prepared of the deliberations of each Board meeting.

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

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

The minutes of the deliberations includes a summary of the debates and specifies the decisions that were made. It mentions the questions raised or the reservations expressed by participants.

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

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

4.4. THE SECRETARY OF THE BOARD

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

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

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

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

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

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

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

4.5. ANNUAL EVALUATION OF THE FUNCTIONING OF THE BOARD

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

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

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

5. Board committees

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

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

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

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

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

The Chairman of each Committee prepares the agenda for each meeting.

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

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

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

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

5.1. STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

5.1.1. Remits

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

The Committee examines:

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

- the proposed strategic orientations to be defined by the Board with a view to consultation of the Central Works Council.

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

5.1.2. Work organisation

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

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

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

5.2. AUDIT COMMITTEE

5.2.1. Remit

The Audit Committee, acting under the responsibility of the members of the Board, is responsible for monitoring issues relating to the preparation and control of accounting and financial information.

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

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

- the process for preparation of financial information:

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

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

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

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

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

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

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

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

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

- the Statutory Auditors' independence.

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

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

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

5.2.2. Composition

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

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

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

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

5.2.3. Work organisation

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

The Committee meets when convened by its Chairman, whenever the Chairman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting.The agenda is sent to the Committee members before the meeting, together with the information which is useful for their debates.

To carry out its mission, the Audit Committee may also, in agreement with the General Management, obtain information from people who are able to assist it in the performance of its mission, and in particular senior managers in charge of economic and financial issues and those in charge of information processing.

5.2.3.1. Relations with the Statutory Auditors

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

The Statutory Auditors inform the Audit Committee of:

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

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

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

5.2.3.2. Activity Report

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

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

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

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

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

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

5.3. APPOINTMENTS AND GOVERNANCE COMMITTEE

5.3.1. Remit

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

- review and propose to the Board candidates for appointment as new Directors;
- provide the Board with clarifications on the conditions of performance of General Management and the status of the executive officers;
- issue an opinion on proposals made by the Chairman of the Board for appointment of the Chief Executive Officer;
- ensure the implementation of a procedure for preparation of succession plans for the executive officers in the event of an unforeseen vacancy;
- ensure the application of the AFEP-MEDEF Code to which the Company refers;
- discuss governance issues related to the functioning and organisation of the Board;
- decide on the conditions in which the regular evaluation of the Board is carried out;
- discuss the classification of Directors as independent which is reviewed by the Board every year prior to publication of the Annual Report;
- conduct the reflection process with regard to the committees that are in charge of preparing the Board's work;
- prepare for the decisions by the Board with regard to updating its Internal Rules.

5.3.2. Work organisation

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

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

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

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

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

5.4. THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

5.4.1. Missions

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

Within this framework, the main missions of the Human Resources and Remuneration Committee, within the context of the work of the Board of Directors, are to make proposals with regard to the following in particular:

- the fixed and variable remuneration of the Chairman of the Board and any other benefits he receives;
- the fixed and variable remuneration of the Chief Executive Officer and any other benefits he receives (pension, termination indemnities, etc.);
- the total amount of attendance fees to be submitted to the General Shareholders' Meeting and the method of distribution of such fees;

- the implementation of long-term incentive plans, such as for example, those that could provide for the distribution of stock options or for free grants of shares.

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

The Committee also examines:

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

5.4.2. Work organisation

The Committee meets when convened by its Chairman, whenever the Chairman or Board considers this appropriate. The agenda of the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting.

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

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally. The Committee is required to report regularly on its work to the Board and make proposals to the Board.

6. Remuneration of the executive officers

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

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

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

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

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

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

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

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

The Board of Directors defines the remuneration policy for L'Oréal's executive officers and the objectives pursued (competitiveness, performance, interests of the shareholders and stakeholder expectations).

The Board of Directors decides on the various components which make up the remuneration while paying attention to the need to reach a balance between each of them (responsibilities, experience, skills, Group performance, implementation of strategy, value creation, no benefits in kind).

Ancillary components of remuneration, for example termination indemnities, additional social protection, are not linked to performance of the corporate office, but they may be due pursuant to the suspended employment contract.

Details of all the remuneration components of the executive officer are set out in section 2.3. below.

2.3. REMUNERATION OF THE DIRECTORS AND THE EXECUTIVE OFFICERS

2.3.1. Remuneration of the members of the Board of Directors

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

RULES FOR ALLOCATION IN RESPECT OF THE 2013 FINANCIAL YEAR

The amount of attendance fees is divided between the Directors as follows:

- an equal share allocated to each Director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings;
- an additional share for Committee members.

The Board adopted for a full year: a fixed annual sum of €30,000; an amount of €5,000 for each Board meeting which the Director attends; an amount of €15,000 for each Director who is a member of the Strategy and Sustainable Development Committee and an additional amount of €15,000 for the Chairman of this Committee; an amount of €10,000 for each Director who is a member of the Human Resources and Remuneration Committee and the Appointments and Governance Committee and an additional amount of €10,000 for the Chairman of each of these committees; an amount of €25,000 for each Director who is a member of the Audit Committee and an additional amount of €25,000 for its Chairman. The Audit Committee's remit is indeed particularly exacting and requires continued attention and a significant commitment.

AMOUNTS PAID IN RESPECT OF THE 2013 FINANCIAL YEAR

A total amount of €1,093,750, which falls within the total overall amount of €1,300,000 voted by the Annual General Meeting in 2011, was distributed to the Directors at the beginning of 2014 in respect of the 2013 financial year, for a total of 5 meetings [7 meetings in 2012 including 2 extraordinary meetings for which no fees were paid].

The attendance rate at Board of Directors' meetings in 2013 is 91.4% on average.

AMOUNTS OF ATTENDANCE FEES

In euros	**2013** (total of 5 meetings and 18 Committee meetings)	2012 (total of 7 meetings and 17 Committee meetings)
Mr. Jean-Paul Agon	85,000	85,000
Ms. Françoise Bettencourt Meyers	70,000	64,000
Mr. Peter Brabeck-Letmathe	85,000	80,000
Mr. Paul Bulcke	60,000	43,000
Mr. Charles-Henri Filippi	96,250	115,000
Mr. Xavier Fontanet	70,000	75,000
Mr. Bernard Kasriel	90,000	90,000
Ms. Christiane Kuehne	80,000	62,750
Mr. Marc Ladreit de Lacharrière	50,000	50,000
Mr. Jean-Pierre Meyers	115,000	115,000
Mr. Jean-Victor Meyers	55,000	55,000
Ms. Virginie Morgon*	62,750	-
Sir Lindsay Owen-Jones*	11,000	55,000
Ms. Annette Roux	50,000	50,000
Mr. Louis Schweitzer	113,750	95,000
TOTAL	**1,093,750**	**1,034,750**

* *Directors whose term of office began or ended during the 2013 financial year.*

Mr. Jean-Paul Agon, Chairman and Chief Executive Officer, does not receive any attendance fees in the L'Oréal Group other than those referred to above.

ALLOCATION RULES IN RESPECT OF THE 2014 FINANCIAL YEAR

In respect of the 2014 financial year, and in accordance with the recommendations of the AFEP-MEDEF Code of June 2013, the Board of Directors decided that the method of allocation of attendance fees would take into account effective participation by Directors at Committee meetings, as is already the case for Board meetings, and would accordingly consist, in all, of a predominantly variable amount.

In 2014, in light of the fact that two Directors representing the employees will join the Board and due to a provisional schedule of dates providing for a greater number of Board meetings, a draft resolution providing for an increase in the maximum amount of attendance fees is being put to the Annual General Meeting on Thursday, April 17th, 2014.

2.3.2. *Remuneration of the executive officers*

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

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

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

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

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

Remuneration policy and objectives pursued

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

COMPETITIVE REMUNERATION

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

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

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

PERFORMANCE-RELATED REMUNERATION

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

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

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

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

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

REMUNERATION ALIGNED WITH THE INTERESTS OF SHAREHOLDERS

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

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

BALANCED REMUNERATION TAKING ACCOUNT OF STAKEHOLDER EXPECTATIONS.

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

It must not lead to taking inappropriate, excessive risks.

In this respect, the annual variable portion of the remuneration remains reasonable in comparison with the fixed portion. A target representing a maximum percentage of the fixed remuneration must be defined.

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

Remuneration components

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

Each remuneration component corresponds to a clearly defined objective.

FIXED REMUNERATION

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

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

ANNUAL VARIABLE REMUNERATION

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

It is expressed as a percentage of fixed remuneration. This percentage may vary between 0% and 100% at most of fixed remuneration.

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

At its meeting of February 10th, 2014, on the recommendations of the Human Resources and Remuneration Committee, the Board of Directors decided to change its policy.

Until now, the performance criteria for the variable remuneration were established, for half, by reference to its qualitative financial objectives reflecting the Company's performance; and for half, on the basis of an assessment of qualitative aspects of management.

As from 2014, the quantative financial portion is increased to 60% of the annual variable remuneration.

The criteria applied are as follows:

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

The non-financial portion represents 40% and the related criteria are revised in order to use measurable indicators adapted to the Group's Human Resources and CSR strategy. The other criteria used to evaluate the non-financial performance of the executive officer may be of a qualitative nature such as, for example, addressing specific priorities for the year.

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

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

AWARD OF PERFORMANCE SHARES

The Board of Directors has requested and obtained the authorisation of the Annual General Meeting to award performance shares to employees of the Group and to its executive officer (authorisation of the Extraordinary General Meeting of April 26th, 2013 which is valid until June 26th, 2015).

The objective of these awards is to encourage achievement of the Group's long-term objectives and the resulting valuation creation for the shareholders. In order to do so, the final vesting of the shares is subject to performance conditions in accordance with the authorisation voted by the Extraordinary General Meeting of April 26th, 2013.

Performance conditions

The performance criteria are sufficiently exacting while they continue to be motivating. They concern all the shares awarded. They complement one another, are in line with the Group's objectives and specificities and are of a nature to promote balanced, continuous long-term growth.

These performance conditions take into account, partly growth in comparable cosmetics sales of L'Oréal as compared to a panel of L'Oréal's biggest direct competitors; and partly, growth in L'Oréal's consolidated operating profit.

In order for all the free shares granted to be finally acquired, in respect of the criterion related to sales, by the beneficiaries at the end of the vesting period, L'Oréal's growth must be at least as good as the average growth of the sales of the panel of competitors. This panel currently consists of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden.

No share finally vests, in respect of the criterion related to operating profit, if such profit does not increase in absolute terms over the period.

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

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

Rules governing the grants made to the executive officers

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

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

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

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

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

ATTENDANCE FEES

These are paid to the executive officer in his capacity as a member of the Board of Directors in accordance with the same rules as those applicable to the Directors.

It should be noted that, for 2014, the Board of Directors has decided to change the allocation of attendance fees by providing for a predominantly variable portion in order to encourage the attendance by Directors at Committee meetings.

This new rule will apply to the executive officer and to all the other Directors, it being specified that he can be a member of all the committees except the Audit Committee and the Human Resources and Remuneration Committee although he is nevertheless able to attend the meetings of that Committee except with regard to any matters on the agenda that concern him directly.

BENEFITS IN KIND

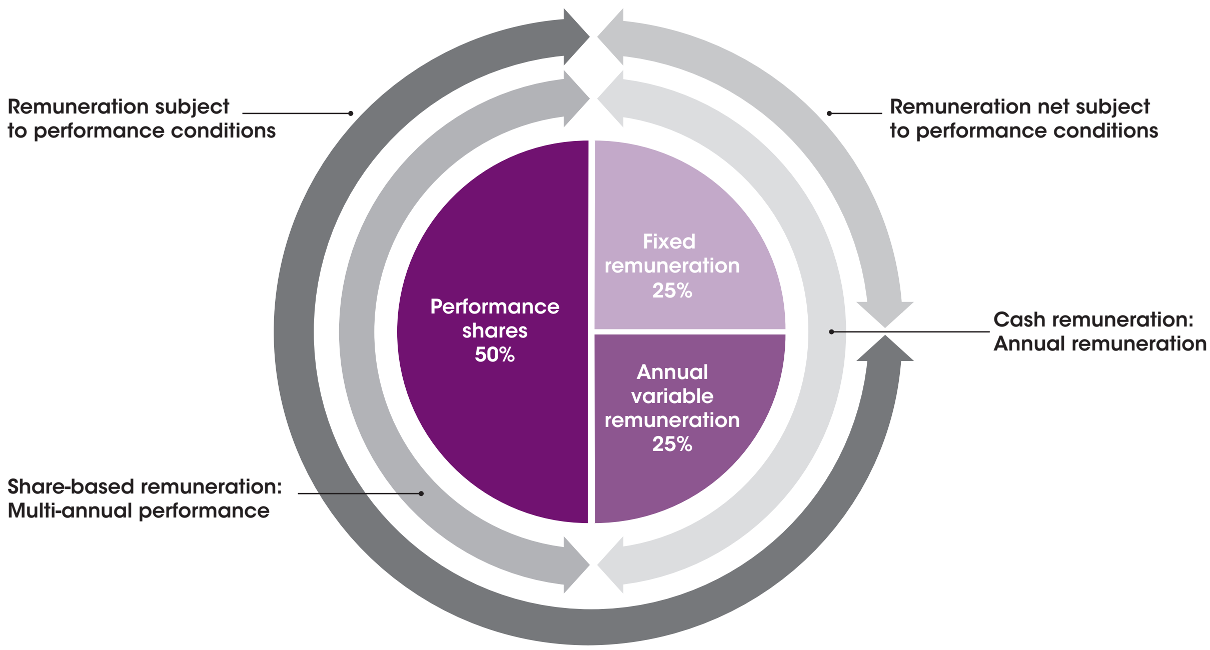
For the purpose of transparency, it is not in principle planned to supplement the executive officers' fixed remuneration by granting benefits in kind.

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

THE BALANCE BETWEEN THE VARIOUS COMPONENTS OF TOTAL REMUNERATION (EXCLUDING ATTENDANCE FEES)

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

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



TERMINATION INDEMNITIES, PENSION SCHEME, ADDITIONAL SOCIAL PROTECTION

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

The AFEP-MEDEF code, to which L'Oréal refers, recommends that companies should put an end to the practice of combining an employment contract with a corporate office (point 22) although it does not impose this as a mandatory requirement.

L'Oréal's Board of Directors shares the objectives of this recommendation which aims at avoiding the possibility of concurrently obtaining benefits both from the employment contract and the corporate office and at prohibiting any interference with the possibility of removing executive officers *ad nutum*. The Board of Directors has formally provided for the methods of application of the objectives of the recommendation, as adapted to the professional context in the L'Oréal Group.

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

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

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

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

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

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

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

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

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

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

Defined benefit pension scheme

The executive officer, subject to ending his career in the Company, will benefit from one of the defined benefit pension schemes currently applicable to the Group's senior managers as described in detail in chapter 6, in paragraph 6.2.2.1. on page 203.

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

Approximately, 450 senior managers for the pension scheme that opened on January 1st, 2001 and 120 senior managers for the scheme that closed on December 31st, 2000, either active or retired, are concerned;

The minimum length of service requirement for access to the schemes is 10 years.

The increase in the potential rights takes place over a long period of time, amounting to 25 years for the scheme which is open and 40 years for the scheme that has closed.

The reference period taken into account for calculation of the benefits is 3 years.

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

An evaluation of the level of the pension annuity that might be paid to the executive officer, in accordance with the recommendations of the AFEP-MEDEF, is made for information purposes (section 2.3.2 of this chapter) with, however, all the necessary reservations due to the characteristics of the schemes described above.

Additional social protection schemes

The executive officer will continue to benefit, due to the fact that he is treated in the same way as a senior manager during the term of his corporate office, from the additional social protection schemes and in particular the employee benefit and healthcare schemes applicable to the Company's employees. These schemes are described in detail in chapter 6, in paragraph 6.2.2.1. on page 205.

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

Procedure for setting the remuneration of the executive officer

It is established in such a way as to guarantee the due and proper application of the policy and rules set by the Board of Directors.

The Board of Directors bases its decision on the work and recommendations by the Human Resources and Remuneration Committee.

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

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

These studies enable it to measure:

- the competitiveness of the executive officer's total remuneration in comparison with an international panel of companies that are world leaders;
- the comparative results of L'Oréal and those of the same world leaders in light of the criteria adopted by the Group to assess the executive officer's performance;
- the link between the executive officer's remuneration and his performance;
- the relevance over time of the remuneration structure and the objectives assigned to him.

THE HUMAN RESOURCES AND REMUNERATION COMMITTEE HAS ALL USEFUL INTERNAL INFORMATION

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

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

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

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

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

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

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

Similarly, three out of the four members of the Human Resources and Remuneration Committee are members of the Audit Committee and participate in the closing of the financial statements.

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

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

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

February 2013

Recommendations made to the Board of Directors with regard to:

- evaluation and setting of the 2012 variable remuneration after a review of the annual results for 2012 and assessment of the qualitative aspects of management;
- setting of the fixed remuneration for 2013;
- setting of the level of variable remuneration for 2013, the nature and weight of the evaluation criteria for the variable remuneration and the objectives to be met.

Studies with regard to the 2013 ACAs(1) plan for the conditional grant of shares

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

April 2013

Recommendations for the 2013 ACAs plan:

- policy and rules for grants including those applicable to the executive officer;
- list of beneficiaries including the executive officer;
- level of grants including those to the executive officer.

June 2013

Presentation and discussion on HR policy

Presentation and discussion on Ethics policy

November 2013

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

- competitiveness/Panel;
- results of the Group/Panel;
- link between performance and remuneration;
- balance and structure of the remuneration.

Initial reflections on variable remuneration for 2013 and possible changes in total remuneration for 2014

Initial analysis concerning the 2014 ACAs Plan

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

February 2014

Recommendations made to the Board of Directors with regard to:

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

Studies with regard to the 2014 ACAs plan for the conditional grant of shares

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

(1) ACAs = Conditional Grant of Shares (performance shares).
(2) SO = Stock Options.

2.3.2.2. REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Components of remuneration due or allocated with respect to 2013

FIXED REMUNERATION

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors set, at its meeting on February 11th, 2013, the amount of Mr. Jean-Paul Agon's fixed remuneration at a gross amount of **€2,100,000 on an annual basis**.

For information purposes, **the amount of the fixed remuneration has remained unchanged since 2008**.

ANNUAL VARIABLE REMUNERATION

Concerning Mr. Jean-Paul Agon's annual variable remuneration for 2013, It is specified that the target objective was €2,100,000, as the Board of Directors had set the same target objective of annual variable remuneration that could represent a maximum of 100% of the fixed remuneration.

It is specified that the performance assessment criteria were set, half by referring to quantative objectives relating to the Company's performance and half based on an assessment of the qualitative aspects of management.

At its meeting on February 6th, 2014, the Human Resources and Remuneration Committee examined the conditions of fulfilment of each of the criteria giving rise to allocation of the annual variable remuneration.

- **50% based on quantitative objectives reflecting the Company's performance measured on the basis of changes in the following indicators:**
  - comparable sales as compared to the budget,
  - market share as compared to the main competitors,
  - operating profit plus advertising and promotion expenses as compared to 2012,
  - net earnings per share as compared to 2012,
  - ash flow as compared to 2012.

After reviewing the results for 2013, the Human Resources and Remuneration Committee assessed the performance of Mr. Jean-Paul Agon with regard to these different quantative criteria, in light of the growth objectives set at the beginning of the year.

- **50% on the basis of an assessment of the qualitative aspects of management:**
  - the appropriateness of strategic choices,
  - the quality of leadership and management,
  - the impact of communication,
  - actions to help society,
  - addressing the specific priorities for the year.

The Human Resources and Remuneration Committee assessed the performance of Mr. Jean-Paul Agon with regard to these different qualitative criteria considering that 2013 was marked by an active policy in the following areas in particular:

- the Group acquired a certain number of important companies in the Beauty sector, thus reinforcing its positions both from a geographical standpoint and in terms of its brand portfolio;
- L'Oréal changed its organisation and its method of functioning last May in order to create, firstly, greater differentiation between the Divisions and, secondly, greater proximity with our markets. This evolution aims to give the all the necessary force to the strategy defined by its Chairman and Chief Executive Officer: universalisation, meaning globalisation with respect for differences;
- in parallel, the Group stepped up its policy for recruiting and developing talents everywhere in the world, in order to favour the emergence of local managers. L'Oréal changed its communication and enriched its "employer offering" and is one of the most attractive companies in the international rankings. The Group also launched the "L'Oréal Share & Care" programme, aimed at ensuring that L'Oréal's employees, in all the countries in which it is located all over the world, have access to the best social protection, the best healthcare coverage and benefits and the optimal quality of life at work;
- the Group was selected for inclusion in the United Nations Global Compact 100, a new global stock index that combines corporate sustainability and baseline financial performance. It was recognised by the Ethisphere Institute as one of the "World's Most Ethical Companies" in 2013;
- Mr. Jean-Paul Agon also presented the Group's commitments with regard to Sustainable Development by 2020 through the Sharing beauty with all programme. This shows L'Oréal's ambition and the personal commitment by its Chairman and Chief Executive Officer to building and ensuring sustainable growth.

At its meeting on February 10th, 2014, taking into account the analysis made by the Human Resources and Remuneration Committee, the Board of Directors decided to allocate an amount of €1,837,500 to Mr. Jean-Paul Agon as annual variable remuneration, namely 87.5% of the target objective.

AWARD OF PERFORMANCE SHARES

Within the scope of the authorisation of the Ordinary and Extraordinary General Meeting of April 26th, 2013, the Board of Directors meeting held on the same date, taking into account the performances of Mr. Jean-Paul Agon, decided to grant him 40,000 ACAs (performance shares).

It should be noted that the Board of Directors had granted 50,000 ACAs (performance shares) to Mr. Jean-Paul Agon on April 17th, 2012. In its decision to decrease the number of ACAs granted to Mr. Jean-Paul Agon on April 26th, 2013, the Board took into account the increase in the estimated fair value of the ACAs, directly linked with the increase in the share value between these two dates (€130.30 vs. €92.70).

The estimated fair value according to the IFRS applied for the preparation of the consolidated financial statements of one performance share (ACAs) under the April 26th, 2013 Plan is €112.37 for French tax and/or social security residents, which is the case for Mr. Jean-Paul Agon. This fair value was €77.07 on April 17th, 2012.

The estimated fair value according to the IFRS of the 40,000 performance shares granted in 2013 to Mr. Jean-Paul Agon is therefore €4,494,800.

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

In accordance with the provisions of paragraph 3) of Article L. 225-197-6 of the French Commercial Code, in order for a grant of performance shares to be made to Mr. Jean-Paul Agon, the employees of L'Oréal and at least 90% of all the employees of its subsidiaries, within the meaning of these provisions, have to be the beneficiaries of an incentive agreement within the meaning of Article L. 3312-2 of the French Labour Code, or a derogatory profit sharing scheme within the meaning of Article L. 3324-2 of the same code.

Performance conditions

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

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

The calculation will be based on the arithmetic average for the three full financial years of the vesting period. The first full year taken into account for evaluation of the performance conditions relating to this grant is 2014.

In order for it to be possible for all the free shares granted to be finally acquired, in respect of the criterion related to sales, for the beneficiaries at the end of the vesting period, L'Oréal must achieve a performance which is at least as good as the average increase in sales of the panel of competitors.

No share will finally vest, in respect of the criterion related to operating profit, if it does increase in absolute value over the period.

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

Main characteristics of the grant

This Plan made it possible to grant 1,057,820 conditional shares to 2,092 beneficiaries.

The grant of conditional shares which Mr. Jean-Paul Agon received in 2013 represents 3.78% of the total number of conditional shares granted and 3.67% of their estimated value according to the IFRS.

Mr. Jean-Paul Agon shall retain 50% of the shares which will be finally granted to him at the end of the vesting period in registered form, until the termination of his duties as Chairman and Chief Executive Officer.

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

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

It is to be noted that no stock options to purchase or subscribe for shares, and no other long-term incentive tools, were granted to Mr. Jean-Paul Agon in 2013.

ATTENDANCE FEES

At its meeting on February 10th, 2014, the Board of Directors allocated an amount of €85,000 to Mr. Jean-Paul Agon in respect of the 2013 financial year, consisting of the following:

- as a Director, a fixed portion of €30,000 and a variable portion of €25,000 depending on the regularity of attendance at Board meetings (100%);
- as Chairman of the Strategy and Development Committee, an additional amount of €30,000.

Components of remuneration for 2014:

FIXED REMUNERATION

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on February 10th, 2014, to increase the amount of Mr. Jean-Paul Agon's fixed remuneration, unchanged since 2008, to a gross amount of €2,200,000 on an annual basis.

ANNUAL VARIABLE REMUNERATION

Concerning Mr. Jean-Paul Agon's annual variable remuneration, on the proposal of the Human Resources and Remuneration Committee, the Board of Directors decided to apply its new policy to such variable remuneration as from 2014.

Thus, if the target objective of annual variable remuneration that may represent a maximum of 100% of the fixed remuneration remains unchanged, namely €2,200,000, the balance between the quantative financial part and the extra-financial part of the variable remuneration is revised.

The financial part is set at 60% of the total amount of the annual variable remuneration (namely a maximum target of €1,320,000).

The extra-financial portion represents 40% of the total amount of the annual variable remuneration (namely a maximum target of €880,000) and the related criteria have been revised in order to use measurable indicators adapted to the Group's Human Resources and CSR strategy. The CSR criteria should make it possible, in particular, to measure, year after year, the progress made with regard to the main commitments, "Innovating Sustainably", "Producing Sustainably", "Consuming Sustainably" and "Sharing our growth", made within the framework of the Sharing beauty with all programme to be implemented by 2020.

For 2014, the evaluation criteria are set as follows:

- Financial criteria (60%) reflecting the Company's performance measured on the basis of the growth:
  - Comparable sales as compared to the budget,
  - Market share as compared to the main competitors,
  - Operating profit as compared to 2013,
  - Net earnings per share as compared to 2013,
  - Cash flow as compared to 2013;
- The following extra-financial criteria (40%):
  - Human Resources criteria:
    - Gender parity,
    - Talent development,
    - Access to training;
  - CSR criteria:
    - "Innovating sustainably",
    - "Producing sustainably",
    - "Consuming sustainably",
    - "Sharing our growth";
  - Qualitative criteria:
    - The company's image/reputation/dialogue with stakeholders,
    - Addressing the priorities for the year.

AWARD OF PERFORMANCE SHARES

Concerning the award of performance shares in 2014, the Board of Directors reserves the possibility to decide on the implementation of a new Plan within the scope of the authorisation given by the Ordinary and Extraordinary General Meeting on April 26th, 2013.

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

ATTENDANCE FEES

Mr. Jean-Paul Agon will receive attendance fees in his capacity as a member of the Board of Directors in accordance with the same rules as those applicable to the other Directors.

It should be noted that, for 2014, the Board of Directors has decided to make a change in the allocation of attendance fees by providing for a predominantly variable portion in order to encourage the Directors to attend Committee meetings.

Termination indemnities, pension scheme, additional social protection

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

The AFEP-MEDEF code, to which L'Oréal refers, recommends that companies should put an end to the practice of combining an employment contract with a corporate office although it does not impose this as a mandatory requirement (point 22).

As a reminder, L'Oréal's Board of Directors shares the objectives of this recommendation which aims at avoiding the possibility of concurrently obtaining benefits both from the employment contract and the corporate office and at prohibiting any interference with the possibility of removing executive officers *ad nutum*. The Board of Directors has formally provided for the methods of application of the objectives of the recommendation, as adapted to the professional context in the L'Oréal Group.

The Board's intention is to use the treatment set out below for Mr. Jean-Paul Agon and, in future, for any new corporate officer appointed who has over 15 years' length of service in the Group at the time of his/her appointment.

L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their careers in the Group as executive officers. This is how Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years within the Group.

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

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

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

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

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

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

  This reference remuneration is revised every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2014, the fixed remuneration amounts to €1,671,000 and variable remuneration to €1,392,500.

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

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

  In the event of departure, and depending on the reasons, Mr. Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities due in the event of voluntary retirement or compulsory retirement on the Company's initiative pursuant to the employment contract that has been suspended.

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

  Pursuant to the schedule of indemnities under the National Collective Bargaining Agreement for the Chemical Industries, in the event of dismissal, except in the event of gross misconduct or gross negligence, the indemnity would be capped, in light of Mr. Jean-Paul Agon's length of service, at 20 months' remuneration under the suspended employment contract.

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

  For information purposes, the cumulative amount of the indemnity provided for under the collective bargaining agreement and the indemnity in consideration of the non-competition clause which would have been due to Mr. Jean-Paul Agon had his employment contract been terminated on December 31st, 2013 through dismissal, except in the event of gross misconduct or gross negligence, would have represented **an amount of less than 24 months of the fixed and variable remuneration which he received in 2013 as a corporate officer.**

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

  Mr. Jean-Paul Agon benefits, under his suspended employment contract, from the *Garantie de Retraite des Membres du Comité de Conjoncture* (Pension Cover of the Members of the *Comité de Conjoncture*) scheme closed on December 31st, 2000, as described on pages 203 *et seq.* of the paragraph on Employee benefit and pension schemes and other benefits.

  The main features of this scheme, which falls under Article L. 137-11 of the French Social Security Code, are as follows:

  - around 120 senior managers, active or retired, are concerned;
  - the length of service requirement was 10 years at the time of closure of the scheme on December 31st, 2000;
  - the cover may not exceed 40% of the calculation basis for the Pension Cover plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, in the Company;
  - the cover may not exceed the average of the fixed part of the remuneration for the three years used for the calculation basis out of the seven prior to the end of the beneficiary's career in the Company.

  For information purposes, it can be estimated that the amount of the pension that would be paid to Mr. Jean-Paul Agon, under L'Oréal's *Garantie de Retraite des Membres du Comité de Conjoncture* scheme, had he been able to apply for a full-rate pension from the French social security scheme on December 31st, 2013 after more than 35 years' length of service at L'Oréal, would represent **around 40% of the fixed and variable remuneration he received as an executive officer in 2013.**

  This information is given as an indication after estimating the main pension entitlements accrued by Mr. Jean-Paul Agon, at 65 years of age, as a result of his professional activities, according to the rules regarding the application for payment of such pensions in force at December 31st, 2013 and which may be subject to change.

  The amount of the pension paid to Mr. Jean-Paul Agon, under L'Oréal's *Garantie de Retraite des Membres du Comité de Conjoncture* scheme will in fact only be calculated on the date when he applies for all his pensions.

  As a reminder, the rights to the defined benefit pension are uncertain and conditional on the beneficiary ending his career in the Company. The funding of this scheme by L'Oréal cannot be broken down individually by employee.

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

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

  For information purposes, the amount of the employer's contributions to these schemes totals €5,788 in 2013.

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

The above provisions are subject to the regulated agreements and commitments procedure; this commitment was approved by the Annual General Meeting on April 27th, 2010 making a decision with regard to the Special Report prepared by the Statutory Auditors.

They remained unchanged within the scope of the appointment of Mr. Jean-Paul Agon as Chairman and Chief Executive Officer as from March 18th, 2011.

The table set out below, presented in the form recommended by the AMF, clearly shows that there are no concurrent benefits under the suspended employment contract and the corporate office.

It is moreover stated that the AMF considers that a company complies with the AFEP-MEDEF Code when it explains the maintenance of the employment contract of a senior manager as being due to his length of service as an employee in the Company and his personal situation and provides detailed substantiation in this respect.

Mr. Jean-Paul Agon [1] *Chairman and Chief Executive Officer*	Employment contract [2]		Supplementary pension scheme [3]		Indemnities or benefits due or which may become due as a result of termination or change of duties [4]		Indemnities relating to a non-competition clause [5]	
	Yes	No	Yes	No	Yes	No	Yes	No
	X		X			X	X	

(1) *Mr. Agon has been a Director since April 25th, 2006, the date on which he was appointed as Chief Executive Officer. His tenure was renewed at the Annual General Meeting on April 27th, 2010. Mr. Agon has been Chairman and Chief Executive Officer since March 18th, 2011.*
(2) *Mr. Agon's employment contract is suspended throughout the entire length of his corporate office.*
(3) *Pursuant to his employment contract, Mr. Agon is entitled to benefit from the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de Conjoncture") as described on page 203. This defined benefit pension scheme provides that the building up of rights to benefits is conditional on the beneficiary ending his career in the Company; the funding of this scheme by L'Oréal cannot be broken down individually by employee.*
(4) *No indemnity is due in respect of termination of the corporate office. In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of dismissal, except in the case of gross misconduct or gross negligence, the dismissal indemnity would be capped, in light of Mr. Agon's length of service, at 20 months' reference remuneration.*
(5) *In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of two thirds of the monthly reference fixed remuneration related to the employment contract unless Mr. Agon were to be released from application of the clause.*

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

	2013		2012	
In €	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,100,000	2,100,000	2,100,000	2,100,000
Annual variable remuneration [1]	1,837,500	1,785,000	1,785,000	1,785,000
Exceptional remuneration		-	-	-
Attendance fees [2]	85,000	85,000	85,000	79,000
Benefits in kind		-	-	-
TOTAL	**4,022,500**	**3,970,000**	**3,970,000**	**3,964,000**

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

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

In €	**2013**	2012
Remuneration due in respect of the financial year	4,022,500	3,970,000
Value of the performance shares granted during the financial year	4,494,800 [1]	3,853,500 [2]
TOTAL	**8,517,300**	**7,823,500**

(1) *Corresponding to 40,000 performance shares x €112.37 (estimated fair value on April 26th, 2013 according to the IFRS applied for the preparation of the consolidated financial statements).*
(2) *Corresponding to 50,000 performance shares x €77.07 (estimated fair value on April 17th, 2012 according to the IFRS applied for the preparation of the consolidated financial statements).*

TABLE SHOWING THE STOCK OPTIONS GRANTED TO MR. JEAN-PAUL AGON SINCE HIS APPOINTMENT AS AN EXECUTIVE OFFICER THAT CAN STILL BE EXERCISED AT DECEMBER 31st, 2013

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

(1) The Board of Directors allocated 400,000 stock options to Mr. Jean-Paul Agon on April 22nd, 2011. Mr. Jean-Paul Agon waived 200,000 of these stock options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors on April 22nd, 2011.

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

The "balance of the shares resulting from the exercise of the stock options" should be understood to mean the total number of shares resulting from the exercise of stock options minus the number of shares that have to be sold to finance the exercise of the stock options in question and, where applicable, the payment of any immediate or deferred taxes, social levies and costs relating to the exercise of these stock options as applicable at the date of exercise of the options. If the number of shares thus determined that must be retained until the termination of Mr. Jean-Paul Agon's duties as Chairman and Chief Executive Officer is not a whole number of shares, this number of shares would be rounded down to the nearest lower whole number of shares.

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

TABLE OF THE STOCK OPTIONS TO PURCHASE OR SUBSCRIBE FOR SHARES EXERCISED BY MR. JEAN-PAUL AGON DURING THE 2013 FINANCIAL YEAR

Date of grant	Stock options for the purchase or subscription of shares exercised	Exercise price
Stock options granted during performance of the corporate office	None	--
Stock options granted prior to the corporate office (1)		
December 3rd, 2003	75,000	63.02
December 3rd, 2003	75,000	71.90
December 1st, 2004	45,000	55.54
November 30th, 2005	15,000	61.37

(1) These stock options, granted prior to the appointment of Mr. Jean-Paul Agon as an executive officer and expiring 10 years after their grant, were not subject to any retention obligation. Nevertheless, Mr. Jean-Paul Agon decided to retain some of the shares resulting from the exercise of these stock options, bringing the total number of shares held by him at December 31st, 2013 to 76,500 shares.

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

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

(1) At the end of the acquisition period, Mr. Jean-Paul Agon, as a French resident on the date of granting of the shares is required to hold the shares definitively acquired by him for an additional two-year period during which the shares cannot be disposed of. At the end of this additional two-year period, Mr. Jean-Paul Agon as an executive officer, will hold 50% of the shares definitively acquired as registered shares until the end of his term as Chairman and CEO of L'Oréal. With respect to these shares, Mr. Agon has committed to refreign from entering into any risk coverage transaction.

Summary table of the recommendations of the AFEP-MEDEF Code which have not been applied

Recommendations of the AFEP-MEDEF Code (hereinafter the "Code")	L'Oréal's practices and justifications
Independence criteria for the Directors (point 9.4 of the Code): Criterion providing that in order to be considered as independent a Director must not "have been a Director for more than twelve years".	*(see section on "Executive officers" on page 33)* *"The Board failed to adopt one of the criteria specified by the AFEP-MEDEF Code as it considers that the fact that a member has performed a term of office for over 12 years does not lead to such member losing his independent status. The professional experience and freedom of judgement of the Director concerned, combined with good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective. The quality of a Director is also measured by his experience, his skills, his authority and his good knowledge of the Company, which are all assets which make it possible to conduct a long-term strategy.* *The fact remains that, in any event, in accordance with the AFEP-MEDEF Code for controlled companies, the percentage of independent Directors on L'Oréal's Board is higher than one-third."*
Proportion of independent members on the committees (points 16.1, 17.1 and 18.1 of the Code): The proportion of independent Directors on the Audit Committee must be at least two-thirds. The Selection or Appointments Committee and the Remuneration Committee must be composed of a majority of independent Directors.	*(see section on "The activities of the Board committees" on page 49)* Another independent Director was appointed to the Audit Committee in 2013 to increase the number of its members to 5, 60% of the Committee members being independent. The Appointments and Governance Committee and the Human Resources and Remuneration Committee are not composed of a majority of independent. However: ◆ for the Appointments and Governance Committee, "*on February 10th, 2014, the Board of Directors decided to appoint another independent Director to the Committee, thus bringing the number of Committee members to four*", two of whom are independent. ◆ for the Human Resources and Remuneration Committee, "*the Board of Directors decided to change the composition of this Committee by proceeding with the appointment of an additional independent Director in 2011, such that half its members are independent*". Furthermore "All the Directors receive information on an ongoing basis and have suitable means for the performance of their tasks. They have a duty of vigilance and have complete freedom of judgement, which enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its committees."
Period for review of the accounts by the Audit Committee (point 16.2.1 of the Code): The time periods for review of the accounts by the Audit Committee must be sufficient (at least two days before their review by the Board).	*(see section on "The activities of the Board committees" on page 49)* *"Within the scope of the publication of the annual and interim results, the Audit Committee's meeting relating to the review of the financial statements is held on a date close to that of their presentation to the Board of Directors. But it should be noted that the Board and its committees are regularly given the appropriate information to carry out their supervisory assignment, in this field in particular. Furthermore, the corresponding documents are systematically sent to them prior to the meetings."*
The executive officer's employment contract (point 22 of the Code): It is recommended, though not required, that when a senior manager or executive becomes a corporate officer of the Company, his/her employment contract with the Company or another company of the Group should be terminated by agreed termination or by resignation.	*(See section "Remuneration of the Directors and the Executive Officers" on page 62)* The Board of Directors considered that the objective pursued by this recommendation can be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to his corporate office on the other. Furthermore, the Board of Directors has decided to eliminate all right to any indemnity in the event of termination of the corporate office. This position of the Board applies to the current office of Mr. Jean-Paul Agon and, in future, to any new corporate officer appointed who has over 15 years' length of service in the Group at the time of appointment. L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their careers in the Group as executive officers. This is how Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years at L'Oréal. The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr. Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr. Agon would lose the status he acquired as a result of the twenty-seven years he spent working for the Group as an employee. (See the position of the AMF*).
Performance shares (point 23.2.4 of the Code) In accordance with the terms and conditions set by the Board and made public at the time of the grant thereof, make the performance shares granted to the executive officers conditional on the purchase of a defined quantity of shares when the shares granted become available.	*(See section "Remuneration of the Directors and the Executive Officers" on page 62)* *"In light of the significant level of the holding obligations imposed on L'Oréal's Chairman and Chief Executive Officer at the time of the exercise of stock options for the subscription of shares and the final vesting of shares, the Board of Directors decided not to require Mr. Agon to purchase an additional quantity of shares of the Company when the shares granted become available, as recommended by the AFEP-MEDEF Code."* The number of shares directly held by Mr. Agon was 76,500 at December 31st, 2013 as against 31,500 at December 31st, 2012.
Attendance fees (point 21.1 du Code) The method of allocation of directors' compensation, should take account, in such ways as the Board of Directors shall determine, of the Directors' actual attendance at meetings of the Board and committees, and therefore include a significant variable portion.	*(See section "Attendance fees" on page 69)* **This recommendation has been applied by L'Oréal for the 2014 financial year:** For the 2014 financial year, the Board has decided to ensure that the variable portion of attendance fees is predominant. Like for Board meetings, presence at Committee meetings will be taken into account in the allocation of the variable portion. **Attendance fees in respect of 2013:** In respect of the 2013 financial year, "*The amount of attendance fees is divided between the Directors as follows*: ◆ *an equal share allocated to each Director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings;* ◆ an additional share for Board Committee members."

* *Extract from the AMF 2012 report on corporate governance and executive compensation considering that in this case this requirement was met: "The AMF states that it considers that a company complies with the AFEP-MEDEF code when it explains the maintenance of a senior executive's employment contract in light of his length of service as an employee in the Company and his personal situation" (page 79).*

2.4. SUMMARY OF TRADING BY DIRECTORS AND EXECUTIVE OFFICERS IN L'ORÉAL SHARES IN 2013

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

Person concerned	Description of the financial instrument	Nature of the transaction	Number of transactions	Total amount
Mr. Jean-Paul AGON, Chairman & CEO	Shares	Exercise of Stock Options	11	€13,538,850.00
	Shares	Sale	4	€11,336,599.65
Individuals related to Mr. Jean-Paul AGON, Chairman and CEO	Shares	Sale	4	€5,694,836.76

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

At the request of the Chairman and Chief Executive Officer, the Administration and Finance Division compiled the information contained in this report based on the different types of work carried out by departments working on Internal Control and management of the Group's risks and which aims at covering the main operational, legal, industrial, environmental, economic and financial risks described in section 1.8. on pages 20 to 27.

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

2.5.1. Definition and objectives of Internal Control

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

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

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is to enable the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's businesses. However, no absolute guarantee can be given that these objectives will be met.

With the aim of continually improving the system of Internal Control, the Group continued with its efforts in 2013 by notably taking the following actions:

- the corpus of standards and procedures was added to with, in particular:
  - updating of the "Fundamentals of Internal Control" which sets out the main principles to be complied with for all our operational processes. On this occasion, the organisation of the "network of custodians" of the Group's Internal Code system was described,
  - the publication of a corruption prevention guide;
- the network of Internal Control managers was reinforced;
- a specific training course was developed for this function;
- the organisation of the second edition of the "Internal Control Awards" accelerated the sharing of best practices and provided everyone with confirmation of the General Management's commitment with regard to Internal Control.

2.5.2. Components of the system

2.5.2.1. THE INTERNAL CONTROL ORGANISATION AND ENVIRONMENT

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

The Group's Ethical Principles

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

L'Oréal's Code of Business Ethics exists in 43 versions (35 different languages) and is also published in Braille in French and English. Issued to all employees throughout the world, it provides insight into how these Ethical Principles need to be reflected in the behaviour and actions of its employees through simple rules and a description of concrete situations to which they may be exposed. The Code of Business Ethics applies to all employees, executive officers and directors, members of the Executive and Management committees of the Group and those of its subsidiaries wordlwide. Six supplements to the Code of Business Ethics have, since 2010, covered certain aspects of the Code in more detail. Country Managers (or for Corporate or Zone staff, the members of the Group Executive Committee to whom they report) are responsible for ensuring the respect of the Code of Business Ethical in their Country.

Respect for these Ethics Principles is integrated in the appraisal system for all the employees and through two ethical competencies: "Acts/Leads with Human Sensitivity" and "Obtains results with integrity".

The SVP and Chief Ethics Officer, who reports directly to the Chairman and Chief Executive Officer, is in charge of ensuring the promotion and integration of best practices within the Group, providing guidance in ethical decision-making. He ensures employees are trained and oversees the handling of concerns, if any. He reports regularly to the Chairman and Chief Executive Officer and informs the Board of Directors and the Executive Committee. The Chief Ethics Officer has a dedicated budget and team, has access to all the information and documents concerning the Group's activities and can call upon all the Group's teams and resources to carry out his mission. Employees have a dedicated intranet site which provides additional information on ethics. Employee awareness is raised in particular during an annual Ethics Day. The central event in 2013 was a live webchat with the Chairman and Chief Executive Officer, which enabled all the Group's employees to ask questions and discuss the everyday application of L'Oréal's Ethical Principles. Dialogues on ethics were also organised locally with each Country Manager. More than 50% of the employees took part in this dialogue and over 3,200 questions were asked worldwide.

Employees are now able to refer matters to the Chief Ethics Officer through the L'Oréal Ethics Open Talk site which offers a secure information reporting mechanism.

The Ethics Correspondents role is to assist the Country Managers in implementing the ethics programme and enable employees in 60 countries to have a local point of contact. The Ethics Correspondents benefit every year from a specific coordinating and training programme.

The ethics training campaign is on-going. A specific e-learning programme on ethics was rolled out in all countries in October 2013. Since January 1st, 2014, this e-learning programme is mandatory for all new employees joining the Group. There are also six specific modules designed in particular for Country Managers, Buyers and Human Resources.

Finally, a practical tool for ethics risk assessment and analysis has been made available to the Group's entities. An annual reporting system makes it possible to monitor implementation of the ethics programme. Country visits and the inclusion of ethical questions in Internal Audit assignments complete the programme.

Responsibilities with regard to Internal Control

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

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

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

Human Resources policy

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

Information systems

Strategic choices in terms of systems are determined by the Group Information Systems Division, which is responsible in particular for implementation of a single ERP (Enterprise Resource Planning), management software application used by the great majority of commercial subsidiaries, and which issues instructions regarding systems security. The worldwide roll-out of this integrated software package also contributes to strengthening the reliability and the security of the process of production of information, notably accounting and financial information. In pursuit of the same objective, the deployment of an integrated production and management solution in the Group's industrial entities is continuing.

The procedures and standards governing the activities

Each Functional Division has responsibility, in its own specific field, for defining the principles and standards applicable to all the entities. In order to make it easier for employees to take on board all these principles and standards, the key points have been summarised in the "Fundamentals of Internal Control" which were updated in 2013.

This guide is a reference framework for the Group's operational activities, and is presented in the form of an information sheet for each area. Each information sheet refers to the detailed Charters, Codes and standards of the Group. The information sheets are regularly updated, supplemented, validated by the experts in each area of expertise and presented to the Group Management Committee. A questionnaire per operational function is proposed to subsidiaries so that they can make an assessment with regard to their entity, make their own diagnosis with regard to Internal Control and determine the areas of improvement within their own scope of activity.

A management standard with regard to segregation of duties was distributed to all entities in 2010. It defines the main rules to be observed in the fields of sales, purchasing, logistics, finance, Human Resources and information systems management. The application of these rules is aimed at better prevention of the risks of fraud and reducing the probability that errors (whether intentional or not) may remain undetected.

2.5.2.2. COMMUNICATION OF INFORMATION INSIDE THE GROUP

Sharing of information

The brochure "Fundamentals of Internal Control" is circulated individually to the Managing Directors and Finance Directors of all the consolidated subsidiaries, including the industrial entities. Furthermore, the Fundamentals, self-diagnosis questionnaires, codes, charters and standards, together with the information related to the organisation, changes and instructions from the Functional Divisions are made permanently available to the subsidiaries on the Group's intranet sites.

The other means of internal communication

Meetings are regularly organised aimed at passing on information about orientations of the General Management to managers of the subsidiaries. The Functional Divisions also coordinate their networks of experts through seminars and training sessions. A newsletter gives managers regular news and passes on strong messages with regard to Internal Control. Finally, through the Internal Control Awards, which were organised for the first time in 2012, good practices are identified and shared between the Group's subsidiaries.

2.5.2.3. RISK MANAGEMENT

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

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

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity. These risks have been identified in section 1.8. on pages 20 to 27, and the systems put in place to better anticipate and handle risks are mentioned. In addition, the Internal Rules of the Board of Directors specify the role played by the Audit Committee which "must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its routine and exceptional operations".

On the basis of the work by the Internal Audit Department, the analysis of major accounting and financial risks, in conjunction with the processes used by subsidiaries, makes it possible to identify Internal Control improvements and update the Group's standards (see *Management standards* in paragraph 2.5.4.2. on page 81).

Risk mapping

A risk mapping project concerning all L'Oréal's activities was finalised in 2011. This process of identification and analysis of the significant risks and processes enhances the knowledge of the Group's risks by formalising and consolidating the work already achieved to date. The results of this work were presented to the Audit Committee. It is the responsibility of the Risk Management and Compliance Department, created in 2012, to lead this process.

2.5.2.4. CONTROL ACTIVITIES

The measures recommended by the Group

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

- In the area of Human Resources, the requirements related to personnel management specify the documents to be provided to employees, the way to book and report headcount and personnel charges, the procedures for recruitment, training and appraisal and the rules to be observed in the field of payroll management.
- In the area of purchasing, the Purchasing Code of Ethics was updated in 2011: "The way we buy" is the practical and ethical guide providing guidelines for each employee in relationships with the Group's suppliers. The standard for "Management of suppliers" and tender procedures specify the conditions for competitive tendering and for the registration of the main suppliers. The general terms of purchase are used as the framework for transactions with suppliers. The "Purchase Commitments and Order Management" standard is aimed

at facilitating and strengthening control of the spending and investments of Group entities.

- In the area of safety and quality, procedures relating to the protection of persons, property and data set out the principles for covering industrial and logistical risks relating to organisation and safety. Production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the factories are ISO 9001-certified as far as their production is concerned, ISO 14001-certified for their environmental policy and OHSAS 18001-certified (or equivalent certification) for their safety policy.
- In the area of the Supply Chain, the main assignments consist in defining and applying the sales planning, customer demand management, development processes and control of customer service, particularly through management of physical order fulfilment, application of the general terms of sale, the follow-up of orders, management of customer returns and customer disputes as well as accounts receivable collection procedures. Measures are also recommended for the management of distribution centres and inventories, subcontracting, product traceability, business continuity plan and transport.
- In the field of Information Systems, the Group has an Information Systems Security Policy. Based on the international ISO 27001 standard, this policy covers the main topics of Information Systems security, describing the general principles to be applied for each of them. It enables all the Group's Information Systems teams, and by extension all the employees, to share clear objectives, good practices and levels of control adapted to the risks incurred. This policy is accompanied by an information systems security audit programme conducted by an outside firm. It is also supplemented by an Information and Communication Technologies Code of Conduct, and a Code of Conduct for the correct use of social media.
- In the legal area, the Legal Charter reaffirms the obligation to comply with local legislation and notably sets out the internal principles for signature on behalf of the Company, the general and specific rules relating to contracts, trademark law, intellectual property law, company law and competition law. A training tool and practical guides concerning the issues related to competition law and participation in professional associations define the principles to be complied with and provide answers to any questions which employees may have in this area.
- In the Insurance field, the Group's choice is to only have recourse to first-rate insurers. The Insurance Charter issues a reminder that the Group mainly uses integrated worldwide programmes to cover all its entities notably against third party liability, damage to property and operating losses resulting from an insured event. With regard to insurance of its customer risk, coverage is put in place inasmuch as this is permitted by local conditions. The results of audits performed by insurance companies in factories and distribution centres are used to improve the Internal Control of these entities.
- In the area of finance and treasury, the Financial Charter and the exchange risk management standard specify, in particular, the principles to be applied by Group entities to ensure that management of exchange risk is both prudent and centralised. The standard with regard to bank powers defines the process for designating the persons empowered to sign to make payments and the rules for implementation of those powers. In addition, the Stock Market Code of Ethics, described on page 50 in the section concerning the way in which the Board's work is prepared and organised, is applicable to all employees.
- In the area of consolidation and financial control, the control activities are described in paragraph 2.5.4.2. *Monitoring process for the organisation of the accounting and finance functions* on page 80.

2.5.2.5. ONGOING SUPERVISION OF THE INTERNAL CONTROL SYSTEM

The supervision carried out by the Functional Divisions

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

The role of the Internal Audit Department

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

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

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

The Internal Audit Department carried out 43 assignments in 2013. These audits concerned 28 commercial entities representing approximately 33% of the Group's sales and 6 factories; the audited factories represent around 15% of worldwide production in units. Furthermore, 9 other assignments were carried out with regard to specific topics. Internal Audit assignments systematically lead to the preparation of a report comprising a presentation of the findings and related risks and making recommendations regarding the action plan to be put in place by the audited entity.

The Internal Audit Department relies on the support of the Group's integrated ERP software package for the performance of its work and has developed a certain number of specific transactions that contribute to increasing the efficiency of its work. Since 2007, complementary assignments aimed at verifying certain key Internal Control points in the configuration of the ERP software have been performed with the participation of a systems expert. The Internal Audit Department carried out 3 such assignments in 2013. 2013 was also marked by the start-up of a GRC (Governance, Risk, Compliance) tool, rolled out to the audit team enabling it from now on to carry out its assignments using an integrated tool.

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

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

2.5.3. The players

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

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

General Management and the Management Committee (Executive Committee)

The role of the General Management is to define the general principles regarding Internal Control and to ensure that they are correctly put in place.

Within the scope of their worldwide Internal Control responsibilities, the members of the Management Committee rely on operational and functional managers, according to their respective areas of expertise. These managers must ensure implementation of these general principles and ensure the correct functioning of procedures enabling the level of Internal Control required by General Management to be attained.

The Audit Committee

The Board of Directors has always asserted the importance that it attributes, together with General Management, to Internal Control and to its main areas of application. Since its creation, the Audit Committee has been responsible for monitoring actions undertaken in the area of Internal Control and it reports thereon to the Board of Directors. Its remits are defined in the Internal Rules of the Board of Directors in paragraph 2.2.2.3. on pages 77 *et seq.* of this document.

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

The Audit Committee's work with regard to accounting and financial information is described in paragraph 2.5.4.2. on page 80.

The Functional Divisions and Departments

The Functional Divisions each define guidance and procedures for their own areas, which they communicate to the different countries and entities.

The Administration and Finance Division

This Division's main role is to assist and control the operational employees in their administrative, financial and legal activities. In order to do so, it sets the operating rules that apply to all entities in these areas and is responsible for the definition and deployment of tools, procedures and best practices, particularly in the following areas: financial control, accounting and consolidation, financing and treasury, tax, legal affairs, financial communication, information systems, and insurance. An Internal Control Committee has the task of taking all measures to promote the proper understanding and the proper application of the Group's Internal Control rules and also to monitor progress on important Internal Control projects.

The Risk Management and Compliance Department

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

The Internal Control Department

The Internal Control Department leads the Internal Control Committee which consists of managers from the Administration and Finance Division and the Risk Management and Compliance, Economic Affairs, Internal Audit and Organisation and Information Systems Departments. The Internal Control Department coordinates the implementation of the projects and work decided by the Internal Control Committee with the experts in each area of expertise. The updating of the standards mentioned in paragraph 2.5.2.3. on page 77 and in paragraph 2.5.4.2. on page 80 and the revamping of the "Fundamentals of Internal Control" are some examples of this work.

It is responsible for the continued development of the network of Internal Control managers in the Group's entities. In this connection, the role of this function was specifically detained and a training module was created. At the end of 2013, the Internal Control Department can rely on a network of nearly 50 local managers present in the Group's different entities.

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

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

The Internal Audit Department

In addition to its role of supervision of application of the Internal Control system (see paragraph 2.5.2.5. on page 78), the Internal Audit Department carries out cross-functional analyses with regard to possible Internal Control weaknesses based on findings noted during their assignments. These analyses make it possible to orient the work of the Internal Control Committee and to identify the priority areas for improvement and strengthening of procedures.

The Operations Division

This Division comprises the Quality, EHS (Environment, Health and Safety), Purchasing, Information Systems (production), Human Resources (production), Supply Chain, Production Organisation, Industrial Management and Real Estate Departments. It defines standards and methods applicable in the areas of production quality, safety and the environment. It assists operational employees in the definition and implementation of their manufacturing and logistics policies.

The other Functional Divisions

The following Divisions are also involved in Internal Control:

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

2.5.4. *Internal Control system relating to the preparation and processing of financial and accounting information*

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

2.5.4.1. DEFINITION, SCOPE AND OBJECTIVES

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

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

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

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

2.5.4.2. MONITORING PROCESS FOR THE ORGANISATION OF THE ACCOUNTING AND FINANCE FUNCTIONS

Organisation of the Finance Departments

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

In the Administration and Finance Division, the preparation of the Group's consolidated results is the responsibility of the Economic Affairs Department. The presence of a financial controller at each level of the organisation contributes to the strengthening of the Internal Control system. This network of subsidiary financial controllers is co-ordinated by the Economic Affairs Department.

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

General accounting standards

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

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

- accounting standards set out the principles required for harmonised accounting treatment of transactions. They specify in particular the methods of recording balance sheet items and of identification and valuation of off-balance sheet commitments. They are in accordance with IFRS, the accounting standards used to prepare the consolidated financial statements. The Group's Accounting Department monitors, on an ongoing basis, new accounting standards currently under preparation, with a view to alerting the General Management and anticipating their effects on the Group's financial statements;

- the chart of accounts, which is common to all subsidiaries, provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.

Management standards

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

Since the major initiative undertaken between 2008 and 2010 involving a review and improvement of the management standards and the related Internal Control procedures, these are regularly supplemented and are thus part of the continuous improvement process. The purpose of this work is both to take action in response to the findings of the Internal Audit Department and to cover the areas corresponding to the accounting and financial risks of subsidiaries. This work has made it possible to bring our approach more closely into line with the recommendations set out in the "Application Guide relating to Internal Control of accounting and financial information" of the AMF Reference Framework.

Organisation and security of information systems

Decisions with regard to the choices of software that is adapted to the Group's financial and accounting requirements are made jointly by the Economic Affairs Department and the Information Systems Division.

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

Management tools

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

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

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

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

The Audit Committee

The role and tasks of the Audit Committee are described above in paragraph 2.2.2.1. on pages 50 *et seq.* These tasks are in compliance with the French ordinance of December 2008 on the conditions of application of the 8th European Directive on statutory audits and are based on the report by the working group on the Audit Committee published by the AMF on July 22nd, 2010.

2.5.4.3. PROCESSES USED TO PREPARE ACCOUNTING AND FINANCIAL INFORMATION

Operational processes contributing to accounting figures

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

Closing of the accounts, consolidation and Management reporting information

The accounts closing process is governed by precise instructions and is based on a detailed time schedule circulated to all the subsidiaries to make sure that deadlines are met and the financial statements are prepared in a consistent manner. For the preparation of the consolidated financial statements, validation procedures apply to each stage of the process of reporting and processing information. Their purpose is to verify in particular that:

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

Financial communication

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

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

The Statutory Auditors

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

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

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

(Year ended December 31st, 2013)

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

In our capacity as Statutory Auditors of L'Oréal and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2013.
It is the Chairman's responsibility to prepare and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

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

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

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

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

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

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

Other information

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

Neuilly-sur-Seine, February 21st, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

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

(Annual General Meeting held to approve the financial statements for the year ended December 31st, 2013)

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

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

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

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

AGREEMENTS AND COMMITMENTS TO BE AUTHORIZED BY THE ANNUAL GENERAL MEETING

Agreements and commitments signed during the year

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

Agreements and commitments signed since the year-end

We have been made aware of the following agreement, which has been signed since the December 31, 2013 year-end and which received the preliminary approval of the Board of Directors on February 10, 2014.

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

On February 10, 2014, the Board of Directors of L'Oréal approved, by unanimous decision of its voting members and prior to its authorization, the purchase by L'Oréal of 48.5 million of its own shares from Nestlé, representing 8% of its share capital, as part of its share buy-back programme, and decided to immediately cancel all the shares so purchased.

The buy-back amounts to €6,037,280,000. The price per L'Oréal share retained for this transaction is the average of its closing prices between Monday November 11, 2013 and Monday February 10, 2014, namely €124.48.

This buy-back is subject to the condition precedent that Nestlé acquires all the shares held by L'Oréal in the companies of the Galderma group. This condition, stipulated for the benefit of Nestlé, may be waived by the latter. The transfer of the shares purchased and the sale of Galderma would occur concurrently.

The individuals concerned by this agreement are the members common to both the L'Oréal and Nestlé Boards of Directors, Messrs Peter Brabeck-Letmathe, Paul Bulcke and Jean-Pierre Meyers who, pursuant to the applicable legal requirements, did not participate in the vote of the Board of Directors approving the share buy-back agreement, and Mrs. Christiane Kuehne, who did not wish to take part in the vote due to her employment contract at Nestlé.

Nestlé, who owns more than 10% of the L'Oréal voting rights and has concluded the share buy-back agreement with L'Oréal, is deemed to be an interested shareholder according to the applicable law.

AGREEMENTS AND COMMITMENTS AUTHORIZED IN PRIOR YEARS BY THE ANNUAL GENERAL MEETING

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

Agreement concerning Jean-Paul Agon

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

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

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

  Mr. Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers.
- Terms and conditions relating to the suspension of Mr. Jean-Paul Agon's employment contract:
  - The reference remuneration to be used to calculate all the rights attached to the employment contract and in particular to compute the pension under the defined benefit scheme will be based on the amount of remuneration under the employment contract when it was suspended in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This reference remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1, 2014, the fixed remuneration amounts to €1,671,000 and the variable remuneration to €1,392,500;
  - The length of service applied will take into consideration his entire career, including the years during which he was Chairman and Chief Executive Officer.
- Mr. Jean-Paul Agon will maintain the status of senior manager throughout the period of his corporate office, so that he may continue to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees.

Neuilly-sur-Seine, February 21st, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

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/ *KEY FIGURES* AND COMMENTS ON THE 2013 FINANCIAL YEAR

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

2013 was another year of robust growth for L'Oréal. The Group achieved sustained sales growth and, in a market whose expansion was more moderate in 2013, accelerated its outperformance versus the market. L'Oréal is strengthening its worldwide positions across all Divisions and all geographic zones.

The Consumer Products Division, L'Oréal Luxe and the Active Cosmetics Division are maintaining a good momentum, thanks to the performances of their major brands. The Professional Products Division is gradually improving.

In terms of geographic zones, the Group's growth is well balanced: Western Europe remains very solid, North America recorded another year of growth and market share gains in a less buoyant market context, and the New Markets excluding Japan posted double-digit growth.

Lastly, profitability reached a record level in 2013, confirming the relevance of our business model. The quality of these results illustrates the Group's ability to continue to deliver sustainable and profitable growth.

3.1. THE GROUP'S BUSINESS ACTIVITIES IN 2013

3.1.1. Overview of the results for 2013

2013 sales: 22.98 billion euros (+2.3% based on reported figures, +5.0% like-for-like)

Operating profit: 3,875 billion euros, representing 16.9% of sales (+4.8%)

Net profit after non-controlling interests: +3.2%

Net earnings per share [(1)]**:** +4.4% at €5.13

Increase in dividend: +8.7% at €2.50 per share [(2)]

3.1.2. Consolidated net sales

Like-for-like, *i.e.* based on a comparable structure and identical exchange rates, the sales trend of the L'Oréal Group was +5.0%. The net impact of changes in consolidation amounted to +1.0%. Currency fluctuations had a negative impact of -3.7%. Growth at constant exchange rates was +6.0%. Based on reported figures, the Group's sales, at December 31st, 2013, amounted to 22.98 billion euros, an increase of +2.3%.

(1) Diluted net earnings per share based on net profit excluding non-recurring items attributable to the Group.
(2) Proposed at the Annual General Meeting of April 17th, 2014.

SALES BY OPERATIONAL DIVISION AND BY GEOGRAPHIC ZONE

				2012/2013 progression	
€ million	2011	2012	**2013**	Like-for-like	Reported figures
BY OPERATIONAL DIVISION					
Professional Products	2,813.8	3,002.6	2,973.8	+2.1%	-1.0%
Consumer Products	9,835.2	10,713.2	10,873.2	+4.9%	+1.5%
L'Oréal Luxe	4,800.1	5,568.1	5,865.2	+6.8%	+5.3%
Active Cosmetics	1,421.7	1,528.0	1,602.4	+7.8%	+4.9%
Cosmetics Total	**18,870.8**	**20,811.9**	**21,314.5**	**+5.2%**	**+2.4%**
BY GEOGRAPHICAL ZONE					
Western Europe	7,246.6	7,399.6	7,483.4	+1.9%	+1.1%
North America	4,406.2	5,210.7	5,356.1	+3.8%	+2.8%
New Markets, of which:	7,218.0	8.201.6	8,475.0	+9.4%	+3.3%
◆ Asia, Pacific	3,619.5	4,287.0	4,382.2	+8.4%	+2.2%
◆ Latin America	1,680.9	1,826.6	1,894.5	+11.5%	+3.7%
◆ Eastern Europe (1)	1,527.4	1,624.6	1,693.3	+8.2%	+4.2%
◆ Africa, Middle-East (1)	390.2	463.4	505.1	+14.3%	+9.0%
Cosmetics Total	**18,870.8**	**20,811.9**	**21,314.5**	**+5.2%**	**+2.4%**
◆ The Body Shop	767.6	855.3	835.8	+1.2%	-2.3%
◆ Dermatology (2)	704.7	795.5	826.3	+3.9%	+3.9%
GROUP TOTAL	**20,343.1**	**22,462.7**	**22,976.6**	**+5.0%**	**+2.3%**

(1) As of July 1st, 2013, Turkey and Israel, which were previously included in the Africa, Middle East zone, were transferred to the Eastern Europe zone. All figures for earlier periods have been restated to allow for this change.
(2) Group share, i.e. 50%.

PROFESSIONAL PRODUCTS

The Professional Products Division recorded growth of +2.1% like-for-like and -1.0% based on reported figures in a channel that was still affected by declining salon visits in the mature markets, but remains dynamic in the New Markets.

- In the very buoyant luxury haircare segment, Kérastase, the Division's number one brand in terms of growth contribution, had a very good year, thanks to "Couture Styling" and "Initialiste".

  Haircare is continuing to grow strongly, thanks to the success of the hair oils and the launch of Biolage Advanced by Matrix. Hair colourants have been driven by Hairchalk from L'Oréal Professionnel, the first-ever make-up for hair, and the ramp-up of ODS 2 technology.

  Essie continues to grow; its recent launch, Essie Gel, is a resounding success.

- In geographic terms, the Division's brands are maintaining their positions in mature markets which remain lacklustre. The Division is growing strongly across all the New Markets excluding Japan. Brazil, Russia and India were amongst the largest contributors to growth.

CONSUMER PRODUCTS

The Consumer Products Division posted growth of +4.9% like-for-like and +1.5% based on reported figures. The Division is outperforming the global market and winning market share.

- The trends of all the Division's brands were favourable, and all grew faster than the market. Growth at L'Oréal Paris is accelerating, and the brand is strengthening its worldwide leadership, thanks to a very strong performance in haircare. The brand is also growing strongly in facial skincare with Age Perfect Cell Renew and has chalked up successes in hair colourants with Préférence Wild Ombrés and in make-up with Butterfly mascara.

  Garnier recorded double-digit growth in hair colourants, thanks to Olia. The brand's growth in facial skincare is continuing with the BB creams.

  Maybelline posted strong growth in the lipstick category with the launch of Rouge Elixir and in more accessible categories such as nail varnishes and eyeliners. Softsheen.Carson is making progress thanks to the launch of Amla Legend.

- The Division had a very good year in Western Europe, where it continues to improve its leadership position. In North America, business was affected by the market slowdown and the adjustment in distributors' inventories, but sell-out increased two and a half times faster than the market. Brazil, India, Indonesia, Turkey and the Gulf states all performed very well.

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L'ORÉAL LUXE

After a strong end to the year, L'Oréal Luxe grew by +6.8% like-for-like and +5.3% based on reported figures. The Division is significantly outperforming selective market growth.

- Lancôme delivered another solid year in fragrances with La Vie est Belle, which established itself as a top seller, and in skincare its sales were highly dynamic, with the innovative Advanced Génifique and Dreamtone. Asserting its status as a major luxury brand, Giorgio Armani posted a very strong year thanks to the success of its women's fragrance Sì, already in the European top 5, and to its Armani Beauty line, which made a real breakthrough this year. Yves Saint Laurent is extending its reach in Asia, particularly in China, and has a global success on its hands with Vernis à Lèvres Rebel Nudes. Kiehl's, Clarisonic and Urban Decay are recording very strong growth on all continents. Their latest launches - respectively Super Multicorrective Cream, Pedi Sonic Foot Transformation System and the Naked 3 make-up palette - have all been big successes. As for the designer fragrance brands, Ralph Lauren is proving extremely successful in North America and Latin America with the launch of Polo Red. Viktor&Rolf continued its strong growth.
- Over the full year, L'Oréal Luxe outperformed the market in all its major zones, and in Travel Retail.

ACTIVE COSMETICS

In 2013, the Division recorded strong sales growth of +7.8% like-for-like and +4.9% based on reported figures, clearly strengthening its position as the world leader in the dermocosmetics market.

- The Vichy brand is going from strength to strength in skincare with the continuing development of its Idealia franchise (BB Cream, Life Serum) and the launch of Néovadiol Magistral. In the haircare segment, Dercos Neogenic, a treatment which redensifies the hair, is proving successful.

  La Roche-Posay posted another year of double-digit growth, with a series of successes in all regions of the world. The brand's growth is being driven by the solid roll-out of benchmark franchises prescribed by dermatologists, such as Effaclar and Lipikar, and the more recent launches of Redermic R, Substiane Serum and Iso Urea MD.

  SkinCeuticals is achieving good performances, and is continuing its rapid expansion. The brand is launching a bodycare range to be used in association with aesthetic procedures, and is thus beginning the conquest of a new segment.

- Across the regions, the Division's trends remain favourable in Western Europe, growing twice as fast as the market. The New Markets are proving highly dynamic, particularly in Brazil and China.

MULTI-DIVISION SUMMARY BY GEOGRAPHIC ZONE

Western Europe

In a context that remained difficult, particularly in Southern Europe, growth came out at +1.9% like-for-like and +1.1% based on reported figures. All the Divisions are making market share gains, particularly in France, Germany and the United Kingdom. L'Oréal Luxe sales are being driven by Lancôme, Giorgio Armani and Kiehl's, and Consumer Products Division sales by Garnier and L'Oréal Paris. The success of La Roche-Posay and Vichy is enabling the Active Cosmetics Division to reinforce its number one position.

North America

Sales advanced by +3.8% like-for-like and by +2.8% based on reported figures. In a market that was less dynamic than in 2012, the Group made market share gains. The Consumer Products Division consolidated its market leader position thanks to strong growth at L'Oréal Paris with the success of Advanced Hair Care. L'Oréal Luxe outperformed its market, thanks in particular to the very good results of its American brands Urban Decay, Clarisonic and Kiehl's. In the Professional Products Division, the launches of Diamond Oil by Redken and Essie Gel are very promising.

