L'ORÉAL

2019 Half-Year Financial Report

At 30 June 2019

Contents

HALF-YEAR FINANCIAL *REPORT*

AT 30 JUNE 2019

Half-year situation at 30 June 2019

The following statements have been examined by the Board of Directors of 30 July 2019 and have been the object of a limited review by the Statutory Auditors.

This is a free translation into English of the L'Oréal 2019 Half-year Financial Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

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Activity Report

It should be noted that L’Oréal’s half-year results are not representative of the full-year results.

1.1. THE GROUP CONSOLIDATED

Like-for-like, i.e. based on a comparable structure and identical exchange rates, sales of the L’Oréal group grew by +7.3%.

The net impact of changes in the scope of consolidation was +1.1%.

Growth at constant exchange rates amounted to +8.4%.

Currency fluctuations had a positive impact of +2.2%. If the exchange rates at 30 June 2019, i.e. €1 = $1.138, are extrapolated until 31 December 2019, the impact of currency fluctuations on sales would be approximately +1.5% for the whole of 2019.

Based on reported figures, the Group's sales at 30 June 2019 amounted to 14.81 billion euros, i.e. +10.6%.

1.1.1. CONSOLIDATED INCOME STATEMENTS

Gross profit, at 10,823 million euros, came out at 73.1% of sales, stable compared to the first half of 2018.

Research and Development expenses, at 459 million euros, came out at 3.1% of sales.

Advertising and promotion expenses came out at 30.2% of sales, an increase of 20 basis points, compared to the first half of 2018.

Selling, general and administrative expenses, at 20.3% of sales, have decreased by 20 basis points.

Overall, **operating profit** increased by +12.1%, at 2,888 million euros, and amounted to 19.5% of sales, an increase of 30 basis points. Excluding the impacts related to the application of the IFRS 16 accounting rule, this increase comes out at +11.3%.

Overall financial expenses came out at 30 million euros, of which 26 million euros are related to the application of the IFRS 16 accounting standard.

Sanofi dividends amounted to 363 million euros.

Income tax excluding non-recurring items came out at 748 million euros, i.e. a tax rate of 23.2%, slightly above that of the first half of 2018, which was 21.9%.

Net profit excluding non-recurring items after non-controlling interests [(1)] came out at 2,466 million euros, an increase of +7.2% compared with the net profit excluding non-recurring items reported on 30 June 2018.

Earnings per share [(2)], at 4.38 euros, has risen by +7.2% compared with the first half of 2018.

1.1.2. CASH FLOW STATEMENTS / BALANCE SHEET

Gross cash flow amounted to 3,305 million euros, up by +18.9% compared with the first half of 2018. The amount includes a depreciation value of 209 million euros (with regard to the right-of-use assets IFRS 16).

The **change in working capital** amounted to 813 million euros.

Investments, at 559 million euros, represented 3.8% of sales.

Operating cash flow amounted to 1,932 million euros, an increase of +23.2%.

After payment of the dividend, the **residual cash flow** came out at -248 million euros.

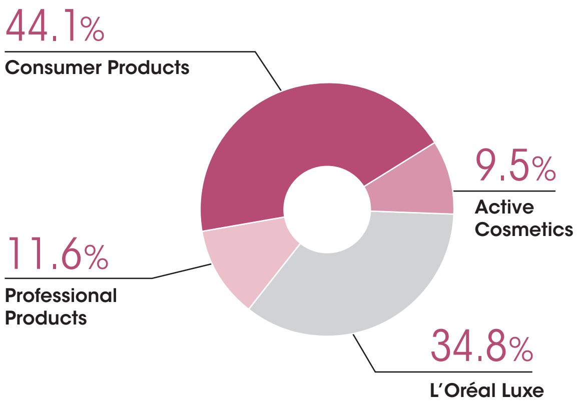
At 30 June 2019, after taking into account finance lease liabilities for 2,151 million euros, **net cash** amounted to 200 million euros, compared with 362 million euros at 30 June 2018.

(1) Net profit excluding non-recurring items, after non-controlling interests, does not include capital gains and losses on disposals of long-term assets, impairment of assets, restructuring costs, tax effects and non-controlling interests.

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

1.2. SEGMENT INFORMATION

1.2.1. TURNOVER BY DIVISION



At the end of June, the Professional Products Division is at +2.5% like-for-like and +5.1% based on reported figures.

The Division continues to grow, driven by the acceleration in the United States and in the Asia Pacific Zone, where it is winning market share. Eastern Europe remains dynamic, while Latin America and Western Europe are penalised by the inertia of certain markets.

Haircare, the number one contributor to growth, is being boosted by the strong growth of *Kérastase*, fuelled by the success of *Resistance Extentioniste* and *Blond Absolu* and by the solid performance of the *Total Results* range at *Matrix*. Hair colour is benefiting from the outstanding double-digit growth of *Shades EQ* at *Redken* and the strong acceleration of *Inoa* at *L'Oréal Professionnel*.

In the first half, the Consumer Products Division posted growth of +3.1% like-for-like and +6.4% based on reported figures.

L'Oréal Paris maintains good growth momentum, thanks to the strong performance of face care, with the successful launch of *Revitalift Filler* ampoules and the international roll-out of *Elvive Dream Lengths* and the very good start of *Elvive Colour Protect Purple* shampoo. The resounding success of *Rouge Signature* in makeup is worth noting. *Garnier* is growing, driven by skincare with the strong worldwide growth of *Micellar Cleansing Water* and *Tissue Masks*, and the promising start of *Garnier Organic* in Western Europe. The Korean makeup brand *3CE Stylenanda* is starting very well in China. The *NYX Professional Makeup* brand meanwhile is implementing a reworking of its distribution channels.

