L'Oréal

Statutory Auditors' report
on the consolidated financial statements

(For the year ended 31 December 2021)

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(For the year ended 31 December 2021)

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 includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

L'Oréal
14, rue Royale
75008 Paris, France

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended 31 December 2021.

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 31 December 2021 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.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors, for the period from 1 January 2021 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No. 537/2014.

Justification of assessments – Key audit matters

Due to the global crisis related to the COVID-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Description of risk	*How our audit addressed this risk*
Measurement of intangible assets *See Note 7.1 – Goodwill, Note 7.2 – Other intangible assets, Note 7.3 – Impairment tests on intangible assets, and Note 4 – Other operational income and expenses, to the consolidated financial statements*	
At 31 December 2021, the net carrying amount of goodwill and other intangible assets recognised in the consolidated financial statements totalled €14,537 million, representing 34% of assets. These assets consist primarily of goodwill and non-amortised brands with indefinite useful lives, recognised following business combinations. Whenever there is an indication of impairment, or at least once a year, the Group verifies that the carrying amount of these assets is not greater than their recoverable amount and does not present a risk of impairment (impairment test). The recoverable amount of each Cash Generating Unit (CGU) is determined on the basis of discounted operating future 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 main assumptions taken into account in the measurement of the recoverable amount concern: • growth in sales and margin rate; • a perpetual growth rate for calculating the terminal value; and • discount rates based on the weighted average cost of capital, where necessary adjusted by a country risk premium.	We obtained the impairment tests and sensitivity analyses prepared by Management. We assessed the sensitivity analyses, in particular by comparing them to our own sensitivity analyses, to determine the nature and scope of our procedures. We assessed, in particular, the quality of the process for drawing up and approving budgets and forecasts and, for the impairment tests that we deemed the most sensitive, the reasonableness of the main estimates made and, more specifically: • the consistency of sales and margin rate projections with the Group's past performance and the economic and financial context in which the Group operates; • the corroboration of the growth rates used with analyses of the performance of the global cosmetics market, taking into account specific features of the local markets and distribution channels in which the Group operates; • the discount rates applied to future cash flows, by comparing their inputs with external references, with the guidance of our valuation experts; • the analyses of the sensitivity of the recoverable amount to the key main assumptions used, as described by Management in Note 7.3 to the

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The impairment tests performed led to the recognition of an impairment loss of €338 million in 2021, including €255 million on the goodwill of IT Cosmetics.

We deemed the measurement of these assets to be a key audit matter because of their relative materiality in the consolidated financial statements and because the calculation of their recoverable amount requires a high degree of judgement from Management in terms of projecting future cash flows and determining the main assumptions to be used.
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consolidated financial statements, and to our own analyses.

We verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.
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<u>Measurement of provisions for liabilities and charges (excluding provisions for product returns), non-current tax liabilities and contingent liabilities</u>

See Note 6 – Income tax and Note 12 – Provisions for liabilities and charges – Contingent liabilities and material ongoing disputes, to the consolidated financial statements
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The Group is exposed to various risks arising in the ordinary course of its business, particularly tax risks, industrial, environmental and commercial risks relating to operations (excluding provisions for product returns), employee-related cost risks and risks related to antitrust investigations.

When the amount or due date of a liability can be estimated with sufficient reliability, provisions are recorded for these risks. When this is not the case, the Group provides disclosures on contingent liabilities in the notes to the consolidated financial statements.

The contingent liabilities and material ongoing disputes reported in Note 12.2.1 include tax disputes in Brazil and India, for which the tax authorities are claiming €524 million and €202 million, respectively.

Provisions for liabilities and charges (excluding provisions for product returns) amounted to €881 million, and non-current tax liabilities to €345 million at 31 December 2021.

We deemed the determination and measurement of these items to be a key audit matter given:

- the high degree of judgement required from Management to determine which risks should be provisioned and measure with sufficient reliability the amounts of these provisions;
- the potentially material impact of these
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In order to identify and gain an understanding of all of the existing disputes and liabilities as well as the corresponding judgements made, we made inquiries with General Management and the Legal and Tax Departments at all levels of the organization, in France and abroad. We corroborated the list of identified disputes with the Group's risk mapping, as presented by the Legal Department to the Audit Committee, and the information provided by the principal law firms acting for the Group, which we interviewed on the matters.