New Markets

- **Asia, Pacific**: L'Oréal recorded annual growth of +8.4% like-for-like and +2.2% based on reported figures. Excluding Japan, like-for-like growth reached +9.5%. Except for South Korea, the markets remain dynamic, despite slower growth in China and India. Market share is increasing in this zone, reflecting in particular the good performance of L'Oréal Paris in China in the facial skincare and haircare categories, and of Garnier in the same categories in South-East Asia. L'Oréal is also performing very well in luxury products, thanks to the strong growth of Lancôme and Kiehl's and the roll-out of Yves Saint Laurent and Clarisonic.
- **Latin America:** L'Oréal recorded growth of +11.5% like-for-like and +3.7% based on reported figures. The Consumer Products Division is driven by Bi-O deodorants by Garnier, Maybelline make-up, the success of the BB creams at L'Oréal Paris and haircare, with the renewal of Elvive and Fructis. The Active Cosmetics Division very clearly outperformed its market. In Brazil, all the Divisions made market share gains.
- **Eastern Europe**: Sales increased by +8.2% like-for-like and +4.2% based on reported figures, significantly outperforming the market trend. The Consumer Products Division is winning market share once again, thanks to Olia hair colourants by Garnier and Dermo-Expertise skincare with Revitalift Laser. The Professional Products Division and L'Oréal Luxe made market share gains. The Active Cosmetics Division is growing faster than the market in Russia, thanks to the dynamic sales of La Roche-Posay.
- **Africa, Middle East:** Sales increased by +14.3% like-for-like and +9.0% based on reported figures, reflecting the good performances of the new subsidiary in Saudi Arabia, strong growth in the Gulf states, Egypt and Pakistan and the recent acquisition of Interbeauty in Kenya. All the Divisions recorded

double-digit growth in 2013. Performances were particularly encouraging for Lancôme, Giorgio Armani, Kérastase, Garnier, Maybelline and Vichy, all of which posted growth significantly higher than the market.

THE BODY SHOP SALES

The Body Shop recorded +1.2% like-for-like sales and -2.3% based on reported figures. The strategic body, skincare and makeup categories grew driven by iconic ranges and innovations such as Honeymania bodycare with organic Community Fair Trade honey from Ethiopia.

The Body Shop secured a good Christmas trading around its "Give Joy" programme.

The Body Shop multi-channel strategy delivered sustained growth in e-commerce, particularly in the United Kingdom and in the United States.

Geographically, the main markets which contributed to the brand's development were South Asia and Northern Europe.

GALDERMA SALES

Galderma sales increased by +3.9% like-for-like and +3.9% based on reported figures, confirming the success of its innovative medical solutions in its three fields of activity.

In the prescription drug market, where competition from generics is having an impact on the performance of Galderma in Europe and the United States, Epiduo posted strong growth, confirming its position as the world's number one prescription product in the topical acne treatment market. Mirvaso, a major innovation in the treatment of rosacea-associated erythema, was successfully launched in the United States. The portfolio of self-medication products continues to grow strongly, thanks in particular to Cetaphil and Loceryl. The good performances of the aesthetic and corrective medical solutions are being driven by the strong growth of Azzalure and the growth of Restylane.

The particularly solid growth recorded in the New Markets, notably in Asia, Pacific, Russia and Latin America, is bolstering the global expansion of Galderma.

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3.1.3. *Results*

OPERATING PROFITABILITY AND CONSOLIDATED INCOME STATEMENT

	2011		2012		2013	
	€ millions	% 2011 sales	€ millions	% 2012 sales	€ millions	% 2013 sales
Sales	**20,343**	**100%**	**22,463**	**100%**	**22,977**	**100%**
Cost of sales	-5,851	28.8%	-6,588	29.3%	-6,602	28.7%
Gross profit	**14,492**	**71.2%**	**15,875**	**70.7%**	**16,375**	**71.3%**
Research and development expenses	-720	3.5%	-791	3.5%	-857	3.7%
Advertising and promotion expenses	-6,292	30.9%	-6,776	30.2%	6,886	30.0%
Selling, general and administrative expenses	-4,187	20.6%	-4,611	20.5%	4,757	20.7%
OPERATING PROFIT	**3,293**	**16.2%**	**3,697**	**16.5%**	**3,875**	**16.9%**

Gross profit, at 16,375 million euros, came out at 71.3% of sales, compared with 70.7% in 2012, that is an improvement of 60 basis points. This improved figure reflects on the one hand the positive effects of improvements in the production costs of products and in the product mix effect, as well as currency fluctuations, and on the other hand, the negative impact of the consolidation of the American companies Urban Decay and Emiliani.

Research expenses increased strongly at +8.4% and thus increased as a percentage of sales from 3.5% to 3.7%.

Advertising and promotion expenses came out at 30% of sales, almost identical to the 2012 level. Excluding acquisitions, expenses remained stable as a percentage of sales.

Selling, general and administrative expenses, at 20.7% of sales, came out slightly higher, by 20 basis points, than in 2012.

Overall, **operating profit** at 3,875 million euros, increased by 4.8% at 16.9% of sales. On a constant exchange rate basis, operating growth would have been +7.8%.

OPERATING PROFIT BY BRANCH AND BY DIVISION

	2011		2012		2013	
	€ millions	% 2011 sales	€ millions	% 2012 sales	€ millions	% 2013 sales
By Operational Division						
Professional Products	579	20.6%	615	20.5%	610	20.5%
Consumer Products	1,859	18.9%	2,051	19.1%	2,167	19.9%
L'Oréal Luxe	926	19.3%	1,077	19.3%	1,174	20.0%
Active Cosmetics	287	20.2%	311	20.4%	340	21.2%
Cosmetics Divisions total	**3,651**	**19.3%**	**4,054**	**19.5%**	**4,291**	**20.1%**
Non-allocated (1)	-546	-2.9%	-577	-2.8%	-605	-2.8%
Cosmetics branch total	**3,105**	**16.5%**	**3,477**	**16.7%**	**3,686**	**17.3%**
The Body Shop	68	8.9%	77	9.1%	72	8.6%
Dermatology branch (2)	120	17.0%	143	17.9%	117	14.1%
GROUP	**3,293**	**16.2%**	**3,697**	**16.5%**	**3,875**	**16.9%**

(1) Non-allocated = Central group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. As a % of cosmetics sales.
(2) Group share, i.e. 50%.

The profitability of the Professional Products Division at 20.5% is in line with previous years. The profitability of the Consumer Products Division, at 19.9%, improved by 80 basis points. The profitability of L'Oréal Luxe grew by 70 basis points. Active Cosmetics once again improved its profitability, which amounted to 21.2%.

The profitability of The Body Shop declined by 50 basis points in 2013 to 8.6%.

Finally, the profitability of Galderma, at 14.1%, reflects the impact of a difficult year in the United States.

PROFITABILITY BY GEOGRAPHIC ZONE

	2011		2012		2013	
Operating profit	€ millions	% 2011 sales	€ millions	% 2012 sales	€ millions	% 2013 sales
Western Europe	1,513	20.9%	1,576	21.3%	1,659	22.2%
North America	810	18.4%	960	18.4%	1,003	18.7%
New Markets	1,328	18.4%	1,518	18.5%	1,629	19.2%
COSMETICS ZONES TOTAL (1)	**3,651**	**19.3%**	**4,054**	**19.5%**	**4,291**	**20.1%**

(1) Before non-allocated.

Profitability in Western Europe improved by 90 basis points at 22.2%. Profitability in North America increased by 30 basis points at 18.7%.

Profitability in the New Markets increased by 70 basis points at 19.2%.

NET EARNINGS PER SHARE (1): €5.13

€ millions	2011	2012	2013
Operating profit	**3,293**	**3,697**	**3,875**
Finance Costs excluding dividends received	-25	-11	-43
Sanofi dividends	295	313	328
Pre-tax profit excluding non-recurring items	**3,563**	**4,000**	**4,160**
Income tax excluding non-recurring items	-978	-1,025	-1,039
Non-controlling interests	-2.5	-2.7	-3.2
Net profit excluding non-recurring items after non-controlling interests (2)	**2,583**	**2,972**	**3,117**
EPS (1) *(€)*	4.32	4.91	5.13
Diluted average number of shares	**597,633,103**	**605,305,458**	**608,001,407**

(1) Diluted net earnings per share excluding non-recurring items after non-controlling interests.
(2) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational income and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the Consolidated Financial Statements on pages 127 to 129.

Total finance costs amounted to 43 million euros.

Dividends from Sanofi amounted to 328 million euros.

Income tax excluding non-recurring items amounted to 1,039 million euros, representing a rate of 25%, slightly below the 2012 rate of 25.6%.

Net profit excluding non-recurring items after non-controlling interests amounted to 3,117 million euros.

Net earnings per share, at 5.13 euros, increased by 4.4%.

NET PROFIT AFTER NON-CONTROLLING INTERESTS: €2,958 MILLION

€ millions	2011	2012	**2013**	Evolution 2012/2013
Net profit excluding non-recurring items after non-controlling interests	2,583	2,972	3,117	
Non-recurring items net of tax	-145	-104	-159	
Net profit after non-controlling interests	**2,438**	**2,868**	**2,958**	**+3.2%**
Diluted earnings per share *(€)*	4.08	4.74	4.87	

After allowing for non-recurring items, representing in 2013 a charge, net of tax, of 159 million euros, **net profit after non-controlling interests** amounted to 2,958 million euros, an increase of 3.2%.

CASH FLOW STATEMENT, BALANCE SHEET AND NET FINANCIAL SITUATION

Gross cash flow amounted to 3,906 million euros, an increase of 6.7%.

The **working capital requirement** increased, in 2013, by 156 million euros.

Inventories increased slightly as a percentage of sales, rising from 9.1% at end-2012 to 9.4% at end-2013. **Trade accounts receivable** declined slightly, from 14.3% of sales at end-2012 to 14.2% at end-2013.

Investments, at 1,060 million euros, amounted to 4.6% of sales, slightly up on 2012, when they amounted to 4.3% of sales.

As a result, **operating cash flow**, at 2,690 million euros, increased by 4.4%.

After dividend payment and acquisitions (primarily Vogue, InterConsumer Products, Emporio Body Store and Spirig), the Group recorded, at December 31st, 2013, a net cash surplus of 2,215 million euros, compared with 1,575 million euros at end-2012.

The balance sheet is very solid. The reinforcement of shareholders' equity compared with end-2012 is mainly the result of profit allocated to reserves and the net increase in value of the Sanofi shares, valued at market price.

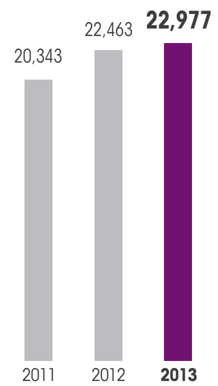
PROPOSED DIVIDEND AT THE ANNUAL GENERAL MEETING OF APRIL 17th, 2014

The Board of Directors has decided to propose to the Annual General Meeting of April 17th, 2014 the payment of a dividend of €2.50 per share, an increase of +8.7% compared with 2013. This dividend will be paid on May 5th, 2014 (ex-dividend date: April 29th, 2014 at 0:00 a.m., Paris time).

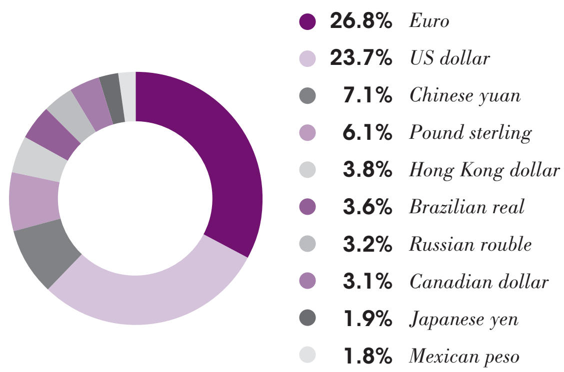
3.2. FINANCIAL HIGHLIGHTS

3.2.1. 2013: further strengthening of worldwide positions and record operating margin

CONSOLIDATED SALES
(€ million)



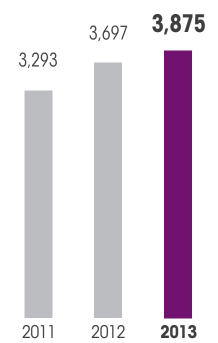
2013 CONSOLIDATED SALES BY CURRENCY (1)
(as %)



CONSOLIDATED SALES BY BRANCH (2)

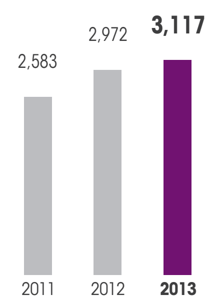
(€ millions)	2011	2012	**2013**
Cosmetics	18,871	20,812	21,315
The Body Shop	767	855	836
Dermatology (3)	705	796	826

OPERATING PROFIT
(€ millions)



PRE-TAX PROFIT EXCLUDING NON-RECURRING ITEMS (4)
(€ millions)

NET PROFIT EXCLUDING NON-RECURRING ITEMS AFTER NON-CONTROLLING INTERESTS (4)
(€ millions)



(1) Breakdown of consolidated sales in the main currencies in 2013, i.e. 81.1% of consolidated sales.
(2) The Group's business is composed of the Cosmetics, The Body Shop and dermatology branches.
(3) Group share, i.e. 50%.
(4) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the 2012 Consolidated Financial Statement on pages 127 to 129.

2013 CONSOLIDATED SALES OF THE COSMETICS BRANCH

BY DIVISION

- **51%** *Consumer Products*
- **7.5%** *Active Cosmetics*
- **27.5%** *L'Oréal Luxe*
- **14%** *Professional Products*

BY BUSINESS SEGMENT

- **29.7%** *Skincare*
- **21.7%** *Make-up*
- **20.7%** *Haircare*
- **13.8%** *Hair Colourants*
- **9.5%** *Perfumes*
- **4.6%** *Other*(1)

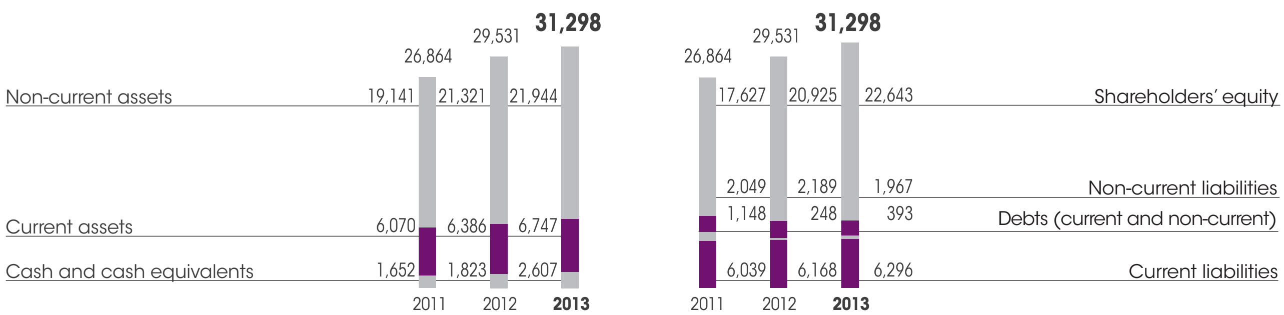
BY GEOGRAPHIC ZONE

- **35.1%** *Western Europe*
- **25.1%** *North America*
- **39.8%** *New Markets*

Of which: **20.6%** *Asia, Pacific*
8.9% *Latin America*
7.9% *Eastern Europe*
2.4% *Africa, Middle East*

A SOLID BALANCE SHEET (2)

(€ millions)



NET DEBT

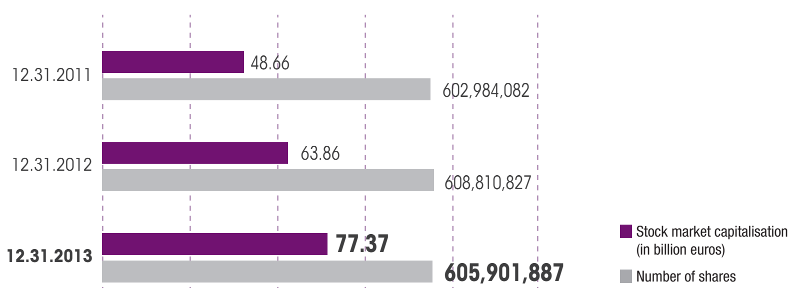
	12.31.2011	12.31.2012	**12.31.2013**
Net cash flow (3) *(€ millions)*	504	1,575	2,215 (4)
Net financial debt/Equity	-2.9%	-7.5%	-9.8%

SHORT-TERM RATINGS

A-1+	STANDARD & POOR'S	JUNE 2013
PRIME 1	Moody's	JUNE 2013
F1+	Fitch Ratings	AUGUST 2013

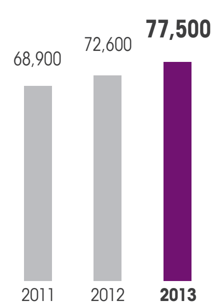
STOCK MARKET CAPITALISATION

(in billion euros)



WORKFORCE

(workforce at December, 31st)



(1) *"Other" includes hygiene products, sales made by American distributors with brands outside of the Group.*
(2) *The balance sheets at 12.31.2011 and 12.31.2012 have been restated to allow for the change in accounting method relating to revised IAS 19.*
(3) *Net cash flow = cash and cash equivalents - current and non-current debt.*
(4) *Net cash surplus is of +2,215 million euros.*

3.2.2. *2013 consolidated results*

SALES AND OPERATING PROFIT BY BRANCH (1)

Consolidated sales

€ millions	2011	2012	2013	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Cosmetics	18,871	20,812	21,315	+5.2%	+2.4%
The Body Shop	767	855	836	+1.2%	-2.3%
Dermatology (2)	705	796	826	+3.9%	+3.9%
GROUP TOTAL	**20,343**	**22,463**	**22,977**	**+5.0%**	**+2.3%**

Operating profit

€ millions	2011	2012	2013	2013 weight	Evolution based on reported sales	% of sales
Cosmetics	3,105	3,477	3,686	95.1%	+6.0%	17.3%
The Body Shop	68	77	72	1.9%	-6.5%	8.6%
Dermatology (2)	120	143	117	3.0%	-18.2%	14.1%
GROUP TOTAL	**3,293**	**3,697**	**3,875**	**100%**	**+4.8%**	**16.9%**

SALES AND OPERATING PROFIT OF THE COSMETICS BRANCH BY DIVISION

Consolidated sales

€ millions	2011	2012	2013	2013 weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Professional Products	2,814	3,003	2,974	14.0%	+2.1%	-1.0%
Consumer Products	9,835	10,713	10,873	51.0%	+4.9%	+1.5%
L'Oréal Luxe	4,800	5,568	5,865	27.5%	+6.8%	+5.3%
Active Cosmetics	1,422	1,528	1,603	7.5%	+7.8%	+4.9%
TOTAL COSMETICS SALES	**18,871**	**20,812**	**21,315**	**100%**	**+5.2%**	**+2.4%**

Operating profit

	2011		2012		2013	
	€ millions	% 2011 sales	€ millions	% 2012 sales	€ millions	% 2013 sales
Professional Products	579	20.6%	615	20.5%	610	20.5%
Consumer Products	1,859	18.9%	2,051	19.1%	2,167	19.9%
L'Oréal Luxe	926	19.3%	1,077	19.3%	1,174	20.0%
Consumer Products	287	20.2%	311	20.4%	340	21.2%
TOTAL COSMETICS DIVISION	**3,651**	**19.3%**	**4,054**	**19.5%**	**4,291**	**20.1%**
Non-allocated (3)	-546	-2.9%	-577	-2.8%	-605	-2.8%
TOTAL COSMETICS SALES	**3,105**	**16.5%**	**3,477**	**16.7%**	**3,686**	**17.3%**

(1) The Group's business is composed of the Cosmetics, The Body Shop and dermatology branches.

(2) Group share, i.e. 50%.

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

SALES AND OPERATING PROFIT OF THE COSMETICS BRANCH BY GEOGRAPHIC ZONE

Consolidated sales

				2012/2013 Evolution	
€ millions	2011	2012	**2013**	Like-for-like	Reported figures
Western Europe	7,247	7,400	7,484	+1.9%	+1.1%
North America	4,406	5,211	5,356	+3.8%	+2.8%
New Markets, of which:	7,218	8,202	8,475	+9.4%	+3.3%
◆ Asia, Pacific	3,619	4,287	4,382	+8.4%	+2.2%
◆ Latin America	1,681	1,827	1,895	+11.5%	+3.7%
◆ Eastern Europe	1,527	1,625	1,693	+8.2%	+4.2%
◆ Africa, Middle East	390	463	505	+14.3%	+9.0%
TOTAL COSMETICS SALES	**18,871**	**20,812**	**21,315**	**+5.2%**	**+2.4%**

Operating profit

	2011		2012		**2013**	
	€ millions	% 2011 sales	€ millions	% 2012 sales	€ millions	% 2013 sales
Western Europe	1,513	20.9%	1,576	21.3%	1,659	22.2%
North America	810	18.4%	960	18.4%	1,003	18.7%
New Markets	1,328	18.4%	1,518	18.5%	1,629	19.2%
TOTAL GEOGRAPHIC ZONES	**3,651**	**19.3%**	**4,054**	**19.5%**	**4,291**	**20.1%**
Non-allocated (1)	-546	-2.9%	-577	-2.8%	-605	-2.8%
TOTAL COSMETICS SALES	**3,105**	**16.5%**	**3,477**	**16.7%**	**3,686**	**17.3%**

SALES OF THE COSMETICS BRANCH BY BUSINESS SEGMENT

Consolidated sales

				2012/2013 Evolution	
€ millions	2011	2012	**2013**	Like-for-like	Reported figures
Skincare	5,257	6,052	6,329	+7.5%	+4.6%
Make-up	4,029	4,468	4,616	+4.5%	+3.3%
Haircare	4,057	4,371	4,422	+5.4%	+1.2%
Hair colourants	2,760	2,943	2,931	+3.7%	-0.4%
Perfumes	1,840	2,010	2,029	+3.6%	+0.9%
Other (2)	928	968	987	+1.4%	+2.0%
TOTAL COSMETICS SALES	**18,871**	**20,812**	**21,315**	**+5.2%**	**+2.4%**

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

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

3.2.3. *Consolidated sales by geographic zone and by business segment*

PROFESSIONAL PRODUCTS DIVISION

Sales by geographic zone

					2012/2013 Evolution	
€ millions	2011	2012	**2013**	2013 Weight	Like-for-like	Reported figures
Western Europe	977.6	981.6	965.3	32.5%	-0.8%	-1.7%
North America	1,018.6	1,101.5	1,098.5	36.9%	+0.0%	-0.3%
New Markets	817.6	919.5	910.0	30.6%	+8.4%	-1.0%
TOTAL	**2,813.8**	**3,002.6**	**2,973.8**	**100%**	**+2.1%**	**-1.0%**

Sales by business segment

					2012/2013 Evolution	
€ millions	2011	2012	**2013**	2013 Weight	Like-for-like	Reported figures
Hair colourants	995.8	1,048.3	1,035.7	34.8%	+2.2%	-1.2%
Styling and textures	322.8	317.3	304.3	10.2%	+1.2%	-4.1%
Shampoos and haircare	1,495.2	1,637.0	1,633.9	55.0%	+2.3%	-0.2%
TOTAL	**2,813.8**	**3,002.6**	**2,973.8**	**100%**	**+2.1%**	**-1.0%**

CONSUMER PRODUCTS DIVISION

Sales by geographic zone

					2012/2013 Evolution	
€ millions	2011	2012	**2013**	2013 Weight	Like-for-like	Reported figures
Western Europe	3,686.2	3,783.0	3,846.1	35.4%	+2.5%	+1.7%
North America	2,191.9	2,555.7	2,534.7	23.3%	+2.8%	-0.8%
New Markets	3,957.1	4,374.5	4,492.4	41.3%	+8.4%	+2.7%
TOTAL	**9,835.2**	**10,713.2**	**10,873.2**	**100%**	**+4.9%**	**+1.5%**

Sales by business segment

					2012/2013 Evolution	
€ millions	2011	2012	**2013**	2013 Weight	Like-for-like	Reported figures
Hair colourants	1,764.1	1,894.6	1,895.3	17.4%	+4.6%	+0.0%
Haircare and styling	2,455.4	2,650.8	2,712.9	25.0%	+5.9%	+2.3%
Make-up	2,882.3	3,189.8	3,215.5	29.6%	+4.0%	+0.8%
Skincare	2,266.7	2,487.8	2,534.7	23.3%	+5.1%	+1.9%
Other	466.7	490.2	514.8	4.7%	+5.4%	+5.0%
TOTAL	**9,835.2**	**10,713.2**	**10,873.2**	**100%**	**+4.9%**	**+1.5%**

3

L'ORÉAL LUXE

Sales by geographic zone

€ millions	2011	2012	2013	2013 Weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Western Europe	1,836.2	1,872.4	1,870.8	31.9%	+0.6%	-0.1%
North America	1,064.8	1,393.0	1,560.0	26.6%	+8.1%	+12.0%
New Markets	1,899.1	2,302.7	2,434.4	41.5%	+11.2%	+5.7%
TOTAL	**4,800.1**	**5,568.1**	**5,865.2**	**100%**	**+6.8%**	**+5.3%**

Sales by business segment

€ millions	2011	2012	2013	2013 Weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Skincare	1,991.8	2,481.1	2,647.6	45.1%	+10.1%	+6.7%
Perfumes	1,754.5	1,928.3	1,945.9	33.2%	+3.7%	+0.9%
Make-up	1,053.8	1,158.7	1,271.7	21.7%	+4.9%	+9.7%
TOTAL	**4,800.1**	**5,568.1**	**5,865.2**	**100%**	**+6.8%**	**+5.3%**

ACTIVE COSMETICS DIVISION

Sales by geographic zone

€ millions	2011	2012	2013	2013 Weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Western Europe	746.6	762.5	801.2	50.0%	+5.4%	+5.1%
North America	130.9	160.6	162.9	10.2%	+5.9%	+1.4%
New Markets	544.2	604.9	638.3	39.8%	+11.4%	+5.5%
TOTAL	**1,421.7**	**1,528.0**	**1,602.4**	**100%**	**+7.8%**	**+4.9%**

Sales by business segment

€ millions	2011	2012	2013	2013 Weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Skincare	1,092.8	1,181.7	1,240.2	77.4%	+7.0%	+5.0%
Haircare	102.3	108.8	108.6	6.8%	+20.1%	-0.1%
Make-up	90.8	92.7	97.0	6.1%	+7.1%	+4.7%
Other	135.8	144.8	156.5	9.8%	+6.4%	+8.1%
TOTAL	**1,421.7**	**1,528.0**	**1,602.4**	**100%**	**+7.8%**	**+4.9%**

THE BODY SHOP

Retail sales [(1)]

€ millions	2011	2012	2013	2013 Weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Western Europe	518.9	548.1	535.8	38.3%	+0.0%	-2.2%
North America	175.5	184.8	173.2	12.4%	-2.0%	-6.3%
New Markets	649.9	737.6	689.6	49.3%	+1.1%	-6.5%
TOTAL	**1,344.3**	**1,470.5**	**1,398.6**	**100%**	**+0.3%**	**-4.9%**

Sales

€ millions	2011	2012	2013	2012/2013 Evolution Like-for-like
Retail sales [(1)]	1,344.3	1,470.5	1,398.6	+0.3%
Retail sales with a comparable store base [(2)]	1,207.3	1,316.2	1,250.2	-0.7%
CONSOLIDATED SALES	**767.6**	**855.3**	**835.8**	**+1.2%**

Number of stores

	12.31.2012	12.31.2013	Variation in 2013
Company owned stores	1,111	1,112	+1
Franchisees	1,726	1,807	+81
TOTAL NUMBER OF STORES	**2,837**	**2,919**	**+82**

GALDERMA (100% OF SALES)

€ millions	2011	2012	2013	2013 Weight	2012/2013 Evolution Like-for-like	2012/2013 Evolution Reported figures
Western Europe	376.4	397.4	479.6	29.0%	+4.7%	+20.7%
North America	698.9	740.2	657.0	39.8%	-8.2%	-11.2%
New Markets	334.2	453.4	516.0	31.2%	+23.9%	+13.8%
TOTAL	**1,409.5**	**1,591**	**1,652.6**	**100%**	**+3.9%**	**+3.9%**

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

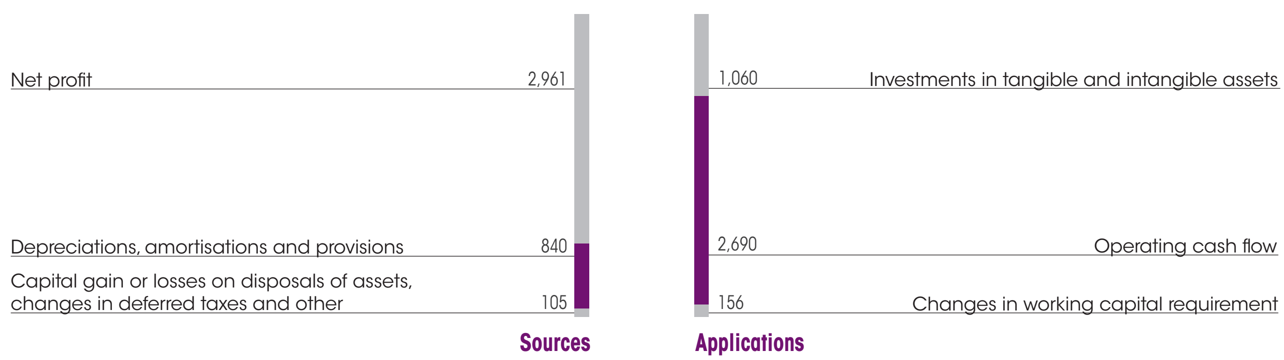
(2) *Total consumer sales made by stores and e-commerce websites that were continuously present between January 1st and December 31st, 2013 and the same stores and websites present in 2011 and 2012, and for the same periods for 2011 and 2012, including franchisees.*

3.2.4. *Simplified consolidated income statements*

€ millions	12.31.2011	12.31.2012	**12.31.2013**	% 2013 sales
Sales	**20,343.1**	**22,462.7**	**22,976.6**	**100.0%**
Gross profit	**14,491.6**	**15,875.0**	**16,374.8**	**71.3%**
Research and development	-720.5	-790.5	-857.0	3.7%
Advertising and promotion	-6,291.6	-6,776.3	-6,886.2	30.0%
Selling, general and administrative expenses	-4,186.9	-4,610.9	-4,756.8	20.7%
Operating profit	**3,292.6**	**3,697.3**	**3,874.8**	**16.9%**
Operational profit	**3,196.3**	**3,573.5**	**3,739.6**	
Finance costs excluding dividends received	-25.2	-11.0	-42.7	
Sanofi dividends	295.6	313.4	327.5	
Income tax	-1,025.8	-1,005.5	-1,063.0	
Non-controlling interests	-2.5	-2.7	-3.2	
Net profit attributable to owners of the Company	**2,438.4**	**2,867.7**	**2,958.2**	**12.9%**
Non-recurring items (expense + / income -)	+144.5	+104	+159.2	
Net profit excluding non-recurring items after non-controlling interests*	**2,582.9**	**2,971.7**	**3,117.5**	**13.6%**
Diluted earnings per share attributable to owners of the Company *(euros)*	4.08	4.74	4.87	
Diluted earnings per share attributable to owners of the Company excluding non-recurring items *(euros)*	4.32	4.91	5.13	

* *Net profit excluding non-recurring items after non-controlling interests does not include impairment of assets, restructuring costs, tax effects or non-controlling interests.*

3.2.5. *Sources and applications of funds* *(€ millions)*



Gross cash flow: **3,906**

3.2.6. *Financial ratios*

	2011	2012	**2013**
(% of sales) Operating profit/Sales	16.2%	16.5%	16.9%
(% of shareholders' equity) Net profit excluding non-recurring items after non-controlling interests/ Opening shareholders' equity	17.4%	16.9%	14.9%
(% of shareholders' equity) Net gearing [1]	-2.9%	-7.5%	- 9.8%
Gross cash flow/Investments	3.7x	3.8x	3.7x

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

3.2.7. L'Oréal 2007-2013

€ millions	2007 (1)	2008 (1)	2009	2010	2011 (6)	2012 (6)	**2013**
Results							
Consolidated sales	17,063	17,542	17,473	19,496	20,343	22,463	22,977
Operating profit	2,827	2,725	2,578	3,057	3,293	3,697	3,875
As a percentage of consolidated sales	16.6%	15.5%	14.8%	15.7%	16.2%	16.5%	16.9%
Profit before tax and non-controlling interests	2,896	2,788	2,749	3,305	3,563	4,000	4,160
Net profit excluding non-recurring items after non-controlling interests	2,039	2,064	1,997	2,371	2,583	2,972	3,117
Net profit attributable to owners of the Company	2,656	1,948	1,792	2,240	2,438	2,868	2,958
Total dividend	843	862	899	1,082	1,212	1,397	1,523
Balance Sheet							
Non-current assets	17,030	16,380	17,350	17,048	19,141	21,321	21,944
Current assets excl. cash and cash equivalents	5,015	5,450	4,768	5,446	6,070	6,386	6,747
Cash and cash equivalents	1,087	1,077	1,173	1,550	1,652	1,823	2,607
Equity (2)	13,463	11,563	13,598	14,866	17,627	20,926	22,643
Net current and non-current debt (3)	2,373	3,700	1,958	41	-504	-1,575	-2,215
Gross cash flow	2,720	2,746	2,758	3,171	3,226	3,661	3,906
Per share data *(€)*							
Diluted earnings per share attributable to owners of the Company excluding non-recurring items	3.36	3.49	3.42	4.01	4.32	4.91	5.13
Dividend	1.38	1.44	1.50	1.80	2.00	2.30	2.50 (5)
Share price at December 31st (4)	97.98	62.30	78.00	83.08	80.70	104.90	127.70
Highest share price during the year (4)	99.97	99.26	79.32	88.00	91.24	106.40	137.85
Lowest share price during the year (4)	74.25	53.32	46.00	70.90	68.83	79.22	103.65
Diluted weighted average number of shares outstanding (4)	606,012,471	590,920,078	583,797,566	591,392,449	597,633,103	605,305,458	608,001,407

(1) The 2007 and 2008 balance sheets have been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programs and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits.
(2) Plus non-controlling interests.
(3) The net cash surplus is 1,575 million euros in 2012 and 2,215 million euros in 2013.
(4) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was first listed in 1963. The share capital is €121,180,377.40 at December 31st, 2013; the par value of one share is €0.2.
(5) Dividend proposed to the Annual General Meeting of April 17th, 2014.
(6) The 2011 and 2012 balance sheets have been restated to allow for the change in accounting method relating to revised IAS 19. See chapter 4, note 1 Consolidated Financial Statements on page 112.

3.3. SIGNIFICANT, RECENT EVENTS AND PROSPECTS

3.3.1. Significant events of 2013

- On January 10th, 2013 L'Oréal inaugurated its new R&I Centre in India, in Mumbai and Bangalore.
- On January 31st, 2013 L'Oréal finalised the acquisition of the Vogue group in Colombia.
- On February 11th, 2013 the Board of Directors decided on the implementation of a share buyback programme for 500 million euros during the 1st half of 2013.
- On February 27th, 2013 Galderma finalised the acquisition of Spirig Pharma A.G. in Switzerland.
- On April 15th, 2013, L'Oréal announced the acquisition of the Health & Beauty business of Interconsumer Products Limited (ICP) in Kenya.
- On April 26th, 2013, the Annual General Meeting of L'Oréal shareholders approved the appointment as Director of Ms. Virginie Morgon and renewed the tenures as Director of Ms. Françoise Bettencourt Meyers, Mr. Peter Brabeck-Letmathe and Mr. Louis Schweitzer.

- On May 17th, 2013, L'Oréal announced several appointments within its Executive Committee: Marc Menesguen was appointed as President of the Consumer Products Division, Nicolas Hieronimus was appointed as President of the Selective Divisions (Luxe, Professional Products, Active Cosmetics, The Body Shop). Frédéric Rozé was appointed Executive Vice-President for the Americas Zone, which includes North and Latin America. Alexandre Popoff was appointed as Executive Vice-President for the Eastern Europe Zone. Jochen Zaumseil was appointed as Executive Vice-President for the Western Europe Zone. Finally, Alexis Perakis-Valat was appointed as Executive Vice-President for the Asia, Pacific Zone. These appointments were effective as of June 1st, 2013.
- On August 15th, 2013, L'Oréal announced its intention to acquire all the shares of Magic Holdings International Limited, a Chinese company, listed on the Hong Kong Stock Exchange, specialised in cosmetic facial masks.
- On September 20th, 2013, L'Oréal India announced the acquisition of Cheryl's Cosmeceuticals, a company based in Mumbai, specialising in professional skin care products and treatments in beauty salons.
- On October 15th, 2013 L'Oréal announced the acquisition by The Body Shop of a majority stake in Emporio Body Store in Brazil, with the option of increasing its shareholding to 80% by 2019. Following approval by the Brazilian anti-trust authority CADE, the acquisition was completed on December 12th.
- On October 17th, 2013, L'Oréal announced that it had been granted exclusive negotiation rights by Shiseido for the acquisition of the Decléor and Carita brands.
- On November 19th, 2013, Beauté Créateurs, a subsidiary that distributes brands specific to the mail order business, announced its intention to cease its mail order activity during the first half of 2014.
- On November 21st, 2013, L'Oréal announced that it was creating a Group Travel Retail Division encompassing all the brands sold in the Travel Retail channel, which posts particularly dynamic growth.
- On November 29th, 2013, the Board of Directors meeting chaired by Mr Jean-Paul Agon decided to buy back L'Oréal shares for a maximum amount of 500 million euros between November 30th and the end of the first quarter of 2014.

3.3.2. *Significant events that have occurred since the beginning of 2014*

3.3.2.1. PLANNED ACQUISITION OF MAGIC HOLDINGS

Following the proposal made by L'Oréal announced on August 15th, 2013 to acquire all the shares of Magic Holdings, International Ltd, a company listed on the Hong Kong Stock Exchange, the Ministry of Commerce of the People's Republic of China (MOFCOM) authorised the transaction in an announcement dated January 9th, 2014. See also note 26.3 in chapter 4 on page 155 (Consolidated Financial Statements).

3.3.2.2. STRATEGIC TRANSACTION APPROVED BY BOARDS OF NESTLÉ AND L'ORÉAL

Paris and Vevey, February 11th, 2014 — Nestlé and L'Oréal announced today that their respective Boards of Directors, in meetings held on February 10th, 2014, have approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal will buy 48.5 million of its own shares (8% of its share capital) from Nestlé. This buyback will be financed:

- Partially through the disposal by L'Oréal to Nestlé of its 50% stake in Swiss dermatology pharmaceuticals company Galderma (a 50/50 joint venture between L'Oréal and Nestlé) for an enterprise value of 3.1 billion euros (2.6 billion euros of equity value), paid by Nestlé in L'Oréal shares (21.2 million shares);
- For the remainder, corresponding to 27.3 million L'Oréal shares held by Nestlé, in cash for an amount of 3.4 billion euros.

The price per L'Oréal share retained for this transaction is the average of its closing prices between Monday November 11th, 2013 and Monday February 10th, 2014: 124.48 euros.

All the shares bought back by L'Oréal will be cancelled. Following the transaction, Nestlé's stake in L'Oréal will be reduced from 29.4% to 23.29% of the share capital and the Bettencourt Meyers family's stake in L'Oréal will increase from 30.6% to 33.31%. In order to reflect the change of Nestlé's stake in L'Oréal's governance, the number of Nestlé representatives on L'Oréal's Board of Directors will be adjusted from 3 to 2 Directors, and the ownership ceiling provisions of the shareholders' agreement between Nestlé and the Bettencourt Meyers family will apply to their respective new holdings.

The transaction will be accretive by more than 5% on L'Oréal's recurring earnings per share on a full year basis. The buyback will be exclusively financed with L'Oréal's available cash and through the issuance of commercial paper. It will not require the disposal of Sanofi shares held by L'Oréal.

The transaction is subject to customary conditions, including the prior consultation of Galderma's and L'Oréal's works councils and the clearance of relevant antitrust authorities. It is expected to close before the end of the first semester of 2014.

Mr. Peter Brabeck-Letmathe, Chairman of Nestlé, said:

"With this proposed acquisition of 50% of Galderma, Nestlé will pursue its strategic development in Nutrition, Health, and Wellness, by expanding its activities to medical skin treatments.

In this respect, Nestlé will create a new centre of activities in this area, through a new entity: Nestlé Skin Health SA. Galderma will be the foundation of this entity which will be run by Galderma's management.

As a wholly owned subsidiary of Nestlé, Galderma will have all the required means for its development which will benefit to the Company, its employees as well as all other stakeholders.

Following the decrease of its stake in L'Oréal, Nestlé will continue to support the development of L'Oréal as in the past 40 years.

In this context, Nestlé will continue to act in concert with the Bettencourt Meyers family and the existing agreements, adapted to the new situation, will remain in place".

Mr. Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal, said:

"This transaction represents a very positive strategic move for L'Oréal, its employees and its shareholders.

L'Oréal will focus exclusively on its Cosmetics business and its "Beauty for all" mission, its universalisation strategy and its ambition to win one billion new consumers.

L'Oréal will indeed benefit from a very significant and reinforced presence from the founding Bettencourt Meyers family, who will continue to fully support the Company as it always did in the past.

L'Oréal will also continue to benefit from the support of Nestlé, which has always been a loyal and constructive shareholder.

Lastly, all of L'Oréal's shareholders will benefit from this transaction with an accretive impact on the Company's earnings, resulting from the buyback and subsequent cancellation of L'Oréal shares held by Nestlé".

3.3.2.3. PLANNED ACQUISITION OF DECLÉOR AND CARITA

On February 20th, 2014, L'Oréal and Shiseido have finalised the contracts for the acquisition by L'Oréal of Decléor and Carita.

Closing will be effective pending remaining approvals from regulatory authorities.

3.3.3. Prospects

L'Oréal is starting 2014 with confidence, driven by its mission of "Beauty for All", the power of its research and innovations, the strength of its portfolio of complementary brands and the globalisation of its major brands.

In an economic context that is still marked by uncertainties, particularly on the monetary front, L'Oréal is confident in its ability to outperform the market once again in 2014, and to achieve another year of sales and profit growth.

4

/ 2013 CONSOLIDATED FINANCIAL STATEMENTS*

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

L'Oréal parent company is a French company with its registered office in France, which performs a sales activity specific to that country. At the same time, L'Oréal parent company has firstly a role of holding company and strategic coordination and secondly that of scientific, industrial and marketing coordination of the L'Oréal Group on a worldwide basis. Most of the subsidiaries have a role of marketing of the products manufactured by the Group's factories in the countries or zones in which it is established.

The L'Oréal Group wholly owns the vast majority of its subsidiaries. It also holds 50% of the share capital of Galderma and Innéov developed in a joint venture with Nestlé.

The financial statements set out in this chapter present the results of the L'Oréal Group as a whole, including all subsidiaries. The Statutory Auditors' Report on the consolidated financial statements has been included at the end of this chapter.

4.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	2013	2012	2011
Net sales	**3**	**22,976.6**	**22,462.7**	**20,343.1**
Cost of sales		-6,601.8	-6,587.7	-5,851.5
Gross profit		**16,374.8**	**15,875.0**	**14,491.6**
Research and development		-857.0	-790.5	-720.5
Advertising and promotion		-6,886.2	-6,776.3	-6,291.6
Selling, general and administrative expenses		-4,756.8	-4,610.9	-4,186.9
Operating profit	**3**	**3,874.8**	**3,697.3**	**3,292.6**
Other income and expenses	7	-135.2	-123.8	-96.3
Operational profit		**3,739.6**	**3,573.5**	**3,196.3**
Finance costs on gross debt		-29.1	-34.5	-48.1
Finance income on cash and cash equivalents		33.5	31.3	28.5
Finance costs, net		**4.4**	**-3.2**	**-19.6**
Other financial income (expenses)	8	-47.1	-7.8	-5.6
Sanofi dividends		327.5	313.4	295.6
Profit before tax and non-controlling interests		**4,024.4**	**3,875.9**	**3,466.7**
Income tax	9	-1,063.0	-1,005.5	-1,025.8
Net profit		**2,961.4**	**2,870.4**	**2,440.9**
Attributable to:				
◆ owners of the company		2,958.2	2,867.7	2,438.4
◆ non-controlling interests		3.2	2.7	2.5
Earnings per share attributable to owners of the company *(euros)*	10	4.95	4.79	4.11
Diluted earnings per share attributable to owners of the company *(euros)*	10	4.87	4.74	4.08
Earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	10	5.22	4.97	4.36
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	10	5.13	4.91	4.32

4.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	2013	2012	2011
Consolidated net profit for the period		**2,961.4**	**2,870.4**	**2,440.9**
Financial assets available-for-sale		*677.4*	*1,730.9*	*1,051.6*
Cash flow hedges		*13.2*	*103.0*	*-6.0*
Cumulative translation adjustments		*-457.0*	*-134.3*	*114.5*
Income tax on items that may be reclassified to profit or loss (1)		*-32.1*	*-116.9*	*-62.8*
Items that may be reclassified to profit or loss		**201.5**	**1,582.7**	**1,097.3**
Actuarial gains and losses	*20.4*	*188.9*	*-271.9*	*-172.4*
Income tax on items that may not be reclassified to profit or loss (1)		*-63.8*	*86.7*	*56.2*
Items that may not be reclassified to profit or loss		**125.1**	**-185.2**	**-116.2**
Other comprehensive income		**326.6**	**1,397.5**	**981.1**
Consolidated comprehensive income		**3,288.0**	**4,267.9**	**3,422.0**
Attributable to:				
◆ **owners of the company**		**3,284.9**	**4,265.1**	**3,419.5**
◆ non-controlling interests		3.1	2.8	2.5

(1) The tax effect is as follows:

€ millions	2013	2012	2011
Financial assets available-for-sale	*-28.0*	*-90.0*	*-63.9*
Cash flow hedges	*-4.1*	*-26.9*	*1.1*
Items that may be reclassified to profit or loss	**-32.1**	**-116.9**	**-62.8**
Actuarial gains and losses	*-63.8*	*86.7*	*56.2*
Items that may not be reclassified to profit or loss	**-63.8**	**86.7**	**56.2**
TOTAL	**-95.9**	**-30.2**	**-6.6**

4.3. COMPARED CONSOLIDATED BALANCE SHEETS

Assets

€ millions	Notes	12.31.2013	12.31.2012 (1)	12.31.2011 (1)
Non-current assets		**21,944.2**	**21,321.3**	**19,140.9**
Goodwill	11	6,457.6	6,478.2	6,204.6
Other intangible assets	12	2,547.7	2,625.4	2,477.3
Property, plant and equipment	14	3,054.1	2,962.8	2,880.8
Non-current financial assets	15	9,208.3	8,531.3	6,900.9
Deferred tax assets	9	676.5	723.6	677.3
Current assets		**9,354.1**	**8,209.6**	**7,722.6**
Inventories	16	2,158.6	2,033.8	2,052.1
Trade accounts receivable	17	3,253.5	3,208.8	2,996.2
Other current assets	18	1,167.9	1,006.6	904.1
Current tax assets		166.8	137.2	118.0
Cash and cash equivalents	19	2,607.3	1,823.2	1,652.2
TOTAL		**31,298.3**	**29,530.9**	**26,863.5**

(1) *The balance sheets at December 31st, 2011 and December 31st, 2012 have been restated to reflect the change in accounting policies resulting from the amendment to IAS 19 (revised) (see note 1).*

Equity & Liabilities

€ millions	Notes	12.31.2013	12.31.2012 (1)	12.31.2011 (1)
Equity	**20**	**22,642.8**	**20,925.5**	**17,626.9**
Share capital		121.2	121.8	120.6
Additional paid-in capital		2,101.2	1,679.0	1,271.4
Other reserves		14,220.8	13,679.7	12,358.2
Other comprehensive income		4,370.1	3,586.4	2,054.7
Cumulative translation adjustments		-566.4	-109.4	24.9
Treasury stock		-568.1	-904.5	-644.4
Net profit attributable to owners of the company		2,958.2	2,867.7	2,438.4
Equity attributable to owners of the company		**22,637.0**	**20,920.7**	**17,623.8**
Non-controlling interests		5.8	4.8	3.1
Non-current liabilities		**2,060.9**	**2,236.0**	**2,106.7**
Provisions for employee retirement obligations and related benefits	21	980.5	1,242.7	1,145.0
Provisions for liabilities and charges	22	182.7	181.7	226.1
Deferred tax liabilities	9	804.0	764.7	678.1
Non-current borrowings and debt	23	93.7	46.9	57.5
Current liabilities		**6,594.6**	**6,369.5**	**7,129.9**
Trade accounts payable		3,346.0	3,318.0	3,247.7
Provisions for liabilities and charges	22	557.8	552.3	500.7
Other current liabilities	25	2,189.8	2,141.1	2,066.7
Income tax		202.1	157.0	224.0
Current borrowings and debt	23	298.9	201.1	1,090.8
TOTAL		**31,298.3**	**29,530.9**	**26,863.5**

(1) *The balance sheets at December 31st, 2011 and December 31st, 2012 have been restated to reflect the change in accounting policies resulting from the amendment to IAS 19 (revised) (see note 1).*

4.4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other comprehensive income	Treasury stock	Cumulative translation adjust-ments	Equity attributable to owners of the company	Non-control-ling interests	Total equity
At 12.31.2010	**589,655,903**	**120.2**	**1,148.3**	**13,346.8**	**1,188.1**	**-850.9**	**-89.6**	**14,862.9**	**2.9**	**14,865.8**
Changes in accounting policies at 01.01.2011	-	-	-	-8.1	-	-	-	-8.1	-	-8.1
At 01.01.2011 (1)	**589,655,903**	**120.2**	**1,148.3**	**13,338.7**	**1,188.1**	**-850.9**	**-89.6**	**14,854.8**	**2.9**	**14,857.7**
Consolidated net profit for the period				2,438.4				2,438.4	2.5	2,440.9
Financial assets available-for-sale					*987.7*			*987.7*		*987.7*
Cash flow hedges					*-4.9*			*-4.9*		*-4.9*
Cumulative translation adjustments							*114.5*	*114.5*		*114.5*
Other comprehensive income that may be reclassified to profit and loss					**982.8**		**114.5**	**1,097.3**		**1,097.3**
Actuarial gains and losses					*-116.2*			*-116.2*		*-116.2*
Other comprehensive income that may not be reclassified to profit and loss					**-116.2**			**-116.2**		**-116.2**
Consolidated comprehensive income				**2,438.4**	**866.6**		**114.5**	**3,419.5**	**2.5**	**3,422.0**
Capital increase	1,991,497	0.4	123.1					123.5		123.5
Cancellation of Treasury stock								-		-
Dividends paid (not paid on Treasury stock)				-1,065.3				-1,065.3	-2.2	-1,067.5
Share-based payment				86.8				86.8		86.8
Net changes in Treasury stock	2,739,023			1.7		206.5		208.2		208.2
Other movements				-3.7				-3.7	-0.1	-3.8
At 12.31.2011 (1)	**594,386,423**	**120.6**	**1,271.4**	**14,796.6**	**2,054.7**	**-644.4**	**24.9**	**17,623.8**	**3.1**	**17,626.9**
Consolidated net profit for the period				2,867.7				2,867.7	2.7	2,870.4
Financial assets available-for-sale					*1,640.9*			*1,640.9*		*1,640.9*
Cash flow hedges					*76.0*			*76.0*	*0.1*	*76.1*
Cumulative translation adjustments							*-134.3*	*-134.3*		*-134.3*
Other comprehensive income that may be reclassified to profit and loss					**1,716.9**		**-134.3**	**1,582.6**	**0.1**	**1,582.7**
Actuarial gains and losses					*-185.2*			*-185.2*		*-185.2*
Other comprehensive income that may not be reclassified to profit and loss					**-185.2**			**-185.2**		**-185.2**
Consolidated comprehensive income				**2,867.7**	**1,531.7**		**-134.3**	**4,265.1**	**2.8**	**4,267.9**
Capital increase	5,826,745	1.2	407.6					408.8	1.4	410.2
Cancellation of Treasury stock								-		-
Dividends paid (not paid on Treasury stock)				-1,204.3				-1,204.3	-2.5	-1,206.8
Share-based payment				86.4				86.4		86.4
Net changes in Treasury stock	-1,856,506			2.4		-260.1		-257.7		-257.7
Other movements				-1.4				-1.4		-1.4
At 12.31.2012 (1)	**598,356,662**	**121.8**	**1,679.0**	**16,547.4**	**3,586.4**	**-904.5**	**-109.4**	**20,920.7**	**4.8**	**20,925.5**
Consolidated net profit for the period				2,958.2				2,958.2	3.2	2,961.4
Financial assets available-for-sale					*649.5*			*649.5*		*649.5*
Cash flow hedges					*9.1*			*9.1*	*-0.1*	*9.0*
Cumulative translation adjustments							*-457.0*	*-457.0*		*-457.0*
Other comprehensive income that may be reclassified to profit and loss					**658.6**		**-457.0**	**201.6**	**-0.1**	**201.5**
Actuarial gains and losses					*125.1*			*125.1*		*125.1*
Other comprehensive income that may not be reclassified to profit and loss					**125.1**			**125.1**		**125.1**
Consolidated comprehensive income				**2,958.2**	**783.7**		**-457.0**	**3,284.9**	**3.0**	**3,288.0**
Capital increase	6,199,701	1.2	422.2					423.4		423.4
Cancellation of Treasury stock		-1.8		-996.7		998.5		-		-
Dividends paid (not paid on Treasury stock)				-1,380.6				-1,380.6	-2.5	-1,383.1
Share-based payment				97.2				97.2		97.2
Net changes in Treasury stock	-4,762,333			1.4		-662.1		-660.7		-660.7
Purchase commitments for minority interests				-48.3				-48.3	-0.9	-49.2
Changes in scope of consolidation									1.4	1.4
Other movements				0.4				0.4		0.4
AT 12.31.2013	**599,794,030**	**121.2**	**2,101.2**	**17,179.0**	**4,370.1**	**-568.1**	**-566.4**	**22,637.0**	**5.8**	**22,642.8**

(1) Taking into account the change in accounting policies resulting from the amendment to IAS 19 (revised) (see note 1).

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4.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	2013	2012	2011
Cash flows from operating activities				
Net profit attributable to owners of the company		2,958.2	2,867.7	2,438.4
Non-controlling interests		3.2	2.7	2.5
Elimination of expenses and income with no impact on cash flows:				
◆ depreciation, amortisation and provisions		840.1	691.6	614.3
◆ changes in deferred taxes	9.1	7.3	17.3	85.9
◆ share-based payment (including free shares)	20.3	97.2	86.4	86.8
◆ capital gains and losses on disposals of assets		-	-4.3	-1.7
Gross cash flow		**3,906.0**	**3,661.4**	**3,226.2**
Changes in working capital	27	-155.8	-129.1	-322.0
Net cash provided by operating activities (A)		**3,750.2**	**3,532.3**	**2,904.2**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-1,060.5	-955.0	-865.7
Disposals of property, plant and equipment and intangible assets		8.7	7.3	15.2
Changes in other financial assets (including investments in non-consolidated companies)		-87.9	105.8	-1.2
Effect of changes in the scope of consolidation	28	-229.5	-466.2	-717.4
Net cash (used in) from investing activities (B)		**-1,369.2**	**-1,308.1**	**-1,569.1**
Cash flows from financing activities				
Dividends paid		-1,426.5	-1,268.2	-1,107.6
Capital increase of the parent company		423.4	408.8	123.5
Capital increase of subsidiaries		-	1.4	-
Disposal (acquisition) of Treasury stock		-660.6	-257.7	208.2
Purchase of non-controlling interests		-	-	-
Issuance (repayment) of short-term loans		158.9	-906.7	852.8
Issuance of long-term borrowings		-	-	-
Repayment of long-term borrowings		-13.8	-13.4	-1,333.6
Net cash (used in) from financing activities (C)		**-1,518.6**	**-2,035.8**	**-1,256.7**
Net effect of changes in exchange rates and fair value (D)		-78.3	-17.4	23.4
Change in cash and cash equivalents (A+B+C+D)		**784.1**	**171.0**	**101.8**
Cash and cash equivalents at beginning of the year (E)		**1,823.2**	**1,652.2**	**1,550.4**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (A+B+C+D+E)	**19**	**2,607.3**	**1,823.2**	**1,652.2**

Income taxes paid amount to €1,008.9 million, €1,114.0 million and €870.5 million respectively for the years 2013, 2012 and 2011.

Interests paid amount to €30.7 million, €34.5 million and €49.9 million respectively for the years 2013, 2012 and 2011.

Dividends received amount to €327.5 million, €313.4 million and €295.6 million respectively for the years 2013, 2012 and 2011, and are included within gross cash flow.

4.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DETAILED LIST OF NOTES

NOTE 1 Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of December 31st, 2013.

On February 10th, 2014, the Board of Directors closed the consolidated financial statements at December 31st, 2013. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on April 17th, 2014.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2013.

IFRS 13 "Fair Value Measurement" applicable as from January 1st, 2013 has no material impact on the consolidated accounts.

The amendment to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities" effective as of January 1st, 2013 requires additional disclosures to be provided about all recognised financial instruments which have been offset in accordance with IAS 32.42. It also requires disclosures about recognised financial instruments which are subject to legally enforceable offsetting agreements or similar arrangements, even if they are not offset in accordance with IAS 32. These disclosures are provided in note 24.8.

Moreover, the Group is concerned as follows by IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities", applicable as from January 1st, 2014.

These standards redefine the notion of control over another entity, and abolish proportionate consolidation for jointly controlled entities. Only the equity method may now be used for such entities.

Consequently, Galderma and Innéov which are currently proportionately consolidated will henceforth be accounted for using the equity method. At December 31st, 2012, the entities concerned contributed €824.3 million to net sales, €138.9 million to operating profit and €373 million to net finance cost, based on a 50% interest. At December 31st, 2013, the entities concerned contributed €852.4 million to net sales, €114.4 million to operating profit and €105.5 million to net finance cost, based on a 50% interest.

Change in accounting policies applicable as from January 1st, 2013: Amendment to IAS 19 (revised), "Employee benefits".

This amendment requires:

- past service cost to be recognised immediately in profit or loss, with recognition over several periods no longer permitted;
- the return on plan assets to be calculated based on the discount rate for the obligation.

At the time of its change in accounting policies, L'Oréal decided to reclassify the interest component of its pension cost to "other financial income and expenses", representing an amount of €31.9 million for 2011, €37.2 million for 2012 and €40.1 million for 2013.

The impact of this new accounting policy and of the aforementioned reclassification on income for comparative periods is not deemed material. Accordingly, the comparative periods have not been restated.

The change in accounting policy led to a decrease in opening equity of €8.1 million at January 1st, 2011, €10.6 million at January 1st, 2012 and €10.9 January 1st, 2013. The offsetting entry for the decrease in equity was an increase in the provision for employee retirement obligations and related benefits of €12.1 million at January 1st, 2011, €16.1 January 1st, 2012 and €16.5 million at January 1st, 2013, an increase in deferred tax assets of €5.1 million at January 1st, 2011, €5.9 January 1st, 2012 and €5.8 million at January 1st, 2013 and an increase in deferred tax liabilities of €1.1 million at January 1st, 2011, €0.4 January 1st, 2012 and €0.3 million at January 1st, 2013.

In May 2013, the IASB published IFRIC 21 "Levies", effective as of January 1st, 2014 on a retrospective basis. This interpretation, which has not yet been adopted by the European Union, states that the obligating event for the recognition of a liability for miscellaneous taxes, duties and other levies (excluding income tax falling within the scope of IAS 12) depends on the terms of the related legislation and is independent of the period concerned by the calculation of the tax liability.

The Group is in the process of analysing this interpretation but does not expect it to have a material impact on its annual financial statements.

1.1. Use of estimates

The preparation of the consolidated financial statements in accordance with international accounting standards requires that the Group make a certain number of estimates and assumptions that may affect the value of the Group's assets, liabilities, equity and net profit (loss).

These estimates and assumptions mainly concern the measurement of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payment. Estimates used by the Group in relation to these different areas are made on the basis of information available at the date the accounts are prepared and described in detail in each specific associated note.

1.2. Scope and methods of consolidation

All companies included in the scope of consolidation have a fiscal year ending December 31st or close their accounts on that date.

All companies directly or indirectly controlled by the parent company L'Oréal have been fully consolidated.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been proportionally consolidated.

Associates over which the Group has a significant influence have been accounted for by the equity method.

1.3. Foreign currency translation

1.3.1. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS IN CONSOLIDATED COMPANIES

Foreign currency transactions are translated at the exchange rate effective at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at the closing date. Unrealised exchange gains and losses impact the income statement.

Forward foreign exchange contracts and options are put in place in order to hedge items recorded in the balance sheet (fair value hedges) and cash flows on highly probable future commercial transactions (cash flow hedges).

All foreign exchange hedging instruments are recorded on the balance sheet at their market value, including those which relate to purchases and sales in the next accounting period. Hence changes in the fair value of these hedging instruments is recorded as follows:

- changes in the market value linked to variations in the time value of forwards used as hedges are recognised in equity and the amount accumulated in equity impacts the income statement at the date on which the hedged transactions are completed;
- changes in the market value linked to variations in the time value of options are recognised in the income statement;
- changes in the market value linked to variations in the spot rate between the inception of the hedge and the closing date are charged to equity, and the amount accumulated in equity impacts income statements at the date on which the transactions hedged are completed. Any remaining hedge ineffectiveness is recognised directly in the income statement.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the balance sheet. Similarly, if a currency hedge has been taken out in respect of fixed assets purchased with foreign currency, these assets are valued in the balance sheet on the basis of the hedging rate.

The Group may decide to hedge certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated equity, under the item *Cumulative translation adjustments*.

1.3.2. TRANSLATION OF THE ACCOUNTS OF FOREIGN SUBSIDIARIES

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Income statement items are translated at average exchange rates for the year.

The resulting translation difference attributable to the Group is entered directly under equity under the item *Cumulative translation adjustments*, while the translation difference attributable to non-controlling interests is recognised under the *Non-controlling interests* item. The translation difference does not impact the income statement other than at the time the Company is sold.

1.3.3. VALUATION OF GOODWILL IN FOREIGN CURRENCIES

Goodwill generated on foreign companies is considered to form part of the assets and liabilities of the foreign company, and is therefore expressed in the entity's functional currency and translated using exchange rates effective at the closing date. Goodwill recorded before January 1st, 2004 continues to be recorded in euros.

1.4. Net sales

Net sales are recognised when the risks and rewards inherent to ownership of the goods have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner, based mainly on statistics compiled from past experience and contractual conditions.

1.5. Cost of sales

The cost of goods sold consists mainly of the industrial production cost of products sold, the cost of distributing products to customers including freight and delivery costs, either directly or indirectly through depots, inventory impairment costs, and royalties paid to third parties.

1.6. Research and development expenditure

Expenditure during the research phase is charged to the income statement for the financial year during which it is incurred.

Expenses incurred during the development phase are recognised as *Intangible assets* only if they meet all the following criteria set out in IAS 38:

- the project is clearly defined and the related costs are separately identified and reliably measured;
- the technical feasibility of the project has been demonstrated;
- the intention and ability to complete the project and to use or sell the products resulting from the project have been demonstrated;
- the resources necessary to complete the project and to use or sell it are available;
- the Group can demonstrate that the project will generate probable future economic benefits, as the existence of a potential market for the production resulting from the project, or its internal usefulness has been demonstrated.

In view of the very large number of development projects and uncertainties concerning the decision to launch products relating to these projects, L'Oréal considers that some of these capitalisation criteria are not met.

1.7. Advertising and promotion expenses

These expenses consist mainly of expenses relating to the advertisement and promotion of products to customers and consumers. They are charged to the income statement for the financial year in which they are incurred.

1.8. Selling, general and administrative expenses

These expenses relate mainly to sales teams and sales team management, marketing teams and administrative services, as well as general expenses and the costs of share-based payment (stock options and free shares).

1.9. Foreign exchange gains and losses

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives.

1.10. Operating profit

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses.

1.11. Other income and expenses

The *Other income and expenses item* includes capital gains and losses on disposals of property, plant and equipment and intangible assets, impairment of assets, restructuring costs, and clearly identified, non-recurring income and expense items that are material to the consolidated financial statements.

The cost of restructuring operations is fully provisioned if it results from a Group obligation towards a third party originating from a decision taken by a competent body which is announced to the third parties concerned before the end of the reporting period. This cost consists mainly of severance payments, early retirement payments, the cost of unworked notice periods, the costs of training for employees affected by the restructuring measures, and other costs relating to site closures. Any write-offs of fixed assets or impairment charged against inventories and other assets related directly to these restructuring measures are also recorded as restructuring costs.

1.12. Operational profit

Operational profit is calculated based on operating profit and includes other income and expenses such as capital gains and losses on disposals of property, plant, and equipment and intangible assets, impairment of assets, and restructuring costs.

1.13. Finance costs, net

Net financial debt consists of all current and non-current financial borrowings and debt, less cash and cash equivalents.

Net finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

1.14. Income tax

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carryforwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilized.

Under the French system of tax consolidation, the taxable profits of some French companies are offset when determining the overall tax charge, which is payable only by L'Oréal, the parent company of the tax group. Tax consolidation systems also exist outside France.

1.15. Intangible assets

1.15.1. GOODWILL

Business combinations are accounted for by the purchase method. The assets, liabilities and contingent liabilities of the Company acquired are measured at fair value at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition and the Group's interest in the fair value of the identified assets and liabilities is recorded as *Goodwill* and allocated to the Cash-Generating Units expected to benefit from the acquisition or the related synergies.

Goodwill generated on the acquisition of an associate is presented in the *Investments in associates* line.

Goodwill is not amortised. It is tested for impairment at least once a year during the fourth quarter or whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

Impairment tests consist of comparing the carrying amount of assets including goodwill with the recoverable amount of each Cash-Generating Unit. A Cash-Generating Unit corresponds to one or more worldwide brands. A Cash-Generating Unit can contain several brands depending on organisational criteria and particularly when distribution circuits and commercial/ management structures are pooled. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. The cash flows are determined in the currencies of the countries in question and are translated, in the same way as the net carrying amounts to which they are compared, at the estimated exchange rate for the following year. The discount rate used for these calculations is based on the weighted average cost of capital (WACC), which amounts to 7.9% in 2013, 2012 and 2011 for amounts in euro, adjusted where appropriate by a country risk premium according to the geographic zones concerned. The discount rates are post-tax rates applied to post-tax cash flows, and result in recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows. The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data (generally around 3% for terminal values except in specific cases).

The use of discounted cash flow forecasts is preferred in order to determine recoverable amounts, unless details of similar recent transactions are readily available.

Impairment charged against goodwill cannot be reversed.

For business combinations carried out after January 1st, 2010, the main changes with regard to previously applicable accounting principles are set out below:

- for each acquisition, the Group chooses whether to recognise the full amount of goodwill regardless of the ownership interest acquired, or an amount of goodwill corresponding to its interest in the acquired company (previously the only method allowed);
- deferred tax assets recognised after the initial accounting is complete are included in profit or loss, and in contrast to previous practices, the amount of goodwill that would have been recorded had the deferred tax asset been recognised as an identifiable asset at the acquisition date is not deducted;
- costs incurred in respect of a business combination are now expensed and no longer included in the cost of the acquisition;
- the cost of the acquisition, which includes contingent consideration, is recognised and measured at its acquisition-date fair value. Subsequent changes in fair value, affecting in particular the contingent consideration recorded in liabilities, are taken to Other income and expenses in the income statement and no longer treated as an adjustment to goodwill;
- any previous interest held in the acquiree prior to the date control was obtained is now remeasured at its acquisition-date fair value, with the corresponding gain or loss on remeasurement taken to the income;
- purchase commitments for minority interests are recognised in financial debt at the acquisition-date fair value. Subsequent changes in fair value of the commitment are recongnised by adjusting equity.

1.15.2. OTHER INTANGIBLE ASSETS

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition as well as internally generated intangible assets are also included in this item.

A) INTANGIBLE ASSETS ACQUIRED THROUGH BUSINESS COMBINATIONS

They mainly consist of trademarks, customer relationships and formulas and patents.

With regard to trademarks, the use of the discounted cash flow method is preferred to enable the value in use to be monitored more easily following the acquisition.

Two approaches have been adopted to date:

- premium-based approach: this method involves estimating the portion of future cash flows that could be generated by the trademark, compared with the future cash flows that the activity could generate without the trademark;
- royalty-based approach: this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks, based on sales forecasts drawn up by the Group.

These approaches are based on a qualitative analysis of the trademark in order to ensure that the assumptions selected are relevant. The discount rate used is based on the weighted average cost of capital (WACC) for the target acquired. Terminal growth rates are consistent with available market data (generally around 3%, except in specific cases).

A trademark may have a finite or an indefinite useful life span.

Local trademarks which are to be gradually replaced by an international trademark already existing within the Group have a finite useful life span.

They are amortised over their useful lives as estimated at the date of acquisition.

International trademarks are trademarks which have an indefinite life span. They are tested for impairment at least once a year during the fourth quarter, and whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable amount of the trademark based on the model adopted when the acquisition took place.

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Customer relationships refer to relations developed with customers either through contractual arrangements or by non-contractual means through constant revenue streams resulting from the target's competitive position or reputation in its market.

The useful life of a customer relationship is limited and varies depending on the estimated attrition rate of existing customers at the time of the acquisition.

The Group may decide to identify and value patents and formulas that it intends to develop.

The value of a patent or a formula is assessed on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The amortisation period applicable to patents corresponds to the period during which they enjoy legal protection. Formulas, which are not protected by legal means, are amortised over a maximum period of 5 years.

B) INTERNALLY GENERATED INTANGIBLE ASSETS

These mainly consist of software.

The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades resulting in additional functions are also capitalised.

Capitalised development costs are amortised from the date on which the software is made available in the entity concerned over its probable useful life, which in most cases is between 5 and 8 years.

1.16. Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at cost and are not revalued.

Significant capital assets financed through capital leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within borrowings and debt on the balance sheet.

Investment subsidies are recorded as liabilities under *Other current liabilities.*

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Property, plant and equipment are depreciated using the straight-line method, over the following useful lives:

Buildings	10-40 years
Industrial machinery and equipment	5-15 years
Point-of-sales advertising: stands and displays	3-5 years
Other	3-10 years

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment are considered to have a value of zero at the end of the useful lives indicated above.

1.17. Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and receivables maturing after more than 12 months.

Investments in non-consolidated companies are considered to be financial assets available-for-sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line *Other comprehensive income.*

The fair value of listed securities is determined on the basis of the share price at the closing date. If the fair value of unlisted securities cannot be reliably determined, these securities are valued at cost.

If the unrealised loss accounted for through equity is representative of significant or prolonged impairment, this loss is recorded in the income statement.

Long-term loans and receivables are considered to be assets generated by the business. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

1.18. Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

1.19. Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value.

A provision is made for any doubtful receivables based on an assessment of the risk of non-recovery.

The Group's policy is to recommend credit insurance coverage when this is allowed by local regulations.

1.20. Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

Investments in shares and cash, which are held in an account blocked for more than three months, cannot be recorded under cash and are presented under *Other current assets.*

Bank overdrafts considered to be financing are presented in *Current borrowings and debt.*

Units of cash unit trusts are considered to be assets available-for-sale. As such, they are valued in the balance sheet at their market value at the closing date. Any related unrealised gains are accounted for in *Finance costs, net* in the income statement.

The carrying amount of bank deposits is a reasonable approximation of their fair value.

1.21. Treasury stock

Treasury stock is recorded at acquisition cost and deducted from equity. Capital gains/losses on disposal of Treasury stock net of tax are charged directly to equity and do not contribute to profit for the financial year.

1.22. Share-based payment: Share subscription or purchase options – Free shares

In accordance with the requirements of IFRS 2 "Share-based payment", the value of options or free shares granted as calculated at the grant date is expensed in the income statement over the vesting period, which is generally 5 years for purchase options and 4 years for free shares.