The Division is performing well in Western and Eastern Europe, particularly in Russia. It is clearly accelerating in Asia, particularly in China, India and Indonesia. It is however being held back by the sluggish makeup market in the United States.

Travel Retail and e-commerce are strong growth drivers.

At the end of June, L'Oréal Luxe confirmed its excellent start to the year, posting growth of +13.2% like-for-like and +17.3% based on reported figures, driven by its good performances in skincare.

The dynamism of the Division's top four brands continues, and once again recorded double-digit growth in the first half. *Lancôme*, thanks to its iconic lines *Génifique* and *Absolue*, and *Kiehl's* with the *Ultra Facial* and *Calendula* lines, delivered excellent performances over the period. *Giorgio Armani* and *Yves Saint Laurent* are taking advantage respectively of the success, in the lip segment, of *Lip Maestro* and *Rouge Pur Couture The Slim*, and in fragrances of *Sì* and *Black Opium. Helena Rubinstein* is confirming its success in the ultra-premium skincare market, and *Atelier Cologne* continues to expand rapidly.

L'Oréal Luxe is posting strong growth in Asia Pacific, particularly in China and in Travel Retail. Eastern Europe and Latin America are also performing well. The Division's sales remain sluggish however in North America.

As for e-commerce sales, the Division is continuing to accelerate.

The Active Cosmetics Division had an outstanding first half at +13.6% like-for-like and +15.1% based on reported figures.

All Zones are contributing to growth, with Asia Pacific, North America and Latin America performing particularly well.

All the major brands are contributing to growth. *La Roche-Posay*, posting double-digit growth, continues to accelerate in anti-ageing, with the continuing success of *Hyalu B5* and the successful launch of *Pure Vitamin C10* serum. *Vichy* is maintaining momentum, particularly with its star product *Minéral 89*, which continues to grow. The brand is also reinforcing its anti-ageing expertise by offering *Vichy SkinConsult^{AI}*, the first algorithm for analysing signs of ageing from a selfie, which has been developed with dermatologists. *SkinCeuticals* is growing very fast across all Zones, with a record performance in Asia. *CeraVe* is winning market share across all the Zones where the brand is present, with a sharp acceleration in America, the brand's original market. The brand has been successfully launched in China.

1.2.2. OPERATING PROFIT BY DIVISION

	30/06/2018		31/12/2018		30/06/2019	
	€M	% CA	€M	% CA	€M	% CA
By Division						
Professional Products	313.4	19.2%	651.5	20.0%	327.9	19.1%
Consumer Products	1,275.4	20.8%	2,428.1	20.2%	1,351.1	20.7%
L'Oréal Luxe	1,026.7	23.4%	2,072.4	22.1%	1,227.3	23.8%
Active Cosmetics	326.2	26.5%	523.0	23.0%	376.1	26.5%
Total Divisions before non-allocated	**2,941.7**	**22.0%**	**5,675.0**	**21.1%**	**3,282.3**	**22.2%**
Non-allocated (1)	-365.7	-2.7%	-753.1	-2.8%	-393.9	-2.7%
Group	**2,575.9**	**19.2%**	**4,922.0**	**18.3%**	**2,888.4**	**19.5%**

(1) Non-allocated expenses = Central Group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. As a % of total Divisions sales.

The L'Oréal group is managed on an annual basis. This means that half-year operating profits cannot be extrapolated for the whole year.

The profitability of the **Professional Products Division** came out at 19.1%.

The **Consumer Products Division's** profitability came out at 20.7%.

L'Oréal Luxe improved its profitability at 23.8%, an increase of 40 basis points.

The **Active Cosmetics Division** remains at a very high profitability level at 26.5%.

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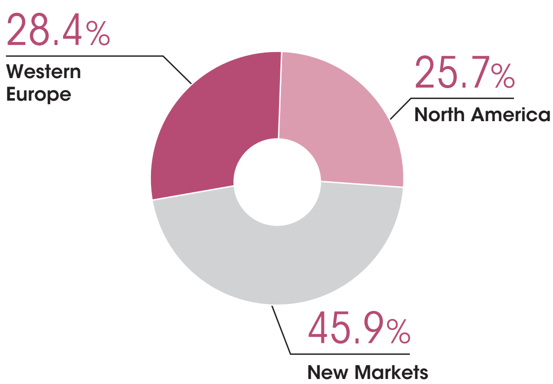
1.2.3. SALES BY GEOGRAPHIC ZONE



1.2.3.1. Western Europe

The Zone recorded growth of +1.0% like-for-like and +1.9% based on reported figures.

In a mass market that is growing moderately, the Consumer Products Division is winning market share, particularly in makeup and face care with a good start from the *Garnier Organic* line and the success of *Revitalift Filler* ampoules by *L'Oréal Paris*. L'Oréal Luxe is dynamic in Germany, Scandinavia and across Southern Europe, but the second quarter was difficult in France. Growth in the Active Cosmetics Division is being driven by *La Roche-Posay*, which continues to outperform its market. The Professional Products Division is still being held back by a slowdown in sales in France and a difficult market in Italy.

1.2.3.2. North America

The Zone is stable at 0.0% like-for-like and +6.8% based on reported figures. In a slowing market, the skincare and fragrances categories are still growing. The Active Cosmetics Division continues to post double-digit growth. L'Oréal Luxe performed well in skincare and fragrances, driven by the *Kiehl's* and *Yves Saint Laurent* brands, but is being held back by the decline in makeup. The Professional Products Division is winning market share and growing in hair colour, thanks to *Redken* and *Pulp Riot*. The Consumer Products Division is winning market share in skincare with *L'Oréal Paris* but is struggling with a strong footprint in makeup.