Regarding the most significant disputes for which a provision was recorded, we assessed the quality of Management's estimates by taking into consideration the data, assumptions and calculations used. We carried out a retrospective review by comparing the amounts paid out with the provisions recorded in recent years.

With the guidance of our experts in the field where applicable, we carried out the following procedures:

- we examined the procedural aspects and/or the legal or technical opinions prepared by the lawyers or external experts selected by Management in order to assess the merits of the decision to record a provision;
- on the basis of the information provided to us, we critically assessed the estimated ranges of risk
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provisions on the Group's profit.	level and verified that the measurements used by Management fall within these ranges; • when appropriate, we verified the consistency of the methods used for these assessments. Regarding contingent liabilities, with the guidance of our experts in the field where applicable, we examined the procedural aspects and/or the legal or technical opinions prepared by the lawyers or external experts selected by Management in order to assess the merits of the decision not to record a provision. We verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.
Recognition of sales – estimation of items to be deducted from sales *See Note 3 – Accounting principles – Sales, to the consolidated financial statements*	
Sales incentives, discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers, such as commercial cooperation, coupons, discounts and loyalty programs. These various deductions are recorded simultaneously to the recognition of sales, based mainly on statistics compiled from past experience and contractual conditions. We deemed estimating these amounts at the reporting date to be both difficult (due to the range of contracts and contractual conditions prevalent in the Group's different markets) and sensitive (sales are a key indicator in the assessment of the performance of the Group and its Management), and to have a material impact in the financial statements. Accordingly, these estimates constitute a key audit matter given the risk that product returns, sales incentives, discounts and other incentives granted to customers (distributors or consumers) are not fully catalogued and/or properly measured and thus that sales are not accounted for correctly and/or in the appropriate reporting period.	We assessed the appropriateness of the accounting policies applied by the Group with respect to the recognition of product returns, sales incentives, discounts and other incentives granted to customers, with respect to IFRS. We familiarized ourselves with the internal control systems implemented by the Group's commercial entities, with a view to measuring and accounting for items deducted from sales, especially at the end of the reporting period, and we tested, on a sample basis, the main controls of those systems. We also carried out substantive tests on representative samples in order to ascertain whether product returns, sales incentives, discounts and other incentives granted to customers were being estimated correctly. Our tests consisted primarily in: • assessing the appropriateness of valuation methods, in particular through a critical assessment of the assumptions used, verification of the consistency of the methods, and analysis of the unwinding of provisions from the previous year; • reconciling the statistics compiled from past experience and contractual conditions with the data contained in the IT systems dedicated to the management of commercial conditions;

	• verifying the calculation of the corresponding expenses (including the residual commitment at the end of the reporting period) and how they are recorded in the accounting system and presented in the consolidated financial statements.

Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the information pertaining to the Group presented in the management report includes the consolidated non-financial performance statement required under Article L.225-102-1 of the French Commercial Code. However, in accordance with Article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

Other verifications and information pursuant to legal and regulatory requirements

Format of presentation of the consolidated financial statements to be included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors' procedures for annual and consolidated financial statements presented according to the European single electronic reporting format, we have verified that the presentation of the consolidated financial statements to be included in the annual financial report referred to in paragraph I of Article L.451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and prepared under the Chief Executive Officer's responsibility, complies with this format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018. As it relates to the consolidated financial statements, our work included verifying that the tagging in the financial statements complies with the format defined by the aforementioned Regulation.

On the basis of our work, we conclude that the presentation of the consolidated financial statements to be included in the annual financial report complies, in all material respects, with the European single electronic reporting format.

It is not our responsibility to ensure that the consolidated financial statements to be included by the Company in the annual financial report filed with the AMF correspond to those on which we carried out our work.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of L'Oréal by the Annual General Meeting of 29 April 2004.

At 31 December 2021, PricewaterhouseCoopers Audit and Deloitte & Associés were in the eighteenth consecutive year of their engagement.

Responsibilities of Management and those charged with governance for the consolidated

financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit.
They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management and the related disclosures in the notes to the consolidated financial statements;

- assess the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;

- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris-La Défense, 18 February 2022

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	David Dupont-Noel