The fair value of stock options is determined using the Black & Scholes model. This model takes into account the characteristics of the plan such as the exercise price and exercise period, and market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural assumptions regarding beneficiaries.

The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.

The impact of IFRS 2 on profit for the period is booked on the *Selling, general and administrative expenses* line of the income statement at Group level, and is not allocated to the Divisions or geographic zones.

1.23. Provisions for employee retirement obligations and related benefits

The Group operates pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid. The characteristics of the defined benefit schemes in force within the Group are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. An early retirement plan and a defined benefit plan have also been set up. In some Group companies there are also measures providing for the payment of certain healthcare costs for retired employees.

  These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

The charges recorded in the income statement during the year include:

- service cost, *i.e.* additional rights vested by employees during the accounting period;
- the impact of any change to existing schemes on previous years or of any new schemes;
- interest cost, *i.e.* change in the value of the discounted rights over the past year;
- income on external funds calculated on the basis of the discount rate applied to the benefit obligation.

The latter two items represent the interest component of the pension expense. The interest component is shown within "Finance Result" on the "Other financial income and expenses" line.

To determine the discounted value of the obligation for each scheme, the Group applies an actuarial valuation method based on the final salary (projected unit credit method). The obligations and the fair value of plan assets are assessed each year using length-of-service, life expectancy, staff turnover by category and economic assumptions (such as inflation rate and discount rate).

Actuarial gains and losses arising on post-employment defined benefit obligations are recognised in equity.

Actuarial gains and losses in relation to other benefits such as jubilee awards and long-serve bonuses are immediately charged to the income statement.

The liability corresponding to the Company's net defined benefit obligation regarding its employees is recorded in the balance sheet on the *Provisions for employee retirement obligation and related benefits* line.

1.24. Provisions for liabilities and charges

Provisions for liabilities and charges are set up to cover probable outflows for the benefit of third parties without any equivalent consideration being received by the Group in return. They relate mainly to restructuring costs and tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

These provisions are estimated on the basis of the assumptions deemed most probable or by using statistical methods, depending on the type of provisions.

Provisions for liabilities and charges are recorded either as Non-current liabilities or as *Current liabilities*, depending on their nature. Provisions for liabilities or litigation which must be settled within 12 months of the closing date, and those linked to the normal operating cycle (such as product returns), are recorded as *Current liabilities*. Other provisions for liabilities and charges are recorded as *Non-current liabilities*.

1.25. Borrowings and debt

Borrowings and debt are valued at amortised cost based on an effective interest rate.

In accordance with the principle of fair value hedge accounting, fixed-rate borrowings and debt swapped at a floating rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance costs and are offset by changes in the value of the related interest rate swaps.

The fair value of fixed-rate debt is determined by the discounted cash flow method using bond yield curves at the closing date, allowing for the spread corresponding to the Group's risk class to be taken into account.

The carrying amount of floating-rate debt is a reasonable approximation of its fair value.

Medium- and long-term borrowings and debt are recorded under *Non-current liabilities*. Short-term borrowings and debt and the current portion of medium- and long-term borrowings and debt are presented under *Current liabilities*.

1.26. Financial derivatives

Derivative instruments entered into to hedge identifiable foreign exchange and interest rate risks are accounted for in accordance with hedge accounting principles.

The accounting principles applicable to foreign exchange risk are set out in detail in note 1.3.

With regard to interest rate risk, fixed-rate debt and financial loans hedged by interest rate swaps are valued in the balance sheet at their market value. Changes in the fair value of these items are recorded as finance costs and offset by adjustments to the fair value of the related hedging derivatives. Floating-rate debt and financial loans are valued at cost, which corresponds to their market value. The swaps or caps which hedge these items are valued in the balance sheet at their market value, with changes in value recorded directly through equity on the *Other comprehensive income* line.

The fair value of interest rate derivative instruments is their market value. Market value is calculated by the discounted cash flow method at the interest rate effective at the closing date.

1.27. Earnings per share

Earnings per share are calculated in accordance with the rules set out in IAS 33.

Basic earnings per share are obtained on the basis of the weighted average number of shares outstanding during the year, less the average number of treasury shares held deducted from equity.

Where applicable, diluted earnings per share take into account dilutive stock options and free shares in accordance with the Treasury stock method, under which sums collected on exercise or purchase are assumed to be allocated firstly to share buybacks at market price.

NOTE 2 Changes in the scope of consolidation

2.1. 2013

On January 31st, 2013, L'Oréal finalised the acquisition of the Colombia-based Vogue group, the country's leader in mass-market make-up. In 2012, the Vogue group reported consolidated net sales of €35.3 million.
This acquisition has been fully consolidated since February 1st, 2013.
On February 27th, 2013, Galderma Pharma S.A. finalised the acquisition of Spirig Pharma A.G.

Spirig's products treat conditions such as sun-provoked skin diseases and skin barrier function impairment. The company also has a range of medically-proven products that prevent pre-cancerous conditions such as actinic keratosis, a type of non-melanoma skin cancer. Leading brands include *Excipial*®, *Daylong*® and *Daylong Actinica*®. Based in Egerkingen in Switzerland, Spirig is the leader in dermatology in Switzerland.
Spirig generated sales of €80.0 million in 2012 (at 100%), and had 390 employees.
Spririg has been proportionally consolidated since March 1st, 2013.

On April 15th, 2013, L'Oréal announced it has acquired the Health & Beauty business of Interconsumer Products Limited (ICP) in Kenya from its founding shareholder. With a turnover of approximately €15 million in 2012, ICP is a significant player on the Kenyan beauty market, with strong positions in the hair and skin care markets.
This acquisition has been fully consolidated since April 12th, 2013.

On December 13th, 2013, following the approval of the Brazilian Anti-Trust Authority CADE, The Body Shop finalised the acquisition of 51% of Emporio Body Store in Brazil with the option of increasing its shareholding to 80% by 2019.
Founded in 1997 in Porto Alegre by Tobias Chanan, Emporio Body Store offers a complete range of beauty products sold through a franchise network.
Emporio Body Store achieved in 2012 a consolidated turnover of 20 million Reals (approximately €7 million). Since 2011, the business has grown strongly and increased from 36 points of sale in 2010 to 84 in 2012, to reach an estimated 130 points of sale end of 2013.
This acquisition has been fully consolidated since December 31st, 2013.

The cost of these new acquisitions amounts to €222.8 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €138.6 million and €37.9 million, respectively.

These acquisitions represent around €100 million in full-year net sales and €9 million in full-year operating profit.

2.2. 2012

On April 26th, 2012, L'Oréal announced that it had acquired 100% of Cadum, previously majority-owned by the investment fund Milestone.
In 2011, Cadum had consolidated net sales of €58 million, of which €49 million were made in France, mainly under the Cadum brand. The acquisition was fully consolidated as from May 1st, 2012.

On July 13th, 2012, L'Oréal announced that it had completed the sale of the home care business from the Cadum Group to Eau Ecarlate SAS.
This business had net sales of €17 million in 2011, two thirds of which were made in France.
The sale of the home care business resulted in the derecognition of IBA's entire assets and liabilities, with no impact on the Group's consolidated net profit.

On October 21st, 2012, L'Oréal USA announced that it had signed a contract to acquire the professional distribution business of the New Jersey-based company Emiliani Enterprises.
Well-established in the New York area, New Jersey and Connecticut, Emiliani Enterprises supplies hair salons through a network of representatives and sales outlets open only to professionals, and in 2011 had net sales of approximately $73 million. This acquisition was finalised on December 18th, 2012 and was fully consolidated as from that date.

On November 26th, 2012, L'Oréal signed an agreement to acquire Urban Decay, America's expert make-up brand. This brand fully complements L'Oréal Luxe's portfolio of brands and strengthens the Group's position in two very dynamic distribution channels in the USA: assisted self-service and e-commerce.
Urban Decay had net sales of $130 million in the last fiscal year ended June 30th, 2012.
This acquisition was finalised on December 17th, 2012 and was fully consolidated from that date.

The cost of these new acquisitions amounts to €484.7 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €313.9 million and €135.6 million, respectively.

These acquisitions represent around €200 million in full-year net sales and €10.4 million in full-year operating profit in 2012. Their impact on 2012 net sales is approximately €35 million.

2.3. 2011

On January 1st, 2011, Matrix Distribution GmbH, a wholly owned subsidiary of L'Oréal Deutschland GmbH, took over the cosmetic and scissors businesses of Germany-based company Arex GmbH. Arex GmbH sells exclusive hairdressing brands and high quality scissors exclusively to hairdressers. Arex GmbH had sales of €7 million in 2010 and has been fully consolidated since January 1st, 2011.

On December 13th, 2010, Galderma Holding AB, a wholly owned subsidiary of Galderma Pharma S.A., announced that it had launched a cash offer for Q-Med, a company listed on Nasdaq OMX Nordic in Stockholm.
Created in 1987, Q-Med is a medical device company which develops, markets and sells high quality medical implants for aesthetic and medical use. The majority of its products are based on the company's patented NASHA™ technology for the production of stabilized non-animal hyaluronic acid.
Among other products, its current product portfolio includes Restylane for smoothing out lines and improving facial contours, and the Macrolane injection for shaping the body.
Sales are made through the company's own subsidiaries and distributors in over 70 countries. Q-Med has approximately 636 employees in 20 countries, including around 364 based at the company's head office, R&D laboratories and production facility in Uppsala, Sweden.
In 2010, the company had total revenues of SEK1.5 billion and an operating profit of SEK287 million.
The acceptance period for the offer started on January 4th and ended on March 11th, 2011.
A price of SEK79.00 in cash was offered for each share, with the exception of shares owned by Q-Med founder Bengt Agerup, who sold his 47.5% stake at a price of SEK58.94 per share. An earn-out clause stipulates that the total price can under no circumstances exceed SEK74.96 per share.
On March 15th, 2011, Galderma declared the offer wholly unconditional and acquired 95,361,096 shares, representing 95.95% of the existing issued share capital of Q-Med. Galderma decided to request compulsory acquisition of the remaining shares in Q-Med shares, which was obtained on November 15th, 2011.
Q-Med is proportionally consolidated as from March 1st, 2011.

On December 15th, 2011, L'Oréal announced the completed acquisition of Pacific Bioscience Laboratories Inc., the market leader in the rapidly growing area of sonic skin care devices. The move gives L'Oréal access to patented sonic skin care technology enabling the Company to acquire strategic positions in the booming skin care devices category.
Clarisonic® is sold mainly throughout the US and is also present in the UK, Australia, Mexico, Canada and the Far East. It is sold through a distribution network which includes dermatologists and cosmetic surgeons, spas, prestige retail, e-tail, television shopping and clarisonic.com. In full-year 2010, Clarisonic® delivered net sales of $105 million. It has been fully consolidated since December 15th, 2011.

The cost of these new acquisitions was €815.2 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €426.3 million and €320.8 million, respectively.

These acquisitions represent around €193 million in sales and €33 million in operating profit in 2011.

NOTE 3 Segment information

3.1. Segment information

The **Cosmetics** branch is organised into four sectors, each operating with specific distribution channels:

- **Professional Products Division:** products used and sold in hair salons;
- **Consumer Products Division:** products sold in mass-market retail channels;
- **L'Oréal Luxury Division:** products sold in selective retail outlets, *i.e.* department stores, perfumeries, travel retail, the Group's own boutiques and certain online sites;
- **Active Cosmetics Division:** products for "borderline" complexions (*i.e.* neither healthy nor problematic), sold through all health channels such as pharmacies, parapharmacies, drugstores and medispas.

The *non-allocated* item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options not allocated to the Cosmetics Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

The "**The Body Shop**" branch: The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 60 countries), as well as through home and online sales. The Body Shop net sales and operating profit are characterised by strong seasonal fluctuations due to a high level of activity during the last few months of the year.

The **Dermatology** branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, meets the needs of dermatologists and their patients.

Data by branch and by Division are prepared using the same accounting principles as those used for the preparation of the consolidated financial statements.

The performance of each branch and Division is measured on the basis of operating profit.

As of July 1st, 2013, Turkey and Israel were reclassified from the "Africa, Middle East" geographic zone to the Eastern Europe geographic zone.

Data for 2012 and 2011 has been adjusted to reflect these changes.

€ millions 2013	Sales	Operating profit	Operational assets [1]	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,973.8	609.5	3,013.9	73.7	126.7
Consumer Products	10,873.2	2,166.7	6,449.2	531.6	494.3
L'Oréal Luxury	5,865.2	1,174.2	4,382.5	222.8	239.2
Active Cosmetics	1,602.4	340.2	832.9	34.2	45.9
COSMETICS DIVISIONS TOTAL	**21,314.5**	**4,290.6**	**14,678.5**	**862.3**	**906.1**
Non-allocated		-604.5	599.8	128.3	115.8
Cosmetics branch	**21,314.5**	**3,686.1**	**15,278.3**	**990.6**	**1,021.9**
The Body Shop branch	**835.8**	**71.9**	**1,196.7**	**40.0**	**39.9**
Dermatology branch	**826.3**	**116.8**	**1,159.3**	**42.3**	**81.6**
GROUP	**22,976.6**	**3,874.8**	**17,634.3**	**1,072.9**	**1,143.4**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2012	Sales	Operating profit	Operational assets [1]	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	3,002.6	615.2	2,707.4	67.2	103.9
Consumer Products	10,713.2	2,050.8	6,563.2	483.1	402.0
L'Oréal Luxury	5,568.1	1,077.0	4,592.1	199.9	197.2
Active Cosmetics	1,528.0	311.2	851.9	30.0	41.7
COSMETICS DIVISIONS TOTAL	**20,811.9**	**4,054.3**	**14,714.6**	**780.2**	**744.8**
Non-allocated		-577.2	556.1	122.4	117.6
Cosmetics branch	**20,811.9**	**3,477.1**	**15,270.7**	**902.6**	**862.4**
The Body Shop branch	**855.3**	**77.5**	**1,169.8**	**34.8**	**40.2**
Dermatology branch	**795.5**	**142.6**	**1,017.4**	**32.6**	**71.8**
GROUP	**22,462.7**	**3,697.3**	**17,457.9**	**970.0**	**974.4**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2011	Sales	Operating profit	Operational assets [1]	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,813.8	578.6	2,728.7	83.0	97.8
Consumer Products	9,835.2	1,859.0	6,167.0	427.6	344.8
L'Oréal Luxury	4,800.1	926.3	4,304.5	160.7	184.9
Active Cosmetics	1,421.7	286.7	857.3	28.0	43.3
COSMETICS DIVISIONS TOTAL	**18,870.8**	**3,650.6**	**14,057.5**	**699.3**	**670.8**
Non-allocated		-546.2	511.7	107.6	121.2
Cosmetics branch	**18,870.8**	**3,104.4**	**14,569.2**	**806.9**	**792.0**
The Body Shop branch	**767.6**	**68.1**	**1,163.6**	**24.0**	**30.9**
Dermatology branch	**704.7**	**120.1**	**1,017.2**	**32.8**	**66.7**
GROUP	**20,343.1**	**3,292.6**	**16,750.0**	**863.7**	**889.6**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

Operational assets can be reconciled to the 2013, 2012 and 2011 balance sheets as follows:

€ millions	2013	2012	2011
Operational assets	**17,634.3**	**17,457.9**	**16,750.0**
Non-current financial assets	9,208.3	8,531.3	6,900.9
Deferred tax assets [(1)]	676.5	723.6	677.3
Other current assets	1,171.9	994.9	883.0
Cash and cash equivalent	2,607.3	1,823.2	1,652.2
Non-allocated assets	**13,664.0**	**12,073.0**	**10,113.5**
TOTAL ASSETS	**31,298.3**	**29,530.9**	**26,863.5**

(1) These amounts have been restated according to change in accounting policies (see note 1).

3.2. *Information by geographic zone*

All information is presented on the basis of geographic location of the subsidiaries.

3.2.1. CONSOLIDATED NET SALES BY GEOGRAPHIC ZONE

	2013		Growth (%)		2012		2011	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,275.2	36.0%	1.5%	2.4%	8,156.2	36.3%	7,931.1	39.0%
of which France	2,619.2	11.4%	3.6%	3.6%	2,528.6	11.3%	2,408.6	11.8%
North America	5,866.7	25.5%	1.6%	5.4%	5,773.0	25.7%	4,932.1	24.2%
New Markets	8,834.7	38.5%	3.5%	10.1%	8,533.4	38.0%	7,479.9	36.8%
GROUP	**22,976.6**	**100.0%**	**2.3%**	**6.0%**	**22,462.7**	**100.0%**	**20,343.1**	**100.0%**

3.2.2. COSMETICS NET SALES BY GEOGRAPHIC ZONE

	2013		Growth (%)		2012		2011	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,483.4	35.1%	1.1%	1.9%	7,399.6	35.6%	7,246.6	38.4%
of which France	2,548.5	12.0%	3.2%	3.2%	2,469.7	11.9%	2,355.7	12.5%
North America	5,356.1	25.1%	2.8%	6.5%	5,210.7	25.0%	4,406.2	23.3%
New Markets	8,475.0	39.8%	3.3%	9.9%	8,201.6	39.4%	7,218.0	38.2%
Asia, Pacific	4,382.2	20.6%	2.2%	8.3%	4,287.0	20.6%	3,619.5	19.2%
Latin America	1,894.5	8.9%	3.7%	13.5%	1,826.6	8.8%	1,680.9	8.9%
Eastern Europe	1,693.3	7.9%	4.2%	8.2%	1,624.6	7.8%	1,527.4	8.1%
Africa, Middle East	505.1	2.4%	9.0%	17.1%	463.4	2.2%	390.2	2.1%
COSMETICS BRANCH	**21,314.5**	**100.0%**	**2.4%**	**6.1%**	**20,811.9**	**100.0%**	**18,870.8**	**100.0%**

3.2.3. BREAKDOWN OF OPERATING PROFIT OF COSMETICS BRANCH BY GEOGRAPHIC ZONE

€ millions	2013	2012	2011
Western Europe	1,658.6	1,576.2	1,512.3
North America	1,003.1	959.7	810.1
New Markets	1,628.9	1,518.4	1,328.1
COSMETICS DIVISIONS TOTAL	**4,290.6**	**4,054.3**	**3,650.6**
Non-allocated	-604.5	-577.2	-546.2
COSMETICS BRANCH	**3,686.1**	**3,477.1**	**3,104.4**

3.2.4. BREAKDOWN OF OPERATIONAL ASSETS AND CONSOLIDATED INVESTMENTS BY GEOGRAPHIC ZONE

	2013		2012		2011	
€ millions	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets
Western Europe	8,522.0	336.9	8,462.0	299.0	8,213.4	271.5
North America	4,643.7	261.2	4,699.6	212.5	4,486.9	190.4
New Markets	3,868.8	346.5	3,740.2	336.1	3,538.0	294.3
Non-allocated	599.8	128.3	556.1	122.4	511.7	107.6
GROUP	**17,634.3**	**1,072.9**	**17,457.9**	**970.0**	**16,750.0**	**863.7**

NOTE 4 Personnel costs and number of employees

4

4.1. *Number of employees* (1)

	12.31.2013	12.31.2012	12.31.2011
Western Europe	31,794	30,798	30,155
North America	15,497	16,180	15,195
New Markets	30,161	25,659	23,536
TOTAL	**77,452**	**72,637**	**68,886**

(1) Including proportionally consolidated companies.

4.2. *Personnel costs*

€ millions	2013	2012	2011
Personnel costs (including welfare contributions)	**4,606.0**	**4,414.4**	**3,976.8**

Personnel costs include the pension expense (excluding the interest component), the cost of any share-based payments (stock options and free shares), and payroll taxes.The exceptional "solidarity" tax on high salaries amounting to €14.6 million is shown in "Other operational income and expenses" (see note 7) and is not included in personnel costs.

4.3. *Executive compensation*

Costs recorded in respect of compensation and similar benefits granted to the Management Committee and the Board of Directors can be analysed as follows:

€ millions	2013	2012	2011
Directors' fees	1.1	1.1	1.1
Salaries and benefits including employer welfare contributions	26.7	26.5	25.9
Employee retirement obligation charges	16.3	11.5	10.8
Share-based payment (Stock option and free shares)	18.2	21.2	21.0

The number of executives who were members of the Management Committee was 15 at December 31st, 2013 as at December 31st, 2012 and December 31st, 2011.

NOTE 5 Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amount to €900.1 million, €840.8 million and €742.2 million, respectively, for 2013, 2012 and 2011.

NOTE 6 Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	**2013**	2012	2011
Time value	-28.3	-73.7	-39.6
Other foreign exchange gains and losses	61.0	-66.1	13.2
TOTAL	**32.7**	**-139.8**	**-26.4**

Foreign currency transactions are translated at the spot rate at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using the exchange rates effective at the closing date. Foreign exchange gains and losses also include the following items relating to derivative instruments:

- changes in market value linked to variations in the time value;
- changes in market value linked to variations in the spot rate between the inception of the hedge and the date on which the hedged transactions are completed;
- residual ineffectiveness linked to excess hedges and recognised directly in the income statement under other foreign exchange gains and losses for a positive 0,2 million in 2013, for a negative €0.9 million in 2012 and a negative €0.2 million in 2011.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	**2013**	2012	2011
Cost of sales	39.3	-121.2	-15.2
Research and development	-15.4	10.0	-8.0
Advertising and promotion	5.3	-17.8	-2.1
Selling, general and administrative expenses	3.5	-10.8	-1.1
FOREIGN EXCHANGE GAINS AND LOSSES	**32.7**	**-139.8**	**-26.4**

NOTE 7 Other operational income and expenses

This item breaks down as follows:

€ millions	2013	2012	2011
Capital gains and losses on disposals of property, plant and equipment and intangible assets	-	4.3	1.7
Impairment of property, plant and equipment and intangible assets (1)	-35.4	-	-69.9
Restructuring costs (2)	-71.9	-98.0	-39.9
Other (3)	-27.9	-30.1	11.8
TOTAL	**-135.2**	**-123.8**	**-96.3**

(1) These impairment charges mainly relate to:

- *in 2013, the Club des Créateurs de Beauté goodwill for €35.4 million following the decision taken in November 2013 to cease its activity;*
- *in 2011, the Softsheen Carson brand and goodwill for €32.8 million and €31.8 million respectively as well as Sanoflore goodwill for €5.3 million.*

(2) Including:

- *in 2013, the reorganisation of Industrial and logistics activities in Spain for €11.4 million, the termination of the distribution of the Helena Rubinstein brand in Spain and Portugal for €17.1 million, a voluntary departure plan implemented in Italy for €9.3 million, the decision to cease the Club des Créateurs de Beauté activity for €28.7 million, a voluntary departure plan implemented at Galderma USA and the Spirig Group for €6.0 million and €7.0 million relating to the reversal of impairment charged against the building of the Solon plant following its sale at the end of 2013 ;*
- *in 2012, the cost of specialising operations in European factories for €16.6 million, of sales force adjustments in Germany for €5.1 million, of reorganising industrial operations within the Professional Products Division in the US for €35.1 million, and of streamlining logistics activities in the Salon Centric Division which supplies American hair salons for €27.0 million;*
- *in 2011, the reorganisation of industrial operations in the United States for €34.6 million.*

(3)

- *In 2013; costs relating to acquisitions for €11.7 million, the exceptional "solidarity" tax on high salaries for €14.6 million;*
- *in 2012, the revision of risks relating to investigations carried out by competition authorities for €3.1 million (see note 22.1) as well as costs relating to acquisitions for €12.9 million and revision of the earn out clause regarding Essie Cosmetics for €10.4 million;*
- *in 2011, the positive revision of risks relating to investigations carried out by competition authorities for €23 million (see note 22.1) as well as costs relating to the acquisition of Q-Med and Pacific Bioscience Laboratories Inc. for €9.6 million and revision of the earn out clause regarding Essie Cosmetics for €3.0 million.*

NOTE 8 Other financial income and expenses

This item breaks down as follows:

€ millions	2013	2012	2011
Other financial income	-	-	0.9
Interest component of pension costs (1)	-40.1	-	-
Other financial expenses	-7.0	-7.8	-6.5
TOTAL	**-47.1**	**-7.8**	**-5.6**

(1) See note 1.

NOTE 9 Income tax

9.1. Detailed breakdown of income tax

€ millions	2013	2012	2011
Current tax	1,055.7	988.2	939.9
Deferred tax	7.3	17.3	85.9
INCOME TAX	**1,063.0**	**1,005.5**	**1,025.8**

9.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2013	2012	2011
Profit before tax and non-controlling interests	**4,024.4**	**3,875.9**	**3,466.7**
Theoretical tax rate	30.26%	29.83%	29.91%
Expected tax charge	**1,217.9**	**1,156.1**	**1,036.7**
Impact of permanent differences (1)	46.4	8.7	54.9
Impact of tax rate differences (2)	-143.0	-103.2	-50.4
Change in unrecognised deferred taxes	-4.0	2.6	-8.4
Other (3)	-54.3	-58.7	-7.0
GROUP TAX CHARGE	**1,063.0**	**1,005.5**	**1,025.8**

(1) In 2013, this amount includes €41 million relating to the 3% additional levy on dividends paid.
(2) In 2012, this amount included +€25 million relating to the revaluation of the tax on fair value of Sanofi shares.
(3) Including tax credits, withholding taxes on distributions, tax reassessments and provisions for tax liabilities. This amount includes in 2013 a tax reimbursement in China relating to fiscal years 2008 to 2011 following a change in tax legislation of €24 million in 2013 compared with €35 million in 2012.

The expected tax charge reflects, for each country, the sum of pre-tax profit multiplied by the normal taxation rate. The theoretical tax rate reflects the total expected tax charge as a percentage of profit before tax and non-controlling interests.

9.3. Deferred taxes in the balance sheet

The net change in deferred taxes (assets and liabilities) can be analysed as follows:

€ millions	
Balance of deferred tax assets at December 31st, 2010 (1)	**631.2**
Balance of deferred tax liabilities at December 31st, 2010 (1)	**-463.1**
Income statement impact	-85.9
Translation differences	-5.6
Other effects (2)	-77.4
Balance of deferred tax assets at December 31st, 2011 (1)	**677.3**
Balance of deferred tax liabilities at December 31st, 2011 (1)	**-678.1**
Income statement impact	-17.3
Translation differences	-7.6
Other effects (2)	-15.4
Balance of deferred tax assets at December 31st, 2012 (1)	**723.6**
Balance of deferred tax liabilities at December 31st, 2012 (1)	**-764.7**
Income statement impact	-7.3
Translation differences	-10.8
Other effects (2)	-68.3
Balance of deferred tax assets at December 31st, 2013	**676.5**
Balance of deferred tax liabilities at December 31st, 2013	**-804.0**

(1) These amounts have been restated according to change in accounting policies (see note 1).
(2) Including mainly the tax effect on actuarial gains and losses recognised in equity and in 2011 on newly consolidated companies for €100 million.

Deferred tax assets and liabilities recorded in the balance sheet may be broken as follows:

€ millions	12.31.2013 Deferred tax assets	12.31.2013 Deferred tax liabilities	12.31.2012 (2) Deferred tax assets	12.31.2012 (2) Deferred tax liabilities	12.31.2011 (2) Deferred tax assets	12.31.2011 (2) Deferred tax liabilities
Temporary differences	661.4	444.8	709.5	433.5	651.4	461.9
Deferred tax liabilities on remeasurement of Sanofi (1)		359.2		331.2		216.2
Tax credits and tax loss carry-forwards	15.1		14.1		25.9	
DEFERRED TAX TOTAL	**676.5**	**804.0**	**723.6**	**764.7**	**677.3**	**678.1**

(1) In 2012, the deferred tax rate increased to 4.13% (3.44% in 2011 and 1.72% in 2010).
(2) These amounts have been restated according to change in accounting policies (see note 1).

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€268.3 million, €364.5 million and €327.1 million, respectively, at the end of 2013, 2012 and 2011) and provisions for liabilities and charges (€173.9 million, €191.6 million and €164.1 million, respectively, at the end of 2013, 2012 and 2011).

Deferred tax liabilities on temporary differences mainly relate to intangible assets acquired in the context of business combinations other than non tax-deductible goodwill.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €53.1 millions at December 31st, 2013 compared with €66.0 million at December 31st, 2012 and €67.5 million at December 31st, 2011.

NOTE 10 Net profit attributable to owners of the company excluding non-recurring items – Earnings per share

10.1. *Reconciliation with net profit*

Net profit attributable to owners of the company excluding non-recurring items reconciles as follows with net profit attributable to owners of the company:

€ millions	2013	2012	2011
Net profit attributable to owners of the company	**2,958.2**	**2,867.7**	**2,438.4**
Capital gains and losses on property, plant and equipment and intangible assets	-	-4.3	-1.7
Impairment of property, plant and equipment and intangible assets	35.4	-	69.9
Restructuring costs	71.9	98.0	39.9
Other	27.9	30.1	-11.8
Tax effect on non-recurring items	-17.3	-44.8	-33.0
Effect of changes in tax rates on the deferred tax liability arising on the remeasurement of Sanofi	-	25.0	62.0
Tax effect on the acquisition of Pacific Bioscience Laboratories Inc.	-	-	19.2
3% additional levy on paid dividends (1)	41.4	-	-
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**3,117.5**	**2,971.7**	**2,582.9**

(1) The 3% additional levy on the amount of dividends paid by L'Oréal represents an additional tax payment on past profit distributions and depending on decisions made at the Annual General Meeting. So as not to distort the presentation of the Group's operational performance in the period, this surtax is recognised on the "income tax" line of the income statement as a non-recurring item.

10.2. *Earnings per share*

The tables below set out earnings per share attributable to owners of the company (excluding the dilutive impact of shares carrying preferential dividend rights, see note 10.5):

2013	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,958.2	597,734,044	4.95
Stock options	-	8,053,243	-
Free shares	-	2,214,120	-
DILUTED EARNINGS PER SHARE	**2,958.2**	**608,001,407**	**4.87**

2012	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,867.7	598,482,929	4.79
Stock options	-	5,491,789	-
Free shares	-	1,330,740	-
DILUTED EARNINGS PER SHARE	**2,867.7**	**605,305,458**	**4.74**

2011	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,438.4	592,763,295	4.11
Stock options	-	4,247,654	-
Free shares	-	622,154	-
DILUTED EARNINGS PER SHARE	**2,438.4**	**597,633,103**	**4.08**

10.3. *Earnings per share excluding non-recurring items*

The tables below set out in detail earnings per share attributable to owners of the company excluding non-recurring items (excluding the dilutive impact of shares carrying preferential dividend rights, see note 10.5):

2013	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	3,117.5	597,734,044	5.22
Stock options	-	8,053,243	-
Free shares	-	2,214,120	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**3,117.5**	**608,001,407**	**5.13**

2012	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	2,971.7	598,482,929	4.97
Stock options	-	5,491,789	-
Free shares	-	1,330,740	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,971.7**	**605,305,458**	**4.91**

2011	Net profit attributable to owners of the company excluding non-recurring items *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items *(€)*
Earnings per share excluding non-recurring items	2,582.9	592,763,295	4.36
Stock options	-	4,247,654	-
Free shares	-	622,154	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,582.9**	**597,633,103**	**4.32**

10.4. *Calculation of the number of shares*

The table below sets out the number of potential ordinary shares excluded from the calculation of earnings per share as they correspond to stock option plans with no dilutive effect on the periods presented:

	2013	2012	2011
Stock option plans	**-**	**1,445,000**	**10,676,150**

10.5. *Diluted earnings per share including the impact of shares carrying preferential dividend rights*

The table below shows the calculation of diluted earnings per share taking into account the 10% preferential dividend payable for 2013 on shares held continuously in registered form between December 31st, 2011 and the 2014 dividend payment date. The number of shares eligible for the preferential dividend cannot exceed 0.5% of the share capital for any one shareholder.

2013	**Number of shares**	**Diluted earnings per share**
Shares carrying ordinary dividend rights	571,878,438	4.84
Shares carrying preferential dividend rights	34,023,449	5.32

2012	Number of shares	Diluted earnings per share
Shares carrying ordinary dividend rights	572,786,868	4.71
Shares carrying preferential dividend rights	32,518,590	5.18

2011	Number of shares	Diluted earnings per share
Shares carrying ordinary dividend rights	565,632,481	4.06
Shares carrying preferential dividend rights	32,000,622	4.46

NOTE 11 Goodwill

Goodwill is allocated by Cash-Generating Unit or by groups of Cash-Generating Units. A Cash-Generating Unit consists of one or more worldwide trademarks. The methodology used to carry out impairment tests is described in note 1.

€ millions **2013**	12.31.2012	**Acquisitions/ Disposals**	**Other movements**	**12.31.2013**
L'Oréal Professionnel/Kérastase	351.6	0.6	-7.7	344.6
Matrix	356.3	14.5	-15.3	355.4
Redken/PureOlogy	485.2		-16.2	469.0
Professional Products Total	**1,193.1**	**15.1**	**-39.2**	**1,169.0**
L'Oréal Paris	775.5		-4.9	770.6
Maybelline/Garnier	1,087.9		-34.4	1,053.4
LaScad	156.4	2.7		159.1
Other	100.0	49.0	-42.3	106.7
Consumer Products Total	**2,119.8**	**51.7**	**-81.7**	**2,089.8**
Lancôme	780.8		-1.8	779.0
Shu Uemura	146.5		-28.8	117.7
YSL Beauté	519.8			519.8
Perfumes	334.7		-	334.7
Clarisonic	266.3		-8.8	257.5
Urban Decay	126.1		2.0	128.0
Other	63.8		-0.3	63.5
L'Oréal Luxury Total	**2,238.0**		**-37.7**	**2,200.3**
Vichy/Dermablend	268.9		-1.8	267.1
Other	110.2		-2.2	108.0
Active Cosmetics Total	**379.1**		**-4.1**	**375.1**
Other	-			-
The Body Shop	**340.1**	**40.0**	**-8.3**	**371.8**
Dermatology	**208.1**	**50.7**	**-7.2**	**251.6**
GROUP TOTAL	**6,478.2**	**157.4**	**-178.0**	**6,457.6**

2013 acquisitions mainly relate to Spirig, Interbeauty and Emporio Body Store. No significant disposals took place during 2013. Other movements mainly reflect the negative impact of changes in exchange rates for €146.4 million and total impairment loss taken against the full amount of Club des Créateurs de Beauté goodwill for €35.3 million.

The accumulated impairment losses relating to SoftSheen Carson, Yue Sai, Sanoflore and Club des Créateurs de Beauté amount to € 125.2 million, €29.1 million, €35.7 million and €34.7 million respectively, at December 31st, 2013.

€ millions 2012	12.31.2011	Acquisitions/Disposals	Other movements	12.31.2012
L'Oréal Professionnel/Kérastase	348.1	5.5	-2.0	351.6
Matrix	343.0	18.1	-4.8	356.3
Redken/PureOlogy	492.6		-7.4	485.2
Professional Products Total	**1,183.7**	**23.6**	**-14.2**	**1,193.1**
L'Oréal Paris	773.8		1.7	775.5
Maybelline/Garnier	1,102.7		-14.8	1,087.9
Cadum	-	156.4		156.4
Other	98.2	3.3	-1.5	100.0
Consumer Products Total	**1,974.7**	**159.7**	**-14.6**	**2,119.8**
Lancôme	780.8			780.8
Shu Uemura	163.9		-17.4	146.5
YSL Beauté	519.8			519.8
Perfumes	334.0		0.7	334.7
Clarisonic	260.0		6.3	266.3
Urban Decay	-	126.4	-0.3	126.1
Other	63.6		0.2	63.8
L'Oréal Luxury Total	**2,122.1**	**126.4**	**-10.5**	**2,238.0**
Vichy/Dermablend	269.4		-0.5	268.9
Other	110.8		-0.6	110.2
Active Cosmetics Total	**380.2**		**-1.1**	**379.1**
Other	9.2		-9.2	-
The Body Shop	**330.8**	**1.6**	**7.7**	**340.1**
Dermatology	**203.9**		**4.2**	**208.1**
GROUP TOTAL	**6,204.6**	**311.3**	**-37.7**	**6,478.2**

2012 acquisitions mainly relate to Cadum, Urban Decay and Emiliani Enterprises for €306.4 million. No significant disposals took place during 2012. Other movements mainly reflect the negative impact of changes in exchange rates for €48.4 million, partly offset by the allocation of the purchase price of Clarisonic for €10.6.million.

No impairment loss has been recorded on 2012.

The accumulated impairment losses relating to SoftSheen Carson, Yue Sai and Sanoflore amount to € 133.4 million, €29.5 million and €35.7 million respectively, at December 31st, 2012.

€ millions 2011	12.31.2010	Acquisitions/ Disposals	Other movements	12.31.2011
L'Oréal Professionnel/Kérastase	343.1		5.0	348.1
Matrix	296.3	6.5	40.2	343.0
Redken/PureOlogy	467.7	0.9	24.0	492.6
Other	31.9		-31.9	-
Professional Products Total	**1,139.0**	**7.4**	**37.3**	**1,183.7**
L'Oréal Paris	768.1		5.7	773.8
Maybelline/Garnier	1,079.0		23.7	1,102.7
SoftSheen Carson	45.0		-32.7	12.3
Other	84.9		1.0	85.9
Consumer Products Total	**1,977.0**		**-2.3**	**1,974.7**
Lancôme	775.2		5.6	780.8
Shu Uemura	152.5		11.4	163.9
YSL Beauté	519.8			519.8
Perfumes	334.0			334.0
Clarisonic	-	260.8	-0.8	260.0
Other	63.4		0.2	63.6
L'Oréal Luxury Total	**1,844.9**	**260.8**	**16.4**	**2,122.1**
Vichy/Dermablend	268.0		1.4	269.4
Other	114.4		-3.6	110.8
Active Cosmetics Total	**382.4**		**-2.2**	**380.2**
Other	9.2			9.2
The Body Shop	**321.8**	**1.1**	**7.9**	**330.8**
Dermatology	**55.3**	**149.5**	**-0.9**	**203.9**
GROUP TOTAL	**5,729.6**	**418.8**	**56.2**	**6,204.6**

2011 acquisitions mainly relate to Arex GmbH, Q-Med and Pacific Bioscience Laboratories Inc. (Clarisonic) for €415.6 million. No significant disposals took place during 2011. Other movements mainly reflect the positive impact of changes in exchange rates for €82.7 million, partly offset by the allocation of the purchase price of the Peel's Salon Services for €6.1 million and by impairment losses on Softsheen Carson for €31.8 million and on Sanoflore for €5.3 million (included in the "Other" line of Active Cosmetics).

Impairment losses have been recorded against these Cash-Generating Units as their performance did not meet forecasts.

The accumulated impairment losses relating to Softsheen Carson, Yue Sai and Sanoflore amount to €136.8 million, €29.8 million and €35.7 million, respectively, at December 31st, 2011.

NOTE 12 Other intangible assets

€ millions 2013	12.31.2012	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2013
Brands with indefinite useful life (2)	1,539.1			11.2	-54.8	1,495.5
Amortisable brands and product ranges	79.4	1.0	-1.7	19.3	-0.8	97.2
Licences and patents	943.0	22.4	-0.6	7.4	-19.2	952.9
Software	791.9	65.1	-25.1	0.2	-2.7	829.2
Other	498.8	69.4	-5.9	0.0	-26.6	535.8
Gross value	**3,852.2**	**157.8**	**-33.4**	**38.0**	**-104.1**	**3,910.5**
Brands with indefinite useful life	103.2				-1.9	101.4
Amortisable brands and product ranges	58.0	7.5	-1.7		-1.0	62.8
Licences and patents	360.6	51.8	-0.6	0.1	-7.5	404.3
Software	524.6	102.0	-25.1	0.0	-18.8	582.7
Other	180.5	40.7	-3.7		-5.8	211.7
Amortisation and provisions	**1,226.8**	**201.9**	**-31.0**	**0.1**	**-34.9**	**1,362.9**
Other intangible assets – net	**2,625.4**	**-44.1**	**-2.3**	**37.9**	**-69.2**	**2,547.7**

(1) This item consists mainly of changes in the scope of consolidation resulting from Spirig, Vogue and Interbeauty.
(2) At December 31st, 2013, brands with an indefinite useful life consist mainly of The Body Shop (€497.3 million), Matrix (€268.1 million), Kiehl's (€120.4 million), Shu Uemura (€98.8 million) and Clarisonic (€82.3 million).

Other movements mainly consisted of the negative change in exchange rates over the period.

Accumulated impairment losses amount to €14.0 million on Biomedic, €39.9 million on Yue Sai and €47.5 million on Softsheen Carson at December 31st, 2013.

€ millions 2012	12.31.2011	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2012
Brands with indefinite useful life (2)	1,454.3			95.3	-10.5	1,539.1
Amortisable brands and product ranges	74.4	2.8		2.2		79.4
Licences and patents	930.4	19.6	-10.2		3.2	943.0
Software	538.6	65.2	-10.5	0.3	198.3	791.9
Other	459.8	31.9	-0.9	40.1	-32.1	498.8
Gross value	**3,457.5**	**119.5**	**-21.6**	**137.9**	**158.9**	**3,852.2**
Brands with indefinite useful life	104.3				-1.1	103.2
Amortisable brands and product ranges	54.8	3.5			-0.3	58.0
Licences and patents	319.1	52.4	-10.4		-0.5	360.6
Software	350.2	93.6	-11.0	0.1	91.7	524.6
Other	151.9	29.8	-0.4		-0.8	180.5
Amortisation and provisions	**980.2**	**179.3**	**-21.8**	**0.1**	**89.0**	**1,226.8**
Other intangible assets – net	**2,477.3**	**-59.8**	**0.2**	**137.8**	**69.9**	**2,625.4**

(1) This item consists mainly of changes in the scope of consolidation resulting from Cadum, Urban Decay and Emiliani Enterprises.
(2) At December 31st, 2012, brands with an indefinite useful life consist mainly of The Body Shop (€507.8 million), Matrix (€276.8 million), Kiehl's (€123.8 million), Shu Uemura (€117.2 million) and Clarisonic (€85.1 million).

Other movements mainly consisted of the reclassification of software from property, plant and equipment to intangible assets for €79.3 million, offset by changes in exchange rates with a negative €12.7 million impact over the period.

Accumulated impairment losses amount to €14.0 million on Biomedic, €40.4 million on Yue Sai and €48.9 million on Softsheen Carson at December 31st, 2012.

€ millions 2011	12.31.2010	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2011
Brands with indefinite useful life (2)	1,295.5			119.9	38.9	1,454.3
Amortisable brands and product ranges	66.8	0.7		5.0	2.0	74.4
Licences and patents	725.6	9.0	-0.1	185.5	10.4	930.4
Other	906.5	98.6	-23.2	9.7	6.9	998.4
Gross value	**2,994.3**	**108.3**	**-23.3**	**320.1**	**58.2**	**3,457.5**
Brands with indefinite useful life (2)	66.3	32.8			5.3	104.3
Amortisable brands and product ranges	48.6	3.7			2.5	54.8
Licences and patents	270.9	42.4	-0.1	-0.7	6.6	319.1
Other	431.2	88.3	-23.2		5.8	502.1
Amortisation and provisions	**816.9**	**167.2**	**-23.3**	**-0.7**	**20.1**	**980.2**
Other intangible assets – net	**2,177.5**	**-58.9**	**0.0**	**320.8**	**38.0**	**2,477.3**

(1) This item consists mainly of changes in the scope of consolidation resulting from Arex GmbH, Q-Med and Pacific Bioscience Laboratories Inc.
(2) At December 31st, 2011, brands with an indefinite useful life consist mainly of The Body Shop (€495.8 million), Matrix (€281.1 million), Kiehl's (€125.6 million), Shu Uemura (€129.3 million) and Clarisonic (€86.5 million).
(3) Impairment losses were recognised during the period against the Softsheen Carson brand, for €32.8 million.

Other movements mainly consisted of changes in exchange rates with a positive €44.1 million impact over the period, as well as the allocation of the purchase price of the American distributors acquired in 2010 (shown on the "Other" line for €9.8 million).

Accumulated impairment losses amount to €14.0 million on Biomedic, €40.8 million on Yue Sai and €49.5 million on Softsheen Carson at December 31st, 2011.

NOTE 13 Impairment tests on intangible assets

Impairment tests of Cash-Generating Units for which the carrying amount of goodwill and intangible assets with indefinite useful lives is significant, are carried out based on the following data and assumptions:

		Discount rate *(%)*	
€ millions	Net carrying amount of goodwill and brands with indefinite useful lives	International excluding USA	USA
2013 TEST			
Maybelline/Garnier	1,053.4	7.9	8.9
The Body Shop	869.1	8.5	(1)
Lancôme	779.0	7.9	8.9
L'Oréal Paris	770.6	7.9	8.9
Matrix	623.6	7.9	8.9
Redken/PureOlogy	528.3	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	344.6	7.9	8.9
Clarisonic	339.8	7.9	8.9
Vichy/Dermablend	302.3	7.9	(1)
2012 TEST			
Maybelline/Garnier	1,087.9	7.9	8.9
The Body Shop	847.9	7.9	(1)
Lancôme	780.8	7.9	8.9
L'Oréal Paris	775.5	7.9	8.9
Matrix	633.1	7.9	8.9
Redken/PureOlogy	546.9	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	351.6	7.9	8.9
Clarisonic	351.4	7.9	8.9
Vichy/Dermablend	304.7	7.9	(1)
2011 TEST			
Maybelline/Garnier	1,102.7	7.9	8.9
The Body Shop	826.6	7.9	(1)
Lancôme	780.8	7.9	8.9
L'Oréal Paris	773.8	7.9	8.9
Matrix	624.1	7.9	8.9
Redken/PureOlogy	555.6	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	348.1	7.9	8.9
Clarisonic	346.5	7.9	8.9
Vichy/Dermablend	305.4	7.9	(1)

(1) Since the USD amounts for the YSL Beauté, The Body Shop and Vichy/Dermablend CGUs are not material, no specific discount rate has been used in this respect.

At December 31st, 2013, a 1-point increase in the discount rate on all Cash-Generating Units would not lead to an impairment loss.

The terminal growth rate is consistent in accordance with market data, *i.e.* 3%.

A 1-point decrease in the terminal growth rate on all Cash-Generating Units would not lead to an impairment loss.

A 1-point decrease in the margin rate over the business plan period on all Cash-Generating Units would not lead to an impairment loss.

NOTE 14 Property, plant and equipment

€ millions 2013	12.31.2012	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2013
Land and buildings	1,993.1	76.8	-21.7	-60.5	103.6	2,091.2
Machinery and equipment	2,876.0	205.7	-150.5	-95.5	24.6	2,860.3
Point-of-sales advertising: stands and displays	1,356.0	273.8	-186.3	-69.4	30.8	1,405.0
Other property, plant and equipment and fixed assets in progress	1,346.1	358.9	-69.4	-67.0	-197.3	1,371.5
Gross value	**7,571.1**	**915.1**	**-427.8**	**-292.4**	**-38.2**	**7,727.9**
Land and buildings	1,033.4	73.4	-16.1	-19.8	0.4	1,071.3
Machinery and equipment	1,970.5	243.1	-148.4	-52.8	-59.2	1,953.2
Point-of-sales advertising: stands and displays	914.6	274.9	-186.1	-45.2	0.2	958.3
Other property, plant and equipment	689.9	106.8	-68.7	-30.5	-6.5	691.1
Depreciation and provisions	**4,608.4**	**698.2**	**-419.3**	**-148.3**	**-65.1**	**4,673.9**
Property, plant and equipment – net	**2,962.8**	**216.9**	**-8.5**	**-144.1**	**26.9**	**3,054.1**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset.

€ millions 2012	12.31.2011	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2012
Land and buildings	1,888.8	98.0	-14.1	-12.2	32.6	1,993.1
Machinery and equipment	2,747.1	185.6	-79.7	-25.4	48.4	2,876.0
Point-of-sales advertising: stands and displays	1,245.4	281.6	-185.8	-5.4	20.1	1,356.0
Other property, plant and equipment and fixed assets in progress	1,425.7	285.4	-46.4	-17.1	-301.5	1,346.1
Gross value	**7,307.0**	**850.6**	**-326.0**	**-60.1**	**-200.4**	**7,571.1**
Land and buildings	979.1	72.1	-12.1	-5.5	-0.3	1,033.4
Machinery and equipment	1,864.0	231.1	-76.2	-15.0	-33.4	1,970.5
Point-of-sales advertising: stands and displays	842.6	258.8	-184.9	-2.0	0.0	914.6
Other property, plant and equipment	740.5	99.4	-46.1	-8.0	-95.9	689.9
Depreciation and provisions	**4,426.2**	**661.4**	**-319.4**	**-30.5**	**-129.5**	**4,608.4**
Property, plant and equipment – net	**2,880.8**	**189.1**	**-6.6**	**-29.6**	**-70.9**	**2,962.8**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items as well as the reclassification of software within intangible assets for a gross value of €176.8 million and a net amount of €79.3 million.

€ millions 2011	12.31.2010	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2011
Land and buildings	1,729.4	65.2	-35.2	2.3	127.1	1,888.8
Machinery and equipment	2,585.3	156.9	-78.7	-1.6	85.2	2,747.1
Point-of-sales advertising: stands and displays	1,161.0	245.7	-191.5	18.5	11.7	1,245.4
Other property, plant and equipment and fixed assets in progress	1,337.5	287.7	-64.4	19.2	-154.3	1,425.7
Gross value	**6,813.2**	**755.5**	**-369.8**	**38.4**	**69.7**	**7,307.0**
Land and buildings	924.8	68.2	-28.3	2.8	11.6	979.1
Machinery and equipment	1,725.2	209.3	-75.8	2.6	2.7	1,864.0
Point-of-sales advertising: stands and displays	797.9	223.1	-190.5	10.8	1.3	842.6
Other property, plant and equipment	687.8	107.1	-63.4	12.6	-3.5	740.5
Depreciation and provisions	**4,135.7**	**607.7**	**-358.0**	**28.8**	**12.1**	**4,426.2**
Property, plant and equipment – net	**2,677.5**	**147.7**	**-11.8**	**9.6**	**57.7**	**2,880.8**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items.

Property, plant and equipment include capital lease contracts for the following amounts:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Land and buildings	80.6	114.4	113.4
Machinery and equipment	2.2	2.3	2.4
Other property, plant and equipment and fixed assets in progress	25.5	20.5	18.8
Gross value	**108.3**	**137.2**	**134.6**
Depreciation	54.6	70.4	63.1
Net value	**53.7**	**66.8**	**71.5**

NOTE 15 Non-current financial assets

	12.31.2013		12.31.2012		12.31.2011	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Financial assets available-for-sale						
◆ Sanofi (1)	9,117.7	4,033.5	8,440.2	4,033.5	6,709.4	4,033.5
◆ Unlisted securities (2)	6.8	8.7	5.1	7.3	6.0	7.1
Financial assets at amortised cost						
◆ Non-current loans and receivables	83.8	88.7	86.0	90.8	185.6	190.6
TOTAL	**9,208.3**	**4,130.8**	**8,531.3**	**4,131.6**	**6,900.9**	**4,231.2**

(1) L'Oréal's stake in Sanofi was 8.93% at December 31st, 2013. The carrying amount at December 31st, 2011, December 31st, 2012 and December 31st, 2013 (€6,709.4 million, €8,440.2 million and €9,117.7 million respectively) corresponds to the market value of the shares based on the closing price at each of these dates (€56.75, €71.39 and €77.12 respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12.
(2) As the fair value of unlisted securities cannot be reliably determined, they are stated at cost less any impairment losses.

NOTE 16 Inventories

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Finished products and consumables	1,885.8	1,792.4	1,839.8
Raw materials, packaging and semi-finished products	522.3	472.7	438.9
Gross value	**2,408.1**	**2,265.1**	**2,278.7**
Valuation allowance	249.5	231.3	226.7
Inventories – net	**2,158.6**	**2,033.8**	**2,052.1**

NOTE 17 Trade accounts receivable

€ millions	12.31.2013	12.31.2012	12.31.2011
Gross value	3,297.4	3,253.1	3,042.3
Valuation allowance	43.9	44.3	46.2
Net value	**3,253.5**	**3,208.8**	**2,996.2**

Trade accounts receivable are due within one year. Group policy is to recommend credit insurance coverage as far as local conditions allow. The non-collection risk on trade receivables is therefore minimised, and this is reflected in the level of the allowance, which is less than 2% of gross receivables at the end of 2013.

NOTE 18 Other current assets

€ millions	12.31.2013	12.31.2012	12.31.2011
Tax and employee-related receivables (excluding income tax)	354.7	336.8	309.2
Prepaid expenses	235.4	234.3	231.3
Derivatives	205.5	162.5	114.0
Other current assets	372.3	273.0	249.6
TOTAL	**1,167.9**	**1,006.6**	**904.1**

NOTE 19 Cash and cash equivalents

	12.31.2013		12.31.2012		12.31.2011	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	1,024.2	1,023.9	150.0	150.1	598.2	597.0
Bank accounts and other cash and cash equivalents	1,583.1	1,583.1	1,673.2	1,673.2	1,054.0	1,054.0
TOTAL	**2,607.3**	**2,607.0**	**1,823.2**	**1,823.3**	**1,652.2**	**1,651.0**

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). Marketable securities are considered as Financial assets available-for-sale.

Unrealised gains amount to €0.3 million in 2013 compared with -€0.1 million and €1.2 million, respectively, in 2012 and in 2011.

Term accounts with a maturity of less than 3 months at inception are shown on the "Bank accounts and other cash and cash equivalents" line.

NOTE 20 Equity

20.1. *Share capital and additional paid in capital*

Share capital consists of 605,901,887 shares with a par value of €0.20 at December 31st, 2013, following the exercise of subscription options for 5,961,501 shares and 238,200 free shares and the cancellation of 9,108,641 shares.

Share capital consisted of 608,810,827 shares with a par value of €0.20 at December 31st, 2012, following the exercise of subscription options for 5,826,745 shares.

Share capital consisted of 602,984,082 shares with a par value of €0.20 at December 31st, 2011, following the exercise of subscription options for 1,991,097 shares and 400 free shares.

20.2. *Treasury stock*

Shares acquired under the shareholder-approved L'Oréal share buyback programme are deducted from consolidated equity. Capital gains or losses relating to these shares are also recorded in equity net of tax.

A) 2013

The change in the number of shares in 2013 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2013	**608,810,827**	**-10,454,165**	**598,356,662**
Shares cancelled	-9,108,641	9,108,641	-
Options and free shares exercised	6,199,701	1,224,058	7,423,759
Treasury stock purchased	-	-5,986,391	-5,986,391
AT 12.31.2013	**605,901,887**	**-6,107,857**	**599,794,030**

The change in Treasury stock in 2013 is as follows:

In shares	Buyback programme	Allocated to stock options/free shares plans	**Total**	€ millions
AT 01.01.2013	**5,077,250**	**5,376,915**	**10,454,165**	**904.5**
Shares cancelled	-9,108,641		-9,108,641	-998.5
Options and free shares exercised		-1,224,058	-1,224,058	-81.7
Treasury stock purchased	5,986,391		5,986,391	743.8
AT 12.31.2013	**1,955,000**	**4,152,857**	**6,107,857**	**568.1**
€ millions	**244.5**	**323.6**	**568.1**	

B) 2012

The change in the number of shares in 2012 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2012	**602,984,082**	**-8,597,659**	**594,386,423**
Shares cancelled			-
Options and free shares exercised	5,826,745	3,220,744	9,047,489
Treasury stock purchased	-	-5,077,250	-5,077,250
AT 12.31.2012	**608,810,827**	**-10,454,165**	**598,356,662**

The change in Treasury stock in 2012 is as follows:

In shares	Buyback programme	Allocated to stock options/free shares plans	**Total**	€ millions
AT 01.01.2012	**-**	**8,597,659**	**8,597,659**	**644.4**
Shares cancelled				
Options and free shares exercised		-3,220,744	-3,220,744	-239.1
Treasury stock purchased	5,077,250	-	5,077,250	499.2
AT 12.31.2012	**5,077,250**	**5,376,915**	**10,454,165**	**904.5**
€ millions	**499.2**	**405.3**	**904.5**	

C) 2011

The change in the number of shares in 2011 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2011	**600,992,585**	**-11,336,682**	**589,655,903**
Shares cancelled			-
Options and free shares exercised	1,991,497	2,739,023	4,730,520
Treasury stock purchased	-		
AT 12.31.2011	**602,984,082**	**-8,597,659**	**594,386,423**

The change in Treasury stock in 2011 is as follows:

In shares	Buyback programme	Allocated to stock options/free shares plans	**Total**	€ millions
AT 01.01.2011	**-**	**11,336,682**	**11,336,682**	**850.9**
Shares cancelled				
Options and free shares exercised		-2,739,023	-2,739,023	-206.5
Treasury stock purchased		-	-	-
AT 12.31.2011	**-**	**8,597,659**	**8,597,659**	**644.4**
€ millions	**-**	**644.4**	**644.4**	

20.3. *Share subscription or purchase options – Free shares*

1) SHARE SUBSCRIPTION OR PURCHASE OPTIONS

The table below sets out data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2013.

Grant date	Number of options	Number of options not yet exercised	Exercise period from	Exercise period to	Exercise price
03.24.2004	2,000,000	71,736	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	206,250	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	150,000	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	505,609	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	225,152	12.01.2010	11.30.2015	62.94
04.25.2006	2,000,000	1,000,000	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	1,702,062	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	1,779,675	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,433,500	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	3,991,000	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,233,500	04.23.2016	04.22.2021	83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee). The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, i.e. the sum of operating profit and advertising and promotion expenses, and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2013, the performance conditions were deemed to have been met.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

	Purchase options		Subscription options										
	December 2003	November 2005	December 2003	March 2004	December 2004	June 2005	November 2005	April 2006	December 2006	November 2007	March 2009	April 2010	April 2011
Risk-free rate of return	4.22%	3.16%	3.92%	3.39%	3.17%	2.63%	3.16%	3.80%	3.62%	4.01%	3.15%	2.83%	3.42%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years	6 years	7 years	7 years	7 years	7 years	8 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17.00%	21.00%	20.50%	22.52%	23.00%	31.95%	23.53%	22.60%
Expected dividends	1.00%	1.35%	1.00%	1.20%	1.34%	1.38%	1.35%	1.35%	1.35%	1.24%	2,83%	1.86%	2.10%
Share price	€63.45	€61.30	€63.45	€60.60	€54.60	€59.40	€61.30	€74.10	€74.60	€94.93	€50.94	€80.50	€85.68
Exercise price	€71.90	€62.94	€63.02	€64.69	€55.54	€60.17	€61.37	€72.60	€78.06	€91.66	€50.11	€80.03	€83.19
Fair value	€15.24	€12.30	€15.66	€14.67	€10.15	€9.45	€12.88	€17.48	€17.19	€25.88	€12.16	€17.17	€18.58

Expected volatility is equal to the implied volatility of the options listed on MONEP at the grant dates. As from 2007, in order to mitigate the effects of atypical phenomena, the volatility used corresponds to the average between implied volatility at the grant date and historic volatility over the expected life span of the option. The expected life span has been adjusted to take account of behavioural assumptions relating to the beneficiaries.

Data concerning all share option plans during fiscal years 2011, 2012 and 2013 are set out below:

	12.31.2013		12.31.2012		12.31.2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Number of options not exercised at beginning of period	**22,210,443**	**71.90**	**32,524,432**	**72.02**	**37,296,504**	**71.55**
◆ Options granted	-		-		1,470,000	83.19
◆ Options exercised	-7,182,259	70.66	-9,047,489	71.96	-4,730,120	70.24
◆ Options expired	-729,700		-1,266,500		-1,511,952	
Number of options not exercised at end of period	**14,298,484**	**72.24**	**22,210,443**	**71.90**	**32,524,432**	**72.02**
Of which:						
◆ number of exercisable options at end of period	5,640,484	77.81	13,235,943	73.90	19,450,832	69.63
◆ expired options at end of period	6,500		45,000		214,750	

The weighted average share price was €123.64, €93.60 and €81.60, respectively, for 2013, 2012 and 2011.

The total charge recorded in 2013, 2012 and 2011 amounted to €27.0 million, €41.2 million and €62.8 million, respectively.

2) FREE SHARES

On April 26th, 2013, April 17th, 2012, April 22nd, 2011 and April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 1,057,820, 1,325,050, 1,038,000, 450,000 and 270,000 free shares.

VESTING CONDITIONS

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

A total of 237,800 shares were definitively granted on March 26th, 2013 under the March 25th, 2009 plan.

The performance conditions concern:

- April 26th, 2013, April 17th, 2012 and April 22nd, 2011 plans:
  - for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2014, 2015 and 2016 fiscal years under the 2013 plan, for the 2013, 2014 and 2015 fiscal years under the 2012 plan and for the 2012, 2013 and 2014 fiscal years under the 2011 plan in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2014, 2015 and 2016 fiscal years under the 2013 plan, in the 2013, 2014 and 2015 fiscal years under the 2012 plan and in the 2012, 2013 and 2014 fiscal years under the 2011 plan and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

- April 27th, 2010 plan:
  - for 25% of shares granted, the increase in comparable Cosmetic revenues for the 2011, 2012 and 2013 fiscal years compared with the growth of the cosmetics market;
  - for 75% of shares granted, the percentage, over the same period, resulting from the ratio between operating profit and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012 and 2013 fiscal years and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2013, the performance conditions were deemed to have been met.

FAIR VALUE OF FREE SHARES GRANTED

The fair value corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.The cost of the holding period amounts respectively to 5.75%, 8.06%, 8.54% and 8.64% of the share value at the grant date for the 2013, 2012, 2011 and 2010 plans.

On the basis of these assumptions, the fair values for the 2013, 2012, 2011 and 2010 plans amount to €112.37, €77.07, €70.36, and €66.78 respectively for French residents, and to €119.87, €84.62, €77.67 and €73.73 respectively, for non-residents, compared to a share price of €130.45, €93.68, €85.68 and €80.50, respectively.

The expense recorded in 2013, 2012 and 2011 amounted to €70.2 million, €45.2 million and €24.0 million.

20.4. *Other comprehensive income*

The following tables indicate movements in these items:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Financial assets available-for-sale			
Reserve at beginning of period	4,406.7	2,675.8	1,624.1
Changes in fair value over period	677.5	1,730.9	1,052.2
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss	-	-	-0.5
Reserve at the end of period	**5 084,2**	**4 406,7**	**2 675,8**

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Cash flow hedges – foreign exchange			
Reserve at beginning of period	95.4	-7.4	0.2
Changes in fair value over period	137.2	20.1	-16.9
Changes in fair value recorded in profit and loss	-124.0	82.7	9.3
Reserve at end of period	**108.6**	**95.4**	**-7.4**

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€247.5 million (-€212.2 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2013.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€209.7 million (-€195.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2012.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€181.6 million (-€171.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2011.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€44.5 million (+€74.0 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2013.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€55.1 million (+€68.3 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2012.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€12.8 million (+€25.8 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2011.

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Cash flow hedges – interest rates			
Reserve at beginning of period	-	-	-1.7
Changes in fair value over the period	-	-	-0.3
Changes in fair value recorded in profit and loss	-	-	2.0
Reserve at end of period	**-**	**-**	**-**

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-1,068.4	-796.4	-624.0
Actuarial gains / (losses) over the period	188.9	-272.0	-172.5
Impact of asset ceiling	-	0.1	0.1
Reserve at end of period	**-879.5**	**-1,068.4**	**-796.4**

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Other comprehensive income			
Gross reserve	4,313.3	3,433.7	1,872.0
Associated tax effect	56.8	152.7	182.7
Reserve net of tax	**4,370.1**	**3,586.4**	**2,054.7**

NOTE 21 Post-employment benefits, termination benefits and other long-term employee benefits

The Group operates pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid.

The characteristics of the defined benefit schemes in force within the Group are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. An early retirement plan and a defined benefit plan have also been set up. In some Group companies there are also measures providing for the payment of certain healthcare costs for retired employees.

These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees:

- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

Pension obligations are determined and recognised in accordance with the accounting principles presented in note 1.23.

The actuarial assumptions used to calculate these obligations take into account the economic conditions specific to each country or Group company.The weighted average assumptions for the Group are as follows:

In %	12.31.2013	12.31.2012	12.31.2011
Discount rate	3.8%	3.6%	4.5%
Salary increase	4.9%	4.9%	4.7%
Expected long-term return on plan assets	3.8%	3.6%	5.5%

	12.31.2013			12.31.2012			12.31.2011		
	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate
Expected rate of health care inflation	4.9%	3.6%	2019	5.7%	3.8%	2019	5.4%	3.7%	2016

The discount rates are obtained by reference to market yields on high quality corporate bonds having maturity dates equivalent to those of the obligations. Bond quality is assessed by reference to the AA-/Aa3 minimum rating provided by one of the three main credit-rating agencies.

They can be broken down by geographic zone as follows:

In %	2013	2012	2011
Weighted average (all countries)	**3.8%**	**3.6%**	**4.5%**
of which:			
euro zone (1)	3.5%	3.4%	4.7%
United States	4.3%	3.5%	4.3%
United Kingdom	4.5%	4.5%	5.0%

(1) The weighted average for 2013 consists of a 3.5% discount rate on annuity plans with an average term of 22.1 years and a 3.3% discount rate on capital plans with an average term of 12.7 years.

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €211.2 million for the euro zone, €52.9 million for the United States and €47.7 million for the United Kingdom.

The expected return on plan assets is determined on the basis of the asset allocation of the investment portfolio, taking into account the associated risks and past performance for each azsset category excepted at December 31st, 2012 and December 31st, 2013 where expected return are based on discount rates.

It can be broken down by geographic zone as follows:

In %	2013	2012	2011
Weighted average (all countries)	**3.8%**	**3.6%**	**5.5%**
of which:			
euro zone	3.5%	3.4%	5.5%
United States	4.3%	3.5%	6.0%
United Kingdom	4.5%	4.5%	5.8%

A 50 basis point decrease in the expected return would decrease the assets as well as the expected return on plan assets by -€7.3 million for the euro zone, -€2.9 million for the United States and -€2.3 million for the United Kingdom.

The breakdown of plan assets is as follows:

In %	12.31.2013	12.31.2012	12.31.2011
Equity securities (1)	37.5%	35.1%	34.3%
Bonds	52.5%	55.6%	53.1%
Property assets (2)	3.6%	3.5%	4.2%
Monetary instruments	1.1%	1.1%	3.9%
Other	5.3%	4.7%	4.5%
TOTAL	**100%**	**100%**	**100%**

(1) Of which L'Oréal shares: nil.
(2) Of which property assets occupied by Group entities: nil.

The allocation of plan assets has to comply with specific investment limits for the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The variations during 2013, 2012 and 2011 are set out below:

€ millions	Present value of defined benefit obligations	Plan assets	Net provisions
Balance at December 31st, 2010 (1)	**3,048.8**	**-1,907.6**	**1,141.2**
Service cost	111.7		111.7
Interest cost	131.4		131.4
Expected return on assets		-114.5	-114.5
Past service cost: new plans / plan amendments	2.8		2.8
Curtailments	-1.3		-1.3
Settlements	-0.1	0.1	-
Benefits paid	-139.2	102.8	-36.4
Contributions paid	6.6	-280.0	-273.4
Actuarial gains and losses	45.5	126.9	172.4
Translation differences	45.4	-35.1	10.3
Other movements	1.1	-0.3	0.8
Balance at December 31st, 2011 (1)	**3,252.7**	**-2,107.7**	**1,145.0**
Service cost	121.7		121.7
Interest cost	142.8		142.8
Expected return on assets		-121.5	-121.5
Past service cost: new plans / plan amendments	0.8		0.8
Curtailments	-0.1		-0.1
Settlements	0.1		0.1
Benefits paid	-162.5	117.3	-45.1
Contributions paid	5.6	-273.2	-267.6
Actuarial gains and losses	416.7	-144.8	271.9
Translation differences	-17.5	10.6	-6.9
Other movements	-0.2	1.8	1.6
Balance at December 31st, 2012 (1)	**3,760.1**	**-2,517.4**	**1,242.7**
Service cost	140.4		140.4
Interest cost	139.8		139.8
Expected return on assets		-99.6	-99.6
Past service cost: new plans / plan amendments	0.2		0.2
Curtailments	-1.5		-1.5
Settlements			-
Benefits paid	-183.7	134.3	-49.4
Contributions paid	5.1	-255.0	-249.9
Actuarial gains and losses	-136.7	-52.2	-188.9
Translation differences	-74.5	53.2	-21.3
Other movements (2)	80.9	-12.9	68.0
BALANCE AT DECEMBER 31st, 2013	**3,730.1**	**-2,749.6**	**980.5**

(1) These amounts have been restated according to change in accounting policies (see note 1).
(2) Including for the projected benefit obligation in 2013 €67.6 million reclassified from employee-related liabilities to provisions for employee retirement obligations and related benefits and €20.0 million relating to additions to the scope of consolidation.

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Present value of defined benefit obligations wholly or partly funded	3,238.7	3,293.9	2,860.7
Fair value of plan assets	2,749.6	2,517.4	2,107.7
Net position of defined benefit obligations wholly or partly funded	489.1	776.5	753.0
Present value of defined benefit obligations wholly unfunded	491.4	466.5	392.0

The retirement expense charged to the income statement is recorded within personnel expenses under operational profit and can be analysed as follows:

€ millions	**2013**	2012	2011
Service cost	140.4	121.7	111.7
Interest cost	139.8	142.8	131.4
Expected return on plan assets	-99.6	-121.5	-114.5
Amortisation of actuarial gains and losses	-	-	-
New plans / plan amendments	0.2	1.3	-0.3
Curtailments	-1.5	-0.9	-2.1
Settlements	-	0.1	-
TOTAL	**179.3**	**143.5**	**126.2**

Contributions to defined contribution plans recognised as an expense in 2013, 2012 and 2011 amounted to €415.0 million, €388.6 million and €344.8 million, respectively.

A change of one percentage point in medical cost inflation would have the following impact:

	Increase of 1%	**Decrease of 1%**
Impact on projected benefit obligation	16.0	-12.8
Impact on current service cost and interest costs	1.5	-1.1

Actuarial gains and losses for the periods presented are as follows:

2013 *€ millions*	**Present value of defined benefit obligations**	**Plan assets**	**Net provisions**
Actuarial gains and losses: experience adjustments	-10.4	-52.2	-62.6
Actuarial gains and losses: demographic assumptions	17.1	-	17.1
Actuarial gains and losses: financial assumptions	-143.4	-	-143.4
TOTAL	**-136.7**	**-52.2**	**-188.9**

2012 *€ millions*	Present value of defined benefit obligations	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	7.0	-144.8	-137.8
Actuarial gains and losses: demographic assumptions	-139.0	-	-139.0
Actuarial gains and losses: financial assumptions	548.7	-	548.7
TOTAL	**416.7**	**-144.8**	**271.9**

2011 *€ millions*	Present value of defined benefit obligations	Plan assets	Net provisions
Actuarial gains and losses: experience adjustments	15.1	126.9	142.0
Actuarial gains and losses: demographic assumptions	7.8	-	7.8
Actuarial gains and losses: financial assumptions	22.6	-	22.6
TOTAL	**45.5**	**126.9**	**172.4**

NOTE 22 Provisions for liabilities and charges

22.1. Closing balances

€ millions	12.31.2013	12.31.2012	12.31.2011
Non-current provisions for liabilities and charges	**182.7**	**181.7**	**226.1**
Other non-current provisions (1)	182.7	181.7	226.1
Current provisions for liabilities and charges	**557.8**	**552.3**	**500.7**
Provisions for restructuring	100.1	129.4	93.6
Provisions for product returns	251.0	226.3	219.2
Other current provisions (1) (2)	206.6	196.6	187.9
TOTAL	**740.5**	**734.0**	**726.8**

(1) This item includes provisions for tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract), personnel-related costs and risks relating to investigations carried out by competition authorities.