1.2.3.3. New Markets

- **Asia Pacific:** Growth in this Zone was +24.3% like-for-like and +30.4% based on reported figures. All Divisions achieved double-digit growth, with the most outstanding performances for the L'Oréal Luxe and Active Cosmetics Divisions. Growth is still being driven by Chinese consumers, and even more powerfully by the increasing success of e-commerce in China and across the whole Asia Pacific Zone. The premium skincare brands are performing particularly well, especially *Lancôme*, *Yves Saint Laurent*, *Giorgio Armani* and *Helena Rubinstein*. Growth in the Consumer Products Division meanwhile is being driven by the performance of *L'Oréal Paris* and the roll-out of *3CE Stylenanda*. In Southern Asia, L'Oréal is posting strong growth and winning market share.
- **Latin America:** The Zone is at +1.9% like-for-like and -0.5% based on reported figures. Like-for-like growth in this Zone is being held back by Argentina. Sales are accelerating, especially in Mexico and Chile. In Brazil, the Consumer Products Division continues to face difficulties, while the other Divisions are growing. Across the Zone as a whole, the L'Oréal Luxe and Active Cosmetics Divisions continue to grow, with a double-digit increase for Active Cosmetics, driven by the dynamism of its big brands. In the Consumer Products Division, the makeup brands *Maybelline New York* and *Vogue* are performing well. *Kérastase*, in the Professional Products Division, is recording double-digit growth.
- **Eastern Europe:** The Zone recorded growth of +7.5% like-for-like and +3.5% based on reported figures. Russia, Turkey and Central European countries such as Romania and Ukraine are driving growth in this Zone. The Consumer Products and Active Cosmetics Divisions have the highest growth rates, thanks respectively to *Maybelline New York* and *NYX Professional Makeup*, as well as *La Roche-Posay*.
- **Africa, Middle East:** The Zone is down by -5.4% like-for-like and -1.5% based on reported figures. The luxury market remains difficult in the Middle East. Egypt, Morocco and Pakistan are growing, as well as the countries in sub-Saharan Africa. The Active Cosmetics Division is recording good growth, driven by *La Roche-Posay* and *SkinCeuticals*.

1.3. IMPORTANT EVENTS DURING THE PERIOD

- On 16 January, L'Oréal announced that it was among 230 companies on the Bloomberg Gender-Equality Index (GEI), which puts forward companies that demonstrate transparency in their reporting on gender parity and have pledged a strong commitment to gender equality.
- On 26 February, L'Oréal was honoured for the tenth time as one of the world's most ethical companies by the Ethisphere Institute, a global leader in defining and promoting standards in corporate ethics.
- From 16 to 18 May at the fourth edition of Viva Technology, L'Oréal presented its latest technological innovations, and its vision of the future of beauty and customer experience at its Limitless Beauty stand.
- On 6 June, L'Oréal inaugurated at Aulnay-sous-Bois in France "MYT – Make Your Technology", the first 4.0 technology incubator dedicated to the industry and supply chain of the future.
- On 19 June, Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal was voted No.1 in the Glassdoor France Top CEO 2019 ranking, by the employees of the ranked companies.
- On 26 June, BOLD (Business Opportunities for L'Oréal Development), the corporate venture capital fund launched by L'Oréal in December 2018, took a minority stake in Carbios, a startup pioneering a solution for the recycling of plastic packaging.

1.4. RISK FACTORS AND TRANSACTIONS BETWEEN RELATED PARTIES

1.4.1. RISK FACTORS

Risk factors are similar to those presented in the volume 2.8 of the 2018 Registration Document and did not change significantly during the first half-year of 2019. The amounts relating to market and financial risks at 30 June 2019 are described in the note 9 in section "Notes to financial statements" of this Half-year Report.

1.4.2. TRANSACTIONS BETWEEN RELATED PARTIES

Transactions between the companies consolidated under the equity method do not represent a significant amount at 30 June 2019. Furthermore, during the first six months of 2019, there was no significant transaction concluded with a member of the senior management or with a shareholder having a material influence on the Group.

1.5. PROSPECTS

L'Oréal has delivered its strongest first half like-for-like growth [(1)] in more than a decade at +7.3%, outperforming a dynamic market which has, for the second year running, posted one of its highest-ever growth rates.

All the Divisions are growing, and notably the L'Oréal Luxe and Active Cosmetics Divisions which posted double-digit growth. The progression of L'Oréal Luxe is being driven by its four big brands: *Lancôme, Yves Saint Laurent, Giorgio Armani* and *Kiehl's.* The Active Cosmetics Division continues to benefit from the growing appetite for healthy beauty and is posting geographically balanced growth. The performance of the Consumer Products Division is improving semester by semester, thanks especially to the success of L'Oréal Paris, the world's number one beauty brand. Meanwhile, the transformation of the Professional Products Division is ongoing.

Across the geographic Zones, the New Markets are growing very strongly, particularly the Asia Pacific Zone, which is now the Group's number one Zone. China is maintaining its pace of growth, and India, Malaysia, Indonesia and Vietnam are all posting double-digit growth. North America is still being held back by the slowdown in makeup. Sales are increasing in Western Europe, in a market which remains difficult.

Digital continues to boost growth and reinforces our relationship with our consumers. At the same time, e-commerce [(2)] is up by +48.5% [(1)], and represents 13.2% of total sales. Travel Retail, another of the Group's growth drivers, has grown by +21.2% [(1)].

Operating profit has increased strongly by +12.1%, setting a new record in operating margin of 19.5%. Net earnings per share [(3)] is up +7.2% at 4.38 euros. After allowing for 139 million euros of non-recurring items, net profit comes out at 2,326 million euros. Operating cash flow is up +23.2%.

In a volatile and contrasted environment, this good first half gives us confidence in our capacity to outperform the market in 2019 and achieve another year of growth in sales and profits.

