L'Oréal

Statutory Auditors' report on the 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 financial statements of L’Oréal for the year ended 31 December 2021.

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 31 December 2021 and of the results of its operations for the year then ended in accordance with French accounting principles.

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 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 financial statements, as well as how we addressed those risks.

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

<table>
<tr><th>Description of risk</th><th>How our audit addressed this risk</th></tr>
<tr><td colspan="2"><u>Measurement of investments and intangible assets (excluding software and intangible assets in progress)</u>
See Accounting principles Notes 1.5 - Intangible assets and 1.7.1 - Investments, Note 11 – Intangible assets, Note 14 – Financial assets and Note 30 – Table of subsidiaries and holdings, to the parent company financial statements</td></tr>
<tr><td>At 31 December 2021, the net carrying amount of investments and intangible assets (excluding software and intangible assets in progress) recognised in the balance sheet amounted to €10.3 billion and €4.2 billion, respectively, representing 55% of total assets. Investments and intangible assets are recognised at purchase cost.

An impairment loss is recognised if the value in use of a given item falls below its net carrying amount.

As described in Notes 1.5 and 1.7 to the financial statements, the value of these items is assessed annually by reference to their value in use, which is based on:
• for investments: the current and forecast profitability of the subsidiary concerned and the share of equity owned;
• for intangible assets: discounted future cash flows.

In order to estimate the value in use of these items, Management must use judgement to project future cash flows and determine the main assumptions to be used.
Given the materiality of investments and intangible assets in the balance sheet and the inherent uncertainty of certain components of the calculations, including the forecasts used to</td><td>We examined the methodology employed by Management to estimate the value in use of investments and intangible assets (excluding software and intangible assets in progress).

Our audit work consisted primarily in verifying, on the basis of the information provided to us, that the estimated values determined by Management were based on an appropriate measurement method, and in assessing the quality of these estimates by taking into consideration the data, assumptions and calculations used.

We primarily focused our audit work on the investments and intangible assets with a value in use close to their net carrying amount.

We assessed the reasonableness of the main estimates and, more specifically:
• the consistency of projected sales and margin rates with past performance and the economic and financial context;
• 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;</td></tr>
</table>

calculate value in use, we deemed the measurement of these items to be a key audit matter, carrying a risk of material misstatement.	• the discount rates applied to future cash flows, by comparing their inputs with external references, with the guidance of our valuation experts.

Measurement of provisions for liabilities and charges and contingent liabilities *See Accounting principles Note 1.11 – Provisions for liabilities and charges, Note 18 – Provisions for liabilities and charges (excluding subsidiaries and holdings) and Note 24.3 – Contingent liabilities, to the parent company financial statements*	
L'Oréal is subject to legal proceedings and tax, customs and administrative audits arising in the ordinary course of its business. Provisions are recorded so that L'Oréal can meet its likely payment obligations to third parties with no corresponding consideration for the Company in return. They mainly relate to business and financial risks and disputes, as well as risks with authorities and staff-related risks. These provisions are estimated by taking into account the most likely assumptions or by using statistical methods based on their nature. Material provisions mainly concern the dispute with the antitrust authority and the risks with the authorities mentioned in Note 18. Provisions for liabilities and charges amounted to €878 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 provisions on the Company's profit.	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. 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 L'Oréal SA, 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 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 assessed the merits of the decision not to record a provision.

Recognition of sales - estimation of items to be deducted from sales

See Accounting principles Note 1.1 — Sales and Note 2 – Sales, to the parent company financial statements	
Sales incentives, discounts and product returns are deducted from sales of goods. 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 Company 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 sales incentives, discounts and other incentives granted to customers (distributors or consumers) are not fully catalogued and/or properly measured and thus that net sales are not accounted for correctly and/or in the appropriate reporting period.	We assessed the appropriateness of the accounting policies applied by the Company with respect to the recognition of product returns, sales incentives, discounts and other incentives granted to customers, with respect to French accounting principles. We familiarised ourselves with the internal control systems implemented within the Company, with a view to measuring and accounting for items deducted from sales, and we tested the proper application of the main controls of this system. 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 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 financial statements.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements.

We attest to the fair presentation and the consistency with the financial statements of the information given with respect to the payment terms referred to in Article D.441-6 of the French Commercial Code.

Report on corporate governance

We attest that the corporate governance section of the Board of Directors' management report sets out the information required by Articles L.225-37-4, L.22-10-10 and L.22-10-9 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L.22-10-9 of the French Commercial Code relating to remuneration and benefits paid or awarded to corporate officers and any other commitments made in their favour, 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 the Company from controlled companies within its scope of consolidation. Based on this work, we attest to the accuracy and fair presentation of this information.

Concerning the information given in accordance with the requirements of Article L.22-10-11 of the French Commercial Code relating to those items the Company has deemed liable to have an impact in the event of a takeover bid or exchange offer, we have verified its consistency with the underlying documents that were disclosed to us. Based on this work, we have no matters to report with regard to this information.

Other information

In accordance with French law, we have verified that the required information concerning the acquisition of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Other verifications and information pursuant to legal and regulatory requirements

Format of presentation of the 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 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.

On the basis of our work, we conclude that the presentation of the 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 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 financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the 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 financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the 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 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 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 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 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 financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 programme 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 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