(2) Investigations have been launched into the cosmetics sector by national competition authorities in several European countries.
Each of the proceedings is at a different stage:

- *in Spain, the case was heard by the Court of First Instance and a fine handed down. L'Oréal has filed an appeal against this fine, which continues to be covered by a provision in its books;*
- *in Italy, the case was heard by the Court of First Instance and the resulting fine was paid in order to avoid any late-payment penalties. The appeal decision handed down in April 2012 reduced the fine by 25% but the case is still pending before the High Court;*
- *in France, the case regarding vertical pricing arrangements in the luxury perfume and cosmetics industry ended with the ruling of June 12th, 2013 by France's highest civil court (the Cour de Cassation) upholding the decision issued in 2006 by the French Competition Council. The resulting financial penalties were already covered by a provision and have been paid by L'Oréal. A statement of objections was received from the antitrust authorities in 2013 concerning the consumer products sector in France. No provision has yet been booked in this respect. L'Oréal has challenged these objections and the case is currently under review;*
- *in Belgium, the proceedings are in progress;*
- *the proceedings brought in Germany in 2008 into the bodycare and personal care sector are still in progress and an appeal has been lodged against the ruling of the Court of First Instance of March 14th, 2013. Accordingly, the €9.7 million fine has not yet been paid.*

The provisions relating to these litigations amount to €43.0 million at December 31st, 2013 compared with €45.0 million at December 31st, 2012 and €35.1 million at December 31st, 2011.

22.2. Changes in provisions for liabilities and charges during the period

€ millions	12.31.2011	12.31.2012	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2013
Provisions for restructuring	93.6	129.4	32.7	-46.8	-12.6	-2.6	100.1
Provisions for product returns	219.2	226.3	228.8	-171.0	-27.4	-5.7	251.0
Other provisions for liabilities and charges	414.0	378.3	145.7	-76.9	-50.0	-7.8	389.3
TOTAL	**726.8**	**734.0**	**407.2**	**-294.6**	**-90.0**	**-16.2**	**740.5**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Other income and expenses	33.0	-50.6	-13.2
◆ Operating profit	329.2	-242.5	-47.1
◆ Financial (income)/expense	0.3	-	-
◆ Income tax	44.7	-1.5	-29.7

The change in this caption in 2012 can be analysed as follows:

€ millions	12.31.2010	12.31.2011	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2012
Provisions for restructuring	90.6	93.6	71.3	-32.1	-1.2	-2.2	129.4
Provisions for product returns	209.4	219.2	165.1	-137.3	-23.0	2.3	226.3
Other provisions for liabilities and charges	418.2	414.0	157.5	-170.2	-22.8	-0.2	378.3
TOTAL	**718.2**	**726.8**	**393.9**	**-339.6**	**-47.0**	**-0.1**	**734.0**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Other income and expenses	84.7	-32.1	-1.2
◆ Operating profit	268.6	-216.6	-39.2
◆ Financial (income)/expense	0.2	-0.1	-
◆ Income tax	40.4	-90.8	-6.6

The change in this caption in 2011 can be analysed as follows:

€ millions	12.31.2009	12.31.2010	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2011
Provisions for restructuring	180.2	90.6	44.2	-38.0	-6.7	3.4	93.6
Provisions for product returns	174.6	209.4	138.2	-100.7	-36.1	8.4	219.2
Other provisions for liabilities and charges	280.8	418.2	140.2	-100.6	-54.9	11.2	414.0
TOTAL	**635.6**	**718.2**	**322.6**	**-239.3**	**-97.7**	**23.0**	**726.8**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
◆ Other income and expenses	47.4	-71.1	-33.2
◆ Operating profit	229.3	-164.4	-56.9
◆ Financial (income)/expense	0.4	-0.3	-0.1
◆ Income tax	45.6	-3.5	-7.6

NOTE 23 Borrowings and debt

The Group uses bank loans for its medium-term financing needs and commercial paper issues in France and in the US for its short-term financing needs. None of these loans contain an early repayment clause linked to financial ratios (covenants).

23.1. Debt by type

	12.31.2013		12.31.2012		12.31.2011	
€ millions	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	-	-	-	-	795.7
MLT bank loans	0.1	-	-	-	-	-
Debt on capital lease contracts	28.0	7.3	39.1	12.5	47.5	11.6
Overdrafts	-	35.7	-	20.8	-	10.3
Other borrowings and debt	65.6	255.9	7.8	167.8	10.0	273.2
TOTAL	**93.7**	**298.9**	**46.9**	**201.1**	**57.5**	**1,090.8**

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23.2. Debt by maturity date

€ millions	12.31.2013	12.31.2012	12.31.2011
Under 1 year (1)	298.9	201.1	1,090.8
1 to 5 years	75.5	27.7	36.1
Over 5 years	18.2	19.2	21.4
TOTAL	**392.6**	**248.0**	**1,148.3**

(1) At December 31st, 2013, the Group had confirmed undrawn credit lines for €3,236.3 million compared with €2,550.0 million at December 31st, 2012. These lines were not subject to any covenants.

At the end of 2013, estimated interest payments were not material due to the debt outstanding at December 31st, 2013, which consisted of very short-term loans contracted locally by subsidiaries, and payments outstanding under finance leases.

At the end of 2012, estimated interest payments were not material due to the debt outstanding at December 31st, 2012, which consisted of very short-term loans contracted locally by subsidiaries, and payments outstanding under finance leases.

At the end of 2011, estimated interest payments totalled around €2.6 million for 2012, €0 million for the period 2013-2016 and €0 million after 2016.

These estimates are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and assuming that no debt is rolled over at maturity. Amounts payable under capital leases are not taken into account as they are not material.

23.3. Debt by currency

€ millions	12.31.2013	12.31.2012	12.31.2011
Brazilian Real (BRL) (1)	144.7	43.7	55.6
Canadian dollar (CAD)	61.5	30.5	37.9
Yuan (CNY)	43.7	28.9	32.0
Euro (EUR)	22.2	39.1	43.2
Rupiah (IDR)	18.2	20.8	29.8
Sterling pound (GBP)	18.1	19.3	19.5
US dollar (USD)	12.5	14.7	480.1
Swedish Krona (SEK)	-	4.4	344.4
Other	71.7	46.6	105.8
TOTAL	**392.6**	**248.0**	**1,148.3**

(1) Including €48.3 million in amounts due to non-controlling interests in 2013 in respect of the Emporio Body Store acquisition.

23.4. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	12.31.2013	12.31.2012	12.31.2011
Floating rate	350.2	204.0	1,094.0
Fixed rate	42.4	44.0	54.3
TOTAL	**392.6**	**248.0**	**1,148.3**

23.5. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments were 1.47% in 2011 for short-term paper. The Group no longer had any short-term paper at either December 31st, 2013 or December 31st, 2012 and no longer held any bank loans at either December 31st, 2013 or December 31st, 2012 and December 31st, 2011.

23.6. Average debt interest rates

The debt by currency is not material (see note 23.3) and comprises very short-term loans contracted locally by subsidiaries.

23.7. Fair value of borrowings and debt

The fair value of fixed-rate debt is determined for each loan by discounting future cash flows, based on bond yield curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net carrying amount of outstanding bank loans and other floating-rate loans is a reasonable approximation of their fair value.

The fair value of borrowings and debt amounted to €393.4 million at December 31st, 2013. The fair value of borrowings and debt amounted to €248.5 million at December 31st, 2012. The fair value of borrowings and debt amounted to €1,148.4 million at December 31st, 2011.

23.8. Debt covered by collateral

No debt was covered by material amounts of collateral at December 31st, 2013, 2012 or 2011.

23.9. Confirmed credit lines

At December 31st, 2013, L'Oréal and its subsidiaries had €3,236.3 million of confirmed undrawn credit lines, compared with €2,550.0 million at December 31st, 2012 and €2,438.6 million at December 31st, 2011.

Credit lines fall due as follows:

- €1,086.3 million in less than 1 year;
- €2,150.0 million between 1 year and 3 years.

NOTE 24 Derivatives and exposure to market risks

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the Group uses derivatives negotiated with counterparties rated investment grade.

In accordance with Group rules, currency and interest rate derivatives are set up exclusively for hedging purposes.

24.1. Hedging of currency risk

The Group is exposed to currency risk on commercial transactions recorded on the balance sheet and on highly probable future transactions.

The Group's policy regarding its exposure to currency risk on future commercial transactions is to hedge at the end of the year a large part of the currency risk for the following year, using derivatives based on operating budgets in each subsidiary.

All the Group's future foreign currency flows are analysed in detailed forecasts for the coming budgetary year. Any currency risks identified are hedged by forward contracts or by options in order to reduce as far as possible the currency exposure of each subsidiary. The term of the derivatives is aligned with the Group's settlements. Exchange rate derivatives are negotiated by REGEFI (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when required by local regulations. Such operations are supervised by REGEFI.

As the Group's bank, REGEFI is subject to the European Market Infrastructure Regulation (EMIR). Published by the European Commission in September 2012, EMIR is aimed at moving OTC markets towards a centralized model, thereby enhancing market transparency and regulatory oversight and decreasing systemic risk using a guarantee mechanism. Certain obligations gradually came into force in 2013 and implementation will normally be completed by the end of 2014.

As the Group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by managing their own cash and debt are almost non-existent.

Owing to the Group's policy of hedging a large part of annual requirements for the following year at the end of the current year, the sensitivity of profit or loss to changes in foreign exchange rates at December 31st is marginal. The impact of changes in foreign exchange rates on the foreign exchange cash flow hedges reserve is described in note 20.4.

The following derivatives, all of which have a maturity of less than 18 months at inception, are held for currency risk hedging purposes:

	Nominal			Market value		
€ millions	**12.31.2013**	12.31.2012	12.31.2011	**12.31.2013**	12.31.2012	12.31.2011
Currency futures						
Purchase of EUR against foreign currencies	**1,960.4**	**2,499.8**	**1,662.1**	**45.9**	**32.6**	**-52.7**
EUR/USD	532.1	425.6	161.6	1.4	1.4	-1.6
EUR/CHF	252.2	806.5	265.3	8.3	16.4	-20.9
EUR/RUB	203.5	176.6	87.1	5.5	2.1	1.8
EUR/MXN	174.5	198.6	300.7	3.9	-3.4	1.5
EUR/CNY	172.7	118.3	85.0	-3.3	3.1	-6.8
EUR/GBP	88.7	126.2	165.3	1.3	1.3	-8.7
EUR/AUD	75.1	80.0	81.0	5.2	3.4	0.3
EUR/CAD	73.3	80.3	4.0	1.8	-0.4	0.2
EUR/JPY	58.0	88.8	69.8	2.7	2.0	-2.5
EUR/BRL	50.8	89.2	64.9	2.2	1.4	-4.9
EUR/Asia Pacific currencies	82.8	140.4	162.9	7.5	6.7	-10.1
EUR/Eastern European currencies	106.0	96.0	85.9	3.5	-1.3	1.2
EUR/Other currencies	90.8	73.3	128.6	5.9	-0.1	-2.2
Purchase of USD against foreign currencies	**124.6**	**159.4**	**305.3**	**2.0**	**-5.6**	**11.7**
USD/Latin American currencies	93.0	77.0	133.0	1.4	-3.4	5.6
USD/CAD	31.6	27.9	45.2	0.6	-0.6	1.4
USD/Asia Pacific currencies	-	-	112.6	-	-	4.3
USD/Other currencies	-	54.5	14.5	-	-1.6	0.4
Sale of USD against foreign currencies	**355.4**	**344.4**	**192.1**	**8.2**	**0.3**	**-9.7**
USD/CHF	146.5	169.4	192.1	7.5	5.2	-9.7
USD/Asia Pacific currencies	154.9	175.0	-	2.2	-4.9	-
USD/Other currencies	54.0	-	-	-1.5	-	-
Other currency pairs	**318.3**	**296.4**	**245.2**	**3.0**	**2.6**	**-3.2**
Currency futures total	**2,758.7**	**3,300.0**	**2,404.7**	**59.1**	**29.9**	**-53.9**
Currency options						
EUR/USD	313.0	117.9	121.0	11.4	8.3	2.7
EUR/HKD	114.7	56.0	43.7	5.3	3.7	1.1
EUR/CNY	62.9	33.1	33.4	2.6	2.0	0.8
EUR/BRL	59.9	31.7	25.2	7.8	3.1	1.8
EUR/RUB	58.6	-	-	4.0	-	-
EUR/Other currencies	202.4	199.5	202.4	14.2	9.7	7.0
CHF/USD	62.8	64.4	96.3	3.5	4.4	2.9
Other currency pairs	**40.2**	**21.1**	**14.8**	**3.7**	**1.2**	**0.4**
Currency options total	**914.5**	**523.7**	**536.8**	**52.4**	**32.4**	**16.7**
of which total options purchased	914.5	523.7	536.8	52.4	32.4	16.7
TOTAL	**3,673.2**	**3,823.7**	**2,941.5**	**111.6**	**62.3**	**-37.2**

The market values by type of hedging are as follows:

€ millions	**2013**	2012	2011
Fair value hedges [(1)]	13.4	5.8	-5.4
Cash flow hedges	98.2	56.5	-31.8
Net foreign investment hedges	-	-	-
TOTAL	**111.6**	**62.3**	**-37.2**

(1) Fair value hedges relate to currency risks on operating receivables and payables as well as on foreign currency investments and financing.

The fair value of the derivatives is their market value.

The Group has no significant foreign currency exposures that are not hedged in the balance sheet.

24.2. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at December 31st, 2013, 2012 or 2011.

24.3. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have a direct positive impact of €22.6 million on the Group's net finance costs at December 31st, 2013, compared with positive impact of €16.3 million at December 31st, 2012 and a positive impact of €5.6 million at December 31st, 2011. This calculation allows for cash, cash equivalents and derivatives, and assumes that total net debt/net cash remains stable and that fixed-rate debt at maturity is replaced by floating-rate debt.

The impact of a 100 basis point rise in interest rates on the fair value of the Group's fixed-rate financial assets and liabilities, after allowing for derivatives, can be estimated at €0.3 million at December 31st, 2013 compared with €0.3 million at December 31st, 2012 and €0.2 million at December 31st, 2011.

24.4. Counterparty risk

The Group has financial relations with international banks rated investment grade. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used to manage exchange rate and interest rate risk are issued by leading international banking counterparties.

24.5. Liquidity risk

The Group's liquidity risk can be assessed on the basis of its outstanding short-term debt under its paper programme. If these bank facilities were not renewed, the Group had confirmed undrawn credit lines of €3,236.3 million at December 31st, 2013. The availability of these credit lines is not dependent on financial covenants. The Group no longer had any short-term paper at the end of December 2013.

24.6. Shareholding risk

No cash has been invested in shares.

Available cash is invested with top-ranking financial institutions in the form of non-speculative instruments which can be drawn in very short periods. At December 31st, 2013, marketable securities consist mainly of SICAV money-market funds and unit trusts (note 19).

At December 31st, 2013, the Group holds 118,227,307 Sanofi shares for an amount of €9,117.7 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €77.12 on December 31st, 2013 would have an impact of plus or minus €911.8 million before tax on Group equity.

If the share price were to fall significantly below €34.12 (the initial cost of the Sanofi shares), or fall below that price for a prolonged length of time, L'Oréal may have to recognise an impairment loss on its asset through profit or loss.

At December 31st, 2012, the Group held 118,227,307 Sanofi shares for an amount of €8,440.2 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €71.39 on December 31st, 2012 would have an impact of plus or minus €844.0 million before tax on Group equity.

At December 31st, 2011, the Group held 118,227,307 Sanofi shares for an amount of €6,709.4 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €56.75 on December 31st, 2011 would have an impact of plus or minus €670.9 million before tax on Group equity.

24.7. *Fair value hierarchy*

IFRS 7 as amended in 2009 requires financial assets and liabilities recognised at fair value in the balance sheet to be classified according to three levels:

- level 1: quoted prices on an active market;
- level 2: valuation techniques using observable inputs;
- level 3: valuation techniques using unobservable inputs.

The following table provides an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

€ millions **December 31st, 2013**	**level 1**	**level 2**	**level 3**	**Total fair value**
Assets at fair value				
Foreign exchange derivatives		205.5		205.5
Interest rate derivatives				-
Sanofi shares	9,117.7			9,117.7
Marketable securities	1,024.2			1,024.2
TOTAL ASSETS AT FAIR VALUE	**10,141.9**	**205.5**	**-**	**10,347.4**
Liabilities at fair value				
Foreign exchange derivatives		97.8		97.8
Interest rate derivatives				-
TOTAL LIABILITIES AT FAIR VALUE	**-**	**97.8**	**-**	**97.8**

€ millions December 31st, 2012	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		162.6		162.6
Interest rate derivatives				-
Sanofi shares	8,440.2			8,440.2
Marketable securities	150.0			150.0
TOTAL ASSETS AT FAIR VALUE	**8,590.2**	**162.6**	**-**	**8,752.8**
Liabilities at fair value				
Foreign exchange derivatives		104.7		104.7
Interest rate derivatives				-
TOTAL LIABILITIES AT FAIR VALUE	**-**	**104.7**	**-**	**104.7**

€ millions December 31st, 2011	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		114.0		114.0
Interest rate derivatives				-
Sanofi shares	6,709.4			6,709.4
Marketable securities	598.2			598.2
TOTAL ASSETS AT FAIR VALUE	**7,307.6**	**114.0**	**-**	**7,421.6**
Liabilities at fair value				
Foreign exchange derivatives		147.2		147.2
Interest rate derivatives				-
TOTAL LIABILITIES AT FAIR VALUE	**-**	**147.2**	**-**	**147.2**

24.8. *Offsetting financial assets and financial liabilities*

Financial assets and liabilities resulting from foreign exchange and/or interest rate hedging transactions entered into with the Group's counterparty banks are not offset in the balance sheet since they are FBF (French Banking Federation) or ISDA (International Swaps and Derivatives Association) agreements that only provide for offsetting in the event of default by one of the parties to the agreement. Accordingly, they do not meet the offsetting criteria set out in IAS 32.

Had the agreements been offset at the level of each counterparty bank, assets and liabilities would have decreased by €26.7 million, €28.8 million and €41.3 million, respectively, at December 31st, 2013, 2012 and 2011.

NOTE 25 Other current liabilities

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Tax and employee-related payables (excluding income tax)	1,093.2	1,115.7	1,039.0
Credit balances on trade receivables	676.6	608.2	598.4
Fixed asset payables	152.9	150.1	124.0
Derivatives	97.8	104.7	147.2
Other current liabilities	169.3	162.4	158.0
TOTAL	**2,189.8**	**2,141.1**	**2,066.7**

NOTE 26 Off-balance sheet commitments

26.1. *Operating lease commitments*

These amount to €1,675.9 million at December 31st, 2013 compared with €1,789.6 million at December 31st, 2012 and €1,784.2 million at December 31st, 2011, of which:

- €430.5 million was due in within 1 year at December 31st, 2013 compared with €452.6 million at December 31st, 2012 and €416.8 million at December 31st, 2011;
- €995.9 million was due in 1 to 5 years at December 31st, 2013 compared with €1,082.0 million at December 31st, 2012 and €1,070.5 million at December 31st, 2011;
- €249.5 million was due in over 5 years at December 31st, 2013 compared with €255.0 million at December 31st, 2012 and €296.9 million at December 31st, 2011.

26.2. *Other off-balance sheet commitments*

Confirmed credit lines are discussed in note 23.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within 1 year and are as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Guarantees given (1)	163.2	134.2	121.5
Guarantees received	61.1	59.9	54.8
Commitments given under Dermatology contracts	53.5	75.1	60.2
Commitments received under Dermatology contracts	12.1	40.9	33.5
Capital expenditure orders	255.0	249.5	229.8
Firm purchase commitments under logistics supply contracts	454.1	487.2	448.9

(1) *These consist mainly of guarantees given to governmental bodies or concerning loans granted to third parties who are partners of the Group, and the net commitment toward the L'Oréal Foundation for its long-term action program.*

26.3. Acquisitions in progress

On August 15th, 2013, L'Oréal and Magic Holdings International Limited have announced L'Oréal's proposal to acquire all of the shares of Magic Holdings International Limited, a co mpany listed in the Hong Kong Stock Exchange. The proposed price is HK $6.30 per share.

L'Oréal's proposal is supported by Magic's Board of Directors. Six key shareholders, representing 62.3% of the company's equity, are already committed to supporting L'Oréal's proposal.

The transaction has been approved by the Ministry of Commerce of the People's Republic of China (MOFCOM) in early January 2014.

A specialist in cosmetic facial masks, Magic's turnover in 2012-2013 was approximately 160 million euros. Facial masks are one of China's beauty market's fastest growing areas with very promising development prospects. Magic's MG brand is one of China's leading brands in this category.

This note is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the above mentioned proposal or otherwise, nor shall there be any sale, issuance or transfer of securities of Magic Holdings International Limited in any jurisdiction in contravention of applicable law. The proposal, if made, will be made solely through the Scheme Document, which will contain the full terms and conditions of the proposal, including details of how to vote in favour of the proposal and any restrictions applicable to the proposal. Any response to the proposal, acceptance included, should be made only on the basis of information in the Scheme Document or any other document by which the Proposal is made, as the case may be.

26.4. Contingent liabilities

In the course of its normal operations, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Group sets aside a provision wherever a risk is found to exist, and the related cost can be reliably estimated.

On this basis, a provision has been set aside for risks relating to investigations carried out by competition authorities described in note 22.1.

In terms of taxation, in early January 2013, L'Oréal Brasil received a tax reassessment notice regarding the indirect IPI tax for fiscal year 2008. The reassessment concerned an amount of BRL 346 million including BRL 193 million (€106 million) in interest and penalties. The Brazilian tax authorities questioned the price used to calculate the IPI tax base. After consulting its tax advisors, L'Oréal Brasil considers that the Brazilian tax authorities' position is unfounded and has challenged this notice. Consequently, no provision has been recorded.

At the present time, no exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the L'Oréal Company or Group.

26.5. Environmental risks

The Group strictly complies with regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial position, earnings or assets.

The risks identified at December 31st, 2013 are not material.

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NOTE 27 Changes in working capital

This caption amounts to a negative €155.8 million in 2013, a negative €129.1 million in 2012 and a negative €322.0 million in 2011, and can be analysed as follows:

€ millions	**2013**	2012	2011
Inventories	-225.7	14.6	-200.9
Trade accounts receivable	-209.9	-214.8	-275.2
Trade accounts payable	160.0	83.2	60.9
Other receivables and payables	119.8	-12.1	93.2
TOTAL	**-155.8**	**-129.1**	**-322.0**

NOTE 28 Impact of changes in the scope of consolidation in the cash flow statement

In 2013, this item mainly related to the acquisition of Spirig, Vogue, Emporio Body Store and Interconsumer Products Limited.

In 2012, this item mainly related to the acquisition of Cadum, Urban Decay and Emiliani Enterprises.

In 2011, this item mainly related to the acquisitions of Q-Med and Pacific Bioscience Laboratories Inc.

NOTE 29 Transactions with related parties

29.1. Joint ventures

Transactions with proportionally consolidated companies were as follows:

€ millions	**2013**	2012	2011
Sales of goods and services	1.1	1.0	0.9
Financial expenses and income	3.4	4.0	6.4

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Operating receivables	1.5	2.4	2.8
Operating payables	0.3	0.2	0.1
Financial receivables	279.9	194.1	211.9

29.2. Related parties with a significant influence on the Group

No significant transactions have been carried out with a member of senior management or a shareholder with a significant influence on the Group.

29.3. Associates

The Group had no equity-accounted companies in 2013, 2012 or 2011.

29.4. Additional information on jointly controlled entities

The information presented below corresponds to amounts attributable to the Group based on its ownership interest.

€ millions 2013	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	456.0	889.5	780.3	132.2	826.3	-709.5	116.8
Innéov	11.2	0.5	9.4	0.1	26.1	-28.5	-2.4

€ millions 2012	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	333.6	832.4	617.2	134.3	795.5	-652.9	142.6
Innéov	13.2	1.1	20.9	0.1	28.8	-32.6	-3.8

€ millions 2011	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	320.2	852.0	690.8	138.0	704.7	-584.6	120.1
Innéov	11.5	1.3	21.5	0.1	31.5	-32.9	-1.4

NOTE 30 Fees accruing to Auditors and members of their networks payable by the Group

	PricewaterhouseCoopers Audit				Deloitte & Associés			
€ millions excl. VAT	Amount		%		Amount		%	
Audit	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Statutory audit	6.1	6.0	71%	67%	5.9	6.2	75%	76%
L'Oréal	1.1	1.0	13%	12%	1.0	1.0	13%	12%
Fully consolidated subsidiaries	5.0	5.0	58%	55%	4.9	5.2	62%	64%
Other directly related audit assignments (1)	1.5	2.5	17%	28%	1.5	1.5	20%	18%
L'Oréal	0.3	0.6	4%	6%	1.2	1.0	15%	13%
Fully consolidated subsidiaries	1.2	1.9	13%	22%	0.3	0.5	5%	5%
Audit sub-total	**7.6**	**8.5**	**88%**	**95%**	**7.4**	**7.7**	**95%**	**94%**
Other services								
Other services (legal, tax, employee-related, other)	1.1	0.5	12%	5%	0.4	0.4	5%	6%
TOTAL	**8.7**	**9.0**	**100%**	**100%**	**7.8**	**8.1**	**100%**	**100%**

(1) Mainly concerning acquisition audits.

NOTE 31 Subsequent events

On October 17th, 2013, L'Oréal has extended an offer to the Japanese Group Shiseido for the acquisition of Decléor and Carita.

Based on this offer, Shiseido has granted L'Oréal exclusive negotiation rights.

Decléor/Carita achieved a turnover of approximately €100 million in 2012 which ranks the group as number two on the worldwide professional skin care market in beauty institutes, spas and hair salons. Founded in 1974, Decléor is the world's leading brand in aromatherapy. Created in 1945 by Maria & Rosy Carita, known as hairdressers for stars, Carita incarnates the art of prestigious French pampering.

An agreement could be signed in the coming weeks.

Nestlé and L'Oréal announced that their respective Boards of Directors, in meetings held on February 10th, 2014, have approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal will buy 48.5 million of its own shares (8% of its share capital) from Nestlé. This buyback will be financed:

- Partially through the disposal by L'Oréal to Nestlé of its 50% stake in Swiss dermatology pharmaceuticals company Galderma (a 50/50 joint venture between L'Oréal and Nestlé) for an enterprise value of €3.1 billion (€2.6 billion of equity value), paid by Nestlé in L'Oréal shares (21.2 million shares). This transaction is expected to result in a pre-tax capital gain of around €2.2 billion for accounting purposes;
- For the remainder, corresponding to 27.3 million L'Oréal shares held by Nestlé, in cash for an amount of €3.4 billion.

The price per L'Oréal share retained for this transaction is the average of its closing prices between Monday November 11th, 2013 and Monday February 10th, 2014: €124.48.

All the shares bought back by L'Oréal will be cancelled. Following the transaction, Nestlé's stake in L'Oréal will be reduced from 29.4% to 23.29% of the share capital and the Bettencourt Meyers family's stake in L'Oréal will increase from 30.6% to 33.31%.

The transaction is subject to customary conditions, including the prior consultation of Galderma's and L'Oréal's works councils and the clearance of relevant antitrust authorities. It is expected to close before the end of the first semester of 2014.

4.7. CONSOLIDATED COMPANIES AT DECEMBER 31st, 2013

4.7.1. Fully consolidated companies (1)

Company	Head office	% interest	% control (2)
Areca & Cie	France	100.00	
Banque de Réalisations de Gestion et de Finncement (Regefi)	France	100.00	
Beauté Créateurs	France	100.00	
Beauté, Recherche & Industries	France	100.00	
Beautycos International Co. Limited	China	100.00	
Beautylux International Cosmetics (Shanghai) Co. Ltd	China	100.00	
Biotherm	Monaco	99.80	
Canan Kozmetik Sanayi Ve Ticaret A.S.	Turkey	100.00	
Centre Logistique d'Essigny	France	100.00	
Centrex	France	100.00	
Chimex	France	100.00	
Cobelsa Cosmeticos, S.A.	Spain	100.00	
Colainaf	Morocco	100.00	
Compagnie Thermale Hôtelière et Financière	France	99.98	
Cosbel S.A. de C.V.	Mexico	100.00	
Cosmelor KK	Japan	100.00	
Cosmelor Ltd	Japan	100.00	
Cosmephil Holdings Corporation Philippines	Philippines	100.00	
Cosmeplas S.A.S.	Colombia	100.00	
Cosmetil	Morocco	49.80	100.00
Cosmétique Active France	France	100.00	
Cosmétique Active International	France	100.00	
Cosmétique Active Production	France	100.00	
Egyptelor LLC	Egypt	100.00	
Elebelle (Pty) Ltd	South Africa	100.00	
EpiSkin	France	99.89	
Erwiton S.A.	Uruguay	100.00	
Exclusive Signatures International	France	100.00	
Fapagau & Cie	France	100.00	
Faprogi	France	100.00	
Finval	France	100.00	
Frabel S.A. de C.V.	Mexico	100.00	
Gemey Maybelline Garnier	France	100.00	
Gemey Paris – Maybelline New York	France	100.00	
Goldys International	France	100.00	
Helena Rubinstein	France	100.00	
Helena Rubinstein Italia S.p.A	Italy	100.00	
Holdial	France	100.00	
Hygiène Beauté Distribution France	France	100.00	
Interbeauty Products Limited	Kenya	100.00	
Kosmepol Sp z.o.o	Poland	100.00	
L & J Ré	France	100.00	
LOA1	France	100.00	
LOA3	France	100.00	
La Roche-Posay Laboratoire Pharmaceutique	France	99.98	
Laboratoire Sanoflore	France	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

Company	Head office	% interest	% control (2)
Laboratorios cosmeticos Vogue S.A.S.	Colombia	100.00	
Lai Mei Cosmetics International Trading (Shanghai) Co. Ltd	China	100.00	
Lancôme Parfums & Beauté & Cie	France	100.00	
LaScad	France	100.00	
Le Club des Créateurs de Beauté	Belgium	100.00	
Lehoux et Jacque	France	100.00	
L’Oréal Adria d.o.o.	Croatia	100.00	
L’Oréal Argentina S.A.	Argentina	100.00	
L’Oréal Australia Pty Ltd	Australia	100.00	
L’Oréal Balkan d.o.o.	Serbia	100.00	
L’Oréal Baltic SIA	Latvia	100.00	
L’Oréal Belgilux S.A.	Belgium	100.00	
L’Oréal Brasil Comercial de Cosméticos Ltda	Brazil	100.00	
L’Oréal Brasil Licenciamentos Empresariais, Cosmeticos e Perfumes Ltda	Brazil	100.00	
L’Oréal Bulgaria EOOD	Bulgaria	100.00	
L’Oréal Canada, Inc.	Canada	100.00	
L’Oréal Central America	Panama	100.00	
L’Oréal Central West Africa	Nigeria	100.00	
L’Oréal Ceska Republika s.r.o	Czech Republic	100.00	
L’Oréal Chile S.A.	Chile	100.00	
L’Oréal (China) Co. Ltd	China	100.00	
L’Oréal Colombia S.A.	Colombia	100.00	
L’Oréal Cosmetics Industry SAE	Egypt	100.00	
L’Oréal Danmark A/S	Denmark	100.00	
L’Oréal Deutschland GmbH	Germany	100.00	
L’Oréal East Africa Ltd	Kenya	100.00	
L’Oréal Egypt LLC	Egypt	100.00	
L’Oréal España S.A.	Spain	100.00	
L’Oréal Finland Oy	Finland	100.00	
L’Oréal Guatemala S.A.	Guatemala	100.00	
L’Oréal Hellas S.A.	Greece	100.00	
L’Oréal Hong Kong Ltd	Hong-Kong	100.00	
L’Oréal India Pvt Ltd	India	100.00	
L’Oréal Investments B.V.	The Netherlands	100.00	
L’Oréal Israel Ltd	Israel	92.97	
L’Oréal Italia S.p.A	Italy	100.00	
L’Oréal Japan Ltd	Japan	100.00	
L’Oréal Kazakhstan LLP	Kazakhstan	100.00	
L’Oréal Korea Ltd	Korea	100.00	
L’Oréal Liban SAL	Lebanon	99.88	
L’Oréal Libramont	Belgium	100.00	
L’Oréal Magyarorszag Kozmetikai Kft	Hungary	100.00	
L’Oréal Malaysia SDN BHD	Malaysia	100.00	
L’Oréal Manufacturing Midrand Pty Ltd	South Africa	100.00	
L’Oréal Maroc	Morocco	50.00	100.00
L’Oréal Mexico S.A. de C.V.	Mexico	100.00	
L’Oréal Mexico Servicios S.A. de C.V.	Mexico	100.00	
L’Oréal Middle East	United Arab Emirates	100.00	
L’Oréal Nederland B.V.	The Netherlands	100.00	
L’Oréal New Zealand Ltd	New Zealand	100.00	
L’Oréal Norge A/S	Norway	100.00	
L’Oréal Osterreich GmbH	Austria	100.00	
L’Oréal Pakistan Private Limited	Pakistan	100.00	
L’Oréal Panama S.A.	Panama	100.00	
L’Oréal Peru S.A.	Peru	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

Company	Head office	% interest	% control (2)
L'Oréal Philippines, Inc.	Philippines	100.00	
L'Oréal Polska Sp z.o.o	Poland	100.00	
L'Oréal Portugal, Lda	Portugal	100.00	
L'Oréal Produits de Luxe France	France	100.00	
L'Oréal Produits de Luxe International	France	100.00	
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany	100.00	
L'Oréal Produktion Deutschland GmbH & Co. Kg	Germany	100.00	
L'Oréal Romania SRL	Rumania	100.00	
L'Oréal Saipo Industriale S.p.A	Italy	100.00	
L'Oréal Saudi Arabia	Saudi Arabia	75.00	100.00
L'Oréal Singapore Pte Ltd	Singapore	100.00	
L'Oréal Slovenija Kozmetika d.o.o	Slovenia	100.00	
L'Oréal Slovensko s.r.o	Slovakia	100.00	
L'Oréal SLP S.A. de C.V.	Mexico	100.00	
L'Oréal South Africa Holdings Pty Ltd	South Africa	100.00	
L'Oréal Suisse S.A.	Switzerland	100.00	
L'Oréal Sverige AB	Sweden	100.00	
L'Oréal Taiwan Co. Ltd	Taiwan	100.00	
L'Oréal Thailand Ltd	Thailand	100.00	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	Turkey	100.00	
L'Oréal UK Ltd	United Kingdom	100.00	
L'Oréal Ukraine	Ukraine	100.00	
L'Oréal Uruguay S.A.	Uruguay	100.00	
L'Oréal USA, Inc. (as a group)	United States	100.00	
L'Oréal Venezuela, C.A.	Venezuela	100.00	
L'Oréal Verwaltungs GmbH	Germany	100.00	
L'Oréal Vietnam Co. Ltd	Vietnam	100.00	
L'Oréal West Africa Ltd	Ghana	100.00	
Masrelor LLC	Egypt	100.00	
Matrix Distribution GmbH	Germany	100.00	
Nihon L'Oréal K.K.	Japan	100.00	
NLO K.K.	Japan	100.00	
P.T. L'Oréal Indonesia	Indonesia	100.00	
P.T. Yasulor Indonesia	Indonesia	100.00	
Parbel of Florida, Inc.	United States	100.00	
Parfums Cacharel & Cie	France	100.00	
Parfums Guy Laroche	France	100.00	
Parfums Paloma Picasso & Cie	France	100.00	
Parfums Ralph Lauren	France	100.00	
Prestige et Collections International	France	100.00	
Procosa Productos de Beleza Ltda	Brazil	100.00	
Productos Capilares L'Oréal S.A.	Spain	100.00	
Redken France	France	100.00	
Roger & Gallet	France	100.00	
SLP Asistencia S.A. de C.V.	Mexico	100.00	
Scental Ltd	Hong-Kong	100.00	
Shu Uemura Cosmetics Inc.	Japan	100.00	
Sicôs & Cie	France	100.00	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche-Posay	France	99.98	
Sofamo	Monaco	99.99	
Soprocos	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

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Company	Head office	% interest	% control [2]
The Body Shop (as a group)	United Kingdom	100.00 [3]	
Venprobel	Venezuela	100.00	
Viktor & Rolf Parfums	France	100.00	
Yichang Tianmei International Cosmetics Co. Ltd	China	100.00	
YSL Beauté	France	100.00	
YSL Beauté Vostok o.o.o.	Russia	100.00	
Zao L'Oréal	Russia	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.
(3) Except for Body Store S.A. in which the Group has a 51% interest.

4.7.2. *Proportionally consolidated companies*

Company	Head office	% interest	% control [2]
Galderma (as a group)	Switzerland	50.00 [1]	
Innéov Adria d.o.o. for trade and services	Croatia	50.00 [1]	
Innéov Argentina S.A.	Argentina	50.00 [1]	
Innéov Belgique	Belgium	50.00 [1]	
Innéov Brasil Nutricosmeticos Ltda	Brazil	50.00 [1]	
Innéov Canada, Inc.	Canada	50.00 [1]	
Innéov Chile S.A.	Chile	50.00 [1]	
Innéov CZ s.r.o.	Czech Republic	50.00 [1]	
Innéov d.o.o.	Slovenia	50.00 [1]	
Innéov Deutschland GmbH	Germany	50.00 [1]	
Innéov España S.A.	Spain	50.00 [1]	
Innéov France	France	50.00 [1]	
Innéov Hellas A.E.	Greece	50.00 [1]	
Innéov Italia S.p.A.	Italy	50.00 [1]	
Innéov Mexico S.A. de C.V.	Mexico	50.00 [1]	
Innéov Nederland B.V.	The Netherlands	50.00 [1]	
Innéov Nutrikozmetik Ticaret Ve Sanayi Ltd Sirketi	Turkey	50.00 [1]	
Innéov Osterreich Handelsgesellschaft mbH	Austria	50.00 [1]	
Innéov Polska Sp. z.o.o.	Poland	50.00 [1]	
Innéov (Shanghai) Trading Co., Ltd	China	50.00 [1]	
Innéov SK s.r.o.	Slovakia	50.00 [1]	
Innéov Suisse	Switzerland	50.00 [1]	
Innéov Taiwan Co. Ltd	Taiwan	50.00 [1]	
Laboratoires Innéov	France	50.00 [1]	
Laboratoires Innéov Portugal Unipessoal Lda	Portugal	50.00 [1]	
O.O.O Innéov	Russia	50.00 [1]	

(1) Companies jointly owned with Nestlé.
(2) Equivalent to the percentage interest unless otherwise indicated.

4.8. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31st, 2013)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's Management Report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2013, on:

- the audit of the accompanying consolidated financial statements of L'Oréal;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements, based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31st, 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- L'Oréal performs impairment tests on goodwill and intangible assets with indefinite useful lives at least once a year and whenever there is an indication that an asset may be impaired, in accordance with the methods set out in Notes 1.15 and 13 to the consolidated financial statements. We have reviewed the terms and conditions for implementing these impairment tests as well as the assumptions applied;
- Obligations relating to pensions, early retirement benefits and other related benefits granted to employees have been valued and recorded in accordance with the accounting policies described in Notes 1.23 and 21 to the consolidated financial statements. We have reviewed and analyzed the valuation methods of these obligations and the data used and the assumptions applied.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's Management Report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 14th, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

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/ PARENT COMPANY FINANCIAL STATEMENTS*

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

The individual financial statements set out in this chapter are those of L'Oréal parent company. They show the financial position of the parent company *stricto sensu*. Unlike the consolidated financial statements, they do not include the results of the Group's subsidiaries.

The information with regard to the parent company financial statements that was previously included in the Management Report of the Board of Directors is now included in this chapter. The pages concerned are the table showing the main changes and thresholds crossed regarding investments in subsidiaries and holdings, the table of subsidiaries and holdings and the five-year financial summary as well as the amount of expenses and charges provided for in Article 223 quater of the French Tax Code and the table showing trade accounts payable provided for by Articles L. 441-6-1 and D. 441-4 of the French Commercial Code. The Statutory Auditor's Report on the parent company financial statements completes this information.

5.1. COMPARED INCOME STATEMENTS

€ millions	Notes	**12.31.2013**	12.31.2012	12.31.2011
Operating revenue		**3,070.0**	**2,865.5**	**2,597.7**
Sales	2	2,777.0	2,606.8	2,421.1
Reversals of provisions and transfers of charges		59.2	38.3	28.6
Other revenue	3	233.8	220.4	148.0
Operating expenses		**-2,837.5**	**-2,619.6**	**-2,409.0**
Purchases and change in inventories		-215.6	-209.2	-196.0
Other purchases and external charges		-1,486.8	-1,380.0	-1,275.6
Taxes and similar payments		-140.1	-113.2	-95.3
Personnel costs		-776.9	-698.1	-659.4
Depreciation, amortisation and charges to provisions	5	-130.0	-134.0	-102.6
Other charges		-88.1	-85.1	-80.1
Operating profit		**232.5**	**245.9**	**188.7**
Net financial revenue	6	2,236.0	2,234.0	2,033.0
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	-108.3	-25.7	-74.4
Exchange gains and losses		2.3	-62.4	-21.8
Net financial income		**2,130.0**	**2,145.9**	**1,936.8**
Profit before tax and exceptional items		**2,362.5**	**2,391.8**	**2,125.5**
Exceptional items	**7**	**8.1**	**43.1**	**14.4**
Employee Profit Sharing		-14.2	-15.5	-21.4
Income tax	8	9.7	-11.4	51.3
NET PROFIT		**2,366.1**	**2,408.0**	**2,169.8**

5.2. COMPARED BALANCE SHEETS

Assets

€ millions (net amounts)	Notes	12.31.2013	12.31.2012	12.31.2011
Intangible assets	11	886.1	707.3	669.4
Tangible assets	12	390.7	345.6	299.4
Financial assets	14	9,989.9	9,846.9	9,200.5
Non-current assets		**11,266.7**	**10,899.8**	**10,169.3**
Inventories		39.2	34.0	34.6
Prepayments to suppliers		28.2	23.3	25.1
Trade accounts receivable	16	548.6	548.4	423.5
Other current assets	16	199.2	171.8	149.6
Marketable securities	15	210.5	309.4	596.5
Cash and cash equivalents	27	974.7	1,093.1	238.4
Current assets		**2,000.4**	**2,180.0**	**1,467.7**
Prepaid expenses		31.9	27.0	26.8
Unrealised exchange losses	21	16.2	10.4	18.0
TOTAL ASSETS		**13,315.2**	**13,117.2**	**11,681.8**

Shareholders' equity and liabilities

€ millions	Notes	12.31.2013	12.31.2012	12.31.2011
Share capital		121.2	121.8	120.6
Additional paid-in capital		2,101.2	1,679.0	1,271.4
Reserves and retained earnings		7,560.3	7,527.8	6,562.4
Net profit		2,366.1	2,408.0	2,169.8
Regulated provisions		90.4	88.6	82.5
Shareholders' equity		**12,239.2**	**11,825.2**	**10,206.7**
Provisions for liabilities and charges	**18**	**234.9**	**238.2**	**268.8**
Borrowings and debts	19	32.6	330.4	506.8
Trade accounts payable	20	454.6	414.0	382.3
Other current liabilities	20	347.0	304.7	305.9
Other liabilities		**834.2**	**1,049.1**	**1,195.0**
Unrealised exchange gains	21	6.9	4.7	11.3
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**13,315.2**	**13,117.2**	**11,681.8**

5.3. CHANGES IN SHAREHOLDERS' EQUITY

The share capital comprises 605,901,887 shares with a par value of €0.2 each following transactions carried out in 2013:

- subscription to 5,961,501 shares following the exercise of options, and 238,200 of free shares;
- cancellation of 9,108,641 treasury shares.

Changes in shareholders' equity are as follows:

€ millions	Share capital	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	**Total**
Balance at December 31st, 2010 before appropriation of net profit	**120.2**	**1,148.3**	**45.4**	**5,586.9**	**1,995.3**	**66.5**	**8,962.6**
Changes in share capital	0.4	123.1					123.5
Appropriation of 2010 net profit				930.1	-930.1		0.0
Dividends paid for 2010					-1,065.2		-1,065.2
2011 net profit					2,169.8		2,169.8
Other movements during the period						16,0	16,0
Balance at December 31st, 2011 before appropriation of net profit	**120.6**	**1,271.4**	**45.4**	**6,517.0**	**2,169.8**	**82.5**	**10,206.7**
Changes in share capital	1.2	407.6					408.8
Appropriation of 2011 net profit				965.5	-965.5		0.0
Dividends paid for 2011					-1,204.3		-1,204.3
2012 net profit					2,408.0		2,408.0
Other movements during the period						6.0	6.0
Balance at December 31st, 2012 before appropriation of net profit	**121.8**	**1,679.0**	**45.4**	**7,482.5**	**2,408.0**	**88.5**	**11,825.2**
Changes in share capital	-0.6	422.2		-995.0			-593.4
Appropriation of 2012 net profit				1,027.4	-1,027.4		
Dividends paid for 2012					-1,380.6		-1,380.6
2013 net profit					2,366.1		2,366.1
Other movements during the period						1.9	1.9
BALANCE AT DECEMBER 31st, 2013 BEFORE APPROPRIATION OF NET PROFIT	**121.2**	**2,101.2**	**45.4**	**7,514.9**	**2,366.1**	**90.4**	**12,239.2**

Reserves include an amount of €16.8 million in 2013 corresponding to unpaid dividends on treasury shares, compared with €12.3 million in 2012 and €18.2 million in 2011.

Regulated provisions consist partially of the provision for investments which amounted to €17.2 million at December 31st, 2013, compared with €21million at December 31st, 2012 and €23.7 million at December 31st, 2011. In 2013, no charge was done to the provision for investments consequently to the changes of law (€6.1 million in 2011 and €5.7 million in 2010). This provision includes the transfer to the Company of some of the provisions set aside by our subsidiaries under a Group agreement. In 2013, an amount of €3.8million set aside to the provision in 2008 was reversed (compared with €2.7 million in 2012 and €0.8 million in 2011).

Accelerated tax-driven depreciation at December 31st, 2013 amount to €73.1 million compared with €67.3 million at December 31st, 2012 and €58.4 million at December 31st, 2011.

Details of share subscription option and free share plans are provided in note 17.

5.4. STATEMENTS OF CASH FLOWS

€ millions	Notes	**12.31.2013**	12.31.2012	12.31.2011
Operating activities				
Net profit		**2,366.1**	**2,408.0**	**2,169.8**
Depreciation and amortisation		90.6	81.2	71.1
Charges to provisions (net of reversals)		100.8	1.4	133.8
Gains and losses on disposals of non-current assets		9.7	20.1	1.3
Other non-cash transactions (complete transfer of assets and liabilities)		-	-	-45.4
Gross cash flow		**2,567.2**	**2,510.7**	**2,330.6**
Changes in working capital	25	-17.9	-129.1	-60.7
Net cash provided by operating activities		**2,549.3**	**2,381.6**	**2,269.9**
Investing activities				
Investments in non-current assets		-905.3	-1,069.4	-220.8
Changes in other financial assets	26	-519.6	474.5	-185.7
Disposals of non-current assets		11.7	33.6	0.4
Net cash from (used in) investing activities		**-1,413.2**	**-561.3**	**-406.1**
Financing activities				
Capital increase		423.5	408.8	123.5
Dividends paid		-1,381.0	-1,204.3	-1,065.2
Changes in financial debt		-34.6	-342.0	-965.3
Net cash from (used in) financing activities		**-992.1**	**-1,137.5**	**-1,907.0**
Cash acquired or sold in the period (complete transfer of assets and liabilities)		0.4	-	40.3
Change in cash and cash equivalents		**144.3**	**682.8**	**-2.9**
Cash and cash equivalents at beginning of year		829.7	146.9	149.8
CASH AND CASH EQUIVALENTS AT END OF YEAR	**27**	**974.0**	**829.7**	**146.9**

5.5. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

DETAILED LIST OF NOTES

The following notes form an integral part of the parent company financial statements.

The financial statements are presented in millions of euros, while the figures in the table detailing subsidiaries and affiliates are expressed in thousands of euros.

NOTE 1 Accounting principles

The Company's annual financial statements are prepared in accordance with French law and regulations (French Chart of Accounts) and with French generally accepted accounting principles.

The items recorded in the financial statements are valued at historical cost, except for non-current assets revalued in accordance with legal requirements.

1.1. Sales

These are comprised of sales of goods (net of rebates and discounts) and services (including technological assistance fees).

1.2. Advertising and promotion expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses for the year in which the advertisement or promotional initiative takes place.

1.3. Research and development costs

Research and development costs are recognised in expenses in the period in which they are incurred.

1.4. Income tax

The Company has opted for the French tax group regime. French companies included in the scope of tax consolidation recognise an income tax charge in their own accounts on the basis of their own taxable profits and losses.

L'Oréal, as the parent company of the tax group, recognises as tax income the difference between the aggregate tax charges recognised by the subsidiaries and the tax due on the basis of consolidated taxable profit or loss of the tax group.

1.5. Intangible assets

Intangible assets are recorded in the balance sheet at purchase cost.

The value of newly acquired trademarks is calculated based on a multi-criteria approach taking into consideration their reputation and their future contribution to profits.

In accordance with regulation no. 2004-06 on assets, certain trademarks have been identified as amortisable in accordance with their estimated useful life.

Non-amortisable trademarks are tested for impairment at least once a year on the basis of the valuation model used at the time of their acquisition. A provision for impairment is recorded where appropriate.

Initial trademark registration costs have been recorded as expenses since 2005.

Patents are amortised over a period ranging from two to ten years.

Business goodwill is not amortised. It is written down whenever the present value of future cash flows is less than the book value.

Software of material value is amortised using the straight-line method over its probable useful life, generally between five and seven years. It is also subject to accelerated tax-driven amortisation, which is recognised over a 12-month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

1.6. Tangible assets

Tangible assets are recognised at purchase cost, including acquisition expenses.

The useful lives of tangible assets are as follows:

	Useful lives
Buildings	20-50 years
Fixtures and fittings	5-10 years
Industrial machinery and equipment	10 years
Other tangible assets	3-10 year

Both straight-line and declining-balance depreciation is calculated over the actual useful lives of the assets concerned. Exceptionally, industrial machinery and equipment is depreciated using the straight-line method over a period of ten years, with all additional depreciation classified as accelerated tax-driven depreciation.

1.7. Financial assets

1.7.1. INVESTMENTS AND ADVANCES

These items are recognised in the balance sheet at purchase cost excluding incidental expenses.

Their value is assessed annually by reference to their value in use, which is mainly based on the current and forecast profitability of the subsidiary concerned and the share of equity owned. If the value in use falls below the purchase cost, a provision for impairment is recognised.

1.7.2. OTHER FINANCIAL ASSETS

Loans and other receivables are valued at their nominal amount. Loans and other receivables denominated in foreign currencies are translated at the exchange rate prevailing at the end of the financial year. If necessary, provisions are recognised against these items to reflect their value in use at the end of the financial year.

Treasury stock acquired in connection with buyback programmes is recognised in other long-term investments.

At the end of the financial year, other long-term investments are compared with their probable sale price and a provision for impairment recognised where appropriate.

1.8. Inventories

Inventories are valued using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

1.9. Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recorded at their nominal value. Where appropriate, a provision is recognised based on an assessment of the risk of non-recovery.

1.10. Marketable securities

Marketable securities are recognised at purchase cost and are valued at the end of the financial year at their probable sale price.

Treasury stock held that is specifically allocated to employee stock option plans is recognised in marketable securities.

Since January 1st, 2000, no discount has been granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no provision for impairment is required. However, a provision for impairment is recognised in the event of a decline in the market price, representing the difference between the book value of the Treasury stock and the average share price in the month preceding the reporting date.

A provision for liabilities and charges in respect of shares of Treasury stock allocated to free share plans for L'Oréal parent company employees is recognised over the period during which the rights to the free shares vest. Shares of Treasury stock allocated to free share plans for employees of other Group subsidiaries are written down in full. However, the subsidiaries concerned will bear most of the cost of granting these free shares.

1.11. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised to cover probable outflows of resources to third parties, without receipt of equivalent consideration by the Company. They relate mainly to industrial and commercial contingencies and litigation (legal actions, product returns, etc.) and to tax and employee-related contingencies.

These provisions are estimated on the basis of the most likely assumptions or by using statistical methods, depending on their type.

1.12. Accounting for foreign currency transactions and exchange rate hedges

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are contracted to hedge commercial transactions recognised in the balance sheet or future transactions that are considered to be highly probable. Gains and losses generated by these instruments are recognised symmetrically with the gains and losses arising on the hedged items.

Translation differences on operating assets and liabilities and related hedging instruments are recognised in the balance sheet as *Unrealised exchange losses* or *Unrealised exchange gains*. A provision is recognised if the sum of these unrealised exchange gains and losses shows a potential exchange loss based on the overall exchange position of all currencies taken together.

Hedges have already been taken out in respect of forecast operating transactions for the next financial year. The impact of such hedges on profit or loss will be recorded during the same accounting period as the transactions hedged.

1.13. Accounting for interest rate instruments

Gains and losses arising on interest rate swaps and caps hedging financial liabilities exposed to interest rate risk are recorded on a time-proportion basis symmetrically with the gains and losses on the items hedged.

1.14. Employee retirement obligations and related benefits

L'Oréal S.A. operates pension, early retirement and other benefit schemes for employees and retired employees in accordance with local legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefit schemes.

These obligations are partially funded by an external scheme where the funds are gradually built up through contributions paid. The contributions are expensed as incurred under the *Other purchases and external charges* caption.

The related obligations are measured using an actuarial valuation method based on final salaries. The method takes account of length of service, life expectancy, turnover by category of personnel and economic assumptions such as inflation and discount rates.

No provision is recognised in the balance sheet for net unfunded obligations, which are shown in off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards is no longer recognised as an off-balance sheet commitment; instead, a provision is recognised in the balance sheet based on an actuarial valuation of the obligation.

NOTE 2 Sales

€ millions	12.31.2013	12.31.2012	12.31.2011
Goods	919.4	896.6	887.1
Services [(1)]	1,321.3	1,309.2	1,238.9
Rentals	42.5	40.0	46.4
Other revenues from ancillary activities	493.8	361.0	248.7
TOTAL	**2,777.0**	**2,606.8**	**2,421.1**

(1) Mainly invoicing of technological assistance.

The Company generated €1,372.9 million of its sales in France in 2013, compared with €1,289.2 million in 2012 and €1,362.1 million in 2011.

NOTE 3 Other revenue

This account mainly includes trademark royalties.

NOTE 4 Average headcount

Average headcount can be broken down as follows:

	2013	2012	2011
Executives	3,405	3,299	3,146
Supervisors	1,982	2,001	2,028
Administrative staff	250	270	307
Manual workers	234	239	250
Sales representatives	292	288	285
TOTAL	**6,163**	**6,097**	**6,016**
of which apprentices	174	166	171
External temporary staff	171	158	166

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	12.31.2013	12.31.2012	12.31.2011
Depreciation and amortisation	-89.7	-79.7	-63.5
Impairment of non-current assets	-	-	-7.1
Impairment of current assets	-4.4	-4.7	-2.6
Provisions for liabilities and charges	-35.9	-49.6	-29.4
TOTAL	**-130.0**	**-134.0**	**-102.6**

NOTE 6 Net financial income

Net financial income amounts to €2,236.0 million in 2013 (€2,234.0 million in 2012 and €2,033.0 million in 2011), and mainly includes the following items:

€ millions	12.31.2013	12.31.2012	12.31.2011
Dividends received	2,205.2	2,187.1	1,957.6
Revenues on other receivables and marketable securities	2.3	1.6	5.0
Interest expense on borrowings and financial debt	-0.2	-3.3	-23.4
Losses settled at the level of partnership entities (SNCs)	-7.9	-0.8	-0.1
Other items not broken down (1)	36.6	49.4	93.9
TOTAL	**2,236.0**	**2,234.0**	**2,033.0**

(1) Including recharges to subsidiaries of the cost of free share grants for €40 million in 2013, 51.3 million in 2012 and €48.2 million in 2011, and a merger surplus relating to the complete transfer of assets and liabilities of Laboratoire Garnier et Cie for €45.4 million in 2011.

The *Net (charges to)/reversals of provisions and transfers of charges)* caption represents net charges of -€108.3 million in 2013 compared with net reversals of -€25.7 million in 2012 and net reversals of -€74.4 million in 2011.The caption mainly includes:

€ millions	12.31.2013	12.31.2012	12.31.2011
Net charges to (-)/reversals of (+) provisions for impairment of financial assets (excluding Treasury stock)	-59.8	29.5	-16.4
Net charges to (-)/reversals of (+) provisions for impairment of Treasury stock (1)	-44.8	-54.5	-54.8
Net charges to (-)/reversals of (+) provisions for liabilities and charges relating to financial items	-3.7	-0.6	-5.3
Net charges to (-)/reversals of (+) provisions for impairment of other financial assets	ns	ns	1.1
Other movements not broken down	ns	-0.1	1.0
TOTAL	**-108.3**	**-25.7**	**-74.4**

(1) Charges offset by accrued revenue relating to recharge to subsidiaries of the cost of free share grants in 2013, 2012 and 2011 (refer herebefore) .

NOTE 7 Exceptional items

In 2011, 2012 and 2013, this caption notably includes charges to provisions or reversals of provisions for liabilities and charges.

NOTE 8 Income tax

The income tax for the year breaks down as follows:

€ millions	12.31.2013	12.31.2012	12.31.2011
Tax on profit before tax and exceptional items	1.0	-21.8	37.6
Tax on exceptional items and employee Profit Sharing	8.7	10.4	13.7
INCOME TAX	**9.7**	**-11.4**	**51.3**

The income tax gain booked by L'Oréal in 2013 reflects the expense relating to the additional 3% levy on the amount of dividends paid (€41.4 million), and savings of €79.3 million (€77.9 million in 2012 and €72.8 million in 2011) resulting from tax consolidation.These savings mainly stem from the utilisation of tax losses from companies within the tax group.The 2012 income tax expense included the impact of tax audits.

The application of tax legislation led to an increase of €49.5 million in net profit for 2013, chiefly reflecting the net charge to regulated provisions along with research and corporate sponsorship tax credits among others.

Income tax was calculated taking account of the exceptional temporary 10.7% contribution for 2013.

In accordance with the position statement published by the French accounting standards setter (ANC) on February 28th, 2013, the CICE tax credit introduced in France to boost competitiveness and employment was recognized for the first time in 2013 as a deduction from payroll costs in an amount of €3.3 million. The CICE tax credit is equal to 4% of salaries paid in respect of 2013 and 6% of salaries paid in subsequent years. It will be collected in 2014 when income tax is paid and its use will be monitored during that year.

NOTE 9 Increases or reductions in future tax liabilities

	12.31.2011		12.31.2012		Changes		**12.31.2013**	
€ millions	Asset	Liability	Asset	Liability	Asset	Liability	**Asset**	**Liability**
Temporary differences								
Regulated provisions	-	22.2	-	23.1	7.1	9.2	-	25.2
Temporarily non-deductible charges	51.3	-	70.3	-	23.2	13.6	79.9	-
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	-	2.3	-	1.9	1.9	3.2	-	3.2
Temporarily non-taxable revenue	-	-	-	-	-	-	-	-
Deductible items								
Tax losses, deferred items	-	-	-	-	-	-	-	-
Potentially taxable items								
Special reserve for long-term capital gains	-	188.6	-	188.6	-	-	-	188.6

The figures have been calculated taking account of 3.3% social contribution which increases income tax at both statutory and reduced tax rates.

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NOTE 10 Research costs

Amounts invested in Research activities in 2013 totalled €738.6 million compared with €695.4 million in 2012 and €619.4 million in 2011.

NOTE 11 Intangible assets

€ millions	12.31.2011	12.31.2012	**Acquisitions/ Amortisation**	**Disposals/ Reversals**	**Other movements**	**12.31.2013**
Patents and trademarks	452.6	455.1	23.0	-1.6	13.6	490.1
Business goodwill	113.3	113.3	157.2	-	-1.7	268.8
Software	204.4	242.4	20.6	-6.9	4.1	260.2
Other intangible assets	181.9	187.1	n/s	-	24.0	211.1
Intangible assets in progress	30.1	59.9	31.4	-5	-42.6	43.7
Gross value	**982.3**	**1,057.8**	**232.2**	**-13.5**	**-2.6**	**1,273.9**
Patents and trademarks	44.2	55.2	14.5	-1.6	-	68.1
Business goodwill	0.3	0.3	-	-	-	0.3
Software	134.5	158.7	28.6	-6.9	-	180.4
Other intangible assets	37.4	39.8	2.7	-	-	42.5
Amortisation	**216.4**	**254.0**	**45.8**	**-8.5**	**-**	**291.3**
Patents and trademarks	34.6	34.6	-	-	16.8	51.4
Business goodwill	-	-	-	-	41.6	41.6
Other intangible assets	61.9	61.9	-	-	-58.4	3.5
Provisions	**96.5**	**96.5**	**-**	**-**	**-**	**96.5**
NET BOOK VALUE	**669.4**	**707.3**	**186.4**	**-5**	**-2.6**	**886.1**

In 2013, the increase in business goodwill comes from the complete transfer of assets and liabilities of Cadum.

In 2012, changes in assets in progress mainly came from the acquisition of Urban Decay trademark.

In 2011, the increase in the *Patents and trademarks* and *Other intangible assets* captions mainly resulted from the acquisition of Pacific Bioscience Laboratories (Clarisonic) for €124.7 million, of which €71.1 million relates to patents and trademarks.The rest of the increase results from the complete transfer of assets and liabilities involving Laboratoire Garnier & Cie.

NOTE 12 Tangible assets

€ millions	12.31.2011	12.31.2012	Acquisitions/ Depreciation	Disposals/ Reversals	Other movements	12.31.2013
Land	63.5	79.4	1.6	-5.2	0.3	76.1
Buildings	464.8	493.5	46.2	-2.6	23.5	560.6
Industrial machinery and equipment	190.9	195.7	9.9	-8.8	3.1	199.9
Other tangible assets	110.1	122.1	17.2	-4.6	4.5	139.2
Tangible assets in progress	20.5	34.4	19.6	-1.5	-28.9	23.6
Advances and prepayments	2.8	1.3	0.3	-	-	1.6
Gross value	**852.6**	**926.4**	**94.8**	**-22.7**	**2.5**	**1,001.0**
Land	-	-	0.1	-	0.1	0.2
Buildings	319.2	338.8	20.3	-2.6	-0.1	356.4
Industrial machinery and equipment	161.8	163.8	9.3	-8.8	-	164.3
Other tangible assets	72.2	78.2	15.0	-3.8	-	89.4
Depreciation	**553.2**	**580.8**	**44.7**	**-15.2**	**-**	**610.3**
NET BOOK VALUE	**299.4**	**345.6**	**50.1**	**-7.5**	**2.5**	**390.7**

Depreciation and amortisation recognised in 2013 against tangible and intangible assets included:

- a charge of €81.0 million on a straight-line basis;
- a charge of €8.7 million on a declining-balance basis;
- a charge of €0.9 million relating to exceptional depreciation and amortisation.

NOTE 13 Non-current assets held under finance leases

€ millions	Non-current assets held under finance leases at 12.31.2013				Balance sheet total including non-current assets held under finance leases		
	Cost on initial recognition (1)	Depreciation (2)		Net book value			
Balance sheet captions		Period	Accumulated		Gross value	Depreciation	Net book value
Land and buildings	9.2	-0.5	-1.9	7.3	645.9	-358.5	287.4
TOTAL AT 12.31.2013	**9.2**	**-0.5**	**-1.9**	**7.3**	**645.9**	**-358.5**	**287.4**
Total at 12.31.2012	**43.5**	**-1.7**	**-22.7**	**20.8**	**616.4**	**-361.5**	**254.9**
Total at 12.31.2011	**43.5**	**-1.7**	**-21.0**	**22.5**	**762.7**	**-501.9**	**260.8**

(1) Value of the assets on the date the leases were signed.
(2) Depreciation charge for the year and accumulated depreciation that would have been recognised for these assets had they been purchased outright – Depreciation method used: straight-line 2% to 5%.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year-end				
Balance sheet captions	Period	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	Residual purchase price under the lease
Land and buildings	1.1	4.6	1.1	4.4	0.5	6.0	-
TOTAL AT 12.31.2013	**1.1**	**4.6**	**1.1**	**4.4**	**0.5**	**6.0**	**-**
Total at 12.31.2012	**5.3**	**67.3**	**4.9**	**15.8**	**1.6**	**22.3**	**1.4**
Total at 12.31.2011	**4.9**	**62.0**	**5.4**	**19.6**	**2.7**	**27.7**	**1.4**

NOTE 14 Financial assets

€ millions	12.31.2011	12.31.2012	**Acquisitions/ Subscriptions**	**Disposals/ Reductions**	**Other movements**	**12.31.2013**
Investments	9,047.5	9,488.1	26.5	-13.7	-104.8	9,396.1
Loans and other receivables	504.8	177.8	126.3	-20.9	-50.5	232.7
Other (1)	3.8	507.1	1,353.4	-1,113.8	-	746.7
Gross value	**9,556.1**	**10,173.0**	**1,506.2**	**-1,148.4**	**-155.3**	**10,375.5**
Investments	314.6	285.0	80.7	-20.8	-0.4	344.5
Loans and other receivables	40.9	41.0	1.0	-1.0	-	41.0
Other	0.1	0.1	-	-	-	0.1
Provision for impairment	**355.6**	**326.1**	**81.7**	**-21.8**	**-0.4**	**385.6**
NET BOOK VALUE	**9,200.5**	**9,846.9**	**1,424.5**	**-1,126.6**	**-154.9**	**9,989.9**

(1) The balance at the end of 2013 includes shares held to be cancelled for €244.1 million, as well as cash-collateral agreements granted to the bank of the group for €491.3 million.

The table detailing subsidiaries and affiliates is presented at the end of the present notes.

NOTE 15 Marketable securities

This account can be broken down as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
L'Oréal shares	323.6	405.3	644.5
Financial instruments/Premiums paid on options	41.1	13.4	6.8
Gross value	**364.7**	**418.7**	**651.3**
L'Oréal shares	-154.2	-109.3	-54.8
Financial instruments/Premiums paid on options	-	-	-
Provision for impairment	**-154.2**	**-109.3**	**-54.8**
NET BOOK VALUE	**210.5**	**309.4**	**596.5**

The 4,152,857 L'Oréal shares of Treasury stock held in connection with employee stock purchase option plans had a net value of €169.4 million at December 31st, 2013 against €296.0 million at December 31st, 2012 and €589.7 million at December 31st, 2011.

In 2013, stock options were exercised in respect of 1,224,058 shares.

Stock purchase options expiring in 2013 represented a total of 677,570 shares or €49.1 million (gross and net basis).

In 2013, the total market value of Treasury stock amounted to €519.8 million based on the average share price in December and to €530.3 million based on the closing share price on December 31st.

In 2012, the total market value of Treasury stock amounted to €563.8 million based on the average share price in December and to €564.0 million based on the closing share price on December 31st.

In 2011, the total market value of Treasury stock amounted to €679.0 million based on the average share price in December and to €693.8 million based on the closing share price on December 31st.

NOTE 16 Maturity of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
Loans and other receivables	**161.2**	**71.4**	**232.6**	**41.0**	**191.6**
Other financial assets	**502.4**	**-**	**502.4**	**-**	**502.4**
Trade accounts receivable	**411.9**	**139.6**	**551.5**	**2.9**	**548.6**
Other current assets, of which	**199.8**	**-**	**199.8**	**0.6**	**199.2**
Tax and employee-related receivables	135.5	-	135.5	-	135.5
Receivable from Group and shareholders	18.1	-	18.1	-	18.1
Other receivables	46.2	-	46.2	0.6	45.6
Prepaid expenses	**31.9**	**-**	**31.9**	**-**	**31.9**

Accrual accounts included in receivables amounted to €155.6 million at December 31st, 2013 compared with €113.8 million at December 31st, 2012 and €58.9 million at December 31st, 2011.

NOTE 17 Stock purchase or subscription options – Free shares

17.1. Share subscription or purchase options

The table below sets out data concerning option plans in force at December 31st, 2013.

Grant date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			From	To	
03.24.2004	2,000,000	71,736	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	206,250	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	150,000	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	505,609	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	225,152	12.01.2010	11.30.2015	62.94
04.25.2006	2,000,000	1,000,000	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	1,702,062	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	1,779,675	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,433,500	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	3,991,000	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,233,500	04.23.2016	04.22.2021	83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee).The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in the Group’s consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2013, the performance conditions were deemed to have been met.

The share price used as the basis for calculating the 10% social contribution for the April 22nd, 2011 plan was €18.58.

17.2. Free shares

On April 26th, 2013, April 17th, 2012, April 22nd, 2011, April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 1,057,820, 1,325,050, 1,038,000, 450,000 and 270,000 free shares.

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

A total of 237,800 shares were definitively granted on March 26th, 2013, under the March 25th, 2009 plan.

The performance conditions concern:

- April 26th, 2013, April 17th, 2012 and April 22nd, 2011 plans:
  - for 50% of shares granted, the increase in comparable Cosmetics revenues for the 2014, 2015 and 2016 fiscal years under the 2013 plan, for the 2013, 2014 and 2015 fiscal years under the 2012 plan, and the 2012, 2013 et 2014, fiscal years under the 2011 plan, in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2014, 2015 and 2016 fiscal years under the 2013 plan, in the 2013, 2014 and 2015 fiscal years under the 2012 plan, and 2012, 2013 and 2014 fiscal years under the 2011 plan, and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

- April 27th, 2010:
  - for 25% of shares granted, the increase in comparable Cosmetics revenues for the 2011, 2012 and 2013 fiscal years, compared with the growth of the cosmetics market;
  - for 75% of shares granted, the percentage, over the same period, resulting from the ratio between operating profit and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012 and 2013 fiscal years, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2013, the performance conditions were deemed to have been met.

A rebilling agreement concerning the cost of free shares has been set up since 2011 between L'Oréal parent company and the subsidiaries concerned.

The share price used as the basis for calculating the social contribution was €112.37 for the April 26th, 2013 plan, €77.07 for free shares for the April 17th, 2012 plan and €70.36 for the April 22nd, 2011 plan.

NOTE 18 Provisions for liabilities and charges

€ millions	12.31.2011	12.31.2012	Charges	Reversals (used)	Reversals (not used)	Others	12.31.2013
Provisions for litigation	7.4	7.9	4.5	-1.0	-0.6	-	10.8
Provisions for foreing exchange losses	6.6	5.7	9.3	-5.7	-	-	9.3
Provisions for expenses	55.8	87.3	59.9	-51.3	-3.8	2.5	94.6
Other provisions for liabilities (1)	199.0	137.3	16.1	-12.0	-21.2	-	120.2
TOTAL	**268.8**	**238.2**	**89.8**	**-70.0**	**-25.6**	**2.5**	**234.9**

(1) This caption notably includes provisions for tax contingencies and for industrial and commercial risks relating to operations (contracts, product returns) and employee-related liabilities.