1.6. SUBSEQUENT EVENTS

- On 2 July, L'Oréal announced it had entered into exclusive negotiation with the Clarins group with a view to acquiring the *Mugler* and *Azzaro* brands.
- On 12 July, L'Oréal announced the appointment of three new members to its Executive Committee: Alexandra Palt, Chief Corporate Responsibility Officer and Executive Vice-President of the Fondation L'Oréal, and Vincent Boinay, General Manager for Travel Retail Worldwide, will join L'Oréal's Executive Committee as of 1st September. Fabrice Megarbane, President L'Oréal China, joined L'Oréal's Executive Committee on 1st July.
- Moreover, on July 30 2019, the Board of Directors has decided, under the authorisation voted by the Annual General Meeting of 18 April 2019, to set up a share buyback programme amounting to a maximum of 750 million euros and with a maximum number of shares to be acquired of 3 million during the second half of 2019. All the shares bought back will be cancelled [(4)].

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

(2) Sales achieved on our brands' websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data).

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

(4) The L'Oréal Registration Document filed with the AMF (Autorité des Marchés Financiers) on 14 March 2019 includes, on pages 370 and 371, the other pieces of information that must appear in the share buyback programme description pursuant to Article 241-2 of the General Regulation of the AMF.

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2019 Condensed consolidated financial statements

2.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	**1st half 2019**	1st half 2018	2018
Net sales	**3.1**	**14,811.5**	**13,390.7**	**26,937.4**
Cost of sales		-3,988.5	-3,598.3	-7,331.6
Gross profit		**10,823.0**	**9,792.4**	**19,605.8**
Research and development		-459.7	-447.2	-914.4
Advertising and promotion		-4,471.7	-4,018.3	-8,144.7
Selling, general and administrative expenses		-3,003.3	-2,751.0	-5,624.7
Operating profit	**3.1**	**2,888.4**	**2,575.9**	**4,922.0**
Other income and expenses	4	-170.4	-40.4	-94.7
Operational profit		**2,718.0**	**2,535.5**	**4,827.3**
Finance costs on gross debt		-40.7	-11.3	-34.8
Finance income on cash and cash equivalents		18.3	33.5	47.9
Finance costs, net		**-22.4**	**22.2**	**13.1**
Other financial income (expenses)		-7.8	-7.7	-15.0
Sanofi dividends		363.0	358.3	358.3
Profit before tax and associates		**3,050.8**	**2,908.3**	**5,183.7**
Income tax		-718.1	-631.6	-1,284.3
Share of profit in associates			-0.1	0.1
Net profit		**2,332.7**	**2,276.6**	**3,899.5**
Attributable to:				
• owners of the company		2,326.7	2,275.2	3,895.4
• non-controlling interests		6.0	1.4	4.1
Earnings per share attributable to owners of the company *(euros)*	10.3	4.15	4.07	6.96
Diluted earnings per share attributable to owners of the company *(euros)*	10.3	4.13	4.04	6.92
Earnings per share attributable to owners of the company, excluding non-recurring items *(euros)*	10.3	4.40	4.11	7.13
Diluted earnings per share attributable to owners of the company, excluding non-recurring items *(euros)*	10.3	4.38	4.08	7.08

2.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	**1st half 2019**	1st half 2018	2018
Consolidated net profit for the period		**2,332.7**	**2,276.6**	**3,899.5**
Cash flow hedges		*-6.9*	*-6.6*	*-60.3*
Cumulative translation adjustments		*79.7*	*46.8*	*126.4*
Income tax on items that may be reclassified to profit or loss (1)		*4.5*	*1.0*	*14.8*
Items that may be reclassified to profit or loss		**77.3**	**41.2**	**80.9**
Financial assets at fair value through profit or loss	8.3	*29.6*	*-378.3*	*450.5*
Actuarial gains and losses	5.1	*-131.3*	-	*-58.5*
Income tax on items that may not be reclassified to profit or loss (1)		*33.0*	*10.8*	*0.5*
Items that may not be reclassified to profit or loss		**-68.7**	**-367.5**	**392.5**
Other comprehensive income		**8.6**	**-326.3**	**473.4**
Consolidated comprehensive income		**2,341.3**	**1,950.3**	**4,372.9**
Attributable to:				
• **owners of the company**		**2,335.4**	**1,948.9**	**4,368.7**
• non-controlling interests		5.9	1.4	4.2

(1) The tax effect is as follows:

€ millions	**1st half 2019**	1st half 2018	2018
Cash flow hedges	*4.5*	*1.0*	*14.8*
Items that may be reclassified to profit or loss	**4.5**	**1.0**	**14.8**
Financial assets at fair value through profit or loss	*-0.9*	*11.8*	*-14.0*
Actuarial gains and losses	*33.9*	*-1.0*	*14.5*
Items that may not be reclassified to profit or loss	**33.0**	**10.8**	**0.5**
TOTAL	**37.5**	**11.8**	**15.4**

2.3. COMPARED CONSOLIDATED BALANCE SHEETS

| ASSETS

€ millions	Notes	30.06.2019	30.06.2018	31.12.2018
Non-current assets		**28,054.8**	**24,980.8**	**25,991.2**
Goodwill	6	9,571.1	9,551.0	9,597.1
Other intangible assets	6	3,014.1	2,884.8	3,087.3
Right-of-use assets	3.2	2,009.9	-	-
Property, plant and equipment	3.2	3,598.6	3,582.0	3,624.6
Non-current financial assets	8.3	9,157.8	8,390.3	9,100.5
Investments in associates		9.5	9.9	9.0
Deferred tax assets		693.8	562.8	572.7
Current assets		**12,438.3**	**10,506.9**	**12,466.3**
Inventories		2,930.1	2,689.4	2,821.9
Trade accounts receivable		4,514.4	4,334.4	3,983.2
Other current assets		1,529.3	1,400.6	1,509.1
Current tax assets		78.2	69.0	160.1
Cash and cash equivalents	8.2	3,386.3	2,013.5	3,992.0
TOTAL		**40,493.1**	**35,487.7**	**38,457.5**

| EQUITY & LIABILITIES

€ millions	Notes	30.06.2019	30.06.2018	31.12.2018
Equity	10	**27,122.1**	**24,349.2**	**26,933.6**
Share capital		112.3	112.4	112.1
Additional paid-in capital		3,108.8	2,977.7	3,070.3
Other reserves		17,659.5	16,382.0	15,952.5
Other comprehensive income		4,171.0	3,521.9	4,242.1
Cumulative translation adjustments		-207.5	-366.9	-287.4
Treasury shares		-56.5	-555.9	-56.5
Net profit attributable to owners of the company		2,326.7	2,275.2	3,895.4
Equity attributable to owners of the company		**27,114.3**	**24,346.5**	**26,928.4**
Non-controlling interests		7.8	2.8	5.2
Non-current liabilities		**3,350.5**	**1,219.6**	**1,412.2**
Provisions for employee retirement obligations and related benefits		552.5	327.4	388.9
Provisions for liabilities and charges	11.1	354.1	295.8	336.1
Deferred tax liabilities		685.7	583.5	673.7
Non-current borrowings and debt	8.1	9.4	12.9	13.5
Non-current lease debt	8.1	1,748.8	-	-
Current liabilities		**10,020.5**	**9,918.8**	**10,111.6**
Trade accounts payable		4,498.8	4,396.7	4,550.0
Provisions for liabilities and charges	11.1	1,016.9	948.5	979.8
Other current liabilities		2,767.7	2,682.0	3,138.9
Income tax		309.7	254.0	215.1
Current borrowings and debt	8.1	1,025.2	1,637.6	1,227.8
Current lease debt	8.1	402.2	-	-
TOTAL		**40,493.1**	**35,487.7**	**38,457.5**

2.4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2017 (1)	**559,747,963**	**112.1**	**2,935.3**	**18,343.3**	**3,895.0**	**-56.5**	**-413.5**	**24,815.7**	**2.8**	**24,818.5**
Changes in accounting policy at 01.01.2018				-12.0				-12.0	-0.9	-12.9
At 01.01.2018 (2)	**559,747,963**	**112.1**	**2,935.3**	**18,331.3**	**3,895.0**	**-56.5**	**-413.5**	**24,803.7**	**1.9**	**24,805.6**
Consolidated net profit for the period				3,895.4				3,895.4	4.1	3,899.5
Cash flow hedges					*-45.3*			*-45.3*	*-0.2*	*-45.5*
Cumulative translation adjustments							*114.5*	*114.5*	*0.3*	*114.8*
Hyperinflation							*11.6*	*11.6*		*11.6*
Other comprehensive income that may be reclassified to profit and loss					**-45.3**		**126.1**	**80.8**	**0.1**	**80.9**
Financial assets at fair value through profit or loss					*436.5*			*436.5*		*436.5*
Actuarial gains and losses					*-44.0*			*-44.0*		*-44.0*
Other comprehensive income that may not be reclassified to profit and loss					**392.5**			**392.5**	**-**	**392.5**
Consolidated comprehensive income				**3,895.4**	**347.2**		**126.1**	**4,368.7**	**4.2**	**4,372.9**
Capital increase	2,375,378	0.5	135.0	-0.2				135.3		135.3
Cancellation of Treasury shares		-0.5		-498.9		499.4		-		-
Dividends paid (not paid on Treasury shares)				-2,006.6				-2,006.6	-3.8	-2,010.4
Share-based payment				126.4				126.4		126.4
Net changes in Treasury shares	-2,497,814					-499.4		-499.4		-499.4
Changes in scope of consolidation				-2.9				-2.9	2.9	-
Other movements				3.4	-0.1			3.3		3.3
At 31.12.2018	**559,625,527**	**112.1**	**3,070.3**	**19,847.8**	**4,242.1**	**-56.5**	**-287.4**	**26,928.4**	**5.2**	**26,933.6**

(1) After taking account of the change in accounting policy pertaining to IFRS 9 Financial Instruments (note 1).

(2) After taking account of the change in accounting policy pertaining to IFRS 15 Revenue from Contracts with Customers (note 1).

(3) After taking account of the change in accounting policy pertaining to IFRS 16 Leases (note 1).

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2018	**559,625,527**	**112.1**	**3,070.3**	**19,847.8**	**4,242.1**	**-56.5**	**-287.4**	**26,928.4**	**5.2**	**26,933.6**
Changes in accounting policy at 01.01.2019				-81.8				-81.8		-81.8
At 01.01.2019 (3)	**559,625,527**	**112.1**	**3,070.3**	**19,766.1**	**4,242.1**	**-56.5**	**-287.4**	**26,846.7**	**5.2**	**26,851.9**
Consolidated net profit for the period				2,326.7				2,326.7	6.0	2,332.7
Cash flow hedges					*-2.4*			*-2.4*		*-2.4*
Cumulative translation adjustments							*67.8*	*67.8*	*-0.1*	*67.8*
Hyperinflation							*12.0*	*12.0*		*12.0*
Other comprehensive income that may be reclassified to profit and loss					**-2.4**		**79.9**	**77.5**	**-0.1**	**77.4**
Financial assets at fair value through profit or loss					*28.6*			*28.6*		*28.6*
Actuarial gains and losses					*-97.4*			*-97.4*		*-97.4*
Other comprehensive income that may not be reclassified to profit and loss					**-68.8**			**-68.8**	**-**	**-68.8**
Consolidated comprehensive income				**2,326.7**	**-71.2**		**79.9**	**2,335.4**	**5.9**	**2,341.3**
Capital increase	1,226,092	0.2	38.5	-0.1				38.6		38.6
Cancellation of Treasury shares								-		-
Dividends paid (not paid on Treasury shares)				-2,176.7				-2,176.7	-3.6	-2,180.3
Share-based payment				70.0				70.0		70.0
Net changes in Treasury shares								-		-
Changes in scope of consolidation								-	0.3	0.3
Other movements				0.3				0.3		0.3
AT 30.06.2019	**560,851,619**	**112.3**	**3,108.8**	**19,986.3**	**4,171.0**	**-56.5**	**-207.5**	**27,114.3**	**7.8**	**27,122.1**

(1) After taking account of the change in accounting policy pertaining to IFRS 9 Financial Instruments (note 1).