The changes in provisions for liabilities and charges impact the income statement as follow:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	35.9	44.7	5.0
Net financial income	50.7	24.4	-
Exceptional items	3.2	0.9	20.6
Income tax	0.0	-	-
TOTAL	**89.8**	**70.0**	**25.6**

NOTE 19 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans and from short-term commercial paper issued in France. The amount of the programme is €2,600 million. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

Liquidity on the commercial paper issues is provided by confirmed short-term credit facilities with banks, which amounted to €3,200.0 million at December 31st, 2013 (€2,550.0 million at December 31st, 2012 and €2,400.0 million at December 31st, 2011).

All borrowings and debt are denominated in euros and can be broken down as follows:

Breakdown by type of debt

€ millions	12.31.2013	12.31.2012	12.31.2011
Bonds	n/s	n/s	n/s
Borrowings and debt due to financial institutions	-	-	0.1
Commercial paper	-	-	344.3
Other borrowings and debt	31.9	66.9	71.1
Overdrafts	0.7	263.5	91.3
TOTAL	**32.6**	**330.4**	**506.8**

Breakdown by maturity date

€ millions	12.31.2013	12.31.2012	12.31.2011
Less than 1 year	1.3	300.1	468.9
1 to 5 years	30.0	29.0	36.7
More than 5 years	1.3	1.3	1.2
TOTAL	**32.6**	**330.4**	**506.8**

Effective interest rate and average interest rate on borrowings and debt

At the end of 2013, as the end of 2012, there are no outstanding commercial papers, or bank borrowings.

The effective interest rate on borrowings and debt after taking into account hedging instruments was 3.25% in 2011.

NOTE 20 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**454.6**	**-**	**454.6**
Other current liabilities, of which	**338.6**	**8.4**	**347.0**
Tax and employee-related payables	263.9	-	263.9
Payables related to non-current assets	32.0	8.4	40.4
Payable to Group and shareholders	4.6	-	4.6
Other payables	38.1	-	38.1

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Trade accounts payable	**232.5**	**218.0**	**205.4**
Payables related to non-current assets (1)	**47.4**	**26.3**	**24.6**
Tax and employee-related payables, of which	**149.1**	**145.2**	**144.6**
Provision for employee Profit Sharing	15.8	18.8	23.0
Provision for incentives	66.2	62.0	61.1
Other payables	**27.9**	**29.3**	**29.1**
TOTAL	**456.9**	**418.8**	**403.7**

(1) Mainly concerning Essie in 2011, 2012 and 2013.

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NOTE 21 Unrealised exchange gains and losses

The revaluation of foreign currency receivables and payables at the exchange rates prevailing at December 31st, taking account of the related hedging instruments, led to the recognition of the following unrealised exchange gains and losses:

	Unrealised exchange losses			Unrealised exchange gains		
€ millions	**12.31.2013**	12.31.2012	12.31.2011	**12.31.2013**	12.31.2012	12.31.2011
Financial receivables	9.6	6.2	6.1	-	-	-
Trade accounts receivable	2.7	2.8	0.1	0.5	0.8	2.9
Borrowings and debt	-	-	6.2	-	0.1	6.1
Trade accounts payable	0.1	0.1	3.5	1.8	1.5	0.1
Other payables	-	-	-	-	-	-
Derivative financial instruments	3.8	1.3	2.1	4.6	2.3	2.2
TOTAL	**16.2**	**10.4**	**18.0**	**6.9**	**4.7**	**11.3**

In accordance with the accounting principles described above, the overall foreign exchange position at December 31st, 2013 is an unrealised loss of €9.3 millions arising mainly on the Venezuelan bolivar. This loss was recognised through profit and loss. At December 31st, 2012, the overall foreign exchange position was an unrealised loss of €5.7 millions compared with an unrealised loss of €6.7 millions at December 31st, 2011.

NOTE 22 Derivative financial instruments

Derivative financial instruments can be broken down as follows:

€ millions	Notional			Market value		
	12.31.2013	12.31.2012	12.31.2011	**12.31.2013**	12.31.2012	12.31.2011
Currency futures						
Purchase of EUR against foreign currencies						
EUR/CHF (1)	381.4	7.5	7.9	0.2	-	-0.1
EUR/RUB	147.9	176.2	264.6	0.3	-3.5	0.3
EUR/CNY	98.6	126.3	165.4	-	-0.3	-9.1
EUR/BRL	68.9	73.1	73.4	4.7	3.0	0.2
EUR/GBP	35.9	29.3	29.8	-	0.3	-1.0
EUR/JPY (1)	35.2			0.1		
EUR/AUD (1)	20.0	17.4	16.7	0.4	0.1	-1.2
EUR/USD	15.2	74.0	77.2	-	3.1	-6.1
EUR/IDR	12.6	14.9	23.8	-	0.4	-1.4
EUR/CAD	11.6	17.4	15.2	2.2	0.4	-0.6
EUR/PLN	10.5	10.2	8.5	-0.2	-0.4	0.1
EUR/KZT	10.4	13.9	11.1	-	0.6	-0.7
EUR/ZAR	8.8	4.4	3.4	1.3	-	-0.2
EUR/THB	7.8	7.0	4.9	-0.8	0.2	-0.1
EUR/CLP	7.0	6.6	6.3	0.3	-	-0.1
EUR/HKD (1)	6.2			1.4		
EUR/SEK	6.0	4.3	4.3	0.6	-0.1	-0.1
EUR/NOK	5.9	4.7	4.6	-0.1	-0.2	-0.1
EUR/INR	3.3	8.3	6.8	-	0.3	0.2
EUR/MXN	2.4	13.6	11.0	0.2	-	0.5
EUR/Other currencies	33.0	44.2	31.5	3.3	-0.2	-0.4
Sale of EUR against foreign currencies						
EUR/SGD (1)	10.1	5.0		-1.1	-0.1	
EUR/JPY		15.6	17.5		-3.9	0.7
EUR/Other currencies		1.3	1.6		-0.1	0.1
Purchase of USD against foreign currencies						
USD/BRL	57.2	73.2	64.7	0.7	-0.3	3.2
USD/INR	9.5			0.6		
USD/RUB	8.3	8.7	9.6	1.8	-0.7	0.1
USD/PHP	6.8	7.1		0.1	-0.2	
USD/ARS		9.8	39.0		-0.9	-0.3
USD/Other currencies		0.3	0.4		-	-
Sale of USD against foreign currencies						
USD/CNY	22.9	28.4	32.3	-0.6	0.6	-
USD/IDR	9.6	1.4	8.3	-0.9	-0.1	
Other currency pairs						
JPY/CNY	6.7	11.0	12.7	-	-1.3	-0.1
PLN/RUB	6.9			-		
ARS/BRL		4.1	24.4	-	-0.4	-2.0
Other currencies	6.2	5.2	5.6	0.2	-	-0.1
Currency futures total	**1 072.8**	**824.4**	**982.5**	**14.7**	**-3.7**	**-18.3**
Currency options						
EUR/USD	102.5	43.4	48.5	3.8	3.2	1.1
EUR/CNY	62.9	33.1	33.4	2.6	2.0	0.8
EUR/RUB	58.6			4.0		
EUR/BRL	54.6	29.3	22.3	7.1	2.9	1.6
EUR/CAD	10.6	6.0	4.9	0.8	0.4	0.1
EUR/IDR	8.7	5.3	-	1.3	0.6	-
EUR/GBP	5.9	8.9	9.0	-	0.3	0.2
EUR/MXN	5.6	4.7	4.1	0.4	0.3	0.2
EUR/AUD	5.6			0.5		
USD/BRL	31.6	17.7		2.9	1.1	
Other currencies	10.2	6.7	10.6	0.7	0.4	0.5
Currency options total	**356.8**	**155.1**	**132.8**	**24.1**	**11.2**	**4.5**
Of which total options purchased	356.8	155.1	132.8	24.1	11.2	4.5
TOTAL INSTRUMENTS	**1,429.6**	**979.5**	**1,115.3**	**38.8**	**7.5**	**-13.8**

(1) The balance at the end of 2013 mainly includes hedges of cash-collateral agreements in foreign currencies granted to the bank of the group (refer note 14).

NOTE 23 Transactions and balances with related entities and parties

Related-party data is as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Financial assets	9,234.0	9,296.9	9,185.2
Trade accounts receivable/	300.9	438.3	331.0
Other accounts receivable	18.5	21.2	2.4
Cash and cash equivalents	967.0	1,080.4	193.5
Borrowings	-	287.2	114.3
Trade accounts payable	126.6	96.4	87.6
Other payables	4.6	n/s	n/s
Financial expenses	8.2	1.4	0.6
Financial revenues	2,207.1	2,242.1	2,059.8

All material related-party transactions were entered into on an arm's length basis.

NOTE 24 Off-balance sheet commitments

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24.1. Lease commitments

Operating lease commitments amount to €74.8 million due in less than one year, €195.5 million due between 1 and 5 years and €28.1 million due after 5 years.

The breakdown of finance lease commitments is provided in note 13.

24.2. Other off-balance sheet commitments

Confirmed credit facilities are set out in note 19.

Other off-balance sheet commitments can be broken down as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Commitments granted in connection with employee retirement obligations and related benefits (1)	486.1	565.2	508.5
Commitments to buy out non-controlling interests	6.7	6.7	6.8
Guarantees given (2)	647.1	679.5	662.1
Guarantees received	10.3	10.1	10.1
Capital expenditure orders	65.4	72.2	64.0
Documentary credits	-	4.4	4.8

(1) *The discount rate used to measure these commitments at December 31st, 2013 was 3.25% for plans providing for payment of capital and 3.50% for annuity plans, compared with respectively, 3% and 3.50% at end-2012, and 4.50% and 4.75% at end-2011.*
An agreement for the pooling of employee-related liabilities was set up in 2004. Pursuant to this agreement, commitments are allocated among the French companies in the Group and their financing is organised in proportion to their respective payroll costs (customised for each plan) so that the companies are joint and severally liable for meeting the aforementioned commitments within the limit of the collective funds built up.

(2) *This caption includes miscellaneous guarantees and warranties, including €618.7 million at December 31st, 2013 on behalf of direct and indirect subsidiaries (€642.3 million at December 31st, 2012 and €659.4 million at December 31st, 2011). Seller's warranties are also included in this amount as appropriate.*

24.3. Acquisitions in progress

On August 15th, 2013, L'Oréal and Magic Holdings International Limited have announced L'Oréal's proposal to acquire all of the shares of Magic Holdings International Limited, a company listed in the Hong Kong Stock Exchange.The proposed price is HK $6.30 per share.

L'Oréal's proposal is supported by Magic's Board of Directors. Six key shareholders, representing 62.3% of the company's equity, are already committed to supporting L'Oréal's proposal.

The transaction has been approved by the Ministry of Commerce of the People's Republic of China (MOFCOM) in early January 2014.

A specialist in cosmetic facial masks, Magic's turnover in 2012-2013 was approximately 160 million euros. Facial masks are one of China's beauty market's fastest growing areas with very promising development prospects. Magic's MG brand is one of China's leading brands in this category.

This note is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the above mentioned proposal or otherwise, nor shall there be any sale, issuance or transfer of securities of Magic Holdings International Limited in any jurisdiction in contravention of applicable law. The proposal, if made, will be made solely through the Scheme Document, which will contain the full terms and conditions of the proposal, including details of how to vote in favour of the proposal and any restrictions applicable to the proposal. Any response to the proposal, acceptance included, should be made only on the basis of information in the Scheme Document or any other document by which the Proposal is made, as the case may be.

24.4. Contingent liabilities

In the ordinary course of its operations, L'Oréal is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Company sets aside a provision wherever a risk is found to exist and the related cost can be reliably estimated.

At the present time, no exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the Company.

NOTE 25 Changes in working capital

Changes in working capital represented a negative €17.9 million at December 31st, 2013, compared to a negative €129.1 million at December 31st, 2012 and a negative €60.7 million at December 31st, 2011, and can be broken down as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Inventories	-5.1	0.7	0.2
Receivables	-72.2	-173.6	-93.0
Payables	59.4	43.8	32.1
TOTAL	**-17.9**	**-129.1**	**-60.7**

NOTE 26 Changes in other financial assets

This caption includes flows related to Treasury stock in the year, classified within marketable securities, as well as flows related to cash collateral agreements granted to the bank of the group, classified within financial assets.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents amount to €974.0 million at December 31st, 2013 compared with €829.7 million at December 31st, 2012 and €146.9 million at December 31st, 2011, and can be broken down as follows:

€ millions	**12.31.2013**	12.31.2012	12.31.2011
Cash	974.7	1,093.1	238.4
Accrued interest receivable	-	-	-0.2
Bank overdrafts (note 19)	-0.7	-263.5	-91.3
Accrued interest payable	-	0.1	-
TOTAL	**974.0**	**829.7**	**146.9**

NOTE 28 Other disclosures

Statutory audit fees are not presented in the notes to the parent company financial statements, but in the note 30 to the *Consolidated financial statements.*

NOTE 29 Subsequent events

On October 17th, 2013, L'Oréal has extended an offer to the Japanese Group Shiseido for the acquisition of Decléor and Carita.
Based on this offer, Shiseido has granted L'Oréal exclusive negotiation rights.
Decléor/Carita achieved a turnover of approximately €100 million in 2012 which ranks the group as number two on the worldwide professional skin care market in beauty institutes, spas and hair salons. Founded in 1974, Decléor is the world's leading brand in aromatherapy. Created in 1945 by Maria & Rosy Carita, known as hairdressers for stars, Carita incarnates the art of prestigious French pampering.
An agreement could be signed in the coming weeks.

Nestlé and L'Oréal announced that their respective Boards of Directors, in meetings held on February 10th, 2014, have approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal will buy 48.5 million of its own shares (8% of its share capital) from Nestlé. This buyback will be financed:

- partially through the disposal by L'Oréal to Nestlé of its 50% stake in Swiss dermatology pharmaceuticals company Galderma (a 50/50 joint venture between L'Oréal and Nestlé) for an enterprise value of €3.1 billion (€2.6 billion of equity value), paid by Nestlé in L'Oréal shares (21.2 million shares);
- for the remainder, corresponding to 27.3 million L'Oréal shares held by Nestlé, in cash for an amount of €3.4 billion.

The price per L'Oréal share retained for this transaction is the average of its closing prices between Monday November 11th, 2013 and Monday February 10th, 2014: €124.48.

All the shares bought back by L'Oréal will be cancelled. Following the transaction, Nestlé's stake in L'Oréal will be reduced from 29.4% to 23.29% of the share capital and the Bettencourt Meyers family's stake in L'Oréal will increase from 30.6% to 33.31%.

The transaction is subject to customary conditions, including the prior consultation of Galderma's and L'Oréal's works councils and the clearance of relevant antitrust authorities. It is expected to close before the end of the first semester of 2014.

5.6. TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31st, 2013

SUBSIDIARIES AND AFFILIATES AT DECEMBER 31st, 2013 (€ thousands)

DETAILED INFORMATION

	Share capital	Other equity	% holding	BOOK VALUE of investment		PROFIT OR LOSS in last year	DIVIDENDS [1] booked during the year
				Gross	Net		
A. Main french subsidiaries (Holding of over 50%)							
Areca & Cie	35	10	99.78	35	35	-216	60
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	109,142	99.99	75,670	75,670	26,669	
Beauté Créateurs	612	223	100.00	31,599	0	-31,613	52
Beauté, Recherche & Industries	10,690	-2,184	100.00	20,311	16,811	7,841	
Centrex	1,800	29	99.99	3,532	3,532	353	671
Chimex	1,958	31,249	100.00	21,501	21,501	3,537	2,649
Cosmétique Active France	24	19,293	61.97	130	130	28,354	12,788
Cosmétique Active International	19	19,014	80.43	15	15	-4,823	9,166
Cosmétique Active Production	186	17,656	80.13	5,081	5,081	9,506	3,655
EpiSkin	13,599	4,495	99.96	17,975	17,975	944	
Exclusive Signatures International	10	0	99.00	10	10	4,384	3,114
Fapagau & Cie	15	4,968	79.00	12	12	5,749	3,705
Faprogi	15	4,271	59.90	9	9	4,159	1,260
Finval	2	0	99.00	2	2	4,424	6,886
Gemey Maybelline Garnier	50	676	66.61	34	34	38,362	26,378
Gemey Paris - Maybelline New York	35	5,793	99.96	46	46	17,802	15,661
Goldys International	15	0	99.90	15	15	-5	
H.B.D.F.	5	0	100.00	5	5	33	
Helena Rubinstein	30	1	99.95	46,661	46,661	5,234	4,488
Holdial	1	0	98.00	1	1	550	588
L & J Ré	1,500	8,736	99.99	1,500	1,500	1,149	
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	18,286	15,362
Laboratoires Innéov	475	370	50.00	30,875	845	-6,983	
Laboratoire Sanoflore	10	272	100.00	5,197	0	609	
Lancôme Parfums & Beauté & Cie	1,192	0	99.99	3,235	3,235	56,433	61,311
LaScad	20	12,776	99.26	12,796	12,796	60,921	54,150
Lehoux et Jacque	39	56	100.00	263	263	-364	258
L'Oréal Produits de Luxe France	84	56,209	68.55	1,457	1,457	11,112	10,777
L'Oréal Produits de Luxe International	98	75,253	77.36	76	76	35,900	31,572
Parfums Cacharel & Cie	1	1	99.00	2	2	404	404
Parfums Guy Laroche	332	54	100.00	1,656	1,656	51	145
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	16	32
Parfums Ralph Lauren	2	-462	99.00	2	0	10	
Prestige & Collections International	32	3,952	81.67	3,823	3,823	22,808	14,573
Roger & Gallet	3,034	10,390	100.00	109,693	109,693	660	665
Sicôs & Cie	375	7,089	80.00	999	999	5,488	3,683
Société de Développement Artistique	2	0	99.00	2	2	49	
Soprocos	8,250	5,900	100.00	11,904	11,904	3,460	
Soproréal	15	2,639	99.90	15	15	3,379	
Sparlys	750	90	100.00	3,826	3,826	540	1,876
Viktor & Rolf Parfums	2	0	99.00	1	1	493	296
YSL Beauté	130,786	11,276	89.80	299,622	299,622	25,786	
B. Main french investments (Holdings of less than 50%)							
Galderma International	466	64,161	26.44	2	2	16,852	
Innéov France	130	-396	0.00	n/s	n/s	-732	
La Roche-Posay Dermato-Cosmétique	2	0	1.00	0	0	-2	
Sanofi		[2]	8.93	423,887	423,887	[2]	327,490

(1) The SNCs (general patnership), and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit.
(2) Sanofi : this information is not availaible.
At the end of 2013 L'Oréal owns 118,227,307 shares. The market value amounts to 9,117,690 thousand euros on the basis of the closing price.

	Share capital	Other equity	% holding	BOOK VALUE of investment Gross	BOOK VALUE of investment Net	PROFIT OR LOSS in last year	DIVIDENDS [1] booked during the year
A. Main foreign subsidiaries (Holdings of over 50%)							
Avenamite S.A. (Spain)			0.00	0	0		51
Beautycos International Co. Ltd (China)	52,482	53,933	73.46	46,195	46,195	10,295	
Beautylux International Cosmetics (Shanghai) Co. Ltd (China)	5,629	-2,045	100.00	16,871	3,822	405	
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,473	5,749
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,451	13,764	100.00	30,290	30,290	7,222	
Club des Créateurs de Beauté (Belgium)	81	-59	100.00	3,821	22	0	
Cosmelor Ltd (Japan)	3,554	5,890	100.00	35,810	35,810	1,600	1,634
Cosmephil Holdings Corporation (Philippines)	171	-141	100.00	400	14	0	
Egyptelor LLC (Egypt)	6	100	99.80	7	7	55	
Elebelle (Proprietary) Ltd (South Africa)	806	27,015	100.00	61,123	46,783	4,316	4,195
Erwiton S.A. (Uruguay)	739	969	100.00	17	17	8,025	9,762
Galderma Pharma S.A. (Switzerland)	15,694	141,790	50.00	10,124	10,124	125,687	56,283
Kosmepol Sp. z.o.o. (Poland)	38,844	39,238	99.73	48,965	48,965	6,407	
Lai Mei Cosmetics Int. Trading (Shanghai) Co Ltd (China)	9,500	4,300	100.00	11,197	11,197	470	741
L'Oréal Adria d.o.o. (Croatia)	131	1,153	100.00	1,503	1,503	6,513	4,006
L'Oréal Argentina SA (Argentina)	16,891	45,299	94.90	103,426	57,512	32,052	
L'Oréal Australia Pty Ltd	2,711	17,230	100.00	33,867	33,867	39,298	37,655
L'Oréal Balkan d.o.o. (Serbia)	1,283	-402	100.00	1,285	1,285	1,182	700
L'Oréal Baltic SIA (Latvia)	387	3,132	100.00	529	529	2,584	2,601
L'Oréal Belgilux S.A. (Belgium)	16,124	18,192	98.93	77,150	77,150	26,489	15,645
L'Oréal Bulgaria EOOD	102	704	100.00	102	102	2,469	2,336
L'Oréal Canada Inc.	3,979	10,102	100.00	146,517	146,517	89,334	75,440
L'Oréal Central America (Panama)	8	6	100.00	8	8	-165	
L'Oréal Central West Africa (Nigéria)	1,176	-2,203	99.91	1,176	1,176	-2,625	
L'Oréal Ceska Republika s.r.o. (Czech Republic)	5,939	2,924	100.00	8,678	8,678	5,734	7,267
L'Oréal Chile S.A. (Chile)	20,888	7,051	99.99	43,784	43,784	33,458	23,988
L'Oréal China Co Ltd (China)	43,498	30,439	100.00	345,733	345,733	237,403	219,285
L'Oréal Colombia S.A. (Colombia)	1,931	3,834	94.00	6,395	6,395	-1,680	1,459
L'Oréal Cosmetics Industry S.A.E. (Egypt)	42,319	-9,449	99.99	42,299	27,699	-5,863	
L'Oréal Danmark A/S (Denemark)	270	5,406	100.00	8,336	8,336	11,328	10,516
L'Oréal Deutschland Gmbh (Germany)	12,647	274,511	100.00	76,855	76,855	217,424	159,661
L'Oréal East Africa Ltd (Kenya)	191	-986	99.90	191	191	-1,879	
L'Oréal Espana S.A. (Spain)	59,911	19,851	63.86	299,154	299,154	39,801	32,410
L'Oréal Finland Oy (Finland)	673	17	100.00	1,280	1,280	12,431	11,849
L'Oréal Guatemala S.A.	1,044	400	99.99	2,162	2,162	1,222	1,268
L'Oréal Hellas S.A. (Greece)	9,736	1,991	99.99	35,307	35,307	4,519	5,420
L'Oréal Hong-Kong Ltd	3	-2,439	99.97	604	604	74,004	149,840
L'Oréal India Private Ltd (India)	49,919	-12,068	100.00	68,467	47,285	5,405	
L'Oréal Investments B.V. (Netherlands)	18	0	100.00	18	18	0	
L'Oréal Israel Ltd	4,137	10,936	92.97	38,497	34,897	6,185	4,767
L'Oréal Italia Spa	1,680	56,007	100.00	226,469	226,469	51,118	72,964
L'Oréal Japan Ltd (Japan)	370	-1,204	100.00	275	0	-812	
L'Oréal Kazakhstan Llp (Kazakhstan)	422	612	100.00	422	422	9,158	8,895
L'Oréal Korea Ltd (Korea)	1,991	376	99.99	20,794	20,794	4,764	15,872
L'Oréal Liban SAL (Lebanon)	3,139	1,073	99.88	7,694	7,694	13,173	9,376
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	428	-72	100.00	787	787	2,472	2,991
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	93	100.00	6,762	6,762	11,497	11,503
L'Oréal Mexico S.A. de C.V. (Mexico)	2,349	81,408	99.99	8,443	8,443	50,657	14,913
L'Oréal Middle East (United Arab Emirates)	7,761	2,758	100.00	54,379	54,379	42,507	28,588
L'Oréal Nederland B.V. (Netherlands)	1,178	-4	100.00	22,014	22,014	24,565	26,643
L'Oréal New Zealand Ltd (New Zeland)	44	2,344	100.00	6,110	6,110	6,319	6,145
L'Oréal Norge A/S (Norway)	1,384	2,404	100.00	4,050	4,050	17,447	17,801
L'Oréal Osterreich Gmbh (Austria)	2,915	1,353	100.00	3,818	3,818	14,175	12,575
L'Oréal Pakistan Private Ltd	11,025	-10,438	99.99	11,043	43	-2,462	
L'Oréal Panama S.A.	159	1,447	100.00	168	168	9,887	10,170

For foreign subsidiaries and investments, the capital reserves and retained earnings have benn translated into thansands of euros on the basis of year-end exchange rates, while profits and losses have been translared at average rate. It is specified that the list above is not exhaustive.

(1) The SNCs (general patnership), and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit.

	Share capital	Other equity	% holding	BOOK VALUE of investment Gross	Net	PROFIT OR LOSS in last year	DIVIDENDS [1] booked during the year
L'Oréal Peru S.A. (Peru)	2,096	214	99.99	3,739	3,739	960	1,835
L'Oréal Philippines Inc.	11,811	-13,953	99.45	22,226	26	-3,523	
L'Oréal Polska Sp. z.o.o. (Poland)	405	757	100.00	707	707	25,605	20,133
L'Oréal Portugal Lda	495	184	100.00	6,459	6,459	8,862	9,699
L'Oréal Romania SRL (Romania)	2,187	426	100.00	5,883	5,883	4,605	2,719
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	-483	74.63	4,260	4,260	761	37
L'Oréal Singapore Pte Ltd (Singapore)	1,165	57	100.00	18,991	18,991	6,912	8,220
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	384	100.00	856	856	626	1,024
L'Oréal Slovensko s.r.o. (Slovaquia)	1,598	790	100.00	1,673	1,673	3,130	4,974
L'Oréal Suisse S.A. (Switzerland)	346	2,157	100.00	160,311	160,311	32,445	34,969
L'Oréal Sverige AB (Sweden)	2,038	379	100.00	2,247	2,247	23,837	12,255
L'Oréal Taiwan Co Ltd (Taiwan)	187	-82	100.00	17,881	17,881	22,512	22,377
L'Oréal Thailand Ltd	3,992	-1,053	99.99	5,238	5,238	19,596	18,619
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	39,142	-29,916	100.00	55,093	26,656	11,728	
L'Oréal UK Ltd (Great Britain)	121,150	-107,937	99.99	145,573	145,573	117,622	72,490
L'Oréal Ukraine	3,033	2,231	100.00	2,990	2,990	14,814	14,636
L'Oréal Uruguay S.A.	485	2,891	100.00	5,435	5,435	4,604	
L'Oréal USA Inc. [3]	4,402	2,667,033	100.00	3,797,447	3,797,447	428,985	185,452
L'Oréal Venezuela C.A.	12,765	11,071	100.00	26,953	13,667	13,701	
L'Oréal Vietnam Co Ltd	7,340	-9,051	100.00	7,449	49	-4,202	
Masrelor LLC (Egypt)	13,844	-2,374	99.99	13,731	11,831	-5	
Nihon L'Oréal KK (Japan)	138,845	69,843	100.00	415,182	396,441	24,492	
Parbel of Florida Inc. (USA)	40	-2,177	100.00	100,317	100,317	27,263	27,267
Procosa Productos de Beleza Ltda (Brasil)	100,647	99,032	99.99	170,243	170,243	40,408	6,649
P.T. L'Oréal Indonesia	1,510	5,817	99.00	2,305	2,305	-8,175	
P.T. Yasulor Indonesia	73,931	-16,028	99.99	110,022	65,522	1,660	
Scental Limited (Hong-Kong)	5	160	99.99	8	8	0	
Sofamo (Monaco)	160	-41,118	99.99	1,852	0	-42	
The Body Shop International PLC (Great Britain) [4]	13,597	898,471	100.00	992,445	992,445	67,346	46,831
Venprobel (Venezuela)	20	-63	100.00	2,722	0	0	
YSL Beauté Vostok o.o.o. (Russia)	3,062	-2,588	99.98	5,519	619	-303	
B. Main foreign investments (Holding of less than 50%)	**n/s**	**n/s**	**n/s**	**n/s**	**n/s**	**n/s**	**n/s**

For foreign subsidiaries and investments, the capital reserves and retained earnings have benn translated into thansands of euros on the basis of year-end exchange rates, while profits and losses have been translared at average rate. It is specified that the list above is not exhaustive.

(1) The SNCs (general patnership), and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit.

(2) Sanofi : this information is not availaible.

(3) Figures from the sub-consolidation of L'Oréal USA Inc.

(4) The Body Shop : Consolidated figures for the sub-group.

GLOBAL INFORMATION RELATING TO SUBSIDIARIES AND INVESTMENTS

	Subsidiaries French	Subsidiaries Foreign	Other INVESTMENTS French	Other INVESTMENTS Foreign
Book value of shares held				
◆ gross (after revaluation)	737,238	8,234,985	423,888	1
◆ net	666,910	7,960,903	423,888	1
Amount of loans and advances granted	48,485	156,386	17,434	
Amount of guarantees and security granted	13,758	604,914		
Amount of dividends booked	286,250	1,591,451	327,490	1

5.7. OTHER INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF L'ORÉAL PARENT COMPANY

5.7.1. Expenses and charges falling under Article 223 quater of the French Tax Code

It is stipulated that the total amount of expenses and charges falling under Article 223 quater of the French Tax Code and the amount of tax applicable to such expenses and charges are as follows:

Expenses and charges	€1.3 million
Corresponding tax amount	€0.5 million

5.7.2. Trade accounts payable

In accordance with the French Law on the Modernisation of the Economy of August 4th, 2008 and the resulting Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the breakdown of the balance of trade accounts payable by L'Oréal parent company at year-end is as follows:

€ millions	**2013**	2012	2011
Trade accounts payable not yet due	**197.5**	**191.6**	**171.8**
including:			
at 30 days	116.9	122.1	97.8
between 30 days and 45 days	80.6	69.5	74.0
more than 45 days	-	-	-
Trade accounts payable due	**14.5**	**10.5**	**6.3**

5.7.3. Net sales (excluding taxes)

€ millions Net sales	**2013**	2012	Variation en %
1st quarter	743.5	701.6	5.97
2nd quarter	697.9	635.2	9.87
3rd quarter	666.4	622.8	7.00
4th quarter	669.2	647.2	3.39
TOTAL	**2,777.0**	**2,606.8**	**6.52**

N.B: These net sales figures include sales of goods and finished products, accessories, waste and services, less reductions in respect of sales. These sales include, in particular, supplies of goods to various subsidiaries which are recorded as intercompany sales from a consolidated accounts standpoint.

5.8. FIVE-YEAR FINANCIAL SUMMARY

L'ORÉAL PARENT COMPANY (EXCLUDING SUBSIDIARIES)

€ millions (except for earnings per share, shown in euros)	2009	2010	2011	2012	**2013**
I. Financial position at financial year-end					
◆ *a) Share capital*	119.8	120.2	120.6	121.8	121.2
◆ *b) Number of shares*	598,972,410	600,992,585	602,984,082	608,810,827	605,901,887 (1)
◆ *c) Number of convertible bonds*	0	0	0	0	0
II. Overall results of operations					
◆ *a) Net pre-tax sales*	2,051.1	2,231.0	2,421.1	2,606.8	2,777.0
◆ *b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and Profit Sharing reserve)*	1,766.3	2,048.4	2,344.8	2,517.5	2,562.0
◆ *c) Income tax*	-114.9	-104.6	-51.3	11.4	-9.7
◆ *d) Net profit*	1,841.8	1,995.3	2,169.8	2,408.0	2,366.1
◆ *e) Amount of distributed profits*	898.9	1,082.5	1,212.4	1,397.4	1,523.3 (2)
III. Results of operations per share					
◆ *a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions*	3.11	3.55	3.94	4.09	4.22
◆ *b) Net profit*	3.07	3.32	3.60	3.96	3.91
◆ *c) Dividend paid on each share (not including tax credit)*	1.50	1.80	2.00	2.30	2.50 (2)
IV. Personnel					
◆ *a) Number of employees*	5,855	5,957	6,016	6,097	6,163
◆ *b) Total salaries*	403.8	426.7	459.0	489.5	515.6
◆ *c) Amount paid for welfare benefits (social security, provident schemes, etc.)*	172.8	182.5	200.4	208.6	261.3

(1) At December 31st 2013, the share capital comprises 605,901,887 shares with a par value of €0.2, following the subscription of 5,961,501 shares following the exercise of options and 238,200 of free shares, as well as cancellation of 9,108,641 treasury shares.
(2) The dividend will be proposed to the Annual General Meeting of April 17th, 2014.

5.9. INVESTMENTS (MAIN CHANGES INCLUDING SHAREHOLDING THRESHOLD CHANGES)

INVESTMENTS

(main changes including shareholding threshold changes > 5%)

(€ thousands)	Situation at 12.31.2012 *Including revaluation*		**Acquisitions**		**Subscriptions**		**Disposals Reductions**		**Situation at 12.31.2013**	
Headings	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Avenamite S.A.	6,215.6	100.00					6,215.6	100.00 (2)	0.0	
L'oréal Venezuela C.A	16,970.4	100.00			9,982.9	100.00			26,953.3	100.00
L'Oréal Argentina S.A.	81,068.5	100.00			22,357.7	82.03			103,426.2	94.90
EpiSkin	9,401.5	100.00			8,573.8	100.00	0.0	0.04 (3)	17,975.3	99.96
Lascad	18.1	99.17			12,778.0	0.09			12,796.1	99.26
Cosmetique Active Ireland LTD	731.6	99.99					731.6	99.99 (2)	0.0	
YSL Beaute Hong-Kong LTD	6,405.0	100.00					6,405.0	100.00 (2)	0.0	
YSL Beaute Singapore PTE LTD	336.2	100.00					336.2	100.00 (2)	0.0	
L'Oreal Central America			7.6	100.00					7.6	100.00
Hygiène Beauté Distribution France			5.0	100.00					5.0	100.00
Cadum International S.A.	170,520.2	100.00					170,520.2	100.00 (1)	0.0	0.00
Laboratoire Inneov	25,750.0	50.00			5,125.0	50.00			30,875.0	50.00
	317,417.1		12.6		58,817.4		184,208.6		192,038.5	

(1) Complete transfer of assets and liabilities.
(2) Liquidation.
(3) Merger with EpiSkin Biomateriaux and SkinEthic leading to a capital increase as a remuneration of shares held by SkinEthic minority shareholders.

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5.10. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31st, 2013)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the Management Report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2013, on:

- the audit of the accompanying financial statements of L'Oréal;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31st, 2013, and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matter:

Investments have been valued in accordance with the accounting methods described in Note 1.7.1 *"Accounting policies – Financial Assets – Investments and advances"* to the Company's financial statements. As part of our audit, we reviewed whether these accounting methods were appropriate and evaluated the assumptions used.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Neuilly-sur-Seine, February 14th, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

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/ *CORPORATE SOCIAL,* ENVIRONMENTAL AND SOCIETAL RESPONSIBILITY*

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

The Group presented on October 23rd, 2013 its commitments with regard to Sustainable Development by 2020 through the "Sharing beauty with all" program (hereinafter the "Commitments for 2020" or "Sharing beauty with all"). This public announcement testifies to L'Oréal's ambition, and the strong commitment of its management and all its teams to building and ensuring sustainable growth.

Ten years ago, the Group signed the United Nations Global Compact and has since been committed to supporting the ten fundamental principles of the global Compact within its sphere of influence.

The Group has resolutely engaged in steps to make progress in the field of Sustainable Development and CSR by setting, in particular as from 2009, an ambitious objective of reducing the environmental footprint of its production sites and plants. In 2007, the creation of the L'Oréal Foundation moreover showed its commitment to corporate philanthropy and patronage.

L'Oréal therefore now has a solid Sustainable Development legacy and may therefore set itself big ambitions for the future with commitments integrated into its growth model.

The "Sharing beauty with all" program concerns all the Group's environmental, social and societal impacts and covers four areas:

- Innovating sustainably;
- Producing sustainably;
- Consuming sustainably;
- Sharing growth.

The Group describes each year the progress made and its achievements in the various areas concerned (Human Rights, labour standards, environmental standards and anti-corruption measures), namely through its Sustainable Development Report, the Global Reporting Initiative (GRI) indicators and those of the United Nations Global Compact.

In 2013, the efforts and progress made were recognised and rewarded as in previous years by the most demanding organisations in this field: Vigeo, Ethisphere Institute, Carbon Disclosure Project which ranked L'Oréal in 2013 among the 10% best rated companies, OEKOM.

In order to constantly improve the Group's transparency with regard to its action in this area, L'Oréal has consolidated in this chapter the information provided for by the French Decree of April 24th, 2012, namely examples of the Group's achievements in the social, environmental and societal fields in various countries, and a table of concordance putting into perspective the various published indicators (GRI, information under Grenelle II, principles of the Global Compact). This table of concordance is set out on pages 230 and 231.

The reporting scope and the methodology are detailed in the methodological note placed at the end of each section of this chapter.

L'Oréal's Statutory Auditors set out on pages 232 to 234 their attestation with regard to their presence regarding the consolidated social, environmental and societal information in this chapter pursuant to the provisions of Article L. 225-102-1 of the French Commercial Code as well as their substantiated opinion on the fairness of this information.

6.1. HIGHLIGHT FOR 2013

The L'Oréal Group's Sustainable Development commitments for 2020: "Sharing beauty with all"

On October 23rd, 2013, Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal, announced the commitments that L'Oréal has set itself by 2020 to reduce its impact while achieving its growth ambition.

Sustainability at the service of growth

L'Oréal's ambition is to reach one billion new consumers through its universalisation strategy which aims to respond to the different beauty needs of men and women all over the world. The Group's growth strategy is partly based on its commitment to produce more, with less impact, and to involve consumers, who are at the heart of its business activities, by offering them products which are both sustainable and aspirational, thus inciting them to make sustainable choices. For this purpose, L'Oréal has undertaken to improve its practices throughout its value chain, from research to production, while sharing its growth with the surrounding communities.

These commitments are the fruit of two years of consultation with various stakeholders throughout the world. L'Oréal will regularly communicate on its progress with regard to each of the objectives with the assistance of a panel of independent international experts [(1)], chaired by José Maria Figueres, recognised throughout the world for his commitment to Sustainable Development.

"Sharing beauty with all": a commitment which covers four areas

1. INNOVATING SUSTAINABLY – BY 2020, 100% OF OUR PRODUCTS WILL HAVE AN ENVIRONMENTAL OR SOCIAL BENEFIT

Whenever the Group's brands invent or renovate a product, they will improve its environmental or social profile in terms of at least one of the following criteria:

- The new formula reduces its environmental footprint (and in particular its Water Footprint).
- The new formula uses sustainably sourced renewable raw materials or raw materials derived from Green chemistry.
- The new packaging has an improved environmental profile.
- The new product has a positive social impact.

2. PRODUCING SUSTAINABLY – BY 2020, THE GROUP COMMITS TO REDUCING ITS ENVIRONMENTAL FOOTPRINT BY 60% WHILST BRINGING BEAUTY TO ONE BILLION NEW CONSUMERS

- A 60% reduction of CO_2 emissions at our plants and distribution centres in absolute terms, from a 2005 baseline.
- A 60% reduction in water consumption per finished product unit from a 2005 baseline.
- A 60% reduction in waste generation per finished product unit from a 2005 baseline.
- Sending zero industrial waste to landfill.
- Reducing the CO_2 emissions from transportation of products by 20% per finished product/Km from a 2011 baseline.

3. CONSUMING SUSTAINABLY – BY 2020, THE GROUP WANTS TO EMPOWER ALL L'ORÉAL CONSUMERS TO MAKE SUSTAINABLE CONSUMPTION CHOICES

- A product assessment tool will evaluate the environmental and social profile of all new products. All brands will make this information available to allow consumers to make sustainable lifestyle choices.
- All L'Oréal brands will have assessed their environmental and social footprint and will have made commitments to improve it. Every brand will report on its progress and raise awareness among consumers about sustainable lifestyle choices. Consumers will be able to influence the Group's sustainability actions through a consumer consultative group on sustainability.

4. SHARING GROWTH

a) Employees: by 2020, L'Oréal employees will have access to healthcare, social protection and training, wherever they are in the world.

(1) *The panel of international experts:*
Sze Ping, Chinese environmentalist, former Greenpeace activist, Executive Director of Greenovation Hub;
Mehjabeen Abidi-Habib, Pakistani researcher in human ecology, specialist of natural resources management;
HRH Celenhle Dlamini, South African, one of the Directors of Ubuntu Institute working on the achievement of the UN Millenium Development;
Zem Joaquin, American, eco-luxury specialist and founder of the "Eco-fabulous" website, aiming to make sustainability desirable;
Analisa Balares, American, Founder and CEO of WomensphereTM, developing medial tools, online communities, and an award to inspire and support women willing to make a difference in the world;
Christian de Boisredon, French, promoting the concept of "impact journalism" through Sparknews, in order to give visibility to positive initiatives throughout the world.

- Employees will benefit from health coverage which is aligned with the best practice of the country they are based in.
- Employees will receive financial protection in the event of unexpected life events, such as incapacity or permanent disability.
- Employees will have access to a training session per year, wherever they are in the world.

b) Suppliers: by 2020, 100% of the Group's strategic suppliers will be participating in the supplier sustainability programme.

- All strategic suppliers will be evaluated and selected on social and environmental performance.
- All suppliers will have completed a self-assessment of their sustainability policy with our support.
- All suppliers will have access to L'Oréal's training tools, in order to improve their sustainability policies.
- 20% of strategic suppliers will be associated with the Solidarity sourcing programme presented in 2012.

c) **Communities:** by 2020, through its actions, the Group will enable more than 100,000 people from socially or financially deprived communities to access work.

This goal can be achieved through the following programmes:

- "Solidarity sourcing";
- Inclusive distribution;
- Professionalization of beauty-related jobs;
- Mentoring and community education;
- Employment of disabled people and under-represented socio-ethnic groups.

6.2. SOCIAL INFORMATION

6.2.1. The L'Oréal Group's Human Resources policy

L'Oréal has built its human and social project around two priorities: individual performance and social performance, two key factors in the success of the world leader in beauty.

While accelerating the recruitment and development of talents all over the world, in order to ensure sustainable growth, L'Oréal is keen to offer all its employees an environment in which everyone can reveal their talents, improve and thrive and where they all feel that their contributions are recognised and that they receive support.

Thus, L'Oréal's Human Resources policy is founded on:

- A vision focusing on performance and individual talent.

  L'Oréal has always put the human dimension at the centre of the Company by projecting a long-term vision for its talents. The mission of the Human Resources Department is currently to develop the talent of every employee and prepare tomorrow's leaders, by favouring, in particular, the emergence of local talents, to support the Group's ambition to win a billion new consumers.

  - Ongoing recruitment of talented individuals.

    The Group constantly strives to enhance its pool of talents, in all countries. Recognised as one of the most attractive companies in the world for young graduates and one of the companies that provide the most training with regard to leadership, the Group conducts a diversified recruitment policy, which is based both on partnerships with the best educational institutions in the world and the use of corporate gaming attracting tens of thousands of students from all over the world and a proactive strategy of looking for candidates via digital technologies. L'Oréal also develops its own selection methods to recruit the best talents and those which best represent the diversity of its consumers from among the million spontaneous applications received every year.

  - The ambition of putting each employee in a position to develop their career.

    Individual performance monitoring and a large number of career development opportunities and training programmes that are accessible to everyone are aimed at allowing each and every employee to develop. The programmes may be rolled out throughout the world, thanks to the international locations of training structures and the use of digital technologies with the "My learning" portal which offers all employees opportunities for online training. The large-scale mobility between jobs and between countries and the many individual promotions made each year attest to the vitality of career management. This management is based on a network of human resources professionals, who are both in tune with employee expectations and aware of the requirements of our business. The close cooperation between these human resources professionals and the operational managers makes it possible to have a two-way perspective with regard to talents and to define the most suitable development opportunities for each of them.

- Offering a protective and fulfilling working environment.

  L'Oréal pays particular attention to the level of its social performance. The Group has set itself the target of promoting its values by creating a pleasant and conducive working environment, marked by solidarity and respect, and where all employees can fulfil personal development with:

  - The desire to recognise the effective contribution made by everyone through a dynamic remuneration policy and short-, medium- and long-term global incentive systems.
  - A regular evaluation of the expectations of employees throughout the world through large-scale opinion polls leading to the implementation of action plans.
  - The search for a work environment and working conditions that will help everyone to achieve personal satisfaction.
  - An active dialogue between management and employees and their representatives at worldwide level.
  - An active policy with regard to diversity as a factor of progress, innovation and creation of a social relationship with three global priorities of gender, social origin and disabilities.

In 2013, the Group chose to go one step further with regard to social performance with the launch of the "L'Oréal Share & Care" program, an ambitious programme aimed at offering all the Group's employees, in all the countries in which it is located, a set of guaranteed global social measures in four areas: social protection, healthcare, parenthood and quality of life at work. This programme, which will make it possible to address the essential needs of each and every one of our employees and encourage their commitment, will make L'Oréal one of the companies with the best practices in terms of social performance and well-being at work. The L'Oréal Share & Care program falls within the scope of the commitments made by the Group by 2020 in the area of Sustainable Development and social responsibility, under its "Sharing beauty with all" programme. The launch of this programme and its implementation show the strong conviction that social performance and economic performance are not only intimately linked but also provide each other with mutual strength.

6.2.2. Social information with regard to the consolidated scope of the L'Oréal Group

The workforce indicated in the "Total workforce" and "Geographic distribution of workforce" charts is the total workforce present in the Group at December 31st, 2013 [1].

For Galderma and Innéov that are proportionally consolidated, the workforce at December 31st, 2013 is recorded on a prorated basis according to the stake held by L'Oréal, *i.e.* 50%.

All the other social indicators set out in this chapter relate to "Cosmetics" and "The Body Shop" [2].

If an indicator relates to a scope different from that of the "Cosmetics" and "The Body Shop" branches, the scope of consolidation is indicated in a note.

(1) Including employees with a permanent or fixed-term contract of employment.

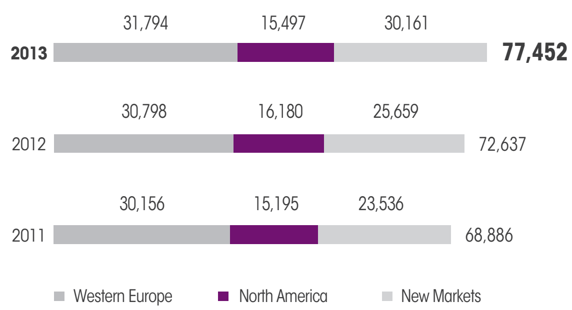
(2) Innéov is included, Galderma (dermatology) is excluded.

6.2.2.1. EMPLOYMENT

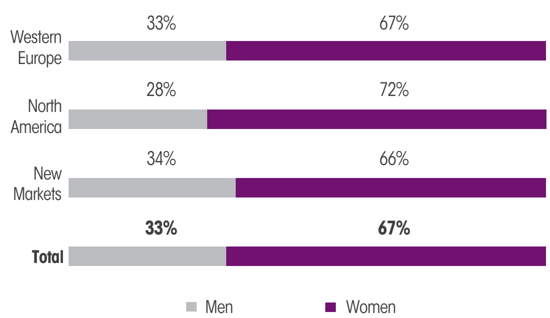
Total workforce and distribution of employees by geographic zone, by gender and by age

In 2013, L'Oréal had 77,452 employees.

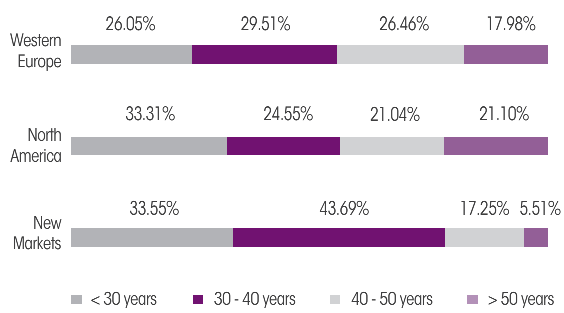
DISTRIBUTION OF WORKFORCE BY GEOGRAPHIC ZONE



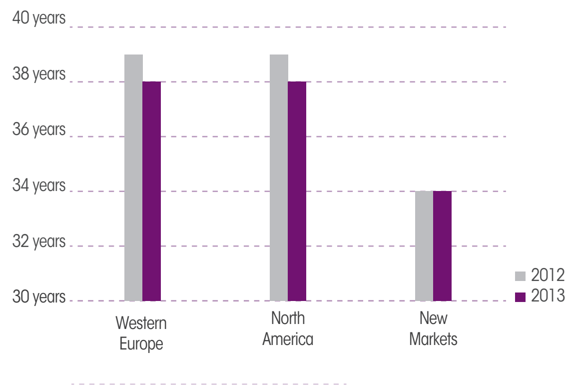
DISTRIBUTION BY GENDER AT 12.31.2013



BREAKDOWN BY AGE AT 12.31.2013



AVERAGE AGE BY GEOGRAPHIC ZONE



Recruitments and departures [1]

- The number of employees hired on permanent contracts in 2013 is 11,949.

L'Oréal does not have any problems in recruiting either executives or other categories of staff.

L'Oréal is pursuing its active recruitment policy for all its businesses and all categories of staff in the Company.

L'Oréal's aim is to create a durable relationship with its employees in order to enable each and every one of them to develop their potential and to build long-term growth together, become more competitive, and continue geographic expansion and the promotion of innovation.

- The number of departures (on the Company's initiative) in 2013 is 2,576.

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

Remuneration and trends

L'Oréal's remuneration policy is inseparable from the general objectives of Human Resources policy and accompanies the Group's development strategy defined by the General Management.

The principle of this policy is to reward all its employees everywhere in the world fairly by recognising the individual contribution made by each of them and by proposing diversified remuneration intended to fulfil the different expectations of its employees.

Its purpose is to reward the commitment made by each of them and encourage individual and collective performances. For this purpose, it is based on an annual performance assessment system

(1) *Cosmetics scope excluding The Body Shop.*

(MAP) for employees applied in all the Group's subsidiaries. This performance assessment system makes it possible to revise the various fixed and variable components of remuneration regularly depending on the position held, the skills used, the performances and the potential of each and every employee. It also makes it possible to communicate clearly and transparently on the rules for determining remuneration, the process and the decisions made.

In most countries, the minimum salaries paid are much higher than the statutory minimum wage (at a national or regional level or according to the collective bargaining agreement).

As L'Oréal wants to be one of the most attractive companies wherever it has subsidiaries, surveys aimed at positioning remuneration as compared to the market are conducted by specialist firms every year. Furthermore, internal opinion polls, carried out periodically, make it possible in particular to evaluate the perceptions and expectations of employees with regard to remuneration and adapt the Group's action plans accordingly.

Finally, L'Oréal wishes to associate its employees collectively with the Group's results through global incentive profit sharing systems and thus strike a balance between social performance and economic performance.

PERSONNEL COSTS (INCLUDING PAYROLL COSTS)

(€ million)	2011	2012	**2013**
TOTAL	3,832.1	4,227.9	4,390.3

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

Profit Sharing, Incentive and Mandatory Profit Sharing schemes

For many years, L'Oréal's policy has been to associate employees with the results of the Company aimed at making employees feel that they are part of the Company and enhancing their motivation. This led to a redistribution of €236 million in 2013 at the scale of the Group, on the basis of the income for 2012.

L'Oréal has implemented a Worldwide Profit Sharing Program – WPS since 2001 in all the Group's subsidiaries in which the employees do not benefit from profit sharing arrangements provided for by law. This programme is not applied in the countries which already have a similar system provided for by law, particularly France (see box below).

The amounts paid are calculated locally on the basis of sales and profits generated by each subsidiary as compared to budgeted targets. Implementation of the programme takes place locally and compliance with the principles and rules of the programme is coordinated, at Corporate level, by the International Labour Relations Department.

PROFIT SHARING, INCENTIVE AND MANDATORY PROFIT SHARING SCHEMES

(€ million)	2011	2012	**2013**
TOTAL	204	210	236

The comparison between the three years takes into account foreign exchange impacts and structural changes.

FRANCE

A mandatory employee profit scheme was set up in 1968 and an incentive profit sharing scheme has been in force since 1988.

Incentive profit sharing is a system provided for by law but is of a non-mandatory nature. Renegotiated every 3 years, it was the subject of a new Group agreement in 2012.

The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items and weighted on the basis of the salary/value added ratio.

The incentive amount is available immediately, but may also be frozen in the Company savings plan for 5 years and benefit from a corresponding tax exemption.

Within the framework of the regulations on sharing profits (Article 1 of French Law No. 2011-894 of July 28th, 2011), L'Oréal proposed the payment in 2013 of a gross additional incentive amount of €1,000 per employee in respect of the "non-mandatory monetary benefits" provided for by the legislation.

L'Oréal chose to propose the payment of an additional incentive amount as it corresponds to the system which is the closest to the notion of "value sharing".

Company-level agreements providing for the payment of an additional incentive amount of €1,000 gross* were thus entered into with the Works Councils of L'Oréal and its subsidiaries in France. It was paid on September 30th, 2013.

The total net amount of incentives allocated in 2013 is €117.5 million, plus the additional incentive payment to "share in profits for 2013" of €12.3 million.

* *On a full-time basis, for 12 months' presence in 2012.*

CHANGES IN GROSS INCENTIVE AMOUNT

(€ million)	2010 (1) (2)	2011 (1) (2)	2012 (1) (2)
	106.9	112.6	117.5

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

For an annual gross salary of	The gross Incentive amount for 2012 paid in 2013 represented	Additional Incentive payment to "share in profits for 2013"	**Total**
€25,000	€6,450 *i.e.* 3.1 months	€1,000	€7,450
€35,000	€7,559 *i.e.* 2.6 months	€1,000	€8,559
€45,000	€8,668 *i.e.* 2.3 months	€1,000	€9,668
€65,000	€10,886 *i.e.* 2.0 months	€1,000	€11,886

Mandatory employee profit sharing is a compulsory system in France, introduced in 1968, for all profit-making companies with over 50 employees. Signed for a term of 3 years, the mandatory profit sharing agreement was renewed in May 2012.

Within the framework of this Group agreement, which pools the results of all the companies that are signatories, L'Oréal has made favourable adjustments to the legal formula to take account of the Group's international development.

Mandatory profit sharing is available immediately but may be frozen for 5 years in the Company savings plan or the frozen current account, or invested until retirement in the collective retirement savings plan (PERCO) on which an additional employer contribution is paid equal to +50%, which allows employees to benefit from a tax exemption.

CHANGES IN GROSS MANDATORY EMPLOYEE PROFIT SHARING

(€ million)	2010 (1) (2)	2011 (1) (2)	2012 (1) (2)
	34.3	32.8	31.5

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

Mandatory profit sharing for 2012 paid in 2013 represented the equivalent of 0.6 month's salary.

For employees who so wish, the amounts paid in respect of incentive and mandatory profit sharing may be invested for a minimum period of 5 years in the Company savings plan which proposes, in particular, an employee investment fund invested in L'Oréal Shares, on which an additional employer contribution of 25% is paid for incentive profit sharing payments.

In 2013, the following amount net of CSG, CRDS and the "forfait social" levy was invested by the employees of L'Oréal and its subsidiaries in France in the fund which is 100% composed of L'Oréal shares, "L'Oréal Intéressement": €51,762,937, plus the net additional incentive amount to "share in profits for 2013" of €5,009,533.

The employer contributions added to these payments were respectively €10,735,991 and €1,032,156, which, at the opening trading price for the L'Oréal share on the date of each of these additional employer contributions, namely €135.35 on April 30th, 2013 for "L'Oréal Intéressement" and €126.95 on September 30th, 2013 for the "Supplément d'Intéressement", represented the equivalent of 87,450 L'Oréal shares.

COMPANY SAVINGS PLAN AND FROZEN CURRENT ACCOUNT

Outstanding balance for all the companies concerned in France:

(€ million)	2011	2012	**2013**
Company savings plan + Frozen current account + collective retirement savings plan	720	863	985

At December 31st, 2013, 52% of the savings of L'Oréal employees were invested in L'Oréal shares, and 9,974 Group employees in France were shareholders of L'Oréal through the savings plan.

Long-term Incentive Plans

At worldwide level, in addition to the mandatory profit sharing, incentive profit sharing or Worldwide Profit Sharing programmes for its employees, the Group has for several years granted stock option plans and made conditional grants of shares (ACAs) in an international context, in order to associate those who have made big contributions with the future evolution of the Group's results and help to instil a Group spirit.

In 2009, L'Oréal enlarged its policy by introducing a mechanism for the conditional grant of shares (ACAs), in order to reach out to a broader population of potential beneficiaries thanks to a long-term incentive tool offering greater motivation than stock-options.

The final vesting of these shares is conditional on the achievement of performance criteria.

In 2013, the Group continued its policy for conditional grants of shares:

- 2,092 employees were thus beneficiaries of the April 26th, 2013 Plan (2,177 in 2012);
- 61% of the beneficiaries are outside France (62% in 2012);
- 46% of the beneficiaries are women (45% in 2012).

In total, more than 3,000 employees, i.e. over 12% of the managers worldwide, benefit from at least one stock option plan or plan for the conditional grant of share (see chapter 7, section 7.4. page 245).

Employee Benefit and pension schemes and other benefits

Depending on the legislation and practices in each country, L'Oréal adheres to pension schemes, pre-retirement arrangements and Employee Benefit schemes offering a variety of additional coverage for its employees.

In 2002, L'Oréal set up a Supervisory Committee for pension and Employee Benefit schemes offered by its subsidiaries. This committee ensures the implementation and the monitoring of L'Oréal's pension and Employee Benefits policy as defined by the L'Oréal Executive Committee.

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

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

In many countries, L'Oréal participates in establishing additional retirement benefits for its employees through a whole series of defined benefit schemes and/or defined contribution schemes (e.g. United States, the Netherlands, Belgium, Canada, and South American countries). In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Germany, Belgium and the United Kingdom). This series of defined benefit and defined contribution schemes makes it possible to share the financial risks and ensure improved cost stability. In defined contribution schemes, the Company's commitment mainly consists in paying a percentage of the employee's annual salary into a pension plan each year.

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

Pensions exceeding the legal minima required by national social security systems are now paid in 80% of L'Oréal's subsidiaries throughout the world. In countries which already offer sufficient social coverage, L'Oréal does not propose company pension schemes. This is also the case in countries which do not have an appropriate legal framework or a long-term investment instrument. The Supervisory Committee continues to be attentive to changes in local situations and, when required, additional employee benefit schemes are put in place.

FRANCE

Pension schemes

In France, L'Oréal has supplemented its retirement plan by creating on January 1st, 2001 a defined benefit scheme with conditional entitlements based on the employee's presence in the Company at the end of his/her career. Then, on September 1st, 2003, a defined contribution scheme with accrued entitlements was introduced.

Defined benefit scheme

In order to provide additional cover, if applicable, to compulsory pensions provided by the French Social Security compulsory pension scheme, the ARRCO or AGIRC (mandatory French supplementary pension schemes), L'Oréal introduced on January 1st, 2001, a defined benefit scheme with conditional entitlements, the "Retirement Income Guarantee for former Senior Managers" *(Garantie de Ressources des Retraités Anciens Cadres Dirigeants)*. Prior to this, on December 31st, 2000, L'Oréal closed another defined benefit scheme, also with conditional entitlements, the "Pension Cover of the Members of the Comité de Conjoncture" *(Garantie de Retraite des Membres du Comité de Conjoncture)*.

Access to the "Retirement Income Guarantee for former Senior Managers", created on January 1st, 2001, is open to former L'Oréal Senior Managers who fulfil, in addition to the requirement of having ended their career with the Company, the condition of having had the status of Senior Manager within the meaning of Article L. 3111-2 of the French Labour Code for at least ten years at the end of their career.

This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, the payment to the beneficiary's spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the Company at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years, each year leading to a steady, gradual increase of 1.8% in the level of the Guarantee. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday and less all salaries paid under an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 450 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having ended their career with the Company.

Access to the "Pension Cover for Members of the Comité de Conjoncture" has been closed since December 31st, 2000.

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

Defined contribution scheme

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

A new agreement was signed in December 2007, with effect from January 1st, 2008, as well as a supplemental agreement applicable as from January 1st, 2009.

All executives and sales representatives affiliated with the CIPC-R are beneficiaries of this scheme.

The basis for contributions, which remains unchanged, amounts to between once and 6 times the French social security ceiling, with a contribution of 4% since January 1st, 2008, shared by the Company and the employees.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlement from the French Social Security compulsory pension scheme, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension. The Life Annuity is calculated on the basis of the capital formed by the contributions made and the financial income on such contributions at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated.

	12.31.2011	12.31.2012	**12.31.2013**
Number of members	12,594	13,549	13,823
TOTAL NET CONTRIBUTIONS *(in € million)*	**8.74**	**9.20**	**9.51**

Pre-retirement arrangements

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

- the early retirement leave (CFC): this pre-retirement arrangement consists of exempting employees from the requirement to perform their activities; but during this period, they remain employees of L'Oréal and continue to receive their remuneration (within the limit of €9,280 gross/month) as well as mandatory profit sharing, incentive payments and paid leave;
- early retirement leave under the time savings account: this arrangement, linked to the 35-hour working week agreement and the Time Savings Account (Compte Epargne Temps – CET), enables an employee who has saved 3 days'leave per year under the CET since 2001, to benefit from the possibility to terminate his/her activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave;
- retirement indemnities: a new scale of indemnities at L'Oréal was implemented by a collective agreement as from 2011, which is more favourable than the French National Collective Bargaining Agreement for the Chemical Industries.

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from two months'salary for five years'service, to eight months'salary for 40 years'service.

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

	12.31.2011			12.31.2012			**12.31.2013**		
	Men	Women	Total	Men	Women	Total	**Men**	**Women**	**Total**
Early retirement leave	51	127	178	65	128	193	81	183	264
Compulsory retirement on the Company's initiative			5	3	0	3	2	0	2
Voluntary retirement			162	66	135	201	80	150	230

Source: HR France statistics - 2011, 2012 and 2013.

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

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

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

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

€ million	12.31.2011	12.31.2012	**12.31.2013**
Provision for pension commitments in consolidated balance sheet liabilities	662.6	706.7	621.3

Source: Administration and Finance Division.

Employees Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4 bis of the French National Collective Bargaining Agreement of 1947 (1.5% of Bracket A of income as defined by the French Social Security) and the guarantees accorded under the French National Collective Bargaining Agreement for the Chemical Industries, L'Oréal has set up, in France, under an agreement, an Employee Benefit scheme providing additional collective guarantees to its employees.

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

This Employee Benefit scheme provides guarantees in the event of:

- temporary disability: for all employees, 90% of their gross income limited to 8 times the French Social Security ceiling, net of all deductions, after the first 90 days off work;
- permanent disability: for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to 8 times the French Social Security ceiling, net of all deductions;
- death:

a) for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,

b) for executives and comparable categories of employees, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,

c) for all employees, the payment of an Education Annuity to each dependent child, according to an age-based schedule.

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

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

€ thousand	12.31.2011	12.31.2012	**12.31.2013**
Net Employee Benefit Contributions for the financial year	10,688	11,445	11,900 (1)

(1) Estimated.

Minimum guaranteed Lump Sum Death Benefits

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

The total amount of the capital needed to fund the surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is also subject to a ceiling.

Healthcare expenses

The employees of L'Oréal parent company and its French subsidiaries benefit from additional schemes covering healthcare costs.

The healthcare scheme is compulsory for all the employees of L'Oréal and its French subsidiaries.

Employees have the option of including their family members in these schemes.

Contributions are generally individual. The contribution by the employee is partly financed by the Company.

Retirees of L'Oréal S.A. and certain companies can continue to benefit from the healthcare scheme, with a contribution by L'Oréal, subject to a membership duration clause, specified in the regulations for additional defined benefit pensions.

6.2.2.2. WORK ORGANISATION

Organisation of working time

L'Oréal complies with the statutory and contractual obligations with regard to working time in each of its subsidiaries. Working time depends on the local environment and the business activities carried out.

Employees who have chosen to work part-time come from all categories. The number of part-time employees is 10,284, 9,610 are women and 674 men.

UNITED STATES

L'Oréal USA offers two programmes to assist its employees to balance their professional and personal commitments, concerning flexible work time and telecommuting.

- the **"Flexible Work Time"** programme enables eligible employees to work outside established working hours. These flexible work hours are proposed for defined periods and formally provided for in an agreement with the employee concerned.
- the **"Telecommuting"** programme offers the possibility for eligible employees to perform their professional activities by working from home within the limit of two days a month.

ITALY

L'Oréal Italy made a commitment in 2011 in favour of **"mums at work"**, following a project conducted with employees and their representatives, involving mothers of young children.

The signed agreement defines the provisions which go beyond the legal obligations and which are aimed at improving the private life-professional life balance for mothers of young children; several of them concern flexible management of working hours.

In particular:

- the variable working hours already in force for all employees are enlarged (possibility of starting work between 08.30 a.m. and 10.30 a.m.) for mothers until their children reach 3 years of age;
- the possibility of working part-time 6 hours a day is granted, at the mother's request, until the child reaches 2 years of age;
- in case of use of the optional parental leave for 6 months following maternity leave, L'Oréal Italy supplements the portion of the salary paid by the social security system, 30% of the salary, to bring it up to 45% in total;
- 2 half days of paid leave are allowed in order to enable the mother to make arrangements if the child is sick;
- the annual leave amounting to 40 hours to which employees are entitled for doctors' appointments may be used by mothers for examinations concerning their child until the child reaches 3 years of age;
- in addition to these measures, if the child goes to a day nursery, a contribution of €130/month is paid until the child reaches 3 years of age.

Within the scope of the "L'Oréal Share & Care" program, the Group has undertaken to promote initiatives of this kind all over the world.

Absenteeism

The overall rate of absenteeism for 2013 was 4.84%, 2.28% of which is due to sickness, calculated using the following method.

Method of calculation:

- Total absenteeism: B/(A+B);
- Sickness absenteeism: C/(A+B).

(A) Number of days effectively worked by all employees with contracts, including training days.

(B) Number of days of absence (sick leave, occupational diseases, maternity leave, accidents in the workplace and/or travel-to-work accidents or any other absence not provided for by contract).

(C) Number of days of sick leave (excluding occupational diseases, maternity leave, accidents in the workplace and/or travel to work accidents...).

6.2.2.3. LABOUR RELATIONS

Organisation of the dialogue between employees and management and in particular the procedures for information and consultation of the employees and negotiations with them

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

Employee representative institutions have been set up in most of the European subsidiaries, the Asian subsidiaries (China, Indonesia, South Korea…), Africa (Morocco, South Africa), and in North and South America (the United States, Canada, Mexico, Brazil and Argentina…), and also in Australia and New Zealand.

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

Since 2003, L'Oréal has carried out a global employee opinion poll with the assistance of the international firm of Towers Watson, a survey that was repeated in 2011-2012. The results are shared with the employees and employee representatives. They are the subject of actions plans implemented in a decentralised manner, as closely as possible to the expectations expressed.

The European Works Council

An agreement signed in 1996 between L'Oréal and French and European trade unions (FECCIA and EMCEF) led to the establishment of the Company's Instance Européenne de Dialogue Social/European Works Council (IEDS/EWC). The initial agreement has been regularly updated, in particular in 2009 to introduce a new information and consultation procedure which applies to transnational projects involving local consultation procedures. This procedure is implemented with the Liaison Secretariat extended to include members from the countries concerned or with the entire IEDS/EWC, depending on the geographic and strategic dimensions of the project. This process allows for the possibility of an opinion from the IEDS/EWC. This revision of the agreement represented an important advance which aims to reinforce social dialogue at L'Oréal while remaining a step ahead of changes in legislation. The agreement has been renewed, unchanged for the period 2013-2016.

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

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

Today, the IEDS/EWC covers more than 30,000 employees in 26 countries which are part of the European Economic Area; among whom the 16 countries with more than 150 employees are represented.

Situation with regard to collective agreements

The social policy at L'Oréal permits the signature of a certain number of collective agreements in the subsidiaries every year. In 2013, 39 agreements were signed in France and 57 agreements were signed in the rest of the world. In total, the number of agreements in force at December 31st, 2013 was 426.

6.2.2.4. HEALTH AND SAFETY

For several years, L'Oréal has applied a well-established policy in the field of health and safety (EHS policy). This defines the Company's commitment to developing, producing, distributing and selling innovative products of the highest quality, while having an ethical conduct and guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its activities. This approach is part of an overall environmental, health and safety policy described in the section on Environmental information on pages 212 *et seq.*

L'Oréal is eager to provide a safe and healthy work environment for its employees. Health and safety are of paramount importance and L'Oréal's ultimate goal is a zero accident rate.

Comprehensive measures have been taken focused on risk reduction and continuous improvement. A safety culture has been instilled, setting high standards and involving employees at all levels of the Company.

Keen to increase safety in the workplace, the General Management has set an ambitious objective to improve the results obtained.

Performance summary

Overall, 2013 was a good year for the Group as a whole with a healthy improvement at the level of Operations. The distribution centres had an conventional frequency rate (TFc*) < 1.0. The Group's performance improved by 4.7% as compared to 2012. Out of the 195 lost-time accidents (L'Oréal staff and temporary employees) registered in the Group in 2013, 21.5% occurred at the plants and distribution centres, 31% at administrative sites, 7.5% in Research & Innovation (R&I) laboratories and centres and 40% in sales force and shops.

- Sites of plants and distribution centres: TFc = 1.17 *vs* 1.49 in 2012 (-21.5%);
- Administrative sites and R&I: TFc = 1.25 *vs.* 1.28 in 2012 (-2.3%);
- Sales force & Shops: TFc = 3.15 *vs* 2.84 in 2012 (+10.9%);
- Group: all sites: TFc = 1.64 *vs* 1.72 in 2012 (-4.7%).

Management is the guiding force behind this change in safety culture, supported and assisted by the EHS network. L'Oréal has set up the necessary tools and programmes to achieve excellence in this area.

* *TFc (conventional frequency rate) - Number of lost-time accidents per million hours worked by L'Oréal staff.*

The basic safety improvement programmes rest on the following elements:

- EHS steering committees: overall review of the action plans and the efficiency of the site's EHS programmes by the Management Committee;
- Mesur: periodic safety visit in the field and discussions with a manager;
- SIO (Safety Improvement Opportunities): reporting of situations considered as involving risks by each employee with follow-up by direct management of the corrective measures taken;
- "Constructive Challenge": programme aimed at improving the safety culture and state of mind of each employee so that each and every one of them takes into account both his/her own safety and that of others. The objective of this programme is to cover 100% of the sites in 2020.

  The priority areas and EHS focuses for 2014 can be classified in the 8 following areas:

  1. Strategy and action plans to achieve the objective for 2020 (TFc < 0.5 for Operations, administrative sites, R&I and sales force & Shops)
  2. EHS organisation
  3. Commitment and visible participation by management
  4. Efficient Health and Safety management systems at all sites
  5. Active participation by employees
  6. Better sharing of resources and practices
  7. Focus on risks
  8. Group EHS audits
- Safety Training for management:

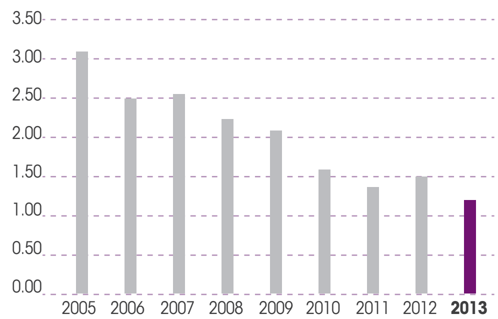
  In 2013, 68 participants from L'Oréal attended seminars open to site managers on the theme of Safety & Leadership, held at the CEDEP, the European Centre for Continuing Education *(Centre Européen d'Education Permanente)* on the campus of INSEAD in France. The main objectives of these seminars are to change the attitudes of managers with regard to safety, raise their awareness to the crucial problem posed by safety for companies and their management executives, and to increase their ability to have safer behaviour adopted and maintained over the long term.
- "Ergonomic Attitude": programme rolled out in the factories and distribution centres aimed at reducing risks and ergonomic-related accidents. 149 people have received ErgoAct training. This training will be more widely developed in 2014.
- EHS "Culture Audits": an EHS culture audit of the visible commitment by managers and employees with follow-up of action plans to aim for excellence.