(2) After taking account of the change in accounting policy pertaining to IFRS 15 Revenue from Contracts with Customers (note 1).

(3) After taking account of the change in accounting policy pertaining to IFRS 16 Leases (note 1).

| CHANGES IN FIRST-HALF 2018

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury shares	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2017 (1)	**559,747,963**	**112.1**	**2,935.3**	**18,343.3**	**3,895.0**	**-56.5**	**-413.5**	**24,815.7**	**2.8**	**24,818.5**
Changes in accounting policy at 01.01.2018				-12.0				-12.0	-0.9	-12.9
At 01.01.2018 (2)	**559,747,963**	**112.1**	**2,935.3**	**18,331.3**	**3,895.0**	**-56.5**	**-413.5**	**24,803.7**	**1.9**	**24,805.6**
Consolidated net profit for the period				2,275.2				2,275.2	1.4	2,276.6
Cash flow hedges					*-5.4*			*-5.4*	*-0.2*	*-5.6*
Cumulative translation adjustments							*46.6*	*46.6*	*0.2*	*46.8*
Other comprehensive income that may be reclassified to profit and loss					**-5.4**		**46.6**	**41.2**	**-**	**41.2**
Financial assets at fair value through profit or loss					*-366.6*			*-366.6*		*-366.6*
Actuarial gains and losses					*-0.9*			*-0.9*		*-0.9*
Other comprehensive income that may not be reclassified to profit and loss					**-367.5**			**-367.5**	**-**	**-367.5**
Consolidated comprehensive income				**2,275.2**	**-372.9**		**46.6**	**1,948.9**	**1.4**	**1,950.3**
Capital increase	1,582,725	0.3	42.4	-0.2				42.5		42.5
Cancellation of Treasury shares								-		-
Dividends paid (not paid on Treasury shares)				-2,006.6				-2,006.6	-3.7	-2,010.3
Share-based payment				57.6				57.6		57.6
Net changes in Treasury shares	-2,497,814					-499.4		-499.4		-499.4
Purchase commitments for non-controlling interests								-	0.3	0.3
Changes in scope of consolidation				-2.9				-2.9	2.9	-
Other movements				2.8	-0.2			2.6		2.6
AT 30.06.2018	**558,832,874**	**112.4**	**2,977.7**	**18,657.2**	**3,521.9**	**-555.9**	**-366.9**	**24,346.5**	**2.8**	**24,349.2**

(1) After taking account of the change in accounting policy pertaining to IFRS 9 Financial Instruments (note 1).

(2) After taking account of the change in accounting policy pertaining to IFRS 15 Revenue from Contracts with Customers (note 1).

2.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	1st half 2019	1st half 2018	2018
Cash flows from operating activities				
Net profit attributable to owners of the company		2,326.7	2,275.2	3,895.4
Non-controlling interests		6.0	1.4	4.1
Elimination of expenses and income with no impact on cash flows:				
• depreciation, amortisation and provisions		923.8	467.3	1,109.3
• changes in deferred taxes		-20.9	-22.0	43.0
• share-based payment (including free shares)		70.0	57.6	126.4
• capital gains and losses on disposals of assets		-1.9	0.1	-2.7
Other non-cash transactions		1.6	-	2.7
Share of profit in associates net of dividends received		-	0.1	-0.1
Gross cash flow		**3,305.3**	**2,779.7**	**5,178.1**
Changes in working capital		-813.0	-431.2	113.8
Net cash provided by operating activities (A)		**2,492.3**	**2,348.5**	**5,291.9**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-559.8	-780.0	-1,416.1
Disposals of property, plant and equipment and intangible assets		8.1	1.8	5.6
Changes in other financial assets (including investments in non-consolidated companies)		-22.1	-15.3	61.0
Effect of changes in the scope of consolidation		-7.2	-553.0	-666.5
Net cash (used in) from investing activities (B)		**-581.0**	**-1,346.5**	**-2,016.0**
Cash flows from financing activities				
Dividends paid		-2,198.2	-2,035.4	-2,061.4
Capital increase of the parent company		38.6	42.5	135.3
Disposal (acquisition) of Treasury shares		-	-499.4	-499.4
Issuance (repayment) of short-term loans		-82.9	457.5	62.3
Repayment of long-term borrowings		-0.6	-2.1	-4.3
Repayment of lease debt		-158.3	-	-
Net cash (used in) from financing activities (C)		**-2,401.4**	**-2,036.9**	**-2,367.5**
Net effect of changes in exchange rates and fair value (D)		-115.6	1.8	36.9
Change in cash and cash equivalents (A+B+C+D)		**-605.7**	**-1,033.1**	**945.4**
Cash and cash equivalents at beginning of the period (E)		**3,992.0**	**3,046.6**	**3,046.6**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	**8.2**	**3,386.3**	**2,013.5**	**3,992.0**

Income tax paid amount to €534.3 million, €445.1 million and €1,098.4 million respectively for the first half of 2019 and 2018 and year 2018.

Interest paid amount to €42.2 million, €12.1 million and €35.3 million respectively for the first half of 2019 and 2018 and year 2018.

Dividends received amount to €363.0 million, €358.3 million and €358.3 million respectively for the first half of 2019 and 2018 and year 2018, and are included within gross cash flow.

2.6. NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Notes contents

NOTE 1 Accounting principles

The condensed half-year consolidated financial statements of L'Oréal and its subsidiaries ("the Group") have been prepared in accordance with the international accounting standard IAS 34. As condensed financial statements, they do not include all the information required by IFRS for the preparation of the annual financial statements and must therefore be read in conjunction with the Group consolidated financial statements prepared in accordance with IFRS as adopted in the European Union for the year ending at 31 December 2018.

The Board of Directors reviewed the condensed half-year consolidated financial statements as at 30 June 2019, on 30 July 2019.

The accounting policies applied are identical to those applied when preparing the annual consolidated financial statements for the year ended 31 December 2018, except as regards income tax and the change in accounting policy pertaining to IFRS 16 Leases. The implementation of IFRIC 23 Uncertainty over Income Tax Treatments has had no impact on the financial statements at 30 June 2019.

The tax charge (current and deferred) is calculated for the half-year financial statements by applying to the profit for the period the estimated annual tax rate for the current tax year for each entity or tax group.
The corporate income tax rate used in France for 2019 is 34.43%, unchanged from 2018 in order to take into account the approval in July 2019 of the law deferring the reduction in the tax rate initially planned for 2019.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2019.

1.1. Change in accounting policy applied at 1 January 2019: IFRS 16 Leases

This standard came into effect on 1 January 2019.

The main changes ushered in by the standard are as follows:

- Accounting for operating leases as of 1 January 2019: all leases are accounted for under a single model consisting of recording a lease liability (present value of future lease payments) and a right-of-use asset.

  The lease term is the non-cancellable period of each lease unless the Group is reasonably certain to exercise the contractual renewal options. The right of use is amortised over the expected lease term.
  The discount rate used to measure the lease liability is the effective annual rate for each lease calculated on the basis of the zero-coupon rates obtained per currency and per maturity tranche, plus the Group's credit spread.
  L'Oréal has elected to apply the simplified retrospective method. The option of measuring the right of use by determining the book value from the inception of the lease has been used for virtually all leases;
- 95% of capitalised leases are real estate leases, covering country head offices, stores and distribution centres. The other types of leases cover vehicle fleets, standard materials handling equipment, and packaging equipment and tools;
- Leases on low-value assets and those expiring in 2019 have not been included in the scope;
- On initial recognition, deferred taxes are recognised;
- The reconciliation of the amount of off-balance sheet operating lease commitments as of 31 December 2018 and the lease liability as of 1 January 2019 is as follows:

€ millions	**01.01.2019**
Operating lease commitments as of 31.12.2018	**2,582.1**
Leases on low-value assets or those expiring in 2019	-162.8
Other *(free rent, lease renewals, etc.)*	-33.1
Lease debt before discounting as of 01.01.2019	**2,386.2**
Discounting	-225.5
LEASE DEBT AS OF 01.01.2019	**2,160.7**

The weighted average incremental borrowing rate as of 1 January 2019 is 2.5%.

- The restatement of the opening balance sheet as of 1 January 2019 is as follows:

€ millions		*€ millions*	
ASSETS		**EQUITY & LIABILITIES**	
Other intangible assets/ Property, plant and equipment	-92	Equity	-82
		Deferred tax liabilities	-10
Right-of-use assets	2,006	Non-current lease debt	1,752
Deferred tax assets	19	Other current liabilities	-129
Other current assets	2	Current lease debt	404
TOTAL	**1,935**	**TOTAL**	**1,935**

1.2. Change in accounting policy applied at 1 January 2018: IFRS 15 Revenue from Contracts with Customers

This standard came into effect on 1 January 2018.

The main change identified concerns the Group's relationships with distributors with respect to which the view was taken that the distributor acted as agent and not as principal. Sales are now recognised upon sale of products to the end customer.

The standard is applied retrospectively by recognising the cumulative effect of the initial application in equity on 1 January 2018. The impact of this new accounting policy is not material on the income statement and in 2018 resulted in a €28.2 million increase in sales, offset by a corresponding increase in expenses.

This change resulted in a €12.9 million reduction in equity, offset by a €5.2 million increase in inventories, a €1.7 million increase in deferred assets and €19.8 million in other liabilities.

1.3. Change in accounting policy applied at 1 January 2016: IFRS 9 Financial Instruments applicable at 1 January 2018

This standard came into effect on 1 January 2018.

The Group is primarily affected as follows:

- the change in the accounting treatment of investments and their remeasurement through profit or loss or through equity not reclassifiable to profit or loss under the fair value option. The securities affected are mainly the investment in Sanofi but also strategic investments in venture capital funds, for which the "equity" option was chosen. This classification reflects the purpose behind these investments, which are not cash investments but rather investments designed to further L'Oréal's overall strategy;
- the possibility of deferring recognition of the time value of currency options in equity in the same way as for forward hedges, so as to only impact income at the date the hedged transactions occur.

The impact of this new accounting policy regarding the time value of options on income in comparative periods was not deemed material. As a result, they were not restated.

This change resulted in a reclassification in opening equity at 1 January 2016 of €10.0 million from *Retained earnings and net profit* to *Other comprehensive income*, at 1 January 2017 of €10.3 million from *Retained earnings and net profit* to *Other comprehensive income* and at 1 January 2018 of €9.6 million from *Retained earnings and net profit* to *Other comprehensive income*.

The current trade accounts receivable impairment methodology at L'Oréal reflects the level of expected losses on the customer portfolio, calculated on the basis of past statistics from the outset of the receivable. Moreover, this risk is contained thanks to the credit insurance policy applied by the Group. As a result, the application of IFRS 9 in this area has no impact on the Group's financial statements.