Safety Target for factories and distribution centres

The initial target is an 81% improvement in our safety record by 2015 (base year 2005: TFc = 3.09), representing a TFc of < 0.60.

PERFORMANCE SUMMARY FOR FACTORIES AND DISTRIBUTION CENTRES SINCE 2005

TFc (conventional frequency rate) - Factories and distribution centre



Target: zero accident in 2013 [1]

Out of 99 factories and distribution centres, 73 recorded zero lost-time accident.

A decreasing accident severity rate

As well as a reduction in the number of accidents, it is also important to note that the accident severity rate has fallen by 57% since 2005. It is 0.06 in 2013.

Millions of hours – L'Oréal staff - without a lost time accident since 2005 – Operational and administrative sites:

- 3 factories, 4 distribution centres and 17 administrative/R&I sites reached or passed the threshold of one million hours worked without a lost-time accident.
- 3 factories, 1 distribution centre and 9 administrative sites have now exceeded 3 million hours.

(1) *L'Oréal permanent staff.*

STATUS REPORT ON COLLECTIVE AGREEMENTS WITH REGARD TO HEALTH AND SAFETY

- L'Oréal's health and safety standards are very strict and often exceed the legal obligations in the different countries. The Health and Safety Committees and their activities do not necessarily lead to the signature of specific agreements, but rather to joint monitoring of this subject (application of L'Oréal's standards and the legal obligations, analysis of situations, etc…) according to the principle of continuous improvement.
- 24 agreements have nevertheless been identified as being in force at December 31st, 2013 which deal, totally or partially, with health and safety.

6.2.2.5. TRAINING

Training is an integral part of employee development policy at L'Oréal. In a continual search for excellence and creativity and the desire to be one step ahead to deal with the growing complexity of the challenges of our business, the "Learning for Development" teams provide employees and managers with ongoing support to help them not only to be high-performing, but also to achieve fulfilment.

Training has always been at the heart of the Human Resources strategy: this enables L'Oréal to attract the best talents, prepare the leaders of the future, but also provide all the employees throughout the world with the best possible response in terms of training. The Group's ambition is to enable the largest possible number of employees, whatever their profession, country or position to have access to development opportunities throughout their working life: this is L'Oréal's vision of "Learning for All".

The training offering is structured into "practices", or fields of expertise (marketing, commerce, research, operations, management, personal development…). Responsibility for each practice is entrusted internally to professionals in this area, whose role is to identify the Group's current and future needs in terms of skills and to design appropriate training solutions.

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

Employees then have access to a whole set of development resources with a mix of in-room training, training videos, digital and social experiences and coaching in the work situation. They can thus build their own training experience, while sharing their practices with colleagues all over the world.

Due to the presence of an international network of "Learning for Development" managers, both at the level of the countries, but also in the 5 main regions, L'Oréal ensures global consistency in the major programmes and thus promotes the sharing of the same corporate culture everywhere in the world. This organisation as a network is an essential driver to foster the loyalty of our employees and accelerate their development. It thus makes it possible to respond better to the specificities and regional priorities in terms of skills needs.

The Group also organises large international programmes which make it possible to unite employees from all over the world and thus profit from enriching multicultural exchanges and experience sharing. These moments are essential to understand the Group's culture and its strategy, meet the senior managers and share their challenges, instil a Group spirit and develop an internal international network, which are all key factors for the success of each and every one of them, as well as also being factors for Sustainable Development and long-term success for the Group.

Finally, within the scope of the "Sharing beauty with all" programme, the Group undertakes to give all its employees access, all over the world, to at least one training session per year by 2020.

6

NUMBER OF HOURS OF TRAINING

	2011	2012	**2013**
TOTAL	1,022,772	1,063,172	1,325,136

N.B.: These figures concern the scope defined in the methodological note on page 211.

6.2.2.6. DIVERSITY AND EQUAL OPPORTUNITIES

For over 10 years, L'Oréal has been engaged in an innovative, ambitious policy in favour of Diversity. The Group has set itself three priorities: gender, disability and socio-cultural and ethnic origin and its actions are more particularly focussed on the areas of human resources, solidarity sourcing and marketing.

Today, with a network of more than 86 Diversity coordinators all over the world, the initiatives conducted by all the Group's subsidiaries make L'Oréal a pioneer and one of the recognised major players in the area of diversity at worldwide level.

- In 2004, L'Oréal was a founding member of the first Diversity Charter in France. The Group has now signed eight other charters in Europe (including Germany, Austria, Belgium, Italy, Poland, Spain and Sweden) certain of which were created on its initiative. The most recent initiative was at L'Oréal Finland which was a founding member of the Finnish Diversity Charter in 2013.
- In the field of gender equality, L'Oréal was awarded in 2010 the first European gender equality label, the "Gender Equality European Standard" (GEES), by Bureau Veritas, for eight of its entities in Europe: Germany, France, Spain, Italy, Belgium, the United Kingdom, Ireland and L'Oréal S.A. Four other entities were audited at the end of 2012 and awarded the label by Bureau Veritas (Baltic countries, Portugal, Czech Republic and Poland). In 2013, the 8 subsidiaries which had initially obtained the GEES label were subject to a mid-term audit: 3 subsidiaries had made progress, increasing to 4 the total number of subsidiaries that have achieved the maximum level

of certification. This is proof of commitment as these regular audits measure the progress made towards gender equality. L'Oréal France also received the Professional Equality label.

Also in the field of gender equality, L'Oréal Mexico received the World Bank's "Gender Equity Model" certification in October 2012.

- With regard to disability, L'Oréal has been developing a global policy since 2008 in favour of professional insertion of the disabled in the Company. This policy focuses on five priorities: infrastructures, maintenance in employment, recruitment, subcontracting and partnerships.

  To accelerate the mobilisation of its subsidiaries, L'Oréal has put in place since 2008 awards known as "Initiatives for the Disabled" which reward operational entities for their concrete actions in favour of the disabled. These awards, which are presented every two years, make it possible to showcase and share the best practices of the various L'Oréal entities both in France and in Europe. In 2012, this initiative was made international, which enabled 14 countries from four geographic zones to participate.

  In 2013, L'Oréal Chile received the "Sello Inclusivo" seal which rewards efforts made with regard to accessibility. L'Oréal also signed the agreement with the International Labour Organisation to become part of this organisation's Disability Network, in order to share its best practices and interact with stakeholders, such as Non-Governmental Organisations, civil associations and other businesses.

  In 2009 L'Oréal created the CSR+Disability network together with the Italian Ministry of Labour, Telefonica and the ONCE Foundation in Spain. The purpose of this tri-national network which consists of players from the private and public sphere and from associations, is to promote access to work for disabled people throughout Europe. In 2013, as a result of this partnership, we jointly created the "1st European Award for Social Entrepreneurship and Disability: Promoting Social Investment". This award aims at identifying and rewarding projects from European social entrepreneurs in the field of inclusion of the disabled or innovative projects promoted by disabled entrepreneurs.

  December 3rd is the International Day of persons with disabilities declared by the United Nations. 6 Group subsidiaries went into action and created "Disability Awareness Week": Spain, Chile, Mexico, Hong Kong, Italy and Germany. France also mobilised the head office teams to raise awareness on this topic.

- Finally, with regard to recruitment, 46 countries in which the Group is established have implemented actions to diversify the origin of their recruitments with one objective: enable all talented individuals to assume high-level responsibilities within the Company, whatever their differences or their origins.

  L'Oréal hosted the European Origins conference at its head office in partnership with the ENAR (European Network Against Racism) in October 2013.

  L'Oréal has moreover developed a diversity assessment in France with a hundred or so indicators that together cover the 6 dimensions of Diversity policy. For the same purpose, an automatic Diversity Reporting tool with 30 indicators (recruitment, training, remuneration…) has been made available to all the subsidiaries.

  In order to support these initiatives, L'Oréal has undertaken to train its employees in diversity by organising "Diversity Workshops". This one-day training session made it possible to raise awareness among over 15,000 employees in more than 20 countries at the end of 2013.

6.2.2.7. PROMOTION AND COMPLIANCE WITH THE PROVISIONS OF THE FUNDAMENTAL CONVENTIONS OF THE INTERNATIONAL LABOUR ORGANISATION

L'Oréal became a signatory of the United Nations Global Compact in 2003 and is committed to respecting and promoting the Fundamental Conventions of the International Labour Organisation even though not all these conventions have been ratified by all the countries in which L'Oréal is present.

This means in particular respecting freedom of association and the recognition of the right to collective bargaining, contributing to the elimination of all forms of forced or compulsory labour, contributing to the effective abolition of child labour and eliminating all forms of discrimination in respect of employment and occupation.

L'Oréal ensures that these conventions are observed with regard to its employees thanks to the actions taken by the Human Resources functions and at its suppliers and subcontractors thanks to the actions taken by the Purchasing function (see the section on "Societal Information", paragraph on "Subcontracting with suppliers" for further details).

Concerning respect of freedom of association and recognition of the right to collective bargaining, the measures taken are described in the paragraph on "Labour Relations" on page 206. In countries where freedom of association and the right to collective bargaining are limited or prohibited, L'Oréal ensures that other modes of dialogue with employees exist enabling them to report any concerns they may have.

Concerning the elimination of all forms of discrimination in respect of employment and occupation, the measures taken are described in the paragraph on "Diversity and Equal Opportunities" on page 209.

Concerning the elimination of all forms of forced or compulsory labour, recourse to prison labour is possible when it is voluntary within the scope of a professional reinsertion programme, and paid at market price. Suppliers or subcontractors must request the authorisation of L'Oréal before they have recourse to this form of labour.

Furthermore, all Group entities are required to ensure that none of their employees are subject to the retention of identity papers or travel documents, or are obliged to pay recruitment fees or to deposit money in order to be able to leave their employment. Concerning the abolition of child labour, all L'Oréal entities are required to verify the age of their new employees when they are hired.

L'Oréal has chosen to set a compulsory minimum age of 16 for its entire staff, a minimum age which is higher than that required by the International Labour Organisation.

In light of their young age, employees who are between 16 and 18 years old are subject to specific measures and in particular: no night work, no overtime, no work involving the use of hazardous substances or tools, no carrying of heavy loads, the implementation of a reinforced training programme, appointment of an internal "tutor" and inclusion on a special register. In 2013, 570 employees aged between 16 and 18 worked within the Group's entities.

L'Oréal's "Open Talk" policy enables employees to raise any concerns they may have directly with the Group's Chief Ethics Officer including via a secure website.

L'Oréal follows, inter alia, the Global Reporting Initiative indicators HR4, HR5, HR6 and HR7 which correspond to the four fundamental conventions.

Methodological note

SOCIAL, HEALTH AND SAFETY DATA SCOPE, INDICATORS, REPORTING METHOD AND SYSTEMS

Social data

SCOPE OF CONSOLIDATION

The workforce indicated in the "Total Workforce" and "Geographic distribution of workforce" charts is the total workforce present at December 31st of the year concerned (1).

For proportionally consolidated companies, the workforce at December 31st is recorded on a prorata basis according to the stake held by L'Oréal.

All the other social indicators set out in the Social information section relate to the "Cosmetics" and "The Body Shop" branches (2).

If an indicator relates to a scope different from that of the "Cosmetics" and "The Body Shop" branches, the scope of consolidation is indicated in a note.

INDICATORS

The indicators chosen are those used in the management of employees and of the social aspects of the Company. They reflect the results of the Human Resources policy.

DATA

Four methods are used to collect data for the defined scope:

- Most of the data are collected using the dedicated "Country Reporting" intranet system, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics: workforce, ethics, Worldwide Profit Sharing, labour relations, remuneration, Human Resources expenses, recruitment and training, and absenteeism.

At the beginning of each year, the local Human Resources Directors provide the required data for the previous year. When the data are compiled, each country must validate a charter committing to the accuracy of all the data provided.

- Other data are collected by each corporate department concerned (*i.e.* Training, Recruitment) using dedicated systems which follow the same operational and dissemination approach.
- If information is not consolidated for the entire Cosmetics branch scope, it is recognised that it can be extrapolated from the available results for the entities connected to the local Information Systems (IS), provided that the scope covered by such entities is representative (3).
- Lastly, the specific data relating to "executives" are gathered from the "CAROL" online career monitoring system, deployed in all "Cosmetics" subsidiaries.

The improvement of the information collection process at consolidated level has made it possible to identify agreements that are in force that have not been taken into account up to the present. The approach to progress in this field is continuing in all the companies of the L'Oréal Group.

The monitoring of training at Group level does not take into account all the hours of training in 2013 such that the number of hours of training and the number of employees trained are higher than the figures published in this report. An action plan is currently under way in order to cover all employees and in particular those who hold certain external or travelling positions.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

6

(1) *Including employees with a permanent or fixed-term contract of employment.*

(2) *Innéov is included, Galderma (dermatology) is excluded.*

(3) *In France, the gender distribution of the Cosmetics workforce was extrapolated from the gender distribution of the entities connected to the France HRIS. The extrapolation method concerns 5% of the French workforce, which is not yet connected to the local HRIS.*

Health and safety data

SCOPE OF CONSOLIDATION

The safety indicators set out relate to the sites of the "Cosmetics", "Dermatology" and "The Body Shop" branches: factories and distribution centres but also the administrative sites and research centres.

Safety reporting covers 93% of factories and distribution centres; the data from 8 sites that have recently joined the Group are not included. In 2013, it covers over 80% of the workforce of the administrative sites and research centres.

The safety indicators of the factories and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental and safety reporting systems.

INDICATORS

The indicators applied are those used in the management of the Company's sites. They reflect the results of the Group's Environmental, Health and Safety (EHS) policy.

DATA

The following method is used to collect data for the defined scope:

The health and safety data are collected using the dedicated site reporting "QIS" intranet system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definition, and enhancing the communication, monitoring and control process.

6.3. ENVIRONMENTAL INFORMATION

L'Oréal's environmental policy is part of the Group's EHS policy, aimed at minimising environmental impact while guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its business activities. Although the cosmetics industry has a limited impact on the environment, this policy nevertheless leads us to systematically identify the risks inherent in our business activities, and to bring them under control. For example, before building or renovating a factory anywhere in the world, and before introducing new manufacturing equipment and processes, L'Oréal assesses all the potential environmental impacts and develops mitigation strategies where required.

The health and safety measures adopted in favour of L'Oréal's employees are described in paragraph 6.2.2.4. *Health and Safety*, on page 207.

The Group's EHS policy and manual

EHS policy at L'Oréal is organised and managed in accordance with an EHS manual, which sets out the measures to be applied by all operational sites under L'Oréal's control. It covers safety Incentive and Mandatory Profit Sharing schemes measures and safety objectives (zero accident), resource efficiency, greenhouse gas emissions, waste generation, EHS responsibilities, internal procedures, etc. For L'Oréal sites, the EHS manual is a key tool to drive further improvements in their EHS performances. Distributed to all operational sites since 2011, it is currently being rolled out in the research centres and administrative sites.

The Group's EHS system consists of a large number of procedures that make it possible for the sites to control the facilities and business activities, thus limiting, for example, the risks of fire, explosion and environmental incidents.

Organisation of EHS

There are clear accountabilities for EHS at every level. L'Oréal's Executive Vice-President Operations, who reports to the Group's Chairman & CEO, is responsible for health, safety and environmental issues. EHS managers ensure the deployment of the Group's rules and procedures and the associated performance objectives in each entity.

The remuneration of factory managers and distribution centre managers is partly linked to their performances in the field of health, safety and the environment.

Worldwide audit programme

Internal and external experts regularly visit L'Oréal's production and distribution sites to assess the compliance of their operations with the Group's rules, the progress made and the risks they present. Third-party audits are also carried out at supplier sites in accordance with the same criteria as those used for Group entities.

L'Oréal has a comprehensive programme of EHS audits, which includes in particular risk audits, "Culture Audits" and subcontractor audits.

Risk audits have 2 main objectives:

- ensuring that technical equipment, processes and operation methods implemented by management and used by employees do not carry risks of damage to the environment or to their health and safety;
- giving the Group's General Management objective knowledge of control over risks in the EHS fields on the L'Oréal sites and providing the assurance that they are under control.

These audits cover all international operations and are carried out by independent experts. As a general rule, it takes about five days for a team of three or four auditors to evaluate a factory and around three days to evaluate a distribution centre. Over the last 2 years, these audits have been extended to the administrative sites and research centres.

In 2013, risk audits were carried out at 17 factories, 12 distribution centres, 13 administrative sites and 4 Research centres.

Launched in 2009, the EHS "Culture Audits" programme aims at measuring and developing management's leadership and internal EHS culture so that EHS is at the core of the responsibilities of all operational managers. EHS "Culture Audits" are triggered by a site's performance and conducted by internal EHS specialists through group interviews with 20-30% of the site's employees. In 2013, EHS "Culture Audits" were carried out at 10 factories, 7 distribution centres, and 2 research centres.

In 2013, a new type of combined audit (a risk and culture audit) was carried out at 6 pilot sites. This principle will be extended to other Group sites in 2014.

Furthermore, within the scope of the Group's "Fire" and "Environment" insurance policies, prevention visits are conducted regularly by experts and insurers. In 2013, visits were made to 8 factories in 6 countries with regard to environmental risks (France, Brazil, Germany, Poland, Russia, Belgium) and 24 sites with regard to fire risks.

The Real Estate Department carries out audits of the Company's real estate assets every year on a rotating basis with the assistance of an outside firm. The purpose of the real estate audit is to check that the buildings have been brought into compliance with the Group's real estate procedures, and on the due and proper completion of extension or renovation operations and preservation of the assets. Since 2009, these audits have included aspects concerning "Quality of interior air" and "Energy Performance". In 2013, 5 sites were audited in various countries.

EHS policy training

A targeted training programme is provided on L'Oréal's EHS policy and practices for managers and EHS professionals across the Group. The objectives are as follows:

- identify and share EHS vision, challenges and values across the Group;
- identify the risks inherent in a role, task, behaviour or use of equipment and implement tailored corrective solutions;
- enable managers to implement EHS policy effectively within their teams.

In 2013, a new training course was launched, EHS expertise, dedicated to the EHS teams in the factories and distribution centres. 20 people have already been trained in Europe, representing 11 nationalities. This training course will be rolled out to the other zones in 2014. Managers continue to receive training in environment, health and safety culture all over the world: 169 managers and supervisors took part in EHS Operations, and 68 top managers in Safety & Leadership.

In addition, within the scope of deployment of the "Ergonomic Attitude" programme throughout the Group, 149 people received ErgoAct training. This training will be developed further in 2014.

6.3.1. General environmental policy

Through the Commitments for 2020, the Group is continuing with the process initiated in 2009 to reduce its environmental footprint for its plants and distribution centres. The commitment to reducing its direct and indirect carbon emissions in absolute terms, its water consumption and its waste generation per finished product by 50% between 2005 and 2015 has been increased to 60% between 2005 and 2020:

- 60% absolute reduction in greenhouse gas emissions (scope I and II);
- 60% reduction in waste generated per finished product;
- 60% reduction in water consumption per finished product.

Finally, by 2020, the Group undertakes to send zero industrial waste to landfill and to reduce the CO_2 emissions from transportation of products by 20% per FP/KM from a 2011 baseline.

Global industrial policy also demands all sites to:

- ensure compliance with the regulations;
- apply best practices in energy efficiency or efficient consumption of resources and waste reduction;
- roll out breakthrough projects in a permanent search for operational performance allied with environmental performance.

Furthermore, all L'Oréal's factories must be ISO-14001 certified. At the end of 2013, 3 plants are still in the process of being certified [Kaluga (Russia), Egypt, San Luis Potosi (Mexico)] because they have recently started operations.

SUMMARY OF THE ENVIRONMENTAL PERFORMANCES OF THE L'ORÉAL GROUP'S FACTORIES AND DISTRIBUTION CENTRES:

- 25.7% increase (excluding raw material factories) in volumes produced (2005-2013);
- Greenhouse gas emissions: absolute reduction of 43.1% (tonnes of CO_2, direct and indirect, 2005-2013) on a like-for-like basis according to the GHG Protocol [(1)];
- 26.7% reduction in water consumption (litres per finished product, 2005-2013);
- 19.6% reduction in the production of transportable waste excluding shuttle packaging (grams per finished product, excluding rotation of shuttle packaging, at the factories and distribution centres, 2005-2013);
- The waste recycling rate increased from 89.0% in 2005 to 90.9% in 2013, with 18 factories at 100% in 2013;
- Absolute improvement of 30.7% in the wastewater quality index (tonnes of COD) (2005– 2013).

PROVISIONS FOR ENVIRONMENTAL RISKS

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

6.3.2. *Pollution and waste management*

A) SOLID WASTE

For many years, L'Oréal has followed an ambitious waste management policy. This goes beyond regulatory compliance and the prevention of human risks to the environment. L'Oréal includes in transportable waste everything that comes out of a plant or a distribution centre and which is not a finished or semi-finished product (for example, the following are concerned for a plant: raw material packaging or packing items, wastewater treatment plant sludge, broken pallets, etc…). Transportable waste does not include waste from work on an exceptional scale carried out at sites (for example, rubble and other materials removed from a site when work is carried out).

All the possible methods of waste recovery are systematically explored – reuse, recycling, composting, energy recovery – in order to avoid waste to landfill as far as possible.

In 2013, efforts continued and new initiatives were taken in the Group within the scope of the Commitments for 2020. Cross-functional working groups have been set up, making it possible to increase the involvement of all businesses and jobs and all divisions. Similarly, all the initiatives aimed at reducing the waste at each of the sites are currently being consolidated within the framework of a roadmap:

- in 2013, 90.9% of waste was reused, recycled or recovered for energy and 5,291 tonnes of waste were sent to landfill, *i.e.* 3.7% of transportable waste with shuttle packaging;
- 54% of the sites send zero waste to landfill;
- waste per finished product, excluding shuttle packaging, increased by 4.9% as compared with 2012. This increase is principally due to one-off destruction of obsolete items, during the last quarter of the year, which could not be offset by a sufficient reduction in the other categories of waste and which are notably due to reorganisations in the Americas zone.

2013	Total
Transportable waste with shuttle packaging (tonnes)	141,664
• *fraction represented by shuttle packaging*	35,585
• *of which shuttle pallets*	16,276
Total recycled waste (tonnes)	128,708
Recycling ratio (%)	**90.9**

Improved recording in respect of shuttle packaging used for transportation in 2014:

In order to improve the system of waste performance monitoring and exhaustively recording the waste generated by the use of shuttle packaging, a new system of recording shuttle packing at source is to be put in place with the Group's suppliers in 2014. L'Oréal will thus record the weight of its shuttle packaging at source in transportable waste, with each of the sites being responsible for maximising the rotation rates.

(1) *Greenhouse Gas Protocol: international method of carbon accounting.*

L'Oréal will continue to record the rotation of shuttle packaging, which is necessary for the calculation of the waste recovery index (see the above table). Furthermore, the waste performance indicator (g/PF excluding shuttle packaging) will now take into account the materials portion of the shuttle packaging (excluding pallets), recorded at source.

Several years ago, L'Oréal developed an internal procedure which defines the ratios to be complied with between the different levels of packaging of its finished products. The procedure has been extended to the packaging used to deliver packing items to the factories or to deliver finished products from the factories to the logistical distribution centres. For such purpose, simplified specific tools for life cycle assessment and design processes have been deployed. In this respect the "Emballage PCR PET-G pour capot fond de Teint Luxe, permettant une réduction de près de 50% de poids de plastique" (PCR PET-G Packaging for the cap for the Teint Luxe foundation tube, making it possible to reduce the weight of plastic by nearly 50% won the Greener Award 2013 in Belgium.

B) ATMOSPHERIC EMISSIONS

Atmospheric emissions are essentially CO_2 emissions, linked to energy consumption on the sites.

The low emissions of SO_2 come from the fuel oil used (2% of fossil energy consumed).

The small quantities of VOCs result essentially from the alcohol used in our production processes.

Please refer to the table below for each of these emissions:

	2012	**2013**
Direct CO_2 (t)	66,920	67,331
Indirect CO_2 related to energy used (t)	78,522	68,070

SO_2 (t)	6.1	3.7
VOCs (t)	125.6	139
Ozone depleting substances	Negligible *	Negligible *

* *These emissions come from the refrigeration units used in our sites.*

C) WATER EMISSIONS: WASTEWATER

On production sites

Approximately half of L'Oréal's sites have on-site wastewater treatment plants. These use a range of methods including physical, chemical and biological processes, or other technologies adapted to the characteristics of the wastewater and local discharge conditions.

Total COD for the wastewater after on-site treatment has fallen by 21.3%. It amounts to 0.9 g of COD per finished product.

For several years, L'Oréal has been supporting a research project with the University of Newcastle in the United Kingdom, aimed at optimising the efficiency of wastewater treatment. In 2013, a new technology was put into operation in the Suzhou plant. This has enabled L'Oréal to optimise wastewater treatment, while reducing both energy consumption and the quantities of sludge produced.

2013	Total
Accidental spills (m^3)	0
Wastewater discharge (m^3)	1,781,730
Tonnes of DCO	5,237

On the sites of end customers

Beyond wastewater management on its production sites, L'Oréal pays close attention to the impact of its products on aquatic environments when they are used by consumers.

Within the scope of its commitments under the "Sharing beauty with all" program, L'Oréal has undertaken to innovate such that in 2020 all of its new products have an environmental or social benefit.

Since 1995, the date of creation of its ecotoxicology laboratory, L'Oréal has developed expertise with regard to the potential impacts of its cosmetic products on aquatic environments.

In 2013, L'Oréal moreover developed an ecological performance index for a cosmetic formula. A calculation method for the Water Footprint specific to cosmetic products, particularly rinsed products was applied (performance index for a formula based on the environmental profile of its ingredients in terms of biodegradability and ecotoxicity).

Improvement in the percentage of biodegradability and/or of the Water Footprint of a formula is an essential factor for reducing the impacts.

Thus, following on from the work carried out to get to know and improve the environmental profile of ingredients which began in 1995, the Research & Innovation teams are currently working on improving the biodegradability and the Water Footprint of formulas.

The average biodegradability in 2012 is 87.5% for shampoos and 85.6% for shower gels.

Certain shampoos and conditioners with highly biodegradable formulas have been launched on the market.

For example, among the products launched in 2013, the Garnier Fructis Men Mint Xplosion, Kerastase Huile Lavante or Biotherm Aquafitness shampoos have biodegradability levels of between 95% and 96%.

D) NOISE POLLUTION

L'Oréal's industrial activities are not particularly noisy. The sites comply with the noise standards to which they are subject. Every month, the internal environmental reporting system informs L'Oréal of any instances of non-compliance on this topic. According to this reporting system, only one site exceeds the standard, but does not generate noise pollution as there are no close neighbours.

6.3.3. Sustainable use of resources

L'Oréal's strategy for raw materials is a fundamental component of Sustainable Development vision. The impact of the raw materials used is measured with the help of the environmental evaluation guide. L'Oréal encourages the use of raw materials having a favourable impact, evaluates those raw materials having an unfavourable profile and gives priority to those which are renewable and plant-based, with respect for biodiversity.

Water is first on the list of resources to be preserved, and L'Oréal endeavours to control the use made of water throughout the entire production cycle.

A) WATER

L'Oréal has had a global water conservation programme in place since 2003, which has made it possible to make significant progress in reducing total water use and increasing eco-efficiency.

The Group has made a significant pledge to this by setting ambitious targets, in particular 60% reduction in water consumption per finished product (2005-2020).

In 2013, water consumption per finished product was reduced by 5.1% and overall water consumption in factories and distribution centres increased by 1.4% as compared to 2012, whilst production increased by 6.8%. Total consumption for 2013 was 2,969 thousand m^3.

Over the past 9 years (2005-2013), water use per finished product has been reduced by 26.7% and absolute consumption has fallen by 7.7%, while production (excluding raw materials plants) has increased by 25.7%.

A lot of the water consumed in L'Oréal factories is used for cleaning production equipment and packaging lines to maintain very strict hygiene standards. This represents 34% of all water consumption in the industrial sites.

To meet the targets set, L'Oréal's teams aim to reduce the amount of water used for cleaning operations as far as possible without affecting product quality. This optimisation is very complex, as each cleaning process depends on the formula of the manufactured product and the specific equipment used.

An analysis of potential water savings was defined in 2013 for each Group plant. It takes account of each type of water use, and makes it possible to compare current consumptions with the attainable targets. The actions that will make it possible to achieve these targets have been scheduled over time, and form the Group's "Water" Roadmap. It is monitored on a monthly basis.

Transparency in water reporting: Carbon Disclosure Project water disclosure

Since 2010, L'Oréal has been communicating water information transparently via the CDP water reporting initiative (see page 226), of which it was one of the Founding Responders. The CDP is a leading, independent, not-for-profit organisation that promotes transparency in climate change reporting. L'Oréal reports every year on its water management strategy, its performances and the Group's initiatives within the framework of the Water Disclosure Project.

In 2013, L'Oréal contacted 17 suppliers chosen on the basis of their water impact and their importance for the Group in order to include them in the initiative and obtain their replies to the CDP water supply chain questionnaire.

B) PACKAGING

Since 2007 L'Oréal has implemented a Packaging and Environment policy based on three pillars: Respect, Reduce and Replace. This policy is accompanied by a whole set of Ecodesign tools developed and deployed in all the Group's Packaging Design centres.

Respect: L'Oréal imposes the requirement that its paper and cardboard packaging come from responsibly managed forests. To date, over 98% of paper and cardboard packaging comes from certified forests.
Furthermore the only label claimed on packaging is that of the FSC (Forest Stewardship Council) of which L'Oréal is a member in France.
L'Oréal extends this approach to its supply chain, even further than packaging materials. L'Oréal encourages its printers to obtain FSC certification for their entire activity scope. To date, 88% of paper printers and 97% of cardboard suppliers have obtained this certification.
A materials vigilance program, set up many years ago, has been reinforced with the organization of audits in order to identify and correct any deviation far upstream through clear and well-controlled action plans.

Reduce: weight and volume reduction in packaging, an integral part of design, is a major area for progress. Every year, actions taken in this area are recognized through indicators. Between 2008 and the beginning of 2013, 3,600 tonnes of packaging materials were saved due to actions reducing them at source. As concerns the volume of packaging, as there are no international regulations in this area, L'Oréal has developed an internal procedure which defines ratios to be complied with for the various levels of packaging constituting a finished product. In addition, L'Oréal has set up specific tools to assist it in carrying out Life Cycle Assessments (LCAs) and reducing the environmental impacts of transport packaging for packing items and finished products.

Replace: aware that non-renewable resources are not sustainable, L'Oréal looks for alternatives to the materials based on these resources. Among the catalogue of options being studied, one of the solutions that L'Oréal has implemented is the use of recycled materials to limit the use of virgin materials. A certain number of its brands include up to 100% recycled plastic in their bottles (Kiehl's, Garnier, L'Oréal Professionnel, Matrix…), or recycled glass in their jars (Vichy, Biotherm, Garnier). More than 3,100 tonnes of virgin materials were saved in this way in 2013.

Examples:

- 16% reduction in the plastic caps of The Body Shop 250 ml shower gel and lotion bottles;
- 38% reduction in the bottle cap for the Yves-Saint-Laurent "L'Homme" fragrance.

C) RAW MATERIALS

Renewable raw materials

In its Commitments for 2020, L'Oréal has undertaken that 100% of its renewable Raw Materials will come from sustainable sources (by 2020).

100% of the plant-based raw materials used by the Group (both new and existing raw materials) are assessed based on Sustainable Development criteria such as respect for biodiversity and the contribution to the socio-economic development in the territories from which they originate.

In 2013, L'Oréal considered all raw materials of which the carbon contents are mostly of plant origin as being plant-based.

To date, 43% of the raw materials used by the L'Oréal Group are plant-based. This represents more than a thousand ingredients from nearly 300 species of plant.

In 2013, 34% of the Group's new raw materials are plant-based and 18% respect Green Chemistry principles.

Among the products sold in 2013, Lancôme Dreamton, Garnier Moisture Match, Revitalift Laser X3 Crème de Nuit contain at least one Green Chemistry-based Raw Material.

The use of certain of the 300 plant species (20% in number) which are based on renewable raw materials may involve ecological issues (protection measures, impact of production on natural environments) or societal challenges (working conditions, fair remuneration, cultural issues) depending on their geographic origin and their extraction or production method.

This data is consolidated and managed through:

- "plant risk" indicators (ecological, social & societal risk), established using the "Plant Information Sheets" that are prepared and are available for all the plant species from which renewable raw materials are sourced, and updated on a monthly basis for the most sensitive species;
- an evaluation of the supply chains by the "Raw Material Sustainability Assessment framework" which is rolled out on a targeted basis at suppliers for the most sensitive raw materials with regard to these issues.

Corrective action plans are undertaken, if required, with suppliers and with the systematic support of independent external third parties, in order to handle the real impacts on the territories of origin of the ingredients.

Currently, 80% of the raw materials representing the Group's largest volumes of purchases (90%) and derived from species identified as sensitive have been the subject of improvement plans or actions with the suppliers concerned in order to ensure sustainable sourcing.

Fair Trade

Recognized by the L'Oréal Group as a powerful social inclusion factor, Fair Trade via responsible sourcing of renewable raw materials is a major pillar of the "Solidarity Sourcing" programme launched in 2010.

In 2013, more than 20 fair trade sourced raw materials were included in 10% of the products manufactured (excluding The Body Shop).

For The Body Shop, over 90% of the products sold contain ingredients from the "Community Fair Trade" programme.

In 2013, a total of 20,200 people therefore benefited from fair trade sourced raw material purchases (excluding the CFT).

In 2013, for example:

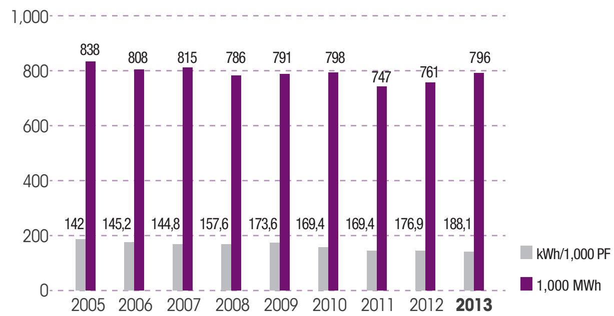
- 100% of the Group's shea butter purchases were made through the "Solidarity Sourcing" programme, thanks to which the women gathering shea nuts in Burkina Faso receive in April-May, at the end of the dry season when stocks of food have been almost used up, pre-financing for their crops and a purchase price that is higher than the market price;
- as from the second half of the year, 100% of soya oil supplies come from fair trade sources in Brazil;
- 80% of sesame oil purchases are from fair trade sources;
- more than 500 products containing sesame oil from fair trade sources were manufactured.

In addition, purchases of raw materials produced under the BIOSOLIDAIRE label also increased in 2013, other than in the SANOFLORE business, with in particular the use of juniper berry essential oil in the L'Oréal Paris Shampoing Ever Strong range, or lavender essential oil in the Kiehl's Clearly Corrective range and the L'Oréal Paris Age Perfect Hydra Nutrition range.

D) ENERGY

L'Oréal's objective is to reduce greenhouse gas emissions linked to its business activities. Various means have been put in place internally: improving energy efficiency across all facilities, green energy purchases, installation on certain sites of renewable energy production equipment (Biomass or photovoltaic energy, etc).

TOTAL ENERGY CONSUMPTION



E) TRANSPORT

By 2020, the Group has undertaken to reduce the CO_2 emissions from transportation of finished products in g CO_2/FP/Km by 20% from a 2011 baseline.

Since 2006, L'Oréal has implemented a transport policy taking into account the environmental aspect: this policy has been deployed in several phases:

- firstly, the assignment entrusted to the Group's transport managers was adjusted to include the principle of reducing transport CO_2 emissions;
- then, an environmental performance chapter was included in the scorecards for calls to tender with regard to transport;
- since 2009, in collaboration with the ADEME, a calculation tool for transport CO_2 emissions has been developed and rolled out progressively to all the Group's sites;
- in 2011 and 2012, the tool and its deployment were subject to an external audit (three entities: Latin America Zone, the Consumer Products Division in Europe and the Operations Division consolidation).

F) GROUND USE

L'Oréal has several requirements relating to ground use:

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

During operation of the site, the Group's policy is to take all the preventive measures described in internal documents in order to avoid soil or rainwater pollution. These measures are verified at the time of audits and site visits made by insurers. Finally, at the time of the sale of a site, a pollution assessment is conducted according to an internal procedure.

Furthermore, at the time of a project for a new site, preparation of an overall environmental impact study is required immediately during the design phase (with the objective of minimising the project's negative impact on the environment and health), and this study must then evolve to adapt the project to the conditions imposed by the site and its environment. At the time of the acquisition of land or buildings, L'Oréal conducts a "due diligence" review which includes, in particular, a review of the environmental aspects.

6.3.4. *Contribution to adapting to and combating global warming*

To help address climate change, L'Oréal made a significant pledge in 2009: to achieve an absolute reduction of 50% in its direct and indirect carbon emissions between 2005 and 2015. Good progress has been made and in 2013, carbon emissions have been reduced by 43.1% as compared to 2005. The change in the scope taken into account satisfies the GHG Protocol [1] rules.

ENERGY AND GREENHOUSE GASES IN MANUFACTURING

The cosmetics industry has a relatively low energy demand as compared with other sectors. For example, L'Oréal is exempt from the European regulations on carbon emission quotas.

However, the L'Oréal sites are committed to using energy efficiently and thereby reducing their energy consumption.

Wherever possible, natural gas is preferred to fuel oil (which has a higher sulphur content). Over the last few years, several large renewal energy production projects have been deployed on the sites, making it possible to significantly reduce CO_2 emissions (Biomass and cogeneration in Belgium, Biomass in Rambouillet and Roye in France, Burgos in Spain, etc…, Heat networks in Germany and Italy, Photovoltaic energy in China, the United States, Spain, etc…, Geothermal energy in Vichy, La Roche Posay, etc.)

(1) *Greenhouse Gas Protocol international carbon accounting tool.*

DATA RELATING TO CONSUMPTION WITH AN IMPACT ON GLOBAL WARMING

2013	Total
Electricity (MWh)	408,389
Gas (MWh)	328,807
Fuel oil (MWh)	6,041
Others (MWh)	52,258
Energy consumption (MWh)	**795,495**

BUS PROJECT (BETTER UTILITIES FOR SUSTAINABILITY)

The BUS project is a Group-wide pilot project run by operations managers, which draws on expertise from across L'Oréal to identify methods, technical solutions and good practices in cleaning, cooling, air compression and other factory processes.

To date, 11 good practices have been identified, notably to improve energy efficiency; they are accompanied by technical recommendations and rolled out throughout the whole Group.

METHODOLOGY FOR THE CALCULATION OF INDIRECT EMISSIONS (SCOPE 2)

The methodology used for calculation of the 2005 reference is based on the 2003 emission factors of local electricity suppliers – when they are available. When these emission factors are not available, IEA (International Energy Agency) and eGrid [(1)] emission factors, available in 2006, corresponding to IEA factors for 2003 and EPA [(2)] (eGRID) factors for 2000, are used.

ADAPTATION TO CLIMATE CHANGE

L'Oréal has always considered climate change as one of the priority challenges.

The Group has made a significant pledge to this by setting ambitious targets, in particular an absolute reduction of 60% in its CO_2 emissions between 2005 and 2020.

In practice, the action plans are steered on both a worldwide and local scale:

- by a whole set of actions taken to limit the atmospheric emissions of its activities. For example, since 2003, L'Oréal has been a member of the CDP (2013 scores: performance A, transparency 93) and associated 173 suppliers with this project in 2013;
- when developing its products, L'Oréal takes care to limit the use of resources, both for products and for their packaging. Actions to achieve reductions at source undertaken by the teams made it possible to save nearly 300 tonnes of packaging materials in 2013, making cumulated savings of 3,600 tonnes since 2008.

Through a series of actions taken to fight against deforestation, L'Oréal more particularly ensures responsible sourcing for commodities such as palm oil, soya and paper and cardboard, known to be major causes of deforestation.

L'Oréal leverages on internationally recognised certifications to guarantee sustainable sourcing.

In 2013, 98% of supplies of palm oil and palm oil and palm kernel derivatives are certified as sustainable according to RSPO criteria. In 2013, WWF ranked L'Oréal among the best in its sector for the third time. In 2013, aware of the limits of the current certification model in the fight against deforestation, L'Oréal challenged all its suppliers and carried out an exploratory mission in Indonesia in order to identify areas for improvement to be implemented with its partners.

As for the establishment of responsible supply chains and the stakes such as deforestation, the Group has developed a set of actions described hereafter under paragraph "Protection of biodiversity".

6.3.5. *Protection of biodiversity*

For many years, L'Oréal has implemented a programme for the protection of biodiversity aimed in priority at:

- limiting the impact of its ingredients on aquatic ecosystems;
- ensuring responsible sourcing of renewable raw materials.

REDUCTION OF THE IMPACT OF RAW MATERIALS AND PRODUCTS ON THE ENVIRONMENT AND ON ECOSYSTEMS

L'Oréal's commitment to biodiversity goes back to 1995 with the creation of its first ecotoxicology laboratory. Anticipating and minimising the potential impact of the ingredients used in its products on the natural environment and, in particular, on aquatic ecosystems, is of utmost importance to L'Oréal. From the product-conception phase onwards, therefore, raw materials undergo a robust selection process before entering a formulation.

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

- development in its ecotoxicology laboratory of innovative methods for early environmental evaluation of raw materials (e.g. automation of the safety test on microalgae);
- launch in 2004 of the assessment of its entire raw materials portfolio for persistence, bioaccumulation and toxicity criteria.

(1) The Emissions & Generation Resource Integrated Database.
(2) Environmental Protection Agency.

As of the end of 2008, 99% of raw materials were assessed in this way. All new raw materials now systematically have to undergo this assessment before they can be accepted into the ingredients portfolio.

ESTABLISHMENT OF RESPONSIBLE SUPPLY CHAINS

100% of new and existing renewable raw materials used by the Group are the subject of a strict review with regard to sustainability criteria in terms of respect for biodiversity.

L'Oréal's strategy consists in estimating the impacts of its sourcing, for each of the commodities: paper, palm oil, wood and soya and reducing the impacts by turning to increasingly responsible sourcing. This process is under way for certain raw materials like paper, and has already been carried out for others like palm oil or soya, on the basis of existing certification models (RSPO for palm oil, FSC or PEFC for paper/cardboard, etc.).

In 2013, over 98% of paper and cardboard packaging supplies were certified as sustainable according to the FSC or PEFC benchmark.

In 2013, 60% of soya oil purchases are certified as sustainable. The Group's actions will aim at solving the problems of availability of sources observed in 2013 in order to return to a level of 100% in 2014.

In 2013, L'Oréal was recognised as one of the best companies in its category for its sustainable sourcing by the Carbon Disclosure Project Forest.

Currently, 80% of the raw materials representing the Group's largest volumes of purchases (90%) and derived from species identified as sensitive have been the subject of improvement plans or actions with the suppliers concerned in order to ensure sustainable sourcing.

Methodological note

ENVIRONMENTAL DATA SCOPE, INDICATORS, REPORTING METHOD AND SYSTEMS

Scope of consolidation

The environmental indicators set out relate to the factories and the distribution centres of the "Cosmetics", "Dermatology" and "The Body Shop" branches.

The Safety reporting scope is defined in the methodological note at the end of the Human Resources information.

The environmental indicators of the factories and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental reporting systems. However, for the 2013 financial year, 93% of the factories and distribution centres participated in the reporting system. Data pertaining to 8 sites, recently integrated to the Group are not yet included in the published data. Out of concern for comparability, 2012 data communicated in the chapter have been updated to cover the whole of the 2013 scope.

Indicators

The indicators chosen are those used in the management of the sites of the Company. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

Data

The following method is used to collect data for the defined scope:

The data are collected using the dedicated intranet-based site quality information reporting system, available in all countries in which there is a L'Oréal subsidiary. This system covers several topics: quality, process performance, EHS data.

The required data are reported every month by the local managers.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors'recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

6.4. SOCIETAL INFORMATION

6.4.1. Territorial, economic and social impact of activities

The L'Oréal Group is a leading economic player in all the geographical zones where it is established. On this basis, L'Oréal contributes to local employment and thus participates in regional development.

Within the framework of the "Sharing beauty with all" program, L'Oréal has made a commitment in favour of the surrounding communities, in particular to provide access to work for 100,000 people from communities in social or financial difficulty by 2020.

TERRITORIAL IMPACT OF L'ORÉAL IN FRANCE ON EMPLOYMENT AND REGIONAL DEVELOPMENT

In France, L'Oréal S.A.'s establishments are situated in the Paris region: Paris, Clichy-la-Garenne, St Ouen, Asnières, Aulnay-Sous-Bois, Chevilly-Larue, Marly-la-Ville and Mitry-Mory.

Over the past three years on all these sites in France, L'Oréal has hired 4,749 employees on permanent and fixed-term contracts and has thus contributed to the country's development.

L'Oréal promotes partnerships with the local authorities with regard to employment. Since 2007, the Le Floréal site in St-Ouen in France, in partnership with *Un Emploi dans ma ville*, has made it possible to integrate young people into employment in L'Oréal's workforce in order to carry out various tasks.

Since 2009, the L'Oréal Group has linked up with the Ecole de la 2e Chance which is aimed at promoting the integration into employment of young people between 18 and 25 years of age who have left the educational system without any job or training. They are offered a 9- to 12-month training period during which they are confronted with the corporate world.

In 2012, the factory in Ormes received 10 young people for work placements of from 2 to 8 weeks between 2011 and 2012. In September 2012, it started up a contract offering professional experience with a young woman from the school which will enable her to obtain professional qualifications.

In 2013, the Vichy site, which undertook to apply this programme in 2011 received 20 beneficiaries.

L'Oréal will have to pay an amount of €25.7 million for the territorial economic contribution (CET) in respect of the 2013 financial year.

REGIONAL DEVELOPMENT AND LOCAL POPULATIONS

Due to its many industrial and administrative sites all over the world, the L'Oréal Group is strongly involved, in the vicinity of its sites, in the life of the surrounding local communities. A company committed to demonstrating good corporate citizenship, L'Oréal makes a contribution to many local projects.

As a general rule, L'Oréal's establishments and its subsidiaries build good relations with the communities in the areas in which they operate, and make every effort to limit the impact of their activities on the environment and to provide exemplary working conditions for their employees.

The internal competitions – Environment, Health & Safety – Civic Initiative Prizes recognise, by awarding a prize, the commitment, mobilisation and involvement of a site (factory, distribution centre or administrative site) with regard to the community in which it operates. Awards are presented for the best local initiatives conducted each year in partnership with local authorities, local residents and schools in the fields of solidarity, education or the environment. By these initiatives, L'Oréal is eager to demonstrate its good citizenship, and to show that it firmly respects the ethical values of the surrounding community.

Initiatives on a few sites

Each L'Oréal site has implemented initiatives in order to anchor itself on a lasting basis in its socio-economic environment. A few examples of these initiatives are described below.

The Soprocos industrial site in Saint-Quentin in the Aisne department in France has linked up with Envol, a local ESAT (offering assisted employment for disabled workers). The first initiatives started in 2012 and required developments to be made to satisfy safety standards at the site, which is SEVESO-classified. The joint work of the teams from Soprocos and those from Envol have made it possible to set up a lasting partnership and integrate workers from Envol into the teams at the site. Thus, between April 2012 and July 2013, around twenty people joined the Company to work on a variety of tasks (product sorting, packing, order preparation), with more than 2,000 days worked. Twelve employees identified for their skills went to Envol to propose solutions for improvement (*e.g.*: ground markings, monitoring procedures, hygiene rules, ergonomics).

The Mourenx site in France plays an active role in several professional associations and competitiveness centres (Lacq Plus, UIC Aquitaine, Aquitaine Chimie Durable, the Association Chemstartup, …) and is a partner of local schools – with the organisation of educational actions with the Cité Scolaire de Mourenx, of ESAT (places offering assisted employment for disabled workers), and the association *Vivre Ensemble*, where employees were able to take part in the Day for the Disabled. In partnership with their pallet suppliers, they also conducted the *Protège ma Forêt* project in order to plant new trees in a part of the Landes forest which was devastated by a storm.

The US plant at North Little Rock in Arkansas has initiated a project which makes its possible both to reduce waste and to arrange for the distribution of food to the most underprivileged people. The plant has developed a partnership with the Arkansas Hunger Alliance and the Food Bank of Arkansas which has made it possible to create a distribution and delivery circuit for boxes in order to transport food. These cardboard boxes, derived from plant waste, made it possible to distribute 24,000 meals in 2013. This initiative also contributed to the 3% reduction in its waste and is in line with the Group's Commitments for 2020.

The "Solidarity Sourcing" program

Because a company's purchasing power is an economic development and societal impact factor, L'Oréal has decided to make its purchases a novel way of promoting social inclusion. The Group thus created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing". Its aim is to help to give people from economically vulnerable communities durable access to employment and income.

This programme is in line with the Group's Commitments for 2020, and fits in more particularly with the "Sharing our Growth" section of the plan which is aimed at local communities.

In 2013, the global Solidarity Sourcing programme continued to be rolled out within the Group's different teams. Monitoring and reporting systems have been put in place via an intranet platform accessible to all employees. The various purchasing teams have now been given objectives with regard to this programme, particularly with respect to the number of beneficiaries. The progress made on the different projects is monitored in real-time, making a distinction between the projects that come under the Solidarity Sourcing programme and those that are part of The Body Shop Community Fair Trade programme. This latter programme now includes Solidarity Sourcing projects and makes it possible for the brand to extend its positive impact on communities.

In 2013, the Programme offered access to work to 22,000 people all over the world (excluding The Body Shop purchases).

Since 2012, the internal auditors have included the Solidarity Sourcing programme in their audit scope with the aim of continuous improvement. Audits have thus been conducted in China, Switzerland and South Africa.

In 2013, over 110 suppliers were involved in the programme. The purchases concerned were made from the Group's traditional suppliers or suppliers within its Solidarity Sourcing programme who have deployed solidarity actions in their respective fields.

Certain traditional suppliers have moreover applied this approach in their own supply chain.

6.4.2. Relations with stakeholders

L'Oréal attaches crucial importance to the dialogue with its stakeholders. Admittedly, this dialogue provides the opportunity for the Group to share its strategy, its objectives and its achievements but it also nurtures progress, as L'Oréal is keen to take into consideration the expectations of civil society when building its sustainability policy in order to always go further.

Because the importance and handling of the challenges related to corporate social and societal responsibility differ from one country to the next, L'Oréal has set up stakeholder forums all over the world in order to promote a dialogue at a local level with regard to both local and global issues.

Since 2011, forums have been held in Brazil, China, the USA, the United Kingdom, India and South Africa, for which 754 organisations were contacted and a total of 232 actually participated.

In line with this policy, the Group organised a dialogue forum in Scandinavia in April 2013, inviting the country's associations, NGOs and societal and environmental experts to come and exchange ideas. Twenty or so organisations attended, and took part in fruitful discussions on all sides with regard to topics such as animal testing, product safety, women's rights or environmental challenges.

Also in 2013, L'Oréal sparked the dialogue in France, in the form of thematic forums which made it possible to enter into contact with over 100 organisations, and to meet with 80 of them.

Responsible purchasing, Biodiversity, Diversity and non-discrimination, Responsible Communication, Energy and climate change were all subjects chosen for discussions with French stakeholders in order to understand their expectations, be set challenges and, where applicable, to co-build solutions side-by-side.

On October 23rd, the Group announced its sustainability commitments for 2020, which have naturally been built on the back of the expectations of the stakeholders it has met all over the world over the last few years at the forums mentioned above. The announcement was followed by a forum held in Paris on responsible consumption, the Re-imagining Consumption Summit, in partnership with BSR (Business for Social Responsibility), Forum for the Future, WBCSD (World Business Council on Sustainable Development), Futerra and Sustainable Brands; this summit, which had 260 participants from other companies, but also from associations and the public authorities, offered the opportunity for reflections on how to make progress together on this crucial topic for the future of the consumer industries: an open, public dialogue to inspire one another.

RELATIONS WITH EDUCATIONAL ESTABLISHMENTS IN FRANCE AND ASSOCIATIONS

Educational establishments

L'Oréal has always built close partnerships with primary and secondary schools but also with universities, graduate engineering and business schools and research establishments.

L'Oréal offers students the possibility of discovering the Company during their courses by offering them internships every year and, for over 20 years, through apprenticeship contracts and contracts offering professional experience across all its businesses.

In 2013, 1,301 interns joined L'Oréal under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

639 young people on work and training contracts (320 apprenticeship contracts and 319 contracts offering professional experience) were present in the Group in France at December 31st, 2013, 323 of whom worked at L'Oréal parent company.

Over 87% of the apprentices are preparing for qualifications at "bac+2" level (equivalent to a 2-year course after "A levels") or higher. Their pass rate is approximately 80%.

A qualitative assessment of the apprentice training centres is carried out each year.

In 2014 (for fiscal year 2013), L'Oréal will have to pay an amount of €4,858,105 in apprenticeship tax.

L'Oréal supports Capital Filles, an association created in 2010 in partnership with three French Ministries: the Ministry of Education, the Ministry of Higher Education and Research and the Ministry responsible for Apprenticeships. Capital Filles is a programme for young women from secondary schools that come under city education programmes and priority education policies. L'Oréal's workforce includes 120 mentors who provide support to young women from secondary schools in the department of Seine-Saint-Denis (93), in Orléans and in Cambrai (boosting their self-confidence and their belief in their professional future, helping them learn more about scientific and technological careers, assisting them in choosing their studies, encouraging apprenticeships and opening them up to the world of Business).

Environmental defence associations

Within the scope of its Commitments by 2020, L'Oréal has undertaken to reduce its greenhouse gas emissions, its water consumption and its waste per unit produced by 60% by 2020. L'Oréal actively contributes to environmental protection through its commitments in associations or societies at national level (e.g. Eco-Emballages, the French eco-packaging organisation), European level (e.g. Forest Footprint Disclosure project in the United Kingdom) and international level (e.g. the World Business Council for Sustainable Development). L'Oréal is also a member of the Consumer Good Forum in which the Company has committed, alongside other companies, to fight against Deforestation.

L'Oréal is also involved in a large number of working groups, which play a crucial role in the exchange of expertise and advice.

L'ORÉAL PHILANTHROPY IN 2013

L'Oréal has always been committed to worthy causes and taken an interest in its surrounding communities. In the 1990s, the Group created with Unesco the first programme to support women in their scientific careers called "For Women in Science", an initiative that is now implemented throughout the world. Since that time, L'Oréal has never stopped developing philanthropy projects all over the world, through its subsidiaries, its brands and its Foundation, the creation of which in 2007 showed the Group's intention to go one step further and make commitment to good corporate citizenship a real strategy in the Company.

L'Oréal's commitments are aimed at promoting science and scientific careers for women, restoring people's physical appearance (a major factor in establishing social relations) or giving everyone a future thanks to beauty, all reflecting one ambition: to give meaning to the beauty sector.

The L'Oréal Foundation

Created in 2007, the L'Oréal Foundation develops the Group's major global programmes, which are rolled out in all the countries in which L'Oréal is present.

It develops programmes in two main areas which reflect the Group's values and its businesses: science and beauty with its dimension of solidarity.

- in the field of science, L'Oréal promotes scientific education and the participation of women in scientific careers, by recognising the excellence of well-known women researchers and encouraging young girls to follow scientific vocations;
- in the field of beauty, L'Oréal supports programmes which care for appearances to restore confidence to vulnerable people and help them to recover their self-esteem and re-enter a social life. The Foundation also develops a major professional insertion programme aimed at offering training in beauty professions for socially fragile people.

Governance

Under the chairmanship of L'Oréal's Chairman, the L'Oréal Foundation's Board of Directors has 12 members, made up of seven personalities from L'Oréal and five from outside the Company, chosen for their expertise in the Foundation's areas of intervention.

The main programmes supported by the Foundation

"FOR WOMEN IN SCIENCE"

To fight against the lack of representation of women in the scientific world, L'Oréal created the "For Women in Science" programme with UNESCO in 1998, which celebrated 15 years of existence in 2013.

This programme aims to encourage, recognise and accompany women scientists throughout their entire career, through awards and research fellowships in 196 countries. Some 250 women are thus rewarded every year, making a total of nearly 1,750 women to date, including Elisabeth Blackburn and Ada Yonath, who have since become Nobel Prize winners in 2009. 49 L'Oréal subsidiaries have now developed regional or national fellowships for promising young women scientists in their countries.

"BEAUTY FROM THE HEART"

Appearance and taking care of oneself are intimately linked with the identity of peoples and changes in cultures. Indeed, beauty rituals are deeply rooted in the country's heritage. Thus, when someone's appearance is damaged by illness or precarious living conditions, relationships with others and with their own community may also be impaired. Beauty and social relationships are therefore intertwined.

This is the reason for the commitment made by the L'Oréal Foundation to the various hospital or welfare structures for socio-aesthetic programmes intended for cancer patients, or those suffering from anorexia or living in highly precarious social conditions. In 2013, more than 2,800 beneficiaries received socio-aesthetic care, particularly women with cancer, people with precarious living conditions or young people with serious psychological problems or eating disorders.

Furthermore, due to this constant desire to link beauty in its dimension of solidarity with professional insertion, the L'Oréal Foundation donated nearly 240,000 personal hygiene products to users from two charitable organisations (the Restos du cœur and the Samu social) for the 2013/2014 winter campaign.

Finally, the L'Oréal Foundation also supported Médecins du Monde association's reconstructive surgery operations ("Opération Sourire"). There are indeed dramatic cases where children or women are outcast from society due to an appearance disfigured by illness or accidents. Alongside Médecins du Monde, the L'Oréal Foundation helps to restore the lost dignity of these women and children so that they are accepted back into their communities. In 2013, 1,224 patients were operated on by Médecins du Monde within the scope of the "Opération Sourire" programme.

"BEAUTY FOR A BETTER LIFE"

Expertise and professions in the Beauty sector involve a human relationship, a dialogue with others and a sense of service.

They are also professions involving passion, creation and imagination, all assets for the people in these jobs, and help to build a social relationship.

Within this framework, the L'Oréal Foundation has launched an education programme to enable the most vulnerable populations to return to society: "Beauty for a Better Life". Initiated and deployed throughout the world by the L'Oréal Foundation, the purpose of this programme is to assist socially fragile people to recover their self-esteem and to bounce back through free high-quality training in the beauty professions (hairdressers, makeup specialists, aestheticians).

The beneficiaries are mostly women from underprivileged environments: some of them are unemployed, in precarious living conditions or human trafficking victims, others have dropped out of school or left home and others again have been victims of domestic violence or internal conflicts in their country.

"Beauty for a Better Life" develops a made-to-measure training programme offering a high level of supervision by specialist teachers with a limited number of pupils, and both theoretical and practical training in a real beauty salon specially adapted for the purpose.

In each country in which the programme is developed, L'Oréal works with a local partner (NGO, association) which has perfect knowledge of the specific context in the country concerned and is thus able to identify potential beneficiaries. These partners are recognised as experts in the fields of social assistance and job training.

The programme has now been rolled out in around 20 countries all over the world: from Latin America to Asia, from Europe to the Middle East. Every year, the "Beauty for a Better Life" programme assists over 1,000 socially or economically vulnerable people.

"HAIRDRESSERS AGAINST AIDS"

For eleven years, L'Oréal and Unesco have joined forces to fight against HIV. This programme for prevention of the infection centres round professional hairdressers, whose special relationships with their customers and ability to communicate make them very effective in passing on information and raising awareness of HIV issues. More than 1.5 million hairdressers have been trained since the start of the programme that has been rolled out in close to 40 countries.

Local initiatives on all continents

In addition to the major global programmes initiated by the Foundation and rolled out across the world, each and every L'Oréal entity is encouraged to take local actions in relation with the situations in their particular countries. In 2013, L'Oréal thus supported several hundreds of projects throughout the world, involving actions in the fields of solidarity, education, culture or the environment.

A few examples:

- in the United States, at the North Little Rock plant alone, nearly 20,000 products were distributed to various local associations supporting children or people with cancer or working in the field of AIDS prevention;
- Greece provided financial support to the NGO "Houses of heart" which helps girls between 6 months and 18 years of age where their family unit has failed and they are unable to live at home;
- Austria which assists children of disadvantaged immigrants by giving them grants, in partnership with the Crespo Foundation.

6.4.3. Subcontracting with suppliers

HOW THE COMPANY PROMOTES THE PROVISIONS OF THE FUNDAMENTAL CONVENTIONS OF THE ILO TO ITS SUBCONTRACTORS AND ENSURES THAT ITS SUBSIDIARIES COMPLY WITH THESE FUNDAMENTAL CONVENTIONS

L'Oréal works with thousands of suppliers throughout the world to cover its needs in terms of packaging, raw materials, subcontracting, production equipment, promotional and advertising items, and non-production-related products and services (commonly referred to as indirect).

The global volume of purchases directly related to production (packaging, raw materials and subcontracting) represented €3.69 billion in 2013 (Cosmetics scope, excluding The Body Shop).

L'Oréal, which has signed the United Nations Global Compact, makes sure that Human Rights are respected throughout its logistics chain.

Thus, our Purchasing policy is aimed at building a balanced, long-lasting relationship with subcontractors and suppliers with respect for social and environmental issues. L'Oréal's "Buy & Care" program, adhered to by all the Group's buyers, thus contributes to sharing good Responsible Purchasing practices and the Company's values and standards with its suppliers.

Within the framework of this program, suppliers and subcontractors are asked to comply with the Group's general terms of purchase, which require them to comply with the Fundamental Conventions of the International Labour Organisation as well as local legislation, in particular with regard to minimum wages, working time and health and safety.

L'Oréal actively seeks to work with suppliers who share its ethical values and commitments and therefore attaches importance to providing these suppliers with support during the referencing process. For industrial purchases, dedicated purchasing teams have the task of identifying new suppliers and integrating them in light of the Group's expectations and its strategy via the "welcome on board" (WOB) supplier referencing process. This makes it possible to make sure that the supplier is of real interest, provide it with all the information, documents and contacts required for it to understand the expectations and processes at L'Oréal, and finally to obtain the supplier's commitment to L'Oréal's values that are shared in this manner.

Following on from this commitment, L'Oréal's "Buy & Care" programme consists, since 2002, of a section aimed at an audit of this compliance with social legislation enabling it to ensure that its suppliers comply with the applicable laws, Human Rights and labour law, and ensure safety for their teams and health and hygiene in the workplace.

Thus, subcontractors, wherever they are based in the world, and suppliers of raw materials, packaging, production equipment and POS advertising/Promotional items and materials located in countries where there is considered to be a risk are mandatorily subject to a social audit. To prepare the risk map for the countries presenting risks, L'Oréal uses the MaplecroftTM indexes.

The social audits are carried out on behalf of L'Oréal by independent external service providers.

The initial audits are financed by L'Oréal and the follow-up audits are paid for by the suppliers.

The audits cover the following 10 chapters:

- child labour;
- forced labour;
- the environment, health and hygiene and safety;
- compliance with the laws relating to trade unions;
- non-discrimination;
- disciplinary practices;
- sexual harassment or a hostile working environment;
- due payment of wages/compensation and benefits;
- working time;
- relations with subcontractors.

Since January 2013, the social audits include questions concerning the environment and in particular compliance with regulations.

L'Oréal's social audit is based to a great extent on the internationally recognised SA 8000 standard, but does comprise a few exceptions, particularly with regard to the minimum age for child labour. In this respect, the Group has chosen to set the compulsory minimum age at 16 for all employees working for its suppliers, a higher age limit than that required by the Fundamental Conventions of the International Labour Organisation (ILO).

With regard to the employment of young workers, suppliers and subcontractors may request waivers from the Group Purchasing Director for the use of employees under the age of 16 upon presentation of a complete file (schooling, type of contract, working conditions, type of work). Pursuant to the "Suppliers/Subcontractors and Child Labour" policy, formally laid down in 2011, waivers of this kind are only possible for apprenticeship programmes or for children carrying out light work if this work does not affect their health and safety or their regular attendance at school, where the local law allows it and when the supplier/subcontractor has appointed an internal "tutor" for the children.

Since 2006 when L'Oréal set up a reporting tool, it has conducted social audits at over 3,900 supplier sites.

800 audits were carried out in 2013, making 5,295 audits of this kind since 2006.

The social audits conducted have enabled L'Oréal to cover 85% of the portfolio of suppliers subject to audit across the world.

In 2013, 50% of these audits were carried out in Asia.

In 2013, there were major instances of non-compliance at 60% of supplier sites that were audited for the first time (initial audits). During follow-up audits, there is no longer any major non-compliance at 56% of the suppliers who were initially non-compliant.

Added to this are the social audits conducted by The Body Shop (TBS). Indeed, since its integration into the L'Oréal Group in 2006, TBS has pursued its longstanding programme of social audits. TBS is one of the founding members of the Ethical Trading Initiative (ETI) and has adopted their "Supplier Code of Conduct". The Body Shop has developed a programme enabling them to support their commitment to responsible sourcing. One of the activities under this programme is control of working conditions, defined in the "Supplier Code of Conduct", on the production sites of their suppliers (67 audits were conducted in 2013).

SUPPLIERS AND MEASURES TO COMBAT GLOBAL WARMING: WORKING WITH THE GROUP'S SUPPLIERS ON ENVIRONMENTAL ISSUES

L'Oréal considers that the CO_2 emissions of its suppliers are part of its wider environmental footprint and that they must unite their efforts to succeed in reducing them.

A member of the Carbon Disclosure Project ("CDP") since 2003 and the CDP Supply Chain since 2007, L'Oréal continues to encourage its suppliers to measure and reduce their CO_2 emissions.

In 2012, L'Oréal stepped up its strategy with regard to the CDP: it is no longer only the environmental experts who discuss these issues with suppliers, buyers trained in the CDP have now become ambassadors of this approach.

This method of functioning made it possible to address the CDP Supply Chain with suppliers at strategic meetings ("Business Reviews"), to launch 156 invitations in 2012 as compared with 55 in 2011 and mobilise teams to convince suppliers that measures aimed at reducing greenhouse gas emissions from now on play an inevitable part of a company's global performance.

Going further in this process, 173 suppliers received invitations in 2013.

These suppliers were selected in 6 fields of purchases (raw materials, packaging items, production equipment, subcontracting, POS advertising/Promotional items and materials, indirect supplies), everywhere in the world.

They consist of strategic suppliers, suppliers in CO2-generating industries, major industrial groups but also small and medium-sized enterprises.

In order to assess suppliers' environmental performance, a Scorecard has been developed jointly with the CDP, summarising suppliers' answers to the CDP to make them accessible for purchasing teams.

In this way, in 2013, 152 suppliers (as against 133 in 2012), out of the 173 suppliers who were invited, responded positively to L'Oréal's invitation to also join the CDP.

This number is higher than the average (2,868 participants for more than 5,650 suppliers invited) for members of the CDP. The high response rate obtained due to the joint commitment of the purchasing and environmental teams has led to the CDP recognising L'Oréal as one of the companies that is the most committed to this area.

L'Oréal sends results with comments and opportunities for improvement to suppliers who have participated. The average of supplier results for 2013 has improved considerably: 63 C ratings as against 59 D ratings in 2012 [(1)].

Following on from L'Oréal's work with the CDP and with its suppliers on the reduction of its environmental footprint, the Group participated in 2013 in the CDP Water Supply Chain pilot programme. 15 of the 17 suppliers invited by L'Oréal agreed to take part in this new programme aimed at measuring and reducing the water footprint.

Beyond promoting issues with regard to Responsible Purchasing, and the management of the social risks concerning working conditions at our suppliers, the Buy & Care also aims at promoting social inclusion through work.

6.4.4. *Fair Business practices*

ACTIONS TAKEN TO PREVENT ALL FORMS OF CORRUPTION

Commitment

L'Oréal is a signatory of the United Nations Global Compact, supports the fight against corruption, abides by the United Nations Anti-Corruption Convention of October 31st, 2003 and undertakes to respect all applicable laws, including anti-corruption laws.

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

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

Policy

L'Oréal's Code of Business Ethics publicly states a zero-tolerance policy on corruption. It applies to all employees, executive officers and directors, members of the Group's Executive and Management Committees and those of its subsidiaries worldwide.

This document has been translated into 35 languages and each employee receives a copy.

In 2013, a specific anti-corruption guide was rolled out throughout the Group. This guide, which underlines the need both to respect local practices and regulations and also comply with the Group's ethical commitment, addresses relations with each of L'Oréal`s stakeholders and in particular public authorities and intermediaries.

This practical Guide is intended to specify the Group's standards and to assist employees to handle situations which they may encounter in the performance of their duties. It reaffirms L'Oréal's corruption prevention policy which was approved by the Chairman and Chief Executive Officer and the Executive Committee and presented to the Board of Directors. This policy posted online on L'Oréal's website (www.loreal.com) restates the following principles:

- the zero-tolerance policy on corruption;
- the prohibition on facilitation payments;
- the prohibition on all contributions to political parties or politicians with the aim of obtaining a commercial advantage;
- the prohibition on giving and accepting gifts and/or invitations that might influence or be perceived as influencing a business relationship;

(1) *For further information on the CDP supply chain and the rating methodology, visit the following websites:*
https://www.cdp.net/en-US/Programmes/Pages/CDP-Supply-Chain.aspx#members
https://www.cdp.net/en-US/Results/Pages/leadership-index.aspx

- communication of the commitment to preventing corruption to our business partners;
- compliance with these commitments by intermediaries or agents representing L'Oréal, particularly in countries where there is a high corruption risk.

Other policies such as "The Way We Buy", a practical and ethical guide on the relationships between suppliers and all employees involved in purchasing decisions, also address these issues. This document currently exists in 12 languages.

Implementation

The corruption prevention policy is revised periodically by the Executive Committee and presented to the Board of Directors.

The Director of the Risk Management and Compliance Department is in charge of developing the anti-corruption system.

Country Managers or, for Corporate or Zone staff, the members of the Group Executive Committee to whom they report, are responsible for the proper deployment of the corruption prevention programme and are guarantors of compliance with the anti-corruption policy.

Employees may, in particular, go to their management, their Legal Director, their Administrative & Financial Director, or their Ethics Correspondent if they have questions about the respect of this commitment.

To ensure that no concern regarding corruption prevention remains unanswered, employees and other stakeholders may contact the Chief Ethics Officer, to whom authority is delegated by the Chairman.

All concerns raised are thoroughly examined, so that appropriate measures can be taken, where applicable.

In a spirit of transparency and in order to exchange ideas, we regularly communicate, internally and externally, on the implementation of our anti-corruption policy and programme.

The risk of corruption is included in the Group-level risk assessment: a tool enables Country Managers to assess their possible local ethical risks (including corruption) and to take the necessary corrective action.

L'Oréal's commitment is supported by Human Resources procedures. Thus, a "Obtains results with integrity" competence is now included in the annual appraisal system for all our employees.

Within the framework of L'Oréal's "Open Talk" policy, employees are encouraged to express any concerns they have and a dedicated website provides a secure mechanism for asking questions or raising concerns directly with the Group's Senior Vice President & Chief Ethics Officer who has access to all the documents and information concerning the Group's activities and can rely on the Group's teams and resources to conduct his assignment successfully.

Any concerns raised in good faith are examined in detail and appropriate measures are taken, where applicable. L'Oréal guarantees that no reprisals will be taken against employees who have reported their concerns in good faith.

The Group's Internal Control system provides for control procedures for operational activities and in particular with regard to separation of tasks.

L'Oréal's Internal Audit teams are particularly vigilant in this respect. Corruption risks are systematically reviewed during internal audit assignments, through individual interviews with regard to Ethics.

These interviews include questions specifically concerning corruption and are conducted separately with the Country Manager and the Administrative and Financial Director. They give rise to an individual report reviewed and signed by these latter persons.

Within the scope of the legal due diligence reviews carried out prior to acquisitions, the Group's Legal Department includes an "ethics questionnaire" prepared by the Ethics Department. The answers to this questionnaire are intended to identify, within the internal control system existing in the target company, whether corruption risk prevention has been taken into account.

L'Oréal wants to share its anti-corruption commitment with its business partners and compliance with the law is included in the Group's general terms of purchase.

L'Oréal reserves the right to put an end to any relationships with business partners who fail to comply with anti-corruption laws.

Measures adopted with regard to consumer health and safety

POLICY

Protection of consumer safety is one of L'Oréal's absolute priorities: Safety assessment is at the centre of development of new products and a prerequisite before any product is launched on the market.

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

The Group has set up an International Product Safety Assessment Department consisting of a team of nearly 100 employees across 3 continents.

IMPLEMENTATION

The L'Oréal Group has set up a process to ensure that all products developed, whatever the geographical location of the laboratory in charge of the project, are subject to a rigorous safety evaluation. Thus, the evaluations by L'Oréal's International Safety Assessment Department, based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle. This approach also enables L'Oréal to meet the safety requirements of the national regulations of all the countries in which the Group's products are put on sale.

The product safety evaluation is based on the evaluation of each ingredient and finished product on the basis of existing safety data and the latest medical and scientific knowledge. If necessary, L'Oréal conducts additional safety studies in qualified laboratories all over the world. The results of these studies are interpreted by experienced scientists who are specially trained in safety assessments with regard to cosmetic ingredients and products.

A safety certificate signed by a safety assessment expert was issued for each product launched on the market. Since July 11th, 2013, the date when European Regulation EC 1223/2009 came into full application, this safety certificate has been replaced by a cosmetic product safety report containing all the necessary information and documenting the procedures that have been taken to ensure the safety of the products launched.

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

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

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

This longstanding commitment has enabled the Group to respond with serenity to the latest regulatory requirements which prohibit the sale in Europe of cosmetic products tested on laboratory animals since March 11th, 2013. L'Oréal has no longer conducted animal testing anywhere in the world since March 2013 and does not delegate responsibility to do so to anyone else.

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

6.4.5. *Other actions taken in favour of Human Rights*

L'Oréal became a signatory of the United Nations Global Compact in 2003, and is committed to respecting and promoting Human Rights. This includes, in particular, the Fundamental Conventions of the International Labour Organisation (see the social information on page 210).

L'Oréal's Chairman and Chief Executive Officer has given the Senior Vice President, Chief Ethics Officer, the mission of overseeing the respect of Human Rights.

The Chief Ethics Officer reports regularly to the Chairman and Chief Executive Officer. He informs the Board of Directors and the Executive Committee.

Country Managers are in charge of implementing the Human Rights policy in their country. The Group's Chief Ethics Officer meets systematically with each Country Manager in order to raise their awareness in particular on Human Rights issues and corruption prevention.

L'Oréal sets out its Human Rights policy in documents such as "The L'Oréal Spirit" or the Code of Business Ethics.

In the "As an Employer" section of "The L'Oréal Spirit", the Group describes its principal commitments to its staff, namely in terms of diversity. Its commitments on the abolition of child labour and forced labour are set out in the "As a Responsible Corporate Citizen" section of that document.

Furthermore, several chapters of the Code of Business Ethics are devoted to the practical implementation of respect for Human Rights: health, safety and security, diversity, harassment and bullying, sexual harassment, privacy, contribution to the community, and supplier selection and fair treatment of suppliers.

All new employees receive a copy of the Code of Business Ethics, which is available in 35 languages (43 versions) and in Braille in French and English. This Code of Business Ethics is available on the www.loreal.com website.

Training sessions and communications on Ethics also cover Human Rights issues.

Every year, L'Oréal organises an Ethics Day in order to ensure ongoing internal communication on this topic. In 2013, all the Group's employees were able to ask L'Oréal's Chairman and Chief Executive Officer questions which he answered during a live webchat. All Country Managers also had the opportunity to discuss ethics with their employees. More than half the Group's employees took part in this dialogue and over 3,200 questions were asked worldwide.

An e-learning course on ethics was deployed in all countries in October 2013. At Corporate level, the Ethics Department led 23 training sessions for 669 employees, representing 1,474 hours of training.

Furthermore, in 2013, 92% of the Group's countries included subjects related to Human Rights (health, safety and security, diversity, harassment and bullying, sexual harassment, privacy, contribution to the community, and supplier selection and fair treatment of suppliers) in their local training programmes. 100% of the countries communicated on at least one of these topics.

Country Reporting Ethics, an annual reporting system on ethical issues, covers all the subjects addressed in the Code of Business Ethics. This information namely helps to assess the Group's performance in terms of the application of Human Rights.

Within the scope of the legal due diligence reviews carried out prior to proposed acquisitions, the Group's Legal Department includes an "ethics and Human Rights questionnaire" prepared by the Ethics Department. The answers to this questionnaire are intended to identify, within the internal control system existing in the target company, whether the risks of non-compliance with

Human Rights (abolition of child labour and forced labour, etc.) have been taken into account.

An ethics risk assessment and analysis tool enables Country Managers to assess their possible ethics risks (including in the field of Human Rights) at the level of their countries and to take the necessary corrective action.

The analysis with regard to supplier and subcontractor risks is carried out by the Purchasing Department, namely through social audits (see section on Subcontracting with suppliers - pages 224 *et seq.*).

L'Oréal's "Open Talk" policy enables employees to raise concerns they may have directly with the Chief Ethics Officer, including those relating to Human Rights, namely via a secure website. This site is accessible in 21 languages. All allegations are examined in detail and appropriate measures are taken, where applicable, in the event of non-compliance with the Human Rights policy.

Methodological note

SOCIETAL COMMITMENT DATA SCOPE, INDICATORS, REPORTING METHOD AND SYSTEMS

Scope of consolidation

The scope covers, depending on the indicators, L'Oréal parent company, France or the Group. The specific scope is specified for each indicator.

Indicators

The indicators chosen are those within the scope of the Grenelle II regulations, with the aim of data comparability.

Data

The following methods are used to collect data for the defined scope:

- a certain amount of data particularly concerning Ethics is collected by the Ethics Department using the "Country reporting" intranet system, also used to collect Human Resources data (see, in this respect, the Human Resources data reporting methodology described on page 211);
- the other data are collected from the departments concerned (Communications and Sustainable Development Department, Human Resources Department, Purchasing Department, International Product Safety Assessment Department and the Risk Management and Compliance Department).

6.5. TABLE OF CONCORDANCE IN RESPECT OF SOCIAL, ENVIRONMENTAL AND SOCIETAL MATTERS

Page	Grenelle II – French Decree of April 24th, 2012	GRI	Global Compact
	PRINCIPLES		
196, 211, 220, 229	Scope of reporting	G4-17 to 23	#1 and 2
	Comply or explain	Principe	
	Data comparability	G4-32	
	Reference to standards	G4-32	
232-234	Attestation with regard to the exhaustiveness of information	G4-32	
	Opinion with regard to the true and fair view given by the information	G4-32	
	SOCIAL INFORMATION		
200	**Employment**		
	◆ Total workforce	G4-10	#3 to 8
	◆ Distribution of employees by gender, by age and by geographic zone	G4-10	
	◆ Recruitments	G4- LA1	
	◆ Dismissals	G4- LA1	
	◆ Remuneration and trends	G4- LA13	
206	**Work organisation**		
	◆ Organisation of working time	G4- LA	#3 to 8
	◆ Absenteeism	G4- LA6	
206	**Labour relations**		
	◆ Organisation of the dialogue between employees and management	G4- LA4	#3 to 8
	◆ Situation with regard to collective agreements	G4- LA4	
207	**Health & Safety**		
	◆ Health and safety conditions at work	G4- LA6 to 8	# 3 to 8
	◆ Status report on agreements signed with trade union organisations with regard to health and safety at work	G4- LA8	
	◆ Frequency and severity of accidents at work	G4- LA6	
	◆ Occupational diseases	G4- LA7	
209	**Training**		
	◆ Training policy implemented	LA11	#3 à 8
	◆ Total number of hours of training	LA10	
209	**Equality of treatment**		
	◆ Measures taken to promote gender equality	G4- LA10	#3 à 8
	◆ Measures taken in favour of employment and professional insertion of the disabled	G4- LA12	
	◆ Policy to combat discrimination	G4- LA12, G4-HR3	
210	**Promotion & compliance with the provisions of the ILO conventions**		
	◆ Compliance with freedom of association and the right to collective bargaining	G4-HR4; G4-LA4	#3 à 8
	◆ Elimination of discrimination in respect of employment and occupation	G4-HR3; G4-LA13	
	◆ Elimination of forced or compulsory labour	G4-HR6	
	◆ Effective abolition of child labour	G4-HR5	

Page	Grenelle II – French Decree of April 24th, 2012	GRI	Global Compact
	ENVIRONMENTAL INFORMATION		
212	**General environmental policy**		
	• Organisation of the Company to take into account environmental issues and, where applicable, environmental evaluation or certification measures		#9 to 11
	• Training actions and provision of information to employees with regard to environmental protection		
	• The means devoted to prevention of environmental risks and pollution	G4-EN31	
	• The amount of the provisions and cover with regard to environmental risks, on condition that this information is not liable to cause serious harm to the Company in a lawsuit in process	G4-EN31 and G4-EC2	
214	**Pollution and waste management**		
	• Measures for prevention or reduction of, or to remedy, emissions into the air, water and soil seriously affecting the environment	G4-EN22 to 26	#9 to 11
	• Waste prevention, recycling and elimination measures	G4-EN23	#9 to 11
	• Taking into account noise pollution and any other form of pollution specific to an activity		
216	**Sustainable use of resources**		
	• Water consumption and water supply depending on local constraints	G4-EN8	#9 to 11
	• Raw material consumption and measures taken to improve efficiency in their use	G4-EN1, G4-EN27	
	• Energy consumption, measures taken to improve energy efficiency and use of renewable energies	G4-EN3 to EN7	
	• Soil use		
218	**Climate change**		
	• Greenhouse gas emissions	EN16, EN17, EN 18, EN19, EN20	#9 to 11
	• Adaptation to the consequences of climate change	EN18, EC2	
219	**Protection of biodiversity**		
	• Measures taken to preserve or develop biodiversity	G4-EN11 to EN 14	#9 to 11
	SOCIETAL INFORMATION		
221	**Territorial, economic and social impact of the Company's activities**		
	• On employment and regional development	G4- EC7 and G4-EC8	#16 to 18 and 21
	• On neighbouring or local populations	G4- EC1, G4-EC 5 and 6	
222	**Relations maintained with people or organisations who are stakeholders of the Company's activities**		
	• Particularly, associations promoting professional insertion, educational establishments, environmental defence associations, consumer associations and neighbouring populations		#2 and 16 to 18
	• The conditions for the dialogue with these people or organisations	G4-24 to 27	
	• Partnership or philanthropy actions		
224	**Subcontracting and suppliers**		
	• Taking into account social and environmental issues in purchasing policy	G4-EC9, G4-HR4, 5, 6, 8, 10	#2 to 11
	• The importance of subcontracting and taking their social and environmental responsibility into account in relations with suppliers and subcontractors	G4-EC9, G4-HR4, 5, 6, 8, 10	
226	**Fair practices**		
	• The actions taken to prevent corruption	G4-SO3 to 5	#12 to 14
	• The measures taken in favour of consumer health and safety	G4-PR1; G4-PR2	
228	**Other actions taken in favour of Human Rights**	G4-HR	#3 to 5

6.6. REPORT OF THE STATUTORY AUDITORS, DESIGNATED INDEPENDENT THIRD-PARTY ENTITIES, ON THE REVIEW OF ENVIRONMENTAL, SOCIAL AND SOCIETAL INFORMATION PUBLISHED IN THE GROUP MANAGEMENT REPORT

This is a free translation into English of the original report issued in French and is provided solely for the convenience of English speaking readers.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In our capacity as Statutory Auditors of L'Oréal, and designated as independent third-party entities, whose certification request has been approved by the French National Accreditation Body (COFRAC), we hereby present you with our report on the social, environmental and societal information presented in the management report prepared for the year ended December 31st, 2013 (hereinafter the "CSR Information"), pursuant to Article L.225-102-1 of the French Commercial Code *(Code de commerce)*.

Responsibility of the company

The Board of Directors of L'Oréal is responsible for preparing a management report including the CSR Information provided by Article R. 225-105-1 of the French Commercial Code, prepared in accordance with the reporting criteria used by L'Oréal (the "Reporting Criteria"), some of which are presented throughout the management report and which are available on request from the Human Relations & Environmental executive management teams.

Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of Ethics as well as by the provisions set forth in Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes the documented policies and procedures designed to ensure compliance with rules of ethics, professional standards and the applicable legal texts and regulations.

Responsibility of the Statutory Auditors

Based on our work, our responsibility is:

- to attest that the required CSR Information is presented in the management report or, in the event of omission, is explained pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code (Attestation of completeness of the CSR information);
- to express limited assurance on the fact that, taken as a whole, the CSR Information is presented fairly, in all material aspects, in accordance with the adopted Reporting Criteria (Formed conclusion on the fair presentation of the CSR Information).

Our work was carried out by a team of fourteen people between November 2013 and February 2014, *i.e.* a period of around thirteen weeks. To assist us in conducting our work, we referred to our corporate responsibility experts.

We conducted the following procedures in accordance with professional standards applicable in France, with the order of May 13th, 2013 determining the methodology according to which the independent third party entity conducts its assignment and, with regard to the formed conclusion on the fair presentation of the Information, with the ISAE (International Standard on Assurance Engagements) 3000 (1).

1. ATTESTATION OF COMPLETENESS OF THE CSR INFORMATION

Based on interviews with management, we familiarized ourselves with the Group's sustainable development strategy, with regard to the social and environmental impacts of the company's business and its societal commitments and, where appropriate, any resulting actions or programs.

We have compared the CSR Information presented in the management report with the list set forth in Article R. 225-105-1 of the French Commercial Code.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information

In the event of omission of certain consolidated information, we have verified that explanations were provided in accordance with the third paragraph of the Article R. 225-105 of the French Commercial Code.

We have verified that the CSR Information covered the consolidated scope, i.e., the company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code, subject to the limits set forth in the methodological memo paragraph presented in the management report.

Based on our work and considering the limitations mentioned above, we attest that the required CSR Information is presented in the management report.

2. FORMED CONCLUSION ON THE FAIR PRESENTATION OF THE CSR INFORMATION

Nature and scope of procedures

We conducted around sixty interviews with the people responsible for preparing the CSR Information in the departments in charge of the CSR Information collection process and, when appropriate, those responsible for internal control and risk management procedures, in order to :

- assess the suitability of the Reporting Criteria with respect to its relevance, completeness, reliability, neutrality and clarity, taking into consideration, when relevant, the sector's best practices;
- verify the set-up of a process to collect, compile, process, and check the CSR Information with regard to its completeness and consistency.
- familiarize ourselves with the internal control and risk management procedures relating to the compilation of the CSR Information.

We determined the nature and scope of the tests and controls according to the nature and significance of the CSR Information with regard to the company's characteristics, the social and environmental challenges of its activities, its sustainable development strategies and the sector's best practices.

Concerning the CSR information that we have considered to be most important (2):

- for the consolidating entity, we consulted the documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), we implemented analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the data consolidation, and we verified their consistency with the other information presented in the management report;
- for a representative sample of entities and sites that we have selected (3) according to their activity, their contribution to the consolidated indicators, their location and a risk analysis, we held interviews to verify the correct application of the procedures and implemented substantive tests on a sampling basis, consisting in verifying the calculations performed and reconciling the data with supporting evidence. The selected sample represented on average 18 % of the Group headcount and an average of 18 % of the environmental quantitative information.

Regarding the other consolidated CSR Information, we have assessed its consistency in relation to our understanding of the Group.

Finally, we have assessed the relevance of the explanations relating to, where necessary, the total or partial omission of certain information.

We believe that the sampling methods and sizes of the samples we have used in exercising our professional judgment enable us to express limited assurance; a higher level of assurance would have required more in-depth verifications. Due to the use of sampling techniques and the other limits inherent to the operations of any information and internal control system, the risk that a material anomaly be identified in the CSR Information cannot be totally eliminated.

(2) Quantitative information: total workforce, fixed term and permanent contracts, distribution of employees by geographic zone, by gender and breakdown by age, number of departures (on the company's initiative), number of hired employees, distribution of personnel costs by geographic zone, World Profit Sharing 2012 (paid in 2013), overall rate of absenteeism, rate of absenteeism for sickness, number of signed collective agreements in the world, number of collective agreements in force at December 31/12/13 in the world, conventional frequency rate, enlarged frequency rate, accident severity rate, number of hours of training, emissions of Volatile Organic Compounds, tons of transportable waste (with and without shuttle packaging), 2013 waste treatment, water consumption, distribution of water use, SO2 emissions, Chemical Oxygen Demand before treatment, Chemical Oxygen Demand after treatment, total energy consumption, distribution by energy sources, direct and indirect CO2 emissions related to energy used, number of social audits 2013, number of suppliers invited and who positively responded to the invitation to the CDP in 2013.

Qualitative information : health and Safety working conditions, equal treatment (in the paragraph Diversity and equal opportunities), benefits and their evolution, organisation of social dialogue, measures for the sustainable use of resources, protection of biodiversity (in paragraphs « Renewable raw materials » and « Protection of biodiversity »), territorial, economic and social impact of the company's activities, measures adopted with regard to consumer health and safety.

(3) For social data : the 6 subsidiaries in China, Indonesia, Russia, the United Kingdom, Germany and Spain.

For environmental, health and safety data : 10 entities in Aulnay, CAP, Chimex in France, DC China, Souzhou and Yichang in China, factories in Germany and in Russia, Jababeka in Indonesia and the DC Watersmead in the United Kingdom.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly, in all material respects, in accordance with the Reporting Criteria.

Neuilly-sur-Seine, February 11th, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit		Deloitte & Associés	
Gérard Morin	Sylvain Lambert	David Dupont-Noel	Florence Didier-Noaro

7

/ STOCK MARKET INFORMATION
SHARE CAPITAL

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

L'Oréal is a French *société anonyme* (limited company) listed on the Paris stock market. This chapter sets out the information relating to its share capital and the main details of its legal form and its Articles of Association. All the information on the L'Oréal share and L'Oréal share market are also included in this chapter

7.1. INFORMATION RELATING TO THE COMPANY

7.1.1. Legal Form

L'Oréal is incorporated in France as a *société anonyme*.

7.1.2. Law governing the Issuer

French law.

7.1.3. Business Activity

L'Oréal S.A. is a French company, with its head office in France. It performs a sales activity that is specific to France. L'Oréal parent company also functions as a holding company and has a role of strategic coordination role as well as a scientific, industrial and marketing coordination for the Group on a global basis. The group's subsidiaries develop the group's business in their respective territory. In this role, they manufacture or commission and commercialize the products they decide to sell on their market.

L'Oréal wholly owns the vast majority of its subsidiaries. It also has substantial investments in non-consolidated companies, details of which are set out on pages 159 to 162.

7.1.4. Date of incorporation and term of the company (article 5 of the articles of association)

"The Company's term shall be ninety-nine years, which began to run on January 1st, 1963 and which shall thus expire on December 31st, 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association."

7.1.5. Purpose of the company (extracts from article 2 of the articles of association)

"The Company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows:

- the manufacturing and the sale of cosmetics products in general; of all devices intended for the same uses as the products listed above; of all household maintenance products; of all products and articles relating to feminine and/or child hygiene and to the embellishment of human beings; the demonstration and advertising of such products; the manufacturing of packaging articles;
- the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution;
- all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the Company's interest, under any form whatsoever;
- the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies, the contribution to pre-existing companies, the merger or the alliance with such companies."

7.1.6. Company registration number

632 012 100 Paris Trade and Companies Registry.

7.1.7. Consultation of documents relating to the company

The Articles of Association, financial statements, reports and information for shareholders can be consulted at 41 rue Martre, 92117 Clichy, France, preferably by appointment. See also the www.loreal-finance.com website.

7.1.8. General Management (article 11 of the articles of association)

"1. In accordance with legal provisions, the General Management of the Company is assumed, under its responsibility, either by the Chairman of the Board of Directors, or by another natural person appointed by the Board of Directors and bearing the title of Chief Executive Officer.

The choice between these two modes of exercising General Management is made by the Board of Directors each time a Chairman of the Board of Directors or a Chief Executive Officer is appointed or has his tenure renewed. The Board of Directors must inform shareholders and third parties of this choice in accordance with the statutory provisions.

The choice of the Board of Directors concerning the mode of exercise of the General Management is made on the basis of a majority vote of the Directors present or represented.

Changing the mode of exercise of the General Management does not involve a modification of the Articles of Association.

2. Depending on the choice made by the Board of Directors in accordance with the provisions of § 1 above, the General Management is carried out either by the Chairman, or by a natural person, appointed by the Board of Directors and bearing the title of Chief Executive Officer.

3. The Chief Executive Officer is granted the most extensive powers to act in all circumstances on behalf of the Company. He exercises these powers within the limitations of the object of the Company, and subject to the powers expressly granted by law to Shareholders' Meetings.

   The Chief Executive Officer represents the Company in its relations with third parties. The Company is bound even by actions of the Chief Executive Officer which are outside the object of the Company, unless the Company can prove that the third party was aware that the action was outside the object of the Company, or that the third party could not be unaware of this in view of the circumstances, it being stated however that the mere publication of the Articles of Association does not constitute such proof.

4. On the proposal of the Chief Executive Officer, whether this office is assumed by the Chairman of the Board of Directors or by another person, the Board of Directors may appoint one or more natural persons in charge of assisting the Chief Executive Officer, with the title of Deputy Chief Executive Officer.

   In agreement with the Chief Executive Officer, the Board of Directors determines the extent and duration of the powers granted to the Deputy Chief Executive Officers."

7.1.9. Fiscal year (article 14 of the articles of association)

"Each fiscal year shall have a duration of twelve months, to begin on January 1st and to end on December 31st of each year."

7.1.10. Statutory distribution of profits (article 15 of the articles of association)

"A. From the distributable profits, the following amounts shall be withheld, in the following order:

1. The amount required to pay the "primary dividend" to the shareholders equal to five percent (5%) of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.

2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next fiscal year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds. Such reserve fund(s), which shall not bear any interest, may be distributed to the shareholders, or allocated to complete the 5% primary dividend for the shareholders, in the event of insufficient results during one or more fiscal years, or to acquire and to cancel shares in the Company, or to redeem in whole or in part such shares.

3. The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

   However, any shareholder who can prove at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of payment of the dividend paid for such financial year, will be entitled to a preferential dividend on the shares that are thus registered, equal to 10% of the dividend (initial dividend and additional dividend) paid on the other shares, including in the event of payment of the dividend in new shares, the preferential dividend thus paid being rounded down to the nearest lower cent, if necessary.

   Similarly, any shareholder who can prove, at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of completion of an increase in capital carried out through capitalisation of reserves, profits or share premiums by the distribution of bonus shares, shall be entitled to an increase in the number of bonus shares to be distributed to him, equal to 10%, this number being rounded down to the nearest lower unit in the event of fractional share rights.

   The new shares created in this manner will be identical, for the purposes of calculating the rights to the preferential dividend and to the increased share allocations, to the old shares from which they result.

   The number of shares eligible for these preferential dividends may not exceed 0.5% of the share capital at the closing date of the past financial year, for the same shareholder.

B. The losses (if any) shall be charged to the retained earnings from preceding fiscal years or to the reserve funds, and the balance shall be booked into a special 'carry forward' account."

7.1.11. Annual General Meetings

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection.

Since the Annual General Meeting of April 29th, 2004, double voting rights have been eliminated.

7.1.12. Statutory share ownership threshold

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or a multiple of this percentage lower than 5%, is required to inform the Company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association). This provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, of thresholds relating to one-twentieth, one-tenth, three-twentieths, one-fifth, one-quarter, three-tenths, one-third, one-half, two-thirds, eighteen-twentieths or nineteen-twentieths of share capital or of voting rights" (Article L. 233-7 of the French Commercial Code).

"If not disclosed in accordance with the conditions stipulated by law or by the Articles of association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' Meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital so request during the meeting" (Article 7, paragraph 3 of the Articles of Association).

See also the complete text of the Company's Articles of Association on the www.loreal-finance.com website, Regulated information section.

7.2. INFORMATION CONCERNING THE SHARE CAPITAL

7.2.1. Statutory requirements governing changes in the share capital and shareholders' rights

None.

7.2.2. Issued share capital and authorised unissued share capital

The share capital amounted to €121,180,377.40 as of December 31st, 2013. It was divided into 605,901,887 shares with a par value of €0.20 each, all of the same class and ranking *pari passu*.

The table set out below summarises (particularly in application of Articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code) the currently valid authorisations granted to the Board of Directors by the Annual General Meeting of shareholders concerning the capital. It shows the use made of such authorisations over the financial year and presents the authorisations which are to be put to the vote at the Annual General Meeting on April 17th, 2014.

Authorisations in force					Authorisations proposed to the Annual General Meeting of April 17th, 2014		
Nature of the authorisation	**Date of AGM (resolution no.)**	**Length (expiry date)**	**Maximum authorised amount**	**Use made of the authorisation in 2013**	**Resolution No.**	**Length**	**Maximum ceiling**
Share capital increases							
Capital increase through the issue of shares with maintenance of preferential subscription rights or via the capitalisation of share premiums, reserves, profits or other amounts	April 26th, 2013 (9th)	26 months (June 26th, 2015)	An increase in the share capital to €169,207,813.88	None		None	
Capital increase reserved for employees	April 26th, 2013 (11th)	26 months (June 26th, 2015)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 6,054,992 shares)	None		None	
Buyback by the Company of its own shares							
Buyback by the Company of its own shares	April 26th, 2013 (8th)	18 months (October 26th, 2014)	10% of share capital on the date of the buybacks (*i.e.* 60,549,917 shares at April 26th, 2013)	5,986,391 shares	(9th)	from October 27th, 2014 to October 17th, 2015	10% of share capital on the date of the buybacks (*i.e.* 60,590,188 shares at December 31st, 2013)
Reduction in the share capital via cancellation of shares							
Cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code	April 17th, 2012 (10th)	26 months (June 17th, 2014)	10% of share capital on the date of cancellation per 24-month period (*i.e.* 60,549,917 shares at April 26th, 2013)	9,108,641 shares	(11th)	26 months (June 17th, 2016)	10% of share capital on the date of cancellation per 24-month period (*i.e.* 60,590,188 shares at December 31st, 2013)
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	April 17th, 2012 (10th)	26 months (June 17th, 2014)	500,000 shares	None	(11th)	26 months (June 17th, 2016)	650,000 shares
Stock options and free grants of shares							
Grant of existing free shares or shares to be issued to the employees	April 26th, 2013 (10th)	26 months (June 26th, 2015)	0.6% of share capital on the date of the decision to grant the shares	1,057,820 shares		None	

Since June 22nd, 2013, the Board of Directors no longer has an authorisation to allocate stock options to purchase or subscribe for shares.

At December 31st, 2013, 14,073,332 share subscription options had been allocated. All these options are exercisable on the basis of one new share per option, and are therefore liable to lead to the creation of the same number of shares. Furthermore, 3,707,020 conditional shares had been granted to Group employees. Out of these, 395,500 shares will be created when necessary and, where applicable, by capitalisation of reserves, accordingly, the potential share capital of the Company amounts to €124,074,143.80 divided into 620,370,719 shares with a par value of €0.20 each.

The Company has not issued any securities which grant indirect entitlement to shares in the capital.

At its meetings on February 11th, 2013 and November 29th, 2013, the Board of Directors cancelled, firstly, the 5,077,250 shares bought back in 2012 and, secondly, the 4,031,391 shares bought back during the first half of 2013 within the framework of Article L. 225-209 of the French Commercial Code (10th resolution voted by the Annual General Meeting on April 17th, 2012).

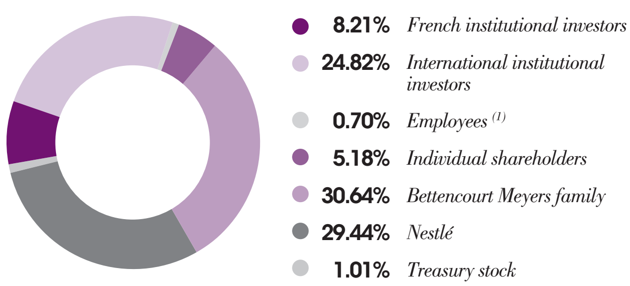
The Chairman, on the delegation of the Board of Directors at its meeting on November 29th, 2013, recorded the amount of the share capital at December 31st, 2013, which was €121,180,377.40 divided into 605,901,887 shares.

7.2.3. *Changes in the share capital over the last five years*

Date	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of the share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
12.31.2008				€120,483,162.00		602,415,810
02.16.2009	Cancellation of shares	-€794,120.00		€119,689,042.00	-3,970,600	598,445,210
02.17 to 12.31.2009	Exercise of share subscription options	€105,440.00	€31,026,370.50	€119,794,482.00	527,200	598,972,410
01.01 to 04.26.2010	Exercise of share subscription options	€149,080.00	€44,316,558.00	€119,943,562.00	745,400	599,717,810
04.27.2010	Cancellation of shares	-€100,000.00		€119,843,562.00	-500,000	599,217,810
04.27 to 12.31.2010	Exercise of share subscription options	€354,955.00	€107,450,074.75	€120,198,517.00	1,774,775	600,992,585
01.01 to 05.30.2011	Exercise of share subscription options	€233,719.40	€71,517,702.03	€120,432,236.40	1,168,597	602,161,182
05.30.2011	Conditional grant of shares	€80.00		€120,432,316.40	400	602,161,582
05.31 to 12.31.2011	Exercise of share subscription options	€164,500.00	€51,578,602.50	€120,596,816.40	822,500	602,984,082
01.01 to 12.31.2012	Exercise of share subscription options	€1,165,349.00	€407,590,294.85	€121,762,165.40	5,826,745	608,810,827
01.01 to 02.10.2013	Exercise of share subscription options	€115,508.80	€48,046,701.36	€121,877,674.20	577,544	609,388,371
02.11.2013	Cancellation of shares	-€1,015,450.00		€120,862,224.20	-5,077,250	604,311,121
02.11 to 03.25.2013	Exercise of share subscription options	€154,620.00	€62,560,063.50	€121,016,844.20	773,100	605,084,221
03.26.2013	Conditional grant of shares	€47,560.00		€121,064,404.20	237,800	605,322,021
03.26 to 05.26.2013	Exercise of share subscription options	€105,598.00	€42,689,529.48	€121,170,002.20	527,990	605,850,011
05.27.2013	Conditional grant of shares	€80.00		€121,170,082.20	400	605,850,411
05.27 to 11.29.2013	Exercise of share subscription options	€422,853.40	€132,489,663.04	€121,592,935.60	2,114,267	607,964,678
11.29.2013	Cancellation of shares	-€806,278.20		€120,786,657.40	-4,031,391	603,933,287
11.30 to 12.31.2013	Exercise of share subscription options	€393,720.00	€136,453,362.00	€121,180,377.40	1,968,600	605,901,887

7.3. SHAREHOLDER STRUCTURE

SHAREHOLDER STRUCTURE AT DECEMBER 31st, 2013



7.3.1. *Legal entities or individuals exercising control over the Company to the Company's knowledge*

The Bettencourt Meyers family, on the one hand, and Nestlé, on the other hand, are shareholders of the Company and have declared that they are acting in concert (see the sections on *Changes in allocation of the share capital and voting rights* and *Shareholders' agreements relating to shares in the Company's share capital*).

(1) *In the L'Oréal Company Savings Plan (PEE).*

7.3.2. *Changes in allocation of the share capital and voting rights over the last three years*

Over the last three years, the allocation of the share capital and the voting rights has changed as follows:

	12.31.2013			12.31.2012			12.31.2011		
	Number of shares	**% of capital**	**% of voting rights (4)**	Number of shares	% of capital	% of voting rights (4)	Number of shares	% of capital	% of voting rights (4)
Bettencourt Meyers Family (1) (2)	185,661,879	30.64	30.64	185,661,879	30.50	30.50	185,661,879	30.79	30.79
Nestlé S.A. (2)	178,381,021	29.44	29.44	178,381,021	29.30	29.30	178,381,021	29.58	29.58
Concert party (2)	364,042,900	60.08	60.08	364,042,900	59.80	59.80	364,042,900	60.37	60.37
Company Savings Plan (3)	4,252,345	0.70	0.70	4,379,821	0.72	0.72	4,404,950	0.73	0.73
Public	231,498,785	38.21	38.21	229,933,941	37.76	37.76	225,938,573	37.47	37.47
Treasury stock	6,107,857	1.01	1.01	10,454,165	1.72		8,597,659	1.43	
TOTAL	**605,901,887**	**100.00**	**100.00**	**608,810,827**	**100**	**98.28**	**602,984,082**	**100**	**98.57**

(1) Including 185,654,833 L'Oréal shares held in absolute or beneficial ownership by Téthys, a French "Société par actions simplifiée" (simplified joint-stock company) of which Mrs. Liliane Bettencourt holds almost all the shares and attached voting rights in beneficial ownership. Mrs. Françoise Bettencourt Meyers holds 76,441,389 L'Oréal shares in bare ownership, the beneficial ownership of which is held by Téthys of which she is the Chairwoman.
(2) The Bettencourt Meyers family and Nestlé S.A. act in concert (see Shareholders' agreements relating to shares in the Company's share capital).
(3) Company Savings Plan (article L. 225-102 of the French Commercial Code).
(4) Calculated in accordance with Article 223-11 of the General Regulation of the Autorité des Marchés Financiers.

To the Company's knowledge, at December 31st, 2013, the members of the Executive Committee held less than 1% of the share capital.

The number of shares held by each of the members of the Board of Directors is shown in the information sheets on the Directors set out in chapter 2.

The Company is authorised to trade in its own shares on or off the Stock Exchange in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, within the limits and in accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting. At December 31st, 2013, the Company held, on this basis, 6,107,857 of its own shares (1.01% of the share capital), which, valued at their purchase price, represented €567.6 million in L'Oréal's parent company financial statements. 225,152 of these shares were allocated to covering the stock option plans for the purchase of shares allocated to employees and executive officers of Group companies that have not yet expired and 3,311,520 to a plan for the conditional grant of shares to employees.

7.3.3. *Employee share ownership*

The employees of the Company and its affiliates held 4,252,345 shares as at December 31st, 2013.

The percentage of L'Oréal shares held in the Company Savings Plan (article L. 225-102 of the French Commercial Code) amounts to 0.70% at December 31st, 2013.

At that date, this stake in the capital is held by 9,974 employees participating in the Group Company Savings Plan.

7.3.4. *Disclosures to the Company of legal thresholds crossed*

During 2013, the Company was not informed of any crossing of the legal thresholds with regard to the holding of its shares or voting rights.

7.3.5. *Shareholders' agreements relating to shares in the Company's share capital*

The Company is not aware of any shareholders' agreements relating to shares in its share capital other than the agreement described below.

A memorandum of agreement was signed on February 3rd, 2004 between the Bettencourt Meyers family, and Nestlé, providing for the merger of Gesparal into L'Oréal. It contains the following clauses:

7.3.5.1. CLAUSES RELATING TO THE MANAGEMENT OF THE L'ORÉAL SHARES HELD

Clause limiting the shareholding

The parties agreed not to increase their shareholdings or their voting rights held in L'Oréal, either directly or indirectly, in any manner whatsoever, for a minimum period of three years as from April 29th, 2004, and in any case not until six months have elapsed after the death of Mrs. Liliane Bettencourt.

Lock-up clause (clause expired on April 29, 2009)

The parties agreed not to transfer any or all of their L'Oréal shares either directly or indirectly, for a period of five years as from April 29th, 2004.

Exceptions to the undertaking to limit the shareholding and the lock-up clause

a) The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the Company of its own shares, or the suspension or removal of the voting rights of a shareholder.

b) The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision (*avis de recevabilité*) and up until the day after the publication of the notice of results (*avis de résultat*).

c) In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe for new shares, in order to maintain their holding at the percentage existing prior to the said transaction.

d) The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital or voting rights.

Pre-emption clause (expiring on April 29th, 2014)

The parties have reciprocally granted each other a pre-emption right concerning the L'Oréal shares they hold since the date of the merger, and those they will hold after such date.

This pre-emption right will come into force on expiry of the lock-up clause for a period of five years (*i.e.* to end on April 29th, 2014).

"No concert party" provision (clause expiring on April 29th, 2014)

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right with regard to the shareholding of the party having committed such breach, for a price per share equal to the average of the share prices for the last thirty trading sessions prior to notification of exercise of the pre-emption right.

7.3.5.2. BOARD OF DIRECTORS

The memorandum of agreement did not provide for any change to the composition of the Board of Directors as compared to its composition at the date of signing, but did stipulate an undertaking by the parties to vote in favour of the appointment as Directors of three members proposed by the other party.

The Bettencourt Meyers family and Nestlé also agreed to vote in favour of the appointment of two Vice-Chairmen of the Board of Directors, one proposed by the Bettencourt Meyers family, and the other by Nestlé.

The parties provided for the creation on the Board of Directors of L'Oréal of a committee called the *Strategy and Implementation* Committee which has six members, and is chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt Meyers family, two members proposed by Nestlé and one other independent Director. The committee meets six times a year.

7.3.5.3. TERM

Unless otherwise stipulated, the memorandum of agreement will remain in force for five years from April 29th, 2004, and in all cases until a period of six months has elapsed after the death of Mrs. Bettencourt.

7.3.5.4. CONCERTED ACTION BETWEEN THE PARTIES

The parties declared that they would act in concert for a period of five years from April 29th, 2004 onwards.

On April 9th, 2009, the Bettencourt Meyers family and Nestlé published the following press release:

"On February 3rd, 2004, the Bettencourt family and Nestlé signed an agreement organising their relationship and the management of their stakes within the L'Oréal Company.

The agreement is public and remains unchanged. It foresees the non-transferability of their respective stakes in the capital of L'Oréal until April 29th, 2009, the other clauses (in particular, limitation on the shareholding, pre-emption, escrow, prohibition on constituting a concert party with any third party, composition of the Board of Directors and of the Strategy and Implementation Committee) continue to be effective until the expiry date mentioned in the 2004 deed.

The Bettencourt family and Nestlé will continue to act in concert with regard to the L'Oréal Company beyond April 29th, 2009."

7.3.5.5. AMENDMENT AGREEMENT SIGNED ON FEBRUARY 10th, 2014

In meetings held on February 10th, 2014, the respective Boards of Directors of Nestlé and L'Oréal approved by unanimous decision of their voting members a strategic transaction for both companies under which L'Oréal will buy 48.5 million of its own shares (8% of its share capital) from Nestlé. L'Oréal and Nestlé's joint news release of February 11th, 2014 describes this transaction in detail (See chapter 3, paragraph 3.3.2.2., p. 103).

The buyback is subject to fulfilment of a condition precedent, namely the closing of the acquisition by Nestlé of all the shares held by L'Oréal in the companies of the Galderma group. The condition is provided in favour of Nestlé which may waive it. For the purposes of fulfilment of the condition precedent, Nestlé and L'Oréal have entered into exclusive negotiations.

All the shares bought back by L'Oréal will be cancelled and, following the transaction, Nestlé's stake in L'Oréal's capital will be reduced from 29.4% to 23.29% while the Bettencourt Meyers family's stake will increase from 30.6% to 33.31% of the capital.

In order to reflect the change in the stake held by Nestlé in their agreements, on February 10th, 2014, the Bettencourt Meyers family and Nestlé signed an amendment agreement to their memorandum of agreement of February 3rd, 2004.

Ownership ceiling clause

Subject to closing of the transaction and as from the date thereof, the clause limiting the respective shareholdings of the Bettencourt Meyers family and Nestlé both in terms of capital and voting rights will continue to apply under the same conditions, for the term of the memorandum of agreement, namely until the expiry of a period of six months after the death of Mrs. Liliane Bettencourt, and on the basis of their respective stakes in terms of capital and voting rights resulting from the transaction.

Board of Directors

Subject to closing of the transaction and as from the date thereof, it is provided that for the remaining term of the memorandum of agreement, the undertaking by the Bettencourt Meyers family to vote in favour of the appointment on L'Oréal's Board of Directors of members proposed by Nestlé will from now on only concern two members, as against three previously.

The reciprocal undertaking by Nestlé to vote in favour of the appointment on L'Oréal's Board of Directors of members proposed by the Bettencourt Meyers family will continue to concern three members.

Escrow agreement

The escrow agreement for the L'Oréal shares respectively held by the Bettencourt Meyers family and by Nestlé shall terminate two days at the latest prior to closing of the transaction,.

Agreement by the parties to act in concert

The parties stated that they would continue to act in concert for the remaining term of the memorandum of agreement.

The other provisions of the memorandum of agreement still in force that have not been expressly amended by the amendment agreement will remain unchanged.

Joint press release issued by the Bettecourt Meyers family and Nestlé on February 11th, 2014.

On February 11th, 2014, Nestlé and L'Oréal announced a share buyback of L'Oréal shares from Nestlé. Subject to completion of the transaction, Nestlé's ownership in L'Oréal will decrease from 29.4% to 23.29%, and the Bettencourt Meyers Family's ownership will increase from 30.6% to 33.31%.

The Bettencourt Meyers Family and Nestlé have amended the shareholders' agreement of 3rd February 2004 to take into account the new shareholding structure, once the transaction is completed.

The number of Nestlé representatives on the Board of Directors of L'Oréal will be brought down from 3 to 2. The ownership ceiling provisions of the agreement will continue to apply to the new levels of ownership in the same conditions.

This amendment will be communicated to the Autorité des Marchés Financiers.

The Bettencourt Meyers family and Nestlé will continue to act in concert with respect to L'Oréal for the remaining duration of the shareholders' agreement.

7.3.6 *Buyback by the Company of its own shares*

7.3.6.1. INFORMATION CONCERNING SHARE BUYBACKS DURING THE 2013 FINANCIAL YEAR

In 2013, the Company bought back 5,986,391 of its own shares, in accordance with the authorisations voted by the Annual General Meetings of April 17th, 2012 and April 26th, 2013.

The table set out below summarises the transactions carried out within this framework, and the use made of the shares bought back:

Date of authorisation of the Annual General Meeting	April 17th, 2012 (9th resolution)	April 26th, 2013 (8th resolution)
Expiry date of the authorisation	October 17th, 2013	October 26th, 2014
Maximum amount of authorised buybacks	10% of capital on the date of the share buybacks (*i.e.* 60,881,083 shares at December 31st, 2012), for a maximum amount of €7,914.5 million	10% of capital on the date of the share buybacks (*i.e.* 60,549,917 shares at April 26th, 2013), for a maximum amount of €10,293.5 million
Maximum purchase price per share	€130	€170
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meetings that decided on the buybacks	02.11.2013	02.11.2013 and 11.29.2013
Purpose of buybacks	Cancellation	Cancellation
Period of buybacks made***	From February 18th to April 24th, 2013 *	From April 29th to May 22nd, 2013 * and from December 2nd, to December 20th, 2013
Number of shares purchased	2,765,857 *	1,265,534 * and 1,955,000
Average purchase price per share **	€118.38 *	€135.09 * and €124.85
Use of shares purchased	Cancellation	Cancellation

* *Shares cancelled by the Board of Directors of November 29th, 2013.*
** *Before costs.*
*** *950,000 shares have been bought back during the period January 2nd-10th, 2014.*

7.3.6.2. TRANSACTIONS CARRIED OUT BY L'ORÉAL WITH RESPECT TO ITS SHARES IN 2013

Percentage of share capital held by the Company directly and indirectly at December 31st, 2013	1.01%
of which:	
◆ those intended to cover existing share purchase option plans	0.04%
◆ those intended to cover conditional shares	0.55%
◆ those intended for cancellation	0.32%
Number of shares cancelled during the last 24 months	9,108,641
Number of shares held in the portfolio at 12.31.2013	6,107,857
Net book value of the portfolio at 12.31.2013	€567.6 million
Market portfolio value at 12.31.2013	€ 780.0 million

	Total gross transactions	
	Purchases	Sales/ Transfers*
Number of shares	5,986,391	1,220,758
Average transaction price	€124.02 **	
Average exercise price		€68.89
Amounts	€742.5 million **	€84.1 million

* *Exercise of stock options for the purchase of shares granted to employees and corporate officers of Group companies.*
** *Before costs.*

No use was made of derivatives to make the share buybacks. There is no open purchase or sale position at December 31st, 2013.

7.3.6.3. RENEWAL BY THE ANNUAL GENERAL MEETING OF THE AUTHORISATION GIVEN TO THE BOARD TO TRADE IN THE COMPANY'S SHARES

As the existing authorisation is due to expire in October 2014, it is proposed to the Annual General Meeting of April 17th, 2014 to give the Board a new authorisation enabling it to continue, where applicable, its share buyback policy, depending on the opportunities, to the exclusion of periods of public offers with regard to the Company's capital.

The Company would be able to buy its own shares for the following purposes:

- their cancellation;
- their transfer within the scope of employee share ownership programmes and their allocation to free grants of shares for the benefit of employees and executive officers of the Group;
- stabilisation of the share price;
- retaining them and subsequently using them as payment in connection with external growth operations.

These shares could be acquired by any means, on one or more occasions, on the stock market or over the counter, including through purchases of blocks of shares.

The authorisation would enter into force on October 27th, 2014, namely upon the termination of the current authorisation for the Company to buy back its own shares which will expire on

October 26th, 2014. It would expire eighteen months after the Annual General Meeting, on October 17th, 2015. The purchase price per share would not be greater than €200.

The authorisation would concern up to 10% of the share capital, *i.e.* for information purposes at December 31st, 2013, 60,590,188 shares, for a maximum amount of €12.12 billion.

7.3.6.4. BUYBACK BY L'ORÉAL OF 48.5 MILLION OF ITS OWN SHARES (REPRESENTING 8% OF ITS CAPITAL) FROM NESTLÉ UNDER CONDITION

A joint news release of February 11th, 2014 by L'Oréal and Nestlé describes the transaction in detail (see Chapter 3, paragraph 3.3.2.2."Significant events that have occurred since the beginning of 2014", page 103).

7.4. LONG-TERM INCENTIVE PLANS

7.4.1. Presentation of the stock option plans for the purchase or subscription of shares and plans for the Conditional Grant of Shares to Employees (ACAs)

Policy

For several years, L'Oréal has set up long-term incentive plans in favour of its employees and executive officers in an international context.

It pursues a dual objective:

- motivating and associating those who make big contributions with the future evolution of the Group's results;
- increasing solidarity and helping to instil a group spirit among its managers by seeking to foster their loyalty over time.

Until 2009, L'Oréal's Board of Directors exclusively granted stock options to the senior managers and executive officers whom L'Oréal wished to reward for their performance and their important role in business development and in the Group's current and future projects, wherever they may be located.

In 2009, L'Oréal's Board of Directors enlarged its policy by introducing a mechanism for the conditional grant of shares to employees (ACAs).

The objective was:

- to provide a long-term incentive offering greater motivation to all those who only received stock options occasionally or in limited numbers;
- to reach out to a broader population of potential beneficiaries, particularly internationally, in a context of increased competition with regard to talents.

In 2010, this policy remained unchanged, and was applied to an even larger number of beneficiaries.

In 2011, L'Oréal's Board of Directors decided to make plans for the conditional grant of shares to employees the primary tool for its long-term incentive policy: thus, except for the Chairman and Chief Executive Officer who received stock options only, the main senior managers of L'Oréal, including the members of the Executive Committee, received a mix of stock options and conditional grants of shares. Other eligible employees were stimulated by conditional grants of shares only.

In 2012, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, went one step further in this policy and decided to replace the grant of stock options by conditional grants of shares (ACAs) for all beneficiaries including the Chairman and Chief Executive Officer.

In 2013, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, continued this policy to make conditional grants of shares (Acas) for all beneficiaries including the Chairman and Chief Executive Officer, to the exclusion of the awarding of any other long-term incentive instrument.

The plans are proposed by General Management to the Board of Directors which decides, after receiving the opinion of the Human Resources and Remuneration Committee, with regard to the opening of these plans and the applicable conditions and rules.

Since 2009, these grants are made after publication of the financial statements for the previous financial year, in accordance with the AFEP-MEDEF recommendation.

The decision with regard to each individual grant is, in every case, contingent on the quality of the performance rendered at the time of implementation of the plan with particular attention being paid to the main talents for the future. According to the eligibility criteria linked to the position held by the beneficiary and the size of the entity or the country in which the beneficiary works, in a concern for equity on an international scale, these grants are made every year, every two years or every three years.

The General Management and the Board of Directors stress the importance that is given to bringing together the interests of the beneficiaries of stock options and conditional grants of shares and those of the shareholders themselves.

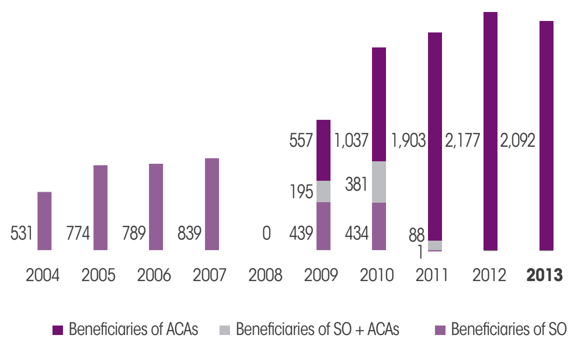
The employees and executive officers who are the beneficiaries share with the shareholders the same confidence in the strong steady growth of the Company with a medium- and long-term vision. This is why stock options were granted for a period of 10 years including a 5-year lock-up period, and conditional grants of shares for a period of 4 years followed by a 2 year waiting period for France during which these shares cannot be sold.

In all, over 3,000 employees (*i.e.* over 12% of the senior managers throughout the world) benefit from at least one currently existing stock option plan or plan for the conditional grant of shares.

The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside" information.

The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of Ethics which is attached to the regulations for the stock option plans or the plans for the conditional grant of shares from which they benefit and to comply with the provisions thereof.

CHANGE IN THE NUMBER OF BENEFICIARIES OF STOCK OPTIONS AND ACAS SINCE 2004



7.4.2. *Stock option plans for the subscription and purchase of L'Oréal parent company shares*

No stock options for the purchase or subscription of shares were granted in 2013, as the Board of Directors has decided since 2012, on the proposal of the Human Resources and Remuneration Committee, to replace the grant of stock options with ACAs for all beneficiaries including the Chairman and Chief Executive Officer.

In accordance with this policy, the Board of Directors did not propose to the Annual General Meeting of April 26th, 2013 to renew the authorisation to grant stock options for the subscription or purchase of shares.

7.4.2.1 CURRENTLY EXISTING L'ORÉAL PARENT COMPANY SHARE PURCHASE OR SUBSCRIPTION OPTION PLANS (1)

The main features of the plans that existed at December 31st, 2013 are included in the tables set out hereafter:

AGM authorisation date	05.22.2003	05.22.2003	05.22.2003	05.22.2003	04.25.2006
Date of Board of Directors' meeting	**03.24.2004**	**12.01.2004**	**06.29.2005**	**11.30.2005 (3)**	**04.25.2006**
Total number of beneficiaries	257	274	3	771	1
Total number of shares that may be subscribed or purchased,	2,000,000	4,000,000	400,000	6,000,000	2,000,000
Of which may be subscribed or purchased by the executive officers (2) :					
- Mr. Jean-Paul Agon					
- Sir Lindsay Owen-Jones		1,000,000		1,000,000	2,000,000
Start date for exercise of the options	03.25.2009	12.02.2009	06.30.2010	12.01.2010	04.26.2011
Date of expiry	03.24.2014	12.01.2014	06.29.2015	11.30.2015	04.25.2016
Subscription or purchase price (in euros)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S)	72.60 (S)
				62.94 (A)	
Number of stock options exercised at 12.31.2013	1,756,764	3,546,500	250,000	4,793,239	1,000,000
Of which shares subscribed	1,756,764	3,546,500	250,000	3,361,191	1,000, 000
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	171,500	247,250	0	476,000	0
Number of option shares remaining to be subscribed or purchased at year-end	**71,736**	**206,250**	**150,000**	**730,761**	**1,000,000**
AGM authorisation date	**04.25.2006**	**04.24.2007**	**04.24.2007**	**04.16.2009**	**04.22.2011**
Date of Board of Directors' meeting	**12.01.2006**	**11.30.2007**	**03.25.2009**	**04.27.2010**	**04.22.2011**
Total number of beneficiaries	788	839	634	815	89
Total number of shares that may be subscribed or purchased,	5,500,000	4,000,000	3,650,000	4,200,000	1,470,000
Of which may be subscribed or purchased by the executive officers (2) :					
- Mr. Jean-Paul Agon	500,000	350,000	0	400,000	200,000 (4)
Start date for exercise of the options	12.02.2011	12.01.2012	03.26.2014	04.28.2015	04.23.2016
Date of expiry	12.01.2016	11.30.2017	03.25.2019	04.27.2020	04.22.2021
Subscription or purchase price (in euros)	78.06 (S)	91.66 (S)	50.11 (S)	80.03 (S)	83.19 (S)
Number of stock options exercised at 12.31.2013	3,189,188	1,759,725	20,000	20,000	7,500
Of which shares subscribed	3,189,188	1,759,725	20,000	20,000	7,500
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	608,750	460,600	196,500	189,000	229,000
Number of option shares remaining to be subscribed or purchased at year-end	**1,702,062**	**1,779,675**	**3,433,500**	**3,991,000**	**1,233,500**

(1) There are no share purchase or subscription option plans at subsidiaries of L'Oréal.
(2) This is the number of stock options granted to the executive officers during their terms of office within the scope of each of the above-mentioned plans. Mr. Jean-Paul Agon has been an executive officer since April 2006.
(3) The stock option plan of November 30th, 2005 is composed, for 70%, of a share subscription option offer at a price of €61.37 (S) and for 30%, of a share purchase option offer at a price of €62.94 (A). Each beneficiary received an offer comprising share subscription and purchase options, in the above proportions. There were no fractional share rights.
(4) The Board of Directors' meeting of April 22nd, 2011 allocated 400,000 share subscription options to Mr. Jean-Paul Agon. Mr. Agon waived the right to 200,000 of such options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors at its meeting on April 22nd, 2011.

There were 14,298,484 outstanding options granted by the Board of Directors within the scope of the authorisations voted by the Annual General Meetings and not yet exercised at December 31st, 2013, at an average price of €72.24 , namely 2.36% of the 605,901,887 shares making up the share capital at such date.

7.4.2.2. STOCK OPTIONS TO PURCHASE OR SUBSCRIBE FOR SHARES GRANTED TO EMPLOYEES OTHER THAN EXECUTIVE OFFICERS OF L'ORÉAL OR EXERCISED BY THEM DURING THE 2013 FINANCIAL YEAR

	Total number of options granted/shares subscribed or purchased	Weighted average price	Plan of 12/03/03 (A)	Plan of 12/03/03 (S)	Plan of 03/24/04 (S)	Plan of 12/01/04 (S)	Plan of 06/29/05 (S)	Plan of 11/30/05 (A)	Plan of 11/30/05 (S)	Plan of 04/25/06 (S)	Plan of 12/01/06 (S)	Plan of 11/30/07 (S)
Options **granted** by L'Oréal parent company to the ten employees (1) **to whom the largest number of stock options was granted**	No stock options granted in 2013	NA	-	-	-	-	-	-	-	-	-	-
Options held with regard to L'Oréal parent company **exercised by the ten employees** (1) who have thus **purchased or** subscribed for **the largest number of options**	721,934	€78.77	30,000	0	0	5,000	50,000	39,934	90,000	0	227,000	280,000

(1) Employees other than executive officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

7.4.2.3. OPTIONS THAT MAY BE EXERCISED UNDER THE MARCH 25th, 2009 PLAN

The exercise period for the stock options granted on March 25th, 2009 will be open as from March 26th, 2014 and until March 25th, 2019.

The exercise of the options granted to the Executive Committee members at the date of grant was subject to fulfilment of performance conditions.

At its meeting on February 10th, 2014, the Board of Directors recorded that the performance levels achieved during the 4 years taken into account within the scope of the March 25th, 2009 Plan, namely 2010, 2011, 2012 and 2013, exceeded the levels set to make it possible to exercise all the stock options granted.

Accordingly, as the Executive Committee members will fulfil the conditions of the Plan on March 25th, 2014 and in particular the condition of continued presence in the Company, they will be able exercise their options until March 25th, 2019.

Stock option Plan of 03.25.2009 *Performance conditions related to the stock options granted to the members of the Executive Committee at the date of grant*	2010	2011	2012	2013	Arithmetical mean of the performances for financial years 2010/2011/2012/2013
50% growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+1.4 point** (+5.6%/+4.2%)	**+0.4 point** (+5%/+4.6%)	**+0.9 point** (+5.5%/+4.6%)	**+1.4 point** * (+5.2%/+3.8%) *	**+1 point**
50% operating profit + advertising and promotional expenses as compared to cosmetic sales	**47.05%** (8,534.3/18,139.1)	**47.80%** (9,017;9/18,870.8)	**47.20%** (9,815,7/20,811.9)	**47.60%** (10,145.6/21,314.5)	**47.40%**

* *Evolution of cosmetics market: source L'Oréal (see chapter1 page 13).*

7.4.2.4. TABLES MONITORING THE PERFORMANCE CONDITIONS UNDER THE STOCK OPTION PLANS IN PROCESS

Stock option Plan of 04.27.2010 *Performance conditions related to the stock options granted to the members of the Executive Committee at the date of grant*	2011	2012	2013	2014
50% growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+0.4 point** (+ 5%/+4.6%)	**+0.9 point** (+5.5%/+4.6%)	**+1.4 point** * (+5.2%/+3.8%)*	to come
50% operating profit + advertising and promotional expenses as compared to cosmetic sales	**47.80%** (9,017.9/18,870.8)	**47.20%** (9,815.7/20,811.9)	**47.60%** (10,145.6/21,314.5)	to come

* *Evolution of cosmetics market: source L'Oréal (see chapter 1 page 18).*

Stock option Plan of 04.22.2011 *Performance conditions related to the stock options granted to all the beneficiaries*	2012	2013	2014	2015
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+0.8 point** (+5.5%/+4.7%)	**+1.3 point** (+5.2%/+3.9%)	to come	to come
50% change in the Group's operating profit	**+12.30%** (3,292.6/3,697.3)	**+4.80%** (3,697.3/3,874.8)	to come	to come

* *Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*

7.4.3. *Plans for the Conditional Grant of Shares (ACAs)*

7.4.3.1. AUTHORISATION OF THE ORDINARY AND EXTRAORDINARY GENERAL MEETING OF APRIL 26th, 2013

The Ordinary and Extraordinary General Meeting of April 26th, 2013 gave the Board of Directors the authorisation to carry out free grants of existing shares and/or shares to be issued of the Company to employees and executive officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code.

The Ordinary and Extraordinary General Meeting set the period of validity of this authorisation, which may be used on one or more occasions, at 26 months as from such meeting.

The total number of free shares granted in this manner may not represent more than 0.6% of the share capital recorded on the date of the Board of Directors' decision.

The number of free shares granted to the Company's executive officers may not represent more than 10% of the total number of free shares granted during a financial year pursuant to the resolution adopted at the above meeting.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares and the number of free shares granted as well as the conditions to be met in order for the shares to finally vest, and in particular the performance conditions.

These performance conditions will take into account:

- partly, growth in L'Oréal's comparable cosmetics sales as compared to those of a panel of its biggest direct competitors;
- partly, growth in L'Oréal's consolidated operating profit.

The grant of such shares to their beneficiaries will become final and binding, subject to satisfaction of the other conditions set at the time of grant, for all or part of the shares granted:

- either at the end of a minimum vesting period of four years, in such case without any minimum holding period; or
- at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of the final award thereof.

The grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (*Code de la sécurité sociale*) and such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code.

The Board of Directors will be able to provide for vesting and holding periods which are longer than the minimum periods set above.

The mechanism for the Conditional Grant of Shares to employees complies with the AFEP-MEDEF Code of Corporate governance of June 2013 and in particular:

- any conditional grants of shares to the executive officers will be decided by the Board of Directors after assessment of their performance;
- the final vesting of all or part of the shares will be linked to performance conditions to be met that are set by the Board;
- the executive officers will be obliged to retain 50% of the shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties;
- an executive officer may not be granted any shares at the time of his departure.

7.4.3.2. CONDITIONAL GRANTS OF SHARES GRANTED WITHIN THE FRAMEWORK OF THE AUTHORISATION OF APRIL 26th, 2013 (ACAs PLAN OF APRIL 26th, 2013)

On the basis of the proposals made by the General Management and examined by the Human Resources and Remuneration Committee, the Board of Directors decided, at its meeting on April 26th, 2013, to make a conditional grant of shares within the scope of the authorisation granted by the Annual General Meeting on the same date.

The share capital at April 26th, 2013 consisted of 605,540,171 shares, which gave the possibility to distribute 3,633,241 shares.

The Board of Directors used this authorisation at its meeting of April 26th, 2013, by granting 1,057,820 free shares to 2,092 beneficiaries, the fair unit value of these shares amounting to €112.37 for French tax and social security residents and €119.87 for non-residents.

This is a free grant of existing shares.

Vesting of the shares is subject to a dual condition of:

- **presence**: the shares granted will only finally vest after a period of 4 years at the end of which the beneficiary must still be an employee of the Group (save the exceptions provided for by law or the Plan regulations);
- **performance**:
  - vesting of all or part of 50% of the shares granted will depend on the **growth in comparable cosmetics sales** for financial years 2014, 2015 and 2016 as compared to those of a panel of L'Oréal's biggest direct competitors consisting of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden,
  - vesting of all or part of 50% of the shares granted will depend on **growth in the Group's consolidated operating profit**, over the same period.

The calculation will be made on the basis of the arithmetical mean of the performances for the 2014, 2015 and 2016 financial years.

In order for it to be possible for all the free shares granted to be finally acquired, in respect of the criterion related to sales, for the beneficiaries at the end of the vesting period, L'Oréal must achieve a performance which is at least as good as the average increase in sales of the panel of competitors.

No share will finally vest, in respect of the criterion related to operating profit, if it does increase in absolute value over the period.

The Human Resources and Remuneration Committee is responsible for communicating to the Board of Directors the level of indicators recorded for the years to be used for the calculation of the performance conditions. The Board of Directors records, at the appropriate time, the level of performance achieved on which the number of shares that finally vests depends.

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

The vesting of the first 200 conditional shares is not subject to fulfilment of the performance conditions except for the members of the Executive Committee including the Chairman and Chief Executive Officer.

At the end of the vesting period, beneficiaries who are French residents at the date of grant of the shares will be obliged to retain the shares that have vested for an additional period of 2 years during which these shares are non-transferable.

7.4.3.3. EXISTING CONDITIONAL GRANTS OF SHARES AT DECEMBER 31st, 2013

Date of authorisation by the Extraordinary General Meeting	04.16.2009	04.22.2011	04.22.2011	04.26.2013
Date of grant by the Board of Directors	**04.27.2010**	**04.22.2011**	**04.17.2012**	**04.26.2013**
Total number of shares conditionally granted	**450,000**	**1,038,000**	**1,325,050**	**1,057,820**
Of which the ten employees other than executive officers granted the largest number of shares (1)	*6,000*	*92,000*	*185,000*	*146,700*
Number of beneficiaries	1,418	1,991	2,177	2,092
Performance conditions:	◆ 25% growth in comparable sales as compared to increase in the cosmetics market ◆ 75% ratio of operating profit as compared to published cosmetic sales	◆ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors (2) ◆ 50% growth in the L'Oréal Group's consolidated operating profit	◆ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors (2) ◆ 50% growth in the L'Oréal Group's consolidated operating profit	◆ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors (2) ◆ 50% growth in the L'Oréal Group's consolidated operating profit
Date of final vesting for French tax residents at the date of grant	04.27.2014	04.22.2015	04.17.2016	04.26.2017
Date of final vesting for non-French tax residents at the date of grant	04.27.2014	04.22.2015	04.17.2016	04.26.2017
End of the waiting period for French tax residents at the date of grant	04.27.2016	04.22.2017	04.17.2018	04.26.2019

(1) Employees who are not executive officers of L'Oréal parent company or employees of companies included within the scope of the grant of shares.
(2) Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

7.4.3.4. SHARES GRANTED TO THE TEN EMPLOYEES OTHER THAN EXECUTIVE OFFICERS TO WHOM THE LARGEST NUMBER OF SHARES HAVE BEEN GRANTED

The total number of shares granted in 2013 to the ten employees other than corporate officers who received the largest number of shares amounts to 146,700 shares

7.4.3.5 SHARES THAT HAVE FINALLY VESTED WITHIN THE SCOPE OF THE APRIL 27th, 2010 PLAN

The Board of Directors recorded at its meeting on February 10th, 2014 that the performance levels achieved during the three years taken into consideration within the scope of the April 27th, 2010 Plan, namely 2011, 2012 and 2013, exceeded the levels set for the conditional grant of all the shares (ACAs).

Accordingly, the beneficiaries who meet the conditions under the Plan on April 27th, 2014, and in particular the condition of presence in the Company, will receive all the shares that were granted to them.

For information purposes, no conditional grant of shares (ACAs) was made to the executive officers under this Plan.

TABLE MONITORING PERFORMANCE CONDITIONS: ACAs PLAN OF APRIL 27th, 2010

ACAs Plan of April 27th, 2010	2011	2012	2013	Arithmetical mean of performances for financial years 2011/2012/2013
25% Growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+0.4 point**	**+0.9 point**	**+1.4 point***	**+0.9 point**
	(+5%/+4.6%)	(+5.5%/+4.6%)	(+5.2%/+3.8 %)*	
75% Ratio of Operating profit for cosmetics versus published cosmetic sales	**16.50%**	**16.70%**	**17.30%**	**16.80%**
	(3,104.4/18,870.8)	(3,477.1/20,811.9)	(3,686.1/21,314.5)	

* *Evolution of cosmetics market: source L'Oréal (see chapter 1 page 13).*

7.4.3.6. TABLE MONITORING PERFORMANCE CONDITIONS FOR THE ACAs PLANS THAT ARE CURRENTLY IN PROGRESS

ACAs Plan of 04.22.2011	2012	2013	2014
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+0.8 point**	**+1.3 point**	to come
	(+5.5%/+4.7%)	(+5.2%/+3.9%)	
50% change in the Group's operating profit	**+12.30%**	**+4.80%**	to come
	(3,292.6/3,697.3)	(3,697.3/3,874.8)	

* *Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*

ACAs Plan of 04.17.2012	2013	2014	2015
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	**+1.3 point**	to come	to come
	(+5.2%/+3.9%)		
50% change in the Group's operating profit	**+4.80%**	to come	to come
	(3,697.3/3,874.8)		

* *Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*

ACAs Plan of 04.26.2013	2014	2015	2016
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	to come	to come	to come
50% change in the Group's operating profit	to come	to come	to come

* *Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson &Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*

7.5. THE L'ORÉAL SHARE / L'ORÉAL SHARE MARKET

7.5.1. The L'Oréal share

7.5.1.1. INFORMATION ON THE L'ORÉAL SHARE

Isin code: FR0000120321.

Loyalty Bonus code:

- Dividend + 10% in 2014: FR0011147487.
- Dividend + 10% in 2015: FR0011356229.
- Dividend + 10% in 2016: FR0011636133.

Minimum lot: 1 share.

Par value: €0.20.

Trading on the spot market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

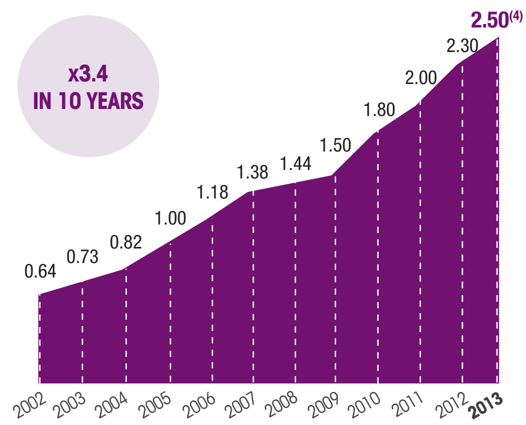
Unsponsored *American Depositary Receipts* are freely traded in the United States through certain banks operating in the United States.

7.5.1.2. STOCK MARKET DATA

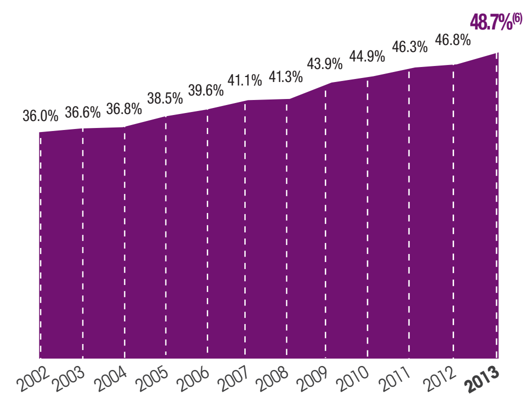
Price at December 31st, 2013	€127.70
Average of last 30 days' closing prices for 2013	€124.95
High	€137.85 at May 2nd, 2013
Low	€103.65 at January 8th, 2013
Annual share price increase at December 31st, 2013	
◆ L'Oréal	+21.73%
◆ CAC 40	+17.99%
◆ Euronext 100	+18.97%
◆ DJ Euro Stoxx 50	+17.95%
◆ Stoxx Europe 600 Personal and Household Goods	+14.04%
Market capitalisation at December 31st, 2013	€77.37 billion (1)
At December 31st, 2013, the L'Oréal share weighed:	
◆ in the CAC 40	3.64%
◆ in the Euronext 100 (2)	3.95%
◆ in the DJ Euro Stoxx 50	1.60%
◆ in the Stoxx Europe 600 Personal and Household Goods	7.96%

7.5.1.3 DYNAMIC SHAREHOLDER RETURN POLICY

- €5.13 (3) net earnings per share.
- €2.50 (4) dividend per share.
- A regular increase in the dividend per share *(in euros)*:



- Share of profits dedicated to dividends (5) *(as %)*:



(1) Out of the number of shares at December 31st, 2013, i.e. 605,901,887 shares.
(2) Based on the total number of shares for the Euronext 100 index.
(3) Diluted net profit excluding non-recurring items, group share, per share.
(4) Dividend proposed to the Annual General Meeting of April 17th, 2014.
(5) Dividend distribution rate based on diluted net profit excluding non-recurring items, group share, per share. Taking into account Sanofi not consolidated in the period 2002-2003.
(6) Based on the dividend proposed to the Annual General Meeting of April 17th, 2014.

7.5.2. *L'Oréal share market*

7.5.2.1. TRADING VOLUMES AND CHANGE IN THE PRICE OF THE COMPANY'S SHARE

According to NYSE-Euronext data, the only stock market for which reliable retrospective statistics could be collected.

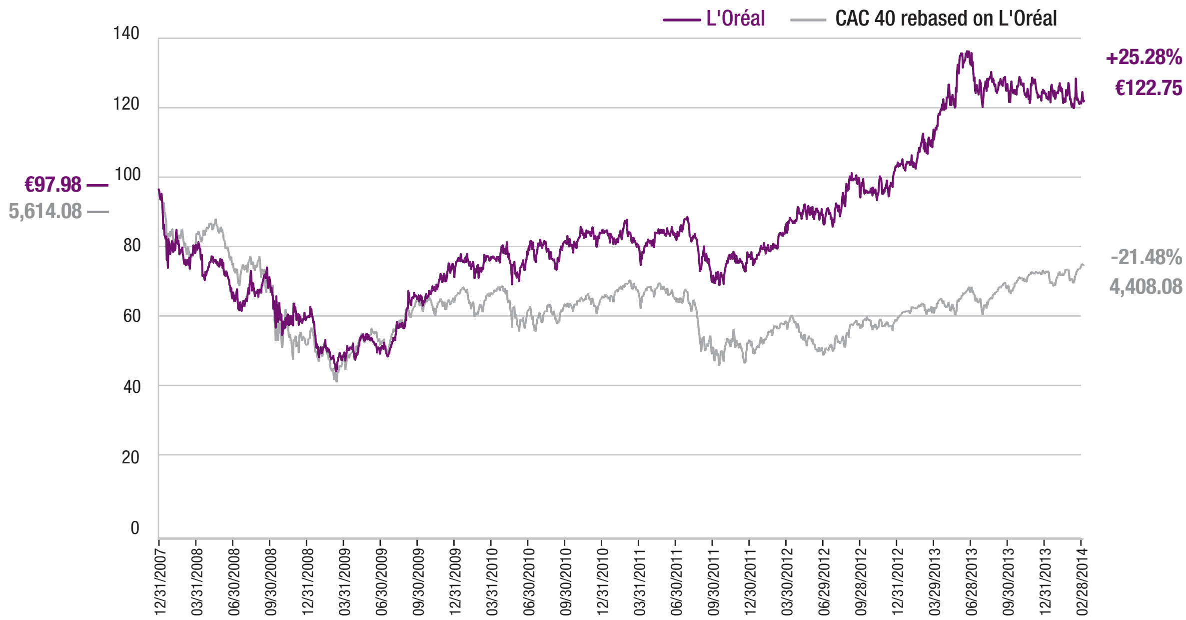
	Price in €			Average daily trading volume *(€ million)*
Date	High	Low	Average	
2011				
January	86.95	82.27	84.30	70.07
February	90.00	82.14	86.14	93.47
March	85.37	76.64	81.33	76.43
April	86.83	81.56	84.01	65.73
May	87.48	84.64	85.93	93.32
June	89.56	83.58	86.23	72.33
July	91.24	82.10	86.32	80.18
August	84.95	71.00	78.63	102.92
September	76.17	68.83	73.27	105.28
October	81.84	70.73	77.64	76.56
November	80.32	74.15	77.35	71.32
December	80.96	76.73	78.97	56.07

	Price in €			Average daily trading volume *(€ million)*
Date	High	Low	Average	
2012				
January	83.47	79.22	81.39	57.75
February	86.12	80.93	83.94	73.93
March	92.53	85.27	88.87	78.27
April	94.80	88.82	91.89	123.11
May	93.98	88.85	91.44	77.67
June	93.27	86.80	90.24	78.67
July	99.80	89.80	94.28	77.32
August	102.50	95.54	100.12	63.04
September	101.15	96.17	97.84	88.43
October	101.85	94.55	97.98	64.40
November	105.85	95.80	100.94	57.64
December	106.40	103.20	104.86	52.32

	Price in €			Average daily trading volume *(€ million)*
Date	High	Low	Average	
2013				
January	114.50	103.65	107.78	51.95
February	115.90	107.55	111.11	73.20
March	124.40	113.60	119.55	86.67
April	136.05	120.30	126.23	93.74
May	137.85	130.35	134.57	82.46
June	131.25	120.15	125.80	75.29
July	131.00	123.40	127.68	61.67
August	130.35	121.00	126.78	61.81
September	129.80	123.60	126.71	61.25
October	130.60	120.50	126.02	64.63
November	126.50	120.80	124.41	66.41
December	127.75	122.30	125.17	86.89

	Price in €			Average daily trading volume *(€ million)*
Date	High	Low	Average	
2014				
January	129.20	119.25	124.21	90.06
February	134.75	120.15	123.10	121.84

Change in the L'Oréal share price compared to the CAC 40 index from January 1st, 2008 to February 28th, 2014:



7.5.2.2. TOTAL SHAREHOLDER RETURN

Amongst the various economic and financial indicators used to measure shareholder value, L'Oréal has chosen to apply the criterion of *Total Shareholder Return* (TSR). This indicator is a synthetic measurement that takes into account not only the value of the share but also the dividend income received (excluding tax credits before January 1st, 2005).

7.5.2.2.1. 5-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.2008	Purchase of 241 shares, at €62.30	15,014.30		241
04.24.2009	Dividend: €1.44 per share		347.04	241
	Reinvestment: purchase of 7 shares at €52.02	364.14		248
05.05.2010	Dividend: €1.50 per share		372.00	248
	Reinvestment: purchase of 5 shares at €76.77	383.85		253
05.04.2011	Dividend: €1.80 per share		455.40	253
	Reinvestment: purchase of 6 shares at €85.79	514.74		259
05.03.2012	Dividend: €2.00 per share		518.00	259
	Reinvestment: purchase of 6 shares at €92.84	557.04		265
05.10.2013	Dividend: €2.30 per share		609.50.	265
	Reinvestment: purchase of 5 shares at €134.05	670.25		270
TOTAL		**17,504.32**	**2,301.94**	
TOTAL NET INVESTMENT		**15,202.38**		

Portfolio value at 12.31.2013 (270 shares at €127.70): €34,479.00.

The initial capital has thus been multiplied by 2.30 over 5 years (5-year inflation rate = 7.37% - Source INSEE) and the final capital is 2.27 times the total net investment.

The Total Shareholder Return of the investment is thus 17.9% per year (assuming that the shares are sold on December 31st, 2013, excluding tax on capital gains).

Over the same period, the CAC 40 index increased by +10.33% per year (1).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

(1) *Reinvested dividends; source: Datastream.*

7.5.2.2.2. 10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.2003	Purchase of 231 shares, at €65.00	15,015.00		231
05.14.2004	Dividend: €0.73 per share, excluding tax credit		168.63	231
	Reinvestment: purchase of 3 shares at €63.65	190.95		234
05.11.2005	Dividend: €0.82 per share, excluding tax credit		191.88	234
	Reinvestment: purchase of 4 shares at €56.50	226.00		238
05.10.2006	Dividend: €1.00 per share		238.00	238
	Reinvestment: purchase of 4 shares at €72.65	290.60		242
05.03.2007	Dividend: €1.18 per share		285.56	242
	Reinvestment: purchase of 4 shares at €86.67	346.68		246
04.30.2008	Dividend: €1.38 per share		339.48	246
	Reinvestment: purchase of 5 shares at €76.21	381.05		251
04.24.2009	Dividend: €1.44 per share		361.44	251
	Reinvestment: purchase of 7 shares at €52.02	364.11		258
05.05.2010	Dividend: €1.50 per share		387.00	258
	Reinvestment: purchase of 6 shares at €76.77	460.62		264
05.04.2011	Dividend: €1.80 per share		475.20	264
	Reinvestment: purchase of 6 shares at €85.79	514.74		270
05.03.2012	Dividend: €2.00 per share		540.00	270
	Reinvestment: purchase of 6 shares at €92.84	557.04		276
05.10.2013	Dividend: €2.30 per share		634.80	276
	Reinvestment: purchase of 5 shares at €134.05	670.25		281
TOTAL		**19,017.04**	**3,621.99**	
TOTAL NET INVESTMENT		**15,395.05**		

Portfolio value at 12.31.2013 (281 shares at €127.70): €35,883.70

The initial capital has thus been multiplied by 2.39 over 10 years (10-year inflation rate = 17.1% – Source INSEE) and the final capital is 2.33 times the total net investment.

The Total Shareholder Return of the investment is thus: 8.92% per year (assuming that the shares are sold on December 31st, 2013, excluding tax on capital gains).

Over the same period, the CAC 40 index increased by +5.64% per year [1].

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7

(1) *Reinvested dividends; source: Datastream.*

7.5.2.2.3. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends and share attribution rights

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1993	Purchase of 75 shares, at €198.95	14,921.25		75
06.28.1994	Dividend: €1.64645 per share, excluding tax credit		123.48	75
	Reinvestment: purchase of 1 share at €167.69	167.69		76
06.28.1995	Dividend: €1.85988 per share, excluding tax credit		141.35	76
	Reinvestment: purchase of 1 share at €185.84	185.84		77
06.28.1996	Dividend: €2.02757 per share, excluding tax credit		156.12	77
	Reinvestment: purchase of 1 share at €260.54	260.54		78
07.01.1996	Issue of bonus shares (1 for 10)			85
07.31.1996	Compensation for 8 unused share attribution right at €22.85668 per right		182.85	85
	Reinvestment: purchase of 1 share at €236.91	236.91		86
07.01.1997	Dividend: €2.13429 per share, excluding tax credit		183.55	86
	Reinvestment: purchase of 1 share at €393.93	393.93		87
06.12.1998	Dividend: €2.43918 per share, excluding tax credit		212.21	87
	Reinvestment: purchase of 1 share at €473.05	473.05		88
06.15.1999	Dividend: €2.82031 per share, excluding tax credit		248.19	88
	Reinvestment: purchase of 1 share at €586.50	586.50		89
06.15.2000	Dividend: €3.40 per share, excluding tax credit		302.60	89
	Reinvestment: purchase of 1 share at €825.00	825.00		90
07.03.2000	Ten-for-one share split			900
06.08.2001	Dividend: €0.44 per share, excluding tax credit		396.00	900
	Reinvestment: purchase of 6 shares at €78.15	468.90		906
06.04.2002	Dividend: €0.54 per share, excluding tax credit		489.24	906
	Reinvestment: purchase of 7 shares at €74.95	524.65		913
05.27.2003	Dividend: €0.64 per share, excluding tax credit		584.32	913
	Reinvestment: purchase of 10 shares at €61.10	611.00		923
05.14.2004	Dividend: €0.73 per share, excluding tax credit		673.79	923
	Reinvestment: purchase of 11 shares at €63.65	700.15		934
05.11.2005	Dividend: €0.82 per share		765.88	934
	Reinvestment: purchase of 14 shares at € 56.50	791.00		948
05.10.2006	Dividend: €1.00 per share		948.00	948
	Reinvestment: purchase of 14 shares at €72.65	1,017.10		962
05.03.2007	Dividend: €1.18 per share		1,135.16	962
	Reinvestment: purchase of 14 shares at €86.67	1,213.38		976
04.30.2008	Dividend: €1.38 per share		1,346.88	976
	Reinvestment: purchase of 18 shares at €76.21	1,371.78		994
04.24.2009	Dividend: €1.44 per share		1,431.36	994
	Reinvestment: purchase of 28 shares at €52.02	1,456.42		1,022
05.05.2010	Dividend: €1.50 per share		1,533.00	1,022
	Reinvestment: purchase of 20 shares at €76.77	1,535.40		1,042
05.04.2011	Dividend: €1.80 per share		1,875.60	1,042
	Reinvestment: purchase of 22 shares at €85.79	1,887.38		1,064
05.03.2012	Dividend: €2.00 per share		2, 128.00	1,064
	Reinvestment: purchase of 23 shares at €92.84	2,135.32		1,087
05.10.2013	Dividend: €2.30 per share		2,500.10	1,087
	Reinvestment: purchase of 19 shares at €134.05	2,546.95		1,106
TOTAL		**34,310.14**	**17,357.69**	
TOTAL NET INVESTMENT		**16,952.45**		

Portfolio value at 12.31.2013 (1,106 shares at €127.70): €141,236.20.

The initial capital has thus been multiplied by 9.47 over 20 years (20-year inflation rate = 36.37% – Source: INSEE) and the final capital is 8.33 times the total net investment.

The Total Shareholder Return of the investment is thus 11.50% per year (assuming that the shares are sold on December 31st, 2013, excluding tax on capital gains).

Over the same period, the CAC 40 index increased by +6.47% per year [(1)].

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7.5.2.3. DIVIDENDS

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the *Caisse des Dépôts et Consignations*.

7.6. INFORMATION POLICY

L'Oréal is pursuing its policy of ongoing improvement in the quality of its financial information and dialogue with its shareholders and French and international investors. Beyond its legal obligations, these efforts are aimed at enabling all those in contact with the Financial Communications Department to get a better understanding of L'Oréal's business market and the potential of the beauty market.

7.6.1. New, modern and complementary communications media

In 2013, L'Oréal's Financial Communications Department provided to the financial community a wealth of information using various tools that have now been updated:

- extra-financial information: shareholders and investors expect issuers to give more sense to financial performance and to the Company's business activities. For that reason, extra-financial information is now provided to supplement financial information in all the Group's publications: Activity Reports, letters to shareholders, e-newsletters and our shareholders' e-magazine;
- modern digital communications: Alongside our printed communication materials, an application and electronic media have been put in place to enrich the circulation of our communications:

1. a mobile application available in French and English versions for iPhone. iPad and Android led to several thousands of downloads and offers a mobility solution that is highly appreciated by both professional and individual investors,
2. L'Oréal's shareholders' e-magazine, intended not only for our shareholders but also for all those who are looking for full information on the life of the Group, offers information mainly from a business angle, enriched with a large number of documents, videos. interviews and testimonials,
3. in 2013. Five e-newsletters were sent to all the contacts in the Financial Communications Department's database at the time of the major financial and other important events on the calendar: annual results, Annual General Meeting, half-year results, sustainability commitments for 2020, etc.

- the www.loreal-finance.com website, dedicated to financial information, was revamped and modernised in terms of content, architecture and ergonomics in order to offer a better level of service and easier accessibility as from the spring of 2013;
- L'Oréal again published in 2013 a coherent set of 3 essential documents presenting comprehensively all the aspects of its business: Activity Report, Registration Document and Sustainable Development Report;
- the guide describing the 5 reasons to take part in the L'Oréal adventure was re-published in the autumn of 2013 for the Actionaria Stock Market fair. This publication, which has innovative content and format, is designed to fulfil our shareholders' desire to make more sense of their investment;
- the leaflet describing the advantages of becoming a registered shareholder has also been revised in order to better answer the questions from the Group's shareholders regarding this method of holding shares.

In all, L'Oréal's Financial Communications Department makes a vast array of communication tools available to the financial community:

- the Activity Report;
- the Registration Document;
- financial news releases;
- extra-financial news releases;
- letters to shareholders (Finance Letter);
- the dedicated website www.loreal-finance.com in its new version;
- the shareholders' e-magazine (Finance Mag);
- e-newsletters (Finance News);
- a mobile application available on iPad. iPhone and Android.

(1) *Reinvested dividends; source: Datastream.*

Strongly committed to its communication policy. L'Oréal offers all shareholders and investors unrestricted access to these media or materials. Everyone can access and download them or can be sent them free-of-charge.

7.6.2 A large number of shareholder events for a regular and detailed dialogue

- As it does every year, the Financial Communications Department organised financial information meetings or telephone conferences for analysts and institutional investors, to which journalists specialising in the cosmetics sector are invited. The presentations of the L'Oréal Group's financial results and the business activities of the Operational Divisions are broadcast live online on the financial website www.loreal-finance.com. All the information presented is made available on the website, on the same day as their publication, both for the annual results and the half-year results.
- 10 meetings with shareholders, organised in different forms in several large provincial cities in France and also in foreign countries, in collaboration with the French Individual Investor and Investment Club Federation (*Fédération des Investisseurs Individuels et des Clubs d'Investissement* – F2iC), the Society of Investor Relation Managers in France (*Cercle de Liaison des Informateurs Financiers en France* – CLIFF), shareholder associations and financial newspapers brought together over 2.000 participants. In 2013, the Individual Shareholder Relations Department organised site visits (to plants) and shareholder meetings in the Group's hair academies, which were a great success.
- Participation in the Actionaria Stock Market Fair for the tenth year running offered an opportunity for over 700 people to attend a presentation by Mr. Jean-Paul Agon, Chairman and Chief Executive Officer. Many shareholders were also able to meet representatives of the L'Oréal Group directly and obtain information on registering their shares.

Through all these events, the Individual Shareholder Relations Department team had the opportunity to meet nearly 6.000 individual shareholders in 2013.

- One symbol of the loyalty of our shareholders who accompany the Group's development over the long term is the fact that more and more shareholders are showing an interest in becoming registered shareholders. Thanks to the preferential dividend and the numerous advantages offered by this method of shareholding, becoming a registered shareholder enables the Group's shareholders to be known to the Group, to have systematic access to information, and to be closely involved in the Group's development.
- Created in 2010, the "Shareholder Consultation Committee" consisting of 18 shareholders (both registered and bearer shareholders) who actively participate, through their reflections and their work, in developing and enriching the Group's financial communication on themes such as: the Annual General Meeting, digital communication, Research and Innovation or overhaul of the www.loreal-finance.com website. In 2013, the Shareholder Consultation Committee met four times.
- The Investor Relations Department organises numerous meetings throughout the year with institutional investors of the main international financial market places. In 2013, they thus met nearly 650 investors.
- Finally, a freephone service is available to L'Oréal shareholders calling from France (0 800 66 66 66) or other countries (+33 1 40 14 80 50). An interactive vocal server gives shareholders round-the-clock access to information on the share price and key dates or provides them with a summary of the latest press release. The Shareholder Services Department is also available on this number during opening hours.

In 2013, the Group received several awards for its financial communication policy:

- On October 1st, 2013, L'Oréal's Financial Communication Department was awarded two prizes: the Transparency prize for all its financial communication and the Registration Document prize by the jury at the Transparency Awards;
- On December 2nd, 2013, Mr. Christian Mulliez. Executive-Vice-President Administration and Finance received the Trophy for the best Chief Financial Officer in the field of investor relations for all categories combined, awarded by the Investor Relations forum.

7.6.3. Financial calendar for 2014

02.10.2014	2013 Annual results
April 2014 *	First quarter 2014 sales
04.17.014	Annual General Meeting
07.31.2014	First haft 2014 results
October 2014 *	Sales at September 30, 2014

* *Exact dates will appear on the L'Oréal website: www.moreal-finance.com.*

7.6.4. Financial news releases in 2013

02.11.2013	Annual Results 2012: Strong growth in sales and profit
03.18.2013	Resignation of Sir Lindsay Owen-Jones from the Board of Directors/Appointment of Ms. Virginie Morgon
03.20.2013	Annual General Meeting on April 26th, 2013/2012 Reference Document
04.15.2013	L'Oréal acquires beauty firm Interconsumer Products in Kenya
04.18.2013	First quarter 2013 sales: A very solid first quarter
04.26.2013	Annual General Meeting on April 26th, 2013
05.17.2013	New appointments within the Executive Committee of L'Oréal
07.16.2013	First-half 2013 sales: the Group's good growth dynamics continue
08.15.2013	L'Oréal announces proposal to acquire Magic Holdings in China
08.29.2013	First-half 2013 results: Record operating profit
08.30.2013	Posting online of 2013 Half-year Financial Report
09.20.2013	L'Oréal acquires Cheryl's Cosmeceuticals in India
10.15.2013	L'Oréal announces the acquisition by The Body Shop of a majority stake in Brazil's Emporio Body Store
10.17.2013	Draft agreement between L'Oréal and Shiseido for the acquisition of Decléor and Carita
10.23.2013	L'Oréal announces its new sustainability commitment for 2020 "Sharing beauty with all"
10.30.2013	Sales at September 30, 2013: L'Oréal continues to improve its worldwide positions
11.19.2013	Beauté Créateurs. a mail order subsidiary of L'Oréal, has announced the intention to cease its activity
11.21.2013	L'Oréal creates a Group Travel Retail Division
11.29.2013	Board of Directors' Meeting on November 29th, 2013
12.13.2013	The Body Shop finalises the acquisition of 51% in Brazil's Emporio Body Store

8

/ *ANNUAL* GENERAL MEETING

This chapter presents the Report of the Board of Directors on the draft resolutions and the full text of the resolutions which will be submitted to L'Oréal's Ordinary and Extraordinary General Meeting. This General Meeting will be held on April 17th, 2014 at the Palais des Congrès, in Paris.

DRAFT AGENDA

ORDINARY PART

1. Approval of the 2013 parent company financial statements
2. Approval of the 2013 consolidated financial statements
3. Allocation of the Company's net income for 2013 and declaration of the dividend
4. Appointment of Ms. Belen Garijo as Director
5. Renewal of the tenure as Director of Mr. Jean-Paul Agon
6. Renewal of the tenure as Director of Mr. Xavier Fontanet
7. Setting of the annual amount of attendance fees allocated to the members of the Board of Directors
8. Advisory vote on the components of remuneration due or allocated to the Chairman and Chief Executive Officer in respect of the 2013 financial year
9. Authorisation for the Company to buy back its own shares
10. Approval of the buyback agreement concerning the acquisition by L'Oréal from Nestlé of 48,500,000 L'Oréal shares representing 8% of the share capital within the scope of related party agreements procedure

EXTRAORDINARY PART

11. Authorisation to the Board of Directors to reduce the share capital by cancelling shares purchased by the Company under Articles L. 225-209 and L. 225-208 of the French Commercial Code
12. Amendment of the Articles of Association to determine the conditions in which the Directors representing the employees are to be appointed
13. Powers for formalities

8.1. DRAFT RESOLUTIONS AND REPORT OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING TO BE HELD ON APRIL 17th, 2014 (AS OF FEBRUARY 10th, 2014)

8.1.1. Ordinary part

RESOLUTIONS 1, 2 AND 3: APPROVAL OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS, ALLOCATION OF THE COMPANY'S NET INCOME FOR 2013 AND DECLARATION OF THE DIVIDEND

Statement of reasons

Having reviewed the Reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- the parent company financial statements, with an income statement which shows net income of €2,366,052,070.73 for 2013, compared with €2,407,976,604.53 in 2012;
- the 2013 consolidated financial statements.

The details of these financial statements are set out in the 2013 Annual Financial Report and the main data included in the file for calling this Annual General Meeting.

The Board of Directors proposes to the Annual General Meeting:

- An ordinary dividend of €2.50 per share, representing an increase of 8.7% compared with the dividend for the previous year.

The rate of distribution of the ordinary dividend (ordinary dividend paid/net income excluding non-recurrent items, diluted, Group share, per share) would be 48.7% and would thus continue to rise:

Year	2008	2009	2010	2011	2012
Rate of distribution	41.3%	43.9%	44.9%	46.3%	46.8%

- A preferential dividend of €2.75 per share.

The preferential dividend will be granted to the shares held in registered form since December 31st, 2011 at the latest, and which continuously remain in registered form until the dividend payment date in 2014.The number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder.

If the Annual General Meeting approves this proposal, the ex-dividend date for the dividends (both ordinary and preferential) will be April 29th, 2014 and they will be paid on May 5th, 2014.

The amount of the ordinary dividend and the preferential dividend is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

First resolution: Approval of the 2013 parent company financial statements

The Annual General Meeting, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the Report of the Board of Directors and the 2013 parent company financial statements, as presented and the transactions included in these financial statements and summarised in these reports, showing net income of €2,366,052,070.73 compared with €2,407,976,604.53 for 2012.

Second resolution: Approval of the 2013 consolidated financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the 2013 consolidated financial statements.

Third resolution: Allocation of the Company's net income for 2013 and declaration of the dividend

The Annual General Meeting, on the proposal of the Board of Directors, decides to allocate the net income for the 2013 financial year amounting to €2,366,052,070.73 as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	–
Amount allocated to the shareholders as a dividend * (including preferential dividend)	€1,523,260,579.75
Balance that will be allocated to the "Other reserves" item	**€842,791,490.98**

* including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. on the total amount of the share capital.

This amount is calculated on the basis of the number of shares forming the capital at December 31st, 2013 and will be adjusted to reflect:

- the number of shares issued between January 1st, 2014 and the date of payment of this dividend following the exercise of stock options or the final vesting of new free shares granted and giving entitlement to such dividend;
- the final number of shares eligible for the preferential dividend, taking into account sales or transfer to a bearer account between January 1st, 2014 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid of €2.50 per share, the preferential dividend entitling eligible holders to a total of €2.75 per share. The preferential dividend will be granted to the shares held in registered form since December 31st, 2011 at the latest, and which continuously remain in registered form until the dividend payment date, it being specified that the number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder. The ex-dividend date for the dividends (both ordinary and preferential) will be April 29th, 2014 and they will be paid on May 5th, 2014.

In the event that, at the time of payment of the dividend, the Company holds treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of such shares, would be allocated to the "Other reserves" item. It is specified that, as the law currently stands, for natural persons who have their tax residence in France, the dividend is liable for personal income tax on the basis of the progressive scale of tax rates and is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

The table set out below gives the amounts of the dividends distributed, that were fully eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code, for the last three financial years:

	2010	2011	2012
Ordinary dividend per share	€1.80	€2.00	€2.30
Preferential dividend per share *		€0.20	€0.23

* *The preferential dividend was distributed for the first time in 2012 with respect to the 2011 financial year.*

RESOLUTIONS 4, 5 AND 6: TENURES AS DIRECTORS

Statement of reasons

The appointment of a new Director is put to the vote of the Annual General Meeting as well as the renewal of two Directors whose tenures as Directors expire at the close of this Annual General Meeting.

1. L'Oréal's Board of Directors at December 31st, 2013

The Directors of L'Oreal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

The Directors have a duty of vigilance and exercise complete freedom of judgment. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its Committees whose remits have been extended since 2011.

Jean-Paul Agon, age: 57, joined the L'Oreal Group in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, President and CEO of L'Oréal USA, Jean-Paul Agon was appointed as Deputy Chief Executive Officer of L'Oréal in 2005 and then Chief Executive Officer in April 2006 and finally Chairman and CEO in 2011. A Director of L'Oréal since 2006, he is also Chairman of the L'Oréal Corporate Foundation and Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also a Director of Air Liquide.

Françoise Bettencourt Meyers, age: 60, the daughter of Mrs. Liliane Bettencourt, herself the daughter of the founder of L'Oréal, Eugène Schueller, has been the Chairwoman of the family-owned holding company Téthys since January 31st, 2012 and is the Chairwoman of the Bettencourt Schueller Foundation. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since April 2012.

Peter Brabeck-Letmathe, age: 69, of Austrian nationality, holds the main position outside L'Oréal of Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal and Vice-Chairman of the Board of Directors since 1997. He has been a member of the Strategy and Sustainable Development Committee since 2005, and is a member of the Appointments and Governance Committee and the Human Resources and Remuneration Committee.

Paul Bulcke, age: 59, of Belgian nationality, joined Nestlé in 1979, and has been its Chief Executive Officer since 2008. Paul Bulcke has been a Director of L'Oréal since 2012, a member of the Strategy and Sustainable Development Committee since April 2012 and is a Board member of Roche Holding in Switzerland.

Charles-Henri Filippi, age: 61, spent his career within the HSBC Group, in which he was notably Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Charles-Henri Filippi has been a Director of L'Oréal since 2007 and is a member of the Audit Committee (Committee Chairman until February 2013), a Board member of France Telecom, a member of the Supervisory Board of Euris and a non-voting member of the Board of Directors of Nexity.

Xavier Fontanet, age: 65, former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012), member of the Supervisory Board of Schneider Electric, has been a Director of L'Oréal since 2002 and is Chairman of the Appointments and Governance Committee.

Bernard Kasriel, age: 67, a former Chief Executive Officer of Lafarge, has been a Director of L'Oréal since 2004, Chairman of the Human Resources and Remuneration Committee since 2007 and is a member of the Strategy and Sustainable Development Committee. He is also a Board member of Arkema and Nucor (United States).

Christiane Kuehne, age: 58, of Swiss nationality, is the Head of the Food Strategic Business Unit at Nestlé which she joined in 1977. Christiane Kuehne has been a member of L'Oréal's Board of Directors and a member of the Audit Committee since 2012.

Marc Ladreit de Lacharrière, age: 73, member of the Institut and with L'Oréal from 1976 to 1991. Marc Ladreit de Lacharrière has been a Director of L'Oréal since 1984, is Chairman and Chief Executive Officer of Fimalac, Chairman of Fitch (United States), and a Board member of Casino, Lucien Barrière and Renault.

Jean-Pierre Meyers, age: 65, has been a Director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, and is a member of the Strategy and Sustainable Development Committee, the Audit Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned holding company Téthys, a Board member of Nestlé and Vice-Chairman of the Bettencourt Schueller Foundation.

Jean-Victor Meyers, age: 27, has been a member of the Supervisory Board of the family holding company Téthys since January 2011. He has been a Director of L'Oréal since February 2012.

Virginie Morgon, age: 44, is Chief Investment Officer of Eurazéo which she joined in 2008 after working for 16 years at Lazard. She has been a Director of L'Oréal since April 26th, 2013 and is a member of the Audit Committee. She is also a Board member of Accor.

Annette Roux, age: 71, Chairperson and Managing Director of Bénéteau from 1976 to 2005, then Vice-Chairperson of the Supervisory Board. Annette Roux has been a member of L'Oréal's Board of Directors since 2007. She is also Chairperson of the Bénéteau Corporate Foundation.

Louis Schweitzer, age: 71, Chairman and Chief Executive Officer of Renault from 1992 to 2005, Chairman of the Board of Directors until 2009. Louis Schweitzer has been a Director of L'Oréal since 2005, is a member of the Audit Committee and Chairman of that Committee since February 2013, and a member of the Strategy and Sustainable Development Committee. He is also a member of the Advisory Committees of Allianz AG (Germany) and Bosch (Germany).

The tenure as Director of L'Oréal, which is renewable, covers a period of four years according to the Articles of Association or may cover a shorter period in order to allow for staggered renewal of the tenures of Directors. The Directors each hold a minimum of 1,000 L'Oréal shares. The complete list of duties of the Directors is set out on pages 33 *et seq.* of the present document.

2. Review of the independence of the Directors

The Appointments and Governance Committee proposes to the Board of Directors every year to review on a case-by-case basis the situation of each of the Directors with regard to their independence according to the criteria set out in the AFEP-MEDEF Code.

The Board of Directors of L'Oréal is well-balanced. It comprises 14 members at December 31st, 2013: the Chairman and Chief Executive Officer, Jean-Paul Agon, six Directors appointed by the majority shareholders, three of whom are appointed by the Bettencourt Meyers family and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and seven independent Directors: Annette Roux, Virginie Morgon Charles-Henri Filippi, Xavier Fontanet, Bernard Kasriel, Marc Ladreit de Lacharrière and Louis Schweitzer.

The review of the independence of these Directors was made by the Appointments and Governance Committee at the end of 2013 on the basis, in particular, of the study of the relations existing between the Company and the companies in which the directors hold offices. The Directors have no conflicts of interest. The other corporate offices and directorships held, their availability, their personal contributions and their participation in the work and discussions of the Board and its Committees in 2013 were taken into consideration by the Appointments and Governance Committee to evaluate the composition and *modus operandi* of the Board.

3. Appointment of a new Director in 2014

The Appointments and Governance Committee reviewed the candidacy of a new Director that was approved by the Board of Directors. The proposed appointment of Ms. Belén Garijo is submitted to the Annual General Meeting.

Ms. Belén Garijo, age: 53, of Spanish nationality, is a graduate of the University of Medicine in Madrid. After a few years spent as a researcher in pharmacology at the University of Madrid, she joined the pharmaceutical industry, the business sector in which she has now worked for 25 years. In 2011 she joined Merck-Serono, a pharmaceutical subsidiary of the German Group Merck of which she is President and CEO.

In 1992, Ms. Garijo was elected as a member of the New York Academy of Sciences. She has received several awards as a female executive officer, and in particular the title of "CEO for 2009" given by the "Expansion" magazine in Spain. In 2012, she was appointed as a member of the Board of Directors of BBVA, the second largest Spanish bank, present in 40 countries.

Ms. Garijo will bring to the Board of Directors of L'Oréal her expertise in the health sector, her international experience, her knowledge of a wide variety of corporate cultures and her sense of business opportunity.

Since one of the Board members did not want their tenure to be renewed, the appointment of Ms. Garijo as an independent Director for a period of four years would increase the number of women on the Board to 5 out of 14 Directors, thus leading to a percentage of representation of women of 35.7%, and with a number of independent Directors of 7 out of 14, this would give a percentage of independent Directors of 50%.

4. Renewal of tenures as Directors in 2014

As the tenures as Directors of Jean-Paul Agon and Xavier Fontanet expire in 2014, the renewal of their tenures for a period of four years is submitted to the Annual General Meeting.

Mr Marc Ladreit de Lacharrière did not want the renewal of his tenure to be submitted to the Annual General Meeting.

For information purposes, if the Annual General Meeting votes in favour of the appointment and renewals proposed to it in 2014, the expiry dates of the terms of office of the 14 Directors of L'Oréal would be as follows:

	Expiry dates of terms of office			
Directors	2015	2016	2017	2018
Jean-Paul Agon				X
Françoise Bettencourt Meyers			X	
Peter Brabeck-Letmathe			X	
Paul Bulcke		X		
Charles-Henri Filippi	X			
Xavier Fontanet				X
Bernard Kasriel		X		
Christiane Kuehne		X		
Jean-Pierre Meyers		X		
Jean Victor Meyers		X		
Virginie Morgon			X	
Annette Roux	X			
Louis Schweitzer			X	
Belén Garijo				X
Number of renewals per year	**2**	**5**	**4**	**3**

Fourth resolution: Appointment of Ms. Belén Garijo as Director

The Annual General Meeting, having reviewed the Report of the Board of Directors, decides to appoint Ms. Belén Garijo as Director for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2018 to review the financial statements for the previous financial year.

Fifth resolution: Renewal of the tenure as Director of Mr. Jean-Paul Agon

The Annual General Meeting, having reviewed the Report of the Board of Directors, renews the tenure of Mr. Jean-Paul Agon for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2018 to review the financial statements for the previous financial year.

Sixth resolution: Renewal of the tenure as Director of Mr. Xavier Fontanet

The Annual General Meeting, having reviewed the Report of the Board of Directors, renews the tenure of Mr. Xavier Fontanet for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2018 to review the financial statements for the previous financial year.

RESOLUTION 7: SETTING THE ANNUAL AMOUNT OF ATTENDANCE FEES ALLOCATED TO THE MEMBERS OF THE BOARD OF DIRECTORS

Statement of reasons

Pursuant to the French Law on Employment Security of June 14th, 2013, Directors representing the employees will serve on the Board of Directors, thus leading to an increase in the number of Directors receiving attendance fees.

Furthermore, the preparation and holding of meetings of the Board of Directors, which have increased in number, and those of its committees, whose remits have been broadened, require greater availability and growing investment by Directors.

It is therefore proposed to the Annual General Meeting that it increase the maximum amount of annual attendance fees allocated to the Board of Directors from €1,300,000 to €1,450,000, until a new decision is made on its part. This authorisation would replace that given by the Annual Shareholders' Meeting on April 22nd, 2011.

Seventh resolution: Setting of the annual amount of attendance fees allocated to the members of the Board of Directors

It is proposed to the Annual General Meeting that it allocate a maximum total amount of €1,450,000 to the Board of Directors as annual attendance fees, until another decision is made in this respect by the Annual General Meeting, leaving it to the Board of Directors to decide on the breakdown and payment date of such attendance fees.

RESOLUTION 8: ADVISORY VOTE BY THE SHAREHOLDERS ON THE COMPONENTS OF REMUNERATION DUE OR ALLOCATED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER IN RESPECT OF THE 2013 FINANCIAL YEAR

Statement of reasons

In accordance with the AFEP-MEDEF Code revised in June 2013 to which L'Oréal refers, the components of remuneration due or allocated by the Board of Directors on the proposal of the Human Resources and Remuneration Committee to the Chairman and Chief Executive Officer, Mr. Jean-Paul Agon, with respect to the 2013 financial year are presented to the Annual General Meeting for an advisory vote.

SUMMARY TABLES OF THE COMPONENTS OF REMUNERATION

Components of the remuneration due or allocated in respect of 2013	Amounts or value put to the vote	Description
Fixed remuneration	€2,100,000	At its meeting on February 11th, 2013, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to maintain the annual gross fixed remuneration of Mr. Jean-Paul Agon at an amount of €2,100,000.
Annual variable remuneration	€1,837,500	At its meeting on February 10th, 2014, the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to allocate gross variable remuneration of €1,837,500 in respect of 2013, representing 87.50% of the target objective. *Assessment criteria:* ◆ 50% based on quantitative objectives reflecting the Company's performance measured on the basis of changes in the following indicators: ◆ growth in comparable sales as compared to the budget ◆ market share as compared to the main competitors ◆ operating profit plus advertising and promotion expenses as compared to 2012 ◆ net earnings per share as compared to 2012 ◆ cash flow as compared to 2012 ◆ 50% on the basis of an assessment of the qualitative aspects of management: ◆ the appropriateness of strategic choices ◆ the quality of leadership and management ◆ the impact of communication ◆ actions to help society ◆ addressing the specific priorities for the year
Multi-annual variable remuneration	€0	Not applicable inasmuch as the Board of Directors has not allocated any multi-annual variable remuneration.
Exceptional remuneration	€0	Not applicable inasmuch as the Board of Directors has not allocated any exceptional remuneration.
Attendance fees	€85,000	At its meeting on November 29th, 2013, the Board of Directors allocated an amount of €85,000 to Mr. Jean-Paul Agon in respect of 2013, comprising: ◆ as a Director a fixed part of €30,000 and a variable part of €25,000 depending on attendance (100%); ◆ as Chairman of the Strategy and Sustainable Development Committee an additional amount of €30,000.
Stock options, performance shares (and any other component of long-term remuneration)	40,000 performance shares valued at €4,494,800, the estimated fair value according to the IFRS applied to prepare the consolidated financial statements	Within the scope of the authorisation of the Ordinary and Extraordinary General Meeting of April 26th, 2013 (resolution No. 10), the Board of Directors decided on April 26th, 2013, on the proposal of the Human Resources and Remuneration Committee, to make a conditional grant of 40,000 shares to Mr. Jean-Paul Agon. It should be noted that the Board of Directors had granted 50,000 ACAs (conditional shares) to Mr. Jean-Paul Agon on April 17th, 2012. In its decision to decrease the number of ACAs granted to Mr. Jean-Paul Agon on April 26th, 2013, the Board took into account the increase in the estimated fair value of the ACAs, directly linked with the increase in the share value between these two dates (€130.30 *vs.* €92.70). The estimated fair value according to the IFRS applied for the preparation of the consolidated financial statements of one conditional share (ACAs) under the April 26th, 2013 Plan is €112.37 for French tax and/or social security residents, which is the case for Mr. Jean-Paul Agon. This fair value was €77.07 on April 17th, 2012. The estimated fair value according to the IFRS of the 40,000 conditional shares granted in 2013 to Mr. Jean-Paul Agon is therefore €4,494,800. Final vesting of these shares is subject to achievement of performance conditions which will be recorded at the end of a 4-year vesting period as from the date of grant. The number of shares that finally vests will depend, for half of them, on growth in comparable cosmetics sales as compared to those of a panel of competitors, consisting of the following companies: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden; and for the other half, on growth in the L'Oréal Group's consolidated operating profit. The calculation will be made on the basis of the arithmetical mean of the performances for the three full financial years of the vesting period. The first full year taken into consideration for assessment of the performance conditions relating to such grant is 2014. In order for it to be possible for all the free shares granted to finally vest, in respect of the criterion related to sales, for the beneficiaries at the end of the vesting period, L'Oréal must achieve a performance which is at least as good as the average increase in sales of the panel of competitors. No share will finally vest, in respect of the criterion related to operating profit, if it does increase in absolute value over the period. The grant of shares from which Mr. Jean-Paul Agon benefited in 2013 represents: ◆ 3.78% of the total number of ACAs granted to the 2,092 beneficiaries of this same Plan ◆ 3.67% of their estimated fair value according to the IFRS. In accordance with the authorisation given by the shareholders on April 26th, 2013, this grant of shares does not represent over 0.6% of the share capital. No stock options to purchase or subscribe for shares, and no other long-term incentive tools, were granted to Mr. Jean-Paul Agon in 2013.
Benefits in kind	€0	Mr. Jean-Paul Agon benefits from the necessary material resources for performance of his term of office such as, for example, the provision of a car with a chauffeur. These arrangements, which are strictly limited to professional use, to the exclusion of all private use, cannot be considered as benefits in kind.
Indemnity for entry into office	€0	Not applicable inasmuch as Mr. Jean-Paul Agon has been Chief Executive Officer since 2006 and Chairman and Chief Executive Officer since 2011

Components of remuneration due or allocated in respect of 2013 which have previously been voted by the Annual General Meeting under the regulated agreements and commitments procedure	Amount put to the vote	Description
Termination indemnity and non-competition indemnity	Not applicable	No indemnity is due in respect of termination of the corporate office. Payment of the indemnities due under the suspended employment contract was approved by the Annual General Meeting on April 27th, 2010. Remuneration under the employment contract, to be used to calculate all the rights attached thereto, is established on the basis of the remuneration at the date of suspension of the contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2014, the fixed remuneration amounts to €1,671,000 and variable remuneration to €1,392,500. In the event of departure, and depending on the reasons, Mr Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or the retirement indemnities in the event of voluntary retirement or retirement at the Company's request due pursuant to the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining Agreement for the Chemical Industries and the Company-level agreements applicable to all L'Oréal executives, are due in any event pursuant to the public policy rules of French labour law. They are not subject to any condition other than those provided for by the National Collective Bargaining Agreement for the Chemical Industries or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration. Pursuant to the schedule of indemnities under the National Collective Bargaining Agreement for the Chemical Industries, in the event of dismissal, except in the event of gross misconduct or gross negligence, the indemnity would be capped, in light of Mr. Jean-Paul Agon's length of service, at 20 months'remuneration under the suspended employment contract. In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of two-thirds of the monthly fixed remuneration attached to the suspended employment contract unless Mr. Jean-Paul Agon were to be released from application of the clause. For information purposes, the cumulative amount of the indemnity provided for under the collective bargaining agreement and the indemnity in consideration of the non-competition clause which would have been due to Mr. Jean-Paul Agon had his employment contract been terminated on December 31st, 2013 through dismissal, except in the event of gross misconduct or gross negligence, would have represented an amount of less than 24 months of the fixed and variable remuneration which he received in 2013 as a corporate officer.
Supplementary pension scheme	Not applicable	Mr. Jean-Paul Agon benefits, under his suspended employment contract, from the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de Conjoncture") scheme closed on December 31st, 2000. The main features of this scheme, which falls under Article L. 137-11 of the French Social Security Code, are as follows: ◆ around 120 senior managers (active or retired) are concerned; ◆ the minimum length of service requirement was 10 years at the time of closure of the scheme on December 31st, 2000; ◆ the Pension Cover may not exceed 40% of the calculation basis, plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the remuneration for the three years used for the calculation basis out of the seven calendar years prior to the end of the beneficiary's career in the Company. For information purposes, the estimated amount of the pension that would be paid to Mr. Jean-Paul Agon, under L'Oréal's "Garantie de Retraite des Membres du Comité de Conjoncture" scheme, had he been able to apply for a full-rate pension from the French social security scheme on December 31st, 2013 after more than 35 years'length of service at L'Oréal, would represent around 40% of the fixed and variable remuneration he received as a corporate officer in 2013. This information is given as an indication after estimating the main pension entitlements accrued by Mr. Jean-Paul Agon, at 65 years of age, as a result of his professional activities, according to the rules regarding the application for payment of such pensions in force at December 31st, 2013 and which may be subject to change. The amount of the pension paid to Mr. Jean-Paul Agon, under L'Oréal's "Garantie de Retraite des Membres du Comité de Conjoncture" scheme will in fact only be calculated on the date when he applies for all his pensions. As a reminder, the rights to the defined benefit pension are uncertain and conditional on the beneficiary ending his career in the Company. The funding of this scheme by L'Oréal cannot be broken down individually by employee. Benefit from this scheme pursuant to the suspended employment contract was approved by the Annual General Meeting on April 27th, 2010.
Valuation of benefits of any kind	Not applicable	Mr. Jean-Paul Agon continues to be treated in the same way as a senior manager during the term of his corporate office entitling him to continue to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees. For information purposes, the amount of the employer's contributions to these schemes totals €5,788 in 2013. The continued possibility to benefit from this treatment was approved by the Annual General Meeting on April 27th, 2010.

Eighth resolution : Advisory vote by the shareholders on the components of remuneration due or allocated to the Chairman and Chief Executive Officer in respect of the 2013 financial year

The Annual General Meeting, consulted pursuant to the recommendation in § 24.3 of the AFEP-MEDEF Code of June 2013 which is the Company's reference code pursuant to Article L. 225-37 of the French Commercial Code, voting in accordance with the quorum and majority requirements for ordinary general meetings, casts a favourable advisory vote on the components of remuneration due or allocated to Mr. Jean-Paul Agon in his capacity as Chairman and Chief Executive Officer in respect of the 2013 financial year as set out in particular in pages 268 and 269 of this Registration Document.

RESOLUTION 9: AUTHORISATION FOR THE COMPANY TO BUY BACK ITS OWN SHARES

Statement of reasons

It is proposed that you give the Board of Directors a new authorisation to buy back shares of the Company.

Pursuant to the authorisation voted by the Annual General Meeting of April 26th, 2013, the Board of Directors bought back L'Oréal shares with the aim of their cancellation.

As the existing authorisation is due to expire in October 2014, it is proposed that the Annual General Meeting give the Board a new authorisation which will enable it to pursue its share buyback policy where applicable, depending on the opportunities that may arise, except during periods of public offers with regard to the Company's capital.

The Company could buy back its own shares with the aim of:

- their cancellation;
- their sale within the scope of employee share ownership schemes and their allocation to free grants of shares for the benefit of employees and corporate officers of the L'Oréal Group;
- liquidity provision;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase of the shares may be carried out by any means, on one or more occasions, on or off the stock market, including through the acquisition of blocks of shares.

The authorization would enter into force on October 27th, 2014, namely upon the termination of the current authorisation for the Company to buy back its own shares which will expire on October 26th, 2014. It would end 18 months after the date pf the Annual General Meeting, namely on October 17th, 2015. The purchase price per share may not be greater than €200. The authorisation would concern no more than 10% of the capital, namely, for information purposes at December 31st, 2013, 60,590,188 shares for a maximum amount of €12.12 billion, it being stipulated that the Company may at no time hold over 10% of its own capital.

Ninth resolution: Authorisation for the Company to buy back its own shares

The Annual General Meeting, having reviewed the Report of the Board of Directors, authorises the Board of Directors, with the possibility for it to delegate to the Chairman and Chief Executive Officer, to purchase shares of the Company, in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, and subject to the following conditions:

- the purchase price per share may not be greater than €200;
- the number of shares that may be bought by the Company may not exceed 10% of the number of shares forming the capital of the Company at the time the shares are bought back, that is, for information purposes, as of December 31st, 2013, 60,590,188 shares for a maximum amount of €12.12 billion, it being stipulated that the Company may at no time hold over 10% of its own capital.

In the event of any transaction affecting the Company's capital, the prices and numbers of shares indicated above will be adjusted where applicable.

The Company may buy its own shares for the following purposes:

- their cancellation by a reduction in capital;
- their allocation or sale to employees and corporate officers of the Company and affiliates, under the terms and conditions provided for by French or foreign law, and in particular within the scope of employee profit sharing schemes, free grants of shares or all employee share ownership programmes as well as for the purpose of carrying out any transaction to cover the above-mentioned employee share ownership programmes;
- liquidity provision through a liquidity agreement entered into with an investment services provider;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase of these shares may be carried out by any means, on one or more occasions, on or off the stock market, including through the acquisition of blocks of shares.

These transactions may be carried out at any time, in accordance with the regulations in force at the time of the transactions concerned, except during periods of public offers with regard to the Company's capital.

The Annual General Meeting decides that this authorisation will expire at the end of a period of 18 months following this Annual General Meeting and will enter into force on October 27th, 2014, namely following the termination of the current authorisation for the Company to buy back its own shares that will expire on October 26th, 2014.

The Board of Directors will have the possibility of allocating all the treasury shares currently held by the Company to any of these objectives under the conditions provided for in this share buyback programme. Full powers are granted to the Board of Directors, with the possibility for it to delegate, for the implementation of this resolution.

RESOLUTION 10: APPROVAL OF THE BUYBACK AGREEMENT CONCERNING THE ACQUISITION BY L'ORÉAL FROM NESTLÉ OF 48,500,000 L'ORÉAL SHARES REPRESENTING 8% OF THE SHARE CAPITAL WITHIN THE SCOPE OF RELATED PARTY AGREEMENTS PROCEDURE

Statement of reasons

THE REGULATED AGREEMENT WITHIN THE MEANING OF ARTICLE L. 225-38 OF THE FRENCH COMMERCIAL CODE WHICH YOU ARE BEING ASKED TO APPROVE WAS ENTERED INTO IN THE FOLLOWING CONTEXT

At meetings held on February 10th, 2014, the Boards of Directors of Nestlé and L'Oréal respectively approved, by unanimous decision of their voting members, a proposed strategic transaction for both companies consisting in the purchase by L'Oréal of 48.5 million of its own shares (representing 8% of its share capital) from Nestlé. This buyback will be financed:

- partially through the sale by L'Oréal to Nestlé of its 50% stake in Swiss dermatology pharmaceuticals company Galderma (a 50/50 joint venture between L'Oréal and Nestlé) for an enterprise value of €3.1 billion (€2.6 billion of equity value), paid by Nestlé in L'Oréal shares (namely 21.2 million shares);
- for the remainder, corresponding to 27.3 million L'Oréal shares held by Nestlé, in cash for an amount of €3.4 billion.

The price per L'Oréal share retained for this transaction is the average of its closing prices between Monday November 11th, 2013 and Monday February 10th, 2014, namely €124.48.

All the shares bought back by L'Oréal will be cancelled and following this transaction, Nestlé's stake in the capital of L'Oréal will be reduced from 29.4% to 23.29%, the Bettencourt Meyers family's stake increasing from 30.6% to 33.31% of the capital. In order to reflect the change of Nestlé's stake in L'Oréal's governance, the number of Nestlé representatives on L'Oréal's Board of Directors will be adjusted from 3 to 2 Directors, and the ownership ceiling provisions of the shareholders' agreement between Nestlé and the Bettencourt Meyers family will apply to these new levels of their respective new holdings.

The transaction will be accretive by more than 5% on L'Oréal's recurring earnings per share on a full year basis. This buyback will be exclusively financed with L'Oréal's available cash and through the issuance of commercial paper. It will not require the disposal of Sanofi shares held by L'Oréal.

This transaction will be subject to the procedures for prior consultation of Galderma's and L'Oréal's works councils and obtaining of the authorisations from the relevant antitrust authorities. It is expected to close before the end of the first half of 2014.

Mr. Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal said that this transaction will represent a very positive strategic move for L'Oréal, its employees and its shareholders. L'Oréal will focus exclusively on its Cosmetics business and its "Beauty for all" mission, its universalisation strategy and its ambition to win one billion new consumers. L'Oréal will benefit from a very significant and reinforced presence from the founding Bettencourt Meyers family, who will continue to fully support the Company as it always did in the past. Furthermore, Nestlé, which has always been a loyal and constructive shareholder, will continue to provide its active support. Lastly, all of L'Oréal's shareholders will benefit from this transaction with an accretive impact on the Company's earnings per share, resulting from the buyback and subsequent cancellation of L'Oréal shares held by Nestlé.

THIS AGREEMENT BETWEEN L'ORÉAL AND NESTLÉ WAS AUTHORISED PRIOR TO ITS SIGNATURE BY THE BOARD OF DIRECTORS ON FEBRUARY 10th, 2014

At its meeting on February 10th, 2014, the Board of Directors decided by unanimous decision of its voting members, to authorise, prior to its signature, the agreement to purchase shares concerning the acquisition by L'Oréal from Nestlé of 48,500,000 L'Oréal shares representing 8% of the share capital through the implementation by L'Oréal of a buyback programme for its own shares and decided that the shares bought back will be immediately cancelled.

The buyback is subject to fulfilment of a condition precedent, namely completion of the acquisition by Nestlé of all the shares held by L'Oréal in the companies of the Galderma Group. The condition is provided for in favour of Nestlé which may waive it. Nestlé and L'Oréal have entered into exclusive negotiations for the purposes of fulfilment of the condition precedent.

The buyback was agreed for a total price of €6 billion, namely €124.48 per L'Oréal share purchased.

The transfer of the shares bought back and the closing of the sale of the Galderma Group will take place at the same time. The sale price of Galderma would finance part of the purchase price of the shares bought back from Nestlé.

Inasmuch as this agreement falls within the scope of application of Article L. 225-38 of the French Commercial Code, it is subject to approval by the Annual General Meeting.

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* See chapter 2, section 2.7, page 84.

Tenth resolution: Approval of the buyback agreement concerning the acquisition by L'Oréal from Nestlé of 48,500,000 L'Oréal shares representing 8% of the share capital within the scope of related party agreements procedure

The Annual General Meeting, voting in accordance with the quorum and majority requirements for ordinary general meetings, after hearing the reading of the Statutory Auditors' Special Report on the agreements referred to by Articles L. 225-38 *et seq.* of the French Commercial Code, approves the new agreement mentioned therein concerning the buyback by the Company of a block of 48,500,000 shares held by Nestlé.

8.1.2. Extraordinary part

RESOLUTION 11: AUTHORISATION TO THE BOARD OF DIRECTORS TO REDUCE THE SHARE CAPITAL BY CANCELLING SHARES PURCHASED BY THE COMPANY UNDER ARTICLES L. 225-209 AND L. 225-208 OF THE FRENCH COMMERCIAL CODE

Statement of reasons

CONCERNING THE AUTHORISATION GIVEN TO THE BOARD OF DIRECTORS TO CANCEL SHARES BOUGHT BY THE COMPANY UNDER ARTICLE L. 225-209 OF THE FRENCH COMMERCIAL CODE.

The authorisation given to the Board of Directors in 2012 to cancel shares purchased by the Company under Article L. 225-209 of the French Commercial Code is due to expire.

It is proposed that the Annual General Meeting should give the Board a new authorisation enabling it to cancel shares, within the limits provided for by law.

This authorisation would be given for a term of twenty-six months as from the Annual General Meeting on April 17th, 2014 and would render ineffective any prior authorisation.

CONCERNING THE AUTHORISATION GIVEN TO THE BOARD OF DIRECTORS TO CANCEL SHARES PURCHASED BY THE COMPANY UNDER ARTICLE L. 225-208 OF THE FRENCH COMMERCIAL CODE.

Certain stock options to purchase shares granted in the past can no longer be exercised as the result, for example, of their beneficiary's departure. The resolution for cancellation of the shares purchased by the Company under Article L. 225-209 of the French Commercial Code, referred to above, does not make it possible to cancel these shares as the legal treatment applicable to their cancellation is different.

The authorisation given to the Board of Directors in 2012 to cancel the corresponding shares, purchased by the Company under Article L. 225-208 of the French Commercial Code, is due to expire.

It is proposed, within the limit of a maximum of 650,000 shares, representing a maximum reduction in the share capital of €130,000, that the shares corresponding to stock options to purchase shares that may no longer be exercised should be allocated to the policy of cancellation currently being conducted by the Board of Directors.

This authorisation would be given for a period of twenty-six months as from the Annual General Meeting of April 17th, 2014 and would render ineffective any prior authorisation.

Eleventh resolution: Reduction of share capital by cancelling shares purchased by the Company under Articles L. 225-209 and L. 225-208 of the French Commercial Code

The Annual General Meeting, having reviewed the report of the Board of Directors and the Statutory Auditors' Special Report:

- authorises the Board of Directors, in accordance with Article L. 225-209 of the French Commercial Code, to cancel, on one or more occasions, the shares held by the Company pursuant to Article L. 225-209 of the French Commercial Code, within the limit of 10% of the capital as of the date of cancellation, per twenty-four month period;
- authorises the Board of Directors, in accordance with Articles L. 225-204 and L. 225-205 of the French Commercial Code, to cancel, on one or more occasions, a maximum of 650,000 shares purchased by the Company on the basis of Article L. 225-208 of the French Commercial Code to cover stock options to purchase shares which currently correspond, or will correspond in future, to options that are no longer exercisable.

Full powers are given to the Board of Directors, with the possibility for it to delegate, to:

- reduce the share capital by cancelling shares;
- decide on the final amount of the reduction in the share capital;
- set the methods and record the completion of such reduction;
- allocate the difference between the book value of the shares cancelled and their par value to all reserves and available share premiums;
- amend the Articles of Association accordingly;
- and more generally, do all that is necessary to implement this resolution.

These authorisations are granted for a period of twenty-six months as from the date of this Annual General Meeting and render ineffective as of the date hereof any prior authorisation granted for the same purpose.

RESOLUTION 12: AMENDMENT OF THE ARTICLES OF ASSOCIATION TO DETERMINE THE CONDITIONS IN WHICH THE DIRECTORS REPRESENTING THE EMPLOYEES ARE TO BE APPOINTED

Statement of reasons

A draft amendment to L'Oréal's Articles of Association is put to the vote of the Annual General Meeting in accordance with the new Article L. 225-27-1 of the French Commercial Code introduced by the Law on Employment Security of June 14th, 2013.

Pursuant to this law, the Boards of Directors of companies which, at the end of two consecutive financial years, employ at least 5,000 permanent employees in the Company and its direct or indirect subsidiaries with their registered office on French territory, or at least 10,000 permanent employees in the Company and its direct or indirect subsidiaries with their registered office on French territory or in other countries, and which have the obligation to set up a works council, must include Directors representing the employees. L'Oréal falls within the scope of application of this law at the end of financial years 2013 and 2012.

The Directors representing the employees are not appointed by the Annual General Meeting of shareholders but are either elected by employees or appointed by bodies representing the employees.

The number of Directors representing the employees is equal to at least two if the number of Directors appointed by the Annual General Meeting of shareholders is greater than twelve and at least one if such number is lower than or equal to twelve. At the end of this Annual General Meeting, the Board of Directors of L'Oréal will comprise of 14 directors appointed by the Annual General Meeting, subject to a vote in favour of the draft resolutions for appointment or renewal of tenures of Directors presented (Resolutions 4, 5 and 6). L'Oréal's Board of Directors will therefore have to have at least two directors representing the employees.

The Law on Employment Security provides that the Extraordinary General Meeting will proceed with the amendment of the Articles of Association to determine the conditions under which the directors representing the employees are to be appointed, in accordance with one of the methods of appointment provided for by Article L. 225-27-1 of the French Commercial Code.

The Board has endeavoured to provide for a method of appointment that is adapted to the Company's specificities, consistent with the labour relations arrangements in which it is to be included, compliant with best practices and not too complex.

The Central Works Committee, consulted on the method of appointment of the Directors representing the employees, issued its opinion on January 30th, 2014.

The Board of Directors proposes to the Annual General Meeting that:

- the first Director representing the employees will be appointed, where his/her presence is required, by the trade union organisation which obtained the most votes in the first round of the elections mentioned in Articles L. 2122-1 and L. 2122-4 of the French Labour Code at L'Oréal and its direct or indirect subsidiaries with their registered office on French territory;
- the second Director representing the employees will be appointed, where his/her presence is required, by the European Works Council;
- the number of Directors representing the employees will be limited to two.

Article 8 of the Articles of Association currently provides for the obligation for directors to hold 5 shares of the Company. This obligation provided for in the Articles of Association is less than that provided for in the Internal Rules of the Board of Directors which provides for the obligation for each Director to hold at least 1,000 shares (Article 3.7). The Internal Rules are published in full in the Registration Document.

Article L. 225-25 of the French Commercial Code provides that the Director representing the employees cannot be required to own shares of the Company (the Internal Rules provide for an exception for the Directors representing the employees).

Article 8 of the Articles of Association would be amended accordingly.

Twelfth resolution: Amendment of the Articles of Association to determine the conditions under which the directors representing the employees are to be appointed

The Annual General Meeting, after hearing the report by the Board of Directors, decides to amend Article 8 of the Articles of Association to determine the conditions in which the Directors representing the employees are to be appointed:

Current version:	Proposed new version:
"ARTICLE 8 Board of Directors	***"ARTICLE 8 Board of Directors***
The Company is administered by a Board of Directors consisting of at least three members and at most eighteen members; two-thirds of the Board members must not exceed 70 years of age.	*The Company is administered by a Board of Directors.* **The Board of Directors consists** *of at most eighteen members appointed* **by the Annual General Meeting**.
The length of the terms of office of directors is four years. By way of exception, the Annual General Meeting may appoint a director for a term of office of one, two or three years, in order to provide for staggered renewal of the directors' terms of office."	*The length of the terms of office of directors* **appointed by the Annual General Meeting** *is four years. By way of exception, the Annual General Meeting may appoint a director for a term of office of one, two or three years, in order to provide for staggered renewal of the directors' terms of office."* **The Board of Directors includes a director representing the employees appointed by the trade union organisation which obtained the most votes in the first round of the elections mentioned in Articles L. 2122-1 and L. 2122-4 of the French Labour Code at the Company and its direct or indirect subsidiaries with their registered office on French territory.** **The Board of Directors will include a second Director representing the employees who is appointed by the European Works Council inasmuch as the Board of Directors has more than two directors appointed by the Annual General Meeting at the date of such appointment.** **If the number of directors elected by the Annual General Meeting to the Board of Directors then falls to twelve directors or less, the term of office of the director representing the employees appointed by the European Works Council will continue in force until it expires but will not be renewed.** **The term of office of a director not appointed by the Annual General Meeting is four years and ends at the close of the Ordinary General Meeting held during the year in which that director's term of office expires to review the financial statements for the previous financial year.** **In the event that the conditions for application of Article L. 225-27-1 of the French Commercial Code do not continue to apply at the end of a financial year, the terms of office of the directors representing the employees will end at the close of the Annual General Meeting that approved the financial statements for such financial year.** **Two-thirds of the Board members must not exceed 70 years of age.**
If the number of directors of over 70 years of age is greater than one-third of the directors in office, the oldest director is automatically deemed to have resigned; his tenure will expire at the end of the next Ordinary General Meeting, unless the said Meeting appoints one or more directors, so that the requirement stipulated above is met.	*If the number of directors of over 70 years of age is greater than one-third of the directors in office, the oldest director is automatically deemed to have resigned; his tenure will expire at the end of the next Ordinary General Meeting, unless the said Meeting appoints one or more directors, so that the requirement stipulated above is met.*
If the number of directors on the Board is equal to the maximum stipulated by law or by the Articles of association, the limit on the number of directors aged over 70 will be determined after the replacement of the director(s) deemed to have resigned, and they must be replaced within a period of three months from the date of resignation.	*If the number of directors on the Board is equal to the maximum stipulated by law or by the Articles of association, the limit on the number of directors aged over 70 will be determined after the replacement of the director(s) deemed to have resigned, and they must be replaced within a period of three months from the date of resignation.*
Each director must own five shares in the Company."	*Each director* **appointed by the Annual General Meeting** *must own five shares in the Company."*

RESOLUTION 13: POWERS FOR FORMALITIES

Statement of reasons

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

Thirteenth resolution: Powers for formalities

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

8.2. STATUTORY AUDITORS' SPECIAL REPORT ON THE CANCELLATION OF SHARES PURCHASED BY THE COMPANY

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

Ordinary and Extraordinary Shareholders' Meeting of April 17th, 2014 – eleventh resolution)

In our capacity as Statutory Auditors of L'Oréal and pursuant to the provisions of articles L. 225-204 and L. 225-209 of the French Commercial Code (Code de commerce) relating to capital decreases, in particular as concerns the cancellation of shares purchased by the Company, we hereby report to you on our assessment of the reasons for and the terms and conditions of the proposed share capital decreases.

We performed the procedures we deemed necessary in accordance with French professional standards applicable to this engagement. These procedures consisted in ensuring that the reasons for and the terms and conditions of the proposed capital decreases, which are not considered to affect shareholder equality, comply with the applicable legal provisions.

Cancellation of shares held by the Company within the scope of article L. 225-204 of the French Commercial Code

The proposed capital decrease would take place through the cancellation by the Company of its own shares purchased in accordance with the conditions of article L. 225-208 of the French Commercial Code.

Shareholders are asked to grant the Board of Directors full powers to cancel, on one or more occasions, a maximum of 650,000 shares purchased by the Company to cover share purchase options which currently correspond, or will correspond in the future, to options that are no longer exercisable. These powers would be exercisable for a period of twenty-six months from the Shareholders' Meeting of April 17th, 2014.

We have no matters to report on the reasons for or terms and conditions of the proposed share capital decrease, which would reduce the Company's share capital by a maximum of €130,000.

Cancellation of shares held by the Company within the scope of article L. 225-209 of the French Commercial Code

Shareholders are also asked to grant the Board of Directors full powers to cancel, on one or more occasions, the shares acquired by the Company, within the limit of 10% of the capital as of the date of the cancellation, per twenty-four month period. These powers would be exercisable for a period of twenty-six months from the Shareholders' Meeting of April 17th, 2014, in accordance with article L. 225-209 of the French Commercial Code. Under the ninth resolution, the Board of Directors is seeking an eighteen-month authorization from the Shareholders' Meeting to perform this purchase.

We have no matters to report on the reasons for or terms and conditions of the proposed capital decrease, the implementation of which depends on the Shareholders' Meeting approving the purchase of the Company's shares, as proposed under the ninth resolution.

Neuilly-sur-Seine, February 14th, 2014

The Statutory Auditors

PricewaterhouseCoopers Audit — Gérard Morin

Deloitte & Associés — David Dupont-Noel

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/ APPENDIX

9.1. STATUTORY AUDITORS

9.1.1. Auditors

2010, 2011, 2012 and 2013	Current appointments			
	Date of first appointment	Date of appointment	Term of office	Expiry date
Auditors				
PricewaterhouseCoopers Audit Auditor, member of the Compagnie Régionale de Versailles, represented by Gérard Morin 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	AGM reviewing the financial statements for 2015 to be held in 2016
Deloitte & Associés Auditor, member of the Compagnie Régionale de Versailles, represented by David Dupont-Noel 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Substitute auditors				
Mr. Yves Nicolas 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Société BEAS 195 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 27th, 2010	April 27th, 2010	6 years	

9.1.2. Fees of auditors and members of their networks charged to the Group

See note 30 of the *Consolidated financial statements* on page 157 of this document.

9.2. HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European Regulation EC No. 809/2004 of April 29th, 2004, this 2013 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31st, 2012, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 96 to 153 of the 2012 Registration Document filed with the *Autorité des Marchés Financiers* on March 18th, 2013 under the number D. 13-0171, and also information extracted from the 2012 Management Report presented on pages 78 to 93 of the Registration Document;
- the consolidated financial statements for the year ended December 31st, 2011, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 87 to 146 of the 2011 Registration Document filed with the Autorité des Marchés Financiers on March 14th, 2012 under the number D. 12-0155, and also information extracted from the 2011 Management Report presented on pages 70 to 85 of the Registration Document.

9.3. PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Mr. Christian Mulliez, Executive Vice-President Administration and Finance, on the authority of L'Oréal's Chairman and Chief Executive Officer, Mr. Jean-Paul Agon.

9.4. DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

"I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and that there is no omission likely to affect the fairness of the presentation.

I certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets and liabilities, financial position and profit or loss of the Company and all the other companies included in the scope of consolidation, and that the elements of the Management Report included in this document, as detailed in the table of concordance in section 9.8. page 283, present a fair review of the development and performance of the business and the position of the Company and all the other companies included in the scope of consolidation, together with a description of the principal risks and uncertainties that they face.

I have obtained a letter of completion of audit from the Statutory Auditors in which they state that they have verified the information relating to the financial position and the financial statements set out in this present document and have read the Registration Document in its entirety."

Clichy, March 11th, 2014
On the authority of the Chairman and Chief Executive Officer,
Christian Mulliez
Executive Vice-President Administration and Finance

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9.5. REGISTRATION DOCUMENT TABLE OF CONCORDANCE

In order to facilitate the reading of this Registration Document, the following table provides the page references of the main information required by Annex 1 of European Regulation no. 809/2004/EC.

Schedule based on annex 1, commission regulation no. 809/2004/EC	Pages
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9.6. ANNUAL FINANCIAL REPORT TABLE OF CONCORDANCE

In order to facilitate the reading of Annual Financial Report (*Rapport Financier Annuel*), the following table provides the page references of the main information required by Article L. 451-1-2 of the French Monetary and Financial Code and by Article 222-3 of the General Regulation of the *Autorité des Marchés Financiers*.

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9. Statutory Auditors' Report on the report prepared by the Chairman of the Board of Directors	83

9.7. TABLE OF CONCORDANCE WITH THE AMF TABLES ON THE REMUNERATION OF EXECUTIVE OFFICERS AND DIRECTORS

The following thematic table has been prepared in order to make it possible to look at the information provided on remuneration from the perspective of the presentation in the form of 10 tables recommended by the AMF in its recommendations of December 22nd, 2008 relating to "the information to be provided in reference documents on the remuneration of corporate officers" (see also the AFEP-MEDEF Code). It should be noted that some information is not presented in table form in light of its content (see the tables marked with an asterisk* below).

Tables with regard to Remuneration provided for in the AMF's recommendations		Pages
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9.8. TABLE OF CONCORDANCE OF THE MANAGEMENT REPORT

In order to review the elements of the Management Report, the following thematic table makes it possible to identify the main information provided for by Articles L. 225-100 *et seq.*, L. 232-1 and R. 225-102 *et seq.* of the French Commercial Code.

Headings of the 2013 Management Report	Pages
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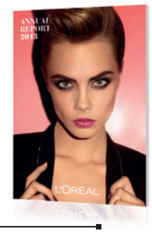
Presentation of the L'Oréal parent company stock option plans and plans for the conditional grant of shares to employees	245-251

TO FIND OUT MORE

Consult the whole range of 2013 group publications



THE ANNUAL REPORT

L'Oréal in 2013, with its divisions, brands and countries, driven by its mission: the universalisation of beauty and beauty for all.

Beauty is universal / L'Oréal, offering beauty for all / Beauty is a science / Beauty is a commitment

THE REGISTRATION DOCUMENT

This document includes the 2013 financial statements, the Annual Financial Report, the Management Report of the Board of directors including a section on Social and environmental Responsibility.

Presentation of the group / Corporate governance / Key figures and comments on the financial year / Consolidated financial statements / Parent company financial statements / Corporate social, environmental and societal responsibility / Stock market information and share capital / Annual General Meeting / Appendix

THE SUSTAINABLE DEVELOPMENT REPORT

Presentation and concrete examples of the group's sustainable development strategy.

Innovating sustainably / Producing sustainably / Living sustainably / Developing sustainably

These documents can be downloaded at www.loreal.com and at www.loreal-finance.com, and are available on request from the Image and Corporate Communication and the Financial Communications departments.

ANNUAL REPORT 2013
DIGITAL EDITION
Take a look at the multimedia content
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L'Oréal Finance Mag.

KEY INFORMATION FROM L'ORÉAL FINANCE
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Available on the App Store

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