NOTE 2 Main events of the period

2.1. Changes in the scope of consolidation

2.1.1. First half of 2019

Acquisitions

L'Oréal did not make any acquisitions in the first half of 2019.

2.1.2. Year 2018

Acquisitions

On 16 March 2018, L'Oréal announced the acquisition of 100% of ModiFace, a Canadian-based global leader in augmented reality and artificial intelligence applied to beauty. This acquisition is part of L'Oréal Group's digital acceleration strategy, one of the pillars of which is to provide its 34 international brands with the most innovative technologies in terms of beauty experience and services. Founded by Parham Aarabi in Toronto in 2007, ModiFace has developed cutting edge technology for the photo-realistic try-on of make-up, colourants and skin assessment by using proprietary face tracking and colour rendering expertise. ModiFace employs close to 70 engineers, researchers and scientists who have published over 200 scientific articles and registered some thirty patents. This acquisition has been fully consolidated since 15 March 2018.

On 2 May 2018, L'Oréal announced the acquisition of 100% of Nanda Co. Ltd., the Korean lifestyle, make-up and fashion company founded by Kim So-Hee in Seoul in 2004. Stylenanda, which started in fashion, has since become a company built around the 3CE brand, which now accounts for over 70% of its business. With €127 million in net sales in 2017 and close to 400 employees, the Company now operates in Korea and Japan, and has expanded its commercial footprint to Hong Kong, Singapore, Malaysia and Thailand. Stylenanda is a very popular brand with millennials both in Korea and China. It is sold using a multi-channel distribution model that includes e-commerce, beauty retailers, department stores and duty free shops. The acquisition was completed on 20 June 2018 following regulatory clearance and has since been fully consolidated.

On 25 May 2018, L'Oréal completed the acquisition of Pulp Riot, the professional hair colour brand launched by David and Alexis Thurston in the United States in June 2016. Since its launch, Pulp Riot has transformed the professional market by creating avant-garde content, and by using social media to inspire and educate stylists worldwide. Pulp Riot currently has over 675,000 followers on Instagram. With sales of US $11 million in 2017, Pulp Riot is distributed in the United States, primarily by SalonCentric. The brand has also started its global roll-out. This acquisition has been fully consolidated since 25 May 2018.

On 1 August 2018, L'Oréal announced the signing of an agreement for the acquisition of the German company Logocos Naturkosmetik AG, a pioneer in natural cosmetics with brands such as Logona and Sante. All this company's brands are vegan and certified organic with a product range made from plant extracts and natural ingredients derived from organic farming.
Founded in 1978 by a naturopath, Logocos Naturkosmetik is based in Hanover in Germany and has close to 340 employees. It had 2017 net sales of €59 million, generated in Germany and other European countries. The acquisition was completed on 17 October 2018 following regulatory clearance and has since been fully consolidated.

On 1 August 2018, L'Oréal made a firm offer to shareholders in Holding STRP (Société des Thermes de La Roche-Posay) to buy out all the shares in the Company. The plan provides for the prior disposal of the hotel business to the current shareholders of Holding STRP and exclusive negotiation rights for L'Oréal. Founded in 1921, STRP is the largest thermal centre in Europe wholly dedicated to skin conditions. In 2017, the thermal business saw over 7,500 patients, generating sales of €3.6 million. The acquisition was completed on 13 December 2018 following regulatory clearance and has since been fully consolidated.

The cost of these new acquisitions represents €805.1 million. The total amount of goodwill and other intangible assets resulting from these acquisitions has been provisionally estimated at €596.4 million and €162.3 million respectively.
In 2018, these acquisitions represented €219.9 million in full-year sales and €39.9 million in full-year operating profit.

2.2. Situation in Argentina

Argentina has been considered a hyperinflationary economy since 1 July 2018 and L'Oréal has applied the provisions of IAS 29 Financial Reporting in Hyperinflationary Economies from that date.

Under IAS 29, the non-monetary items in the balance sheet and income statement have been adjusted using a general price index, such that they are stated in terms of the measuring unit current at the end of the reporting period, and translated at the closing exchange rate. Argentina accounts for less than 1% of the Group's sales.

NOTE 3 Operating items – Segment information

3.1. Segment information

3.1.1. Segment information

The Group's business activities are organised into four Divisions. In its markets, each Operational Division develops and enhances a range of its own brand of consumer products:

- the Professional Products Division provides expertise to beauty professionals.

  For over 100 years, this Division has acquired extensive knowledge of, and provided tailored support solutions for, the hairdressing sector. It has built up a unique brand portfolio which currently includes L'Oréal Professionnel, Kérastase, Redken, Matrix, Biolage, PureOlogy, Decléor and Carita;

- the Consumer Products Division's goal is to democratise access to the best that the world of beauty has to offer.

  The Division is underpinned by four major global brands (L'Oréal Paris, Garnier, Maybelline New York and NYX Professional Makeup), and by the deployment of its specialised and regional brands (Essie, Niely, Dark and Lovely, etc.);

- L'Oréal Luxe creates exceptional experiences and products, for the most demanding consumers in selective distribution.

  The Division has built a unique portfolio of prestigious brands including iconic mainstream, aspirational, alternative and specialist brands (Lancôme, Yves Saint Laurent Beauté, Giorgio Armani Beauty, Kiehl's, Urban Decay, Biotherm, Ralph Lauren, IT Cosmetics);

- the Active Cosmetics Division, whose goal is to help everyone in their quest to have healthy and beautiful skin.

  Its portfolio of highly complementary brands (Vichy, La Roche-Posay, SkinCeuticals, and Roger&Gallet) is designed to keep pace with major skincare trends and recommendations of healthcare professionals. The recent acquisition of the US brand CeraVe has recently added to this portfolio.

The "non-allocated" item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options not allocated to the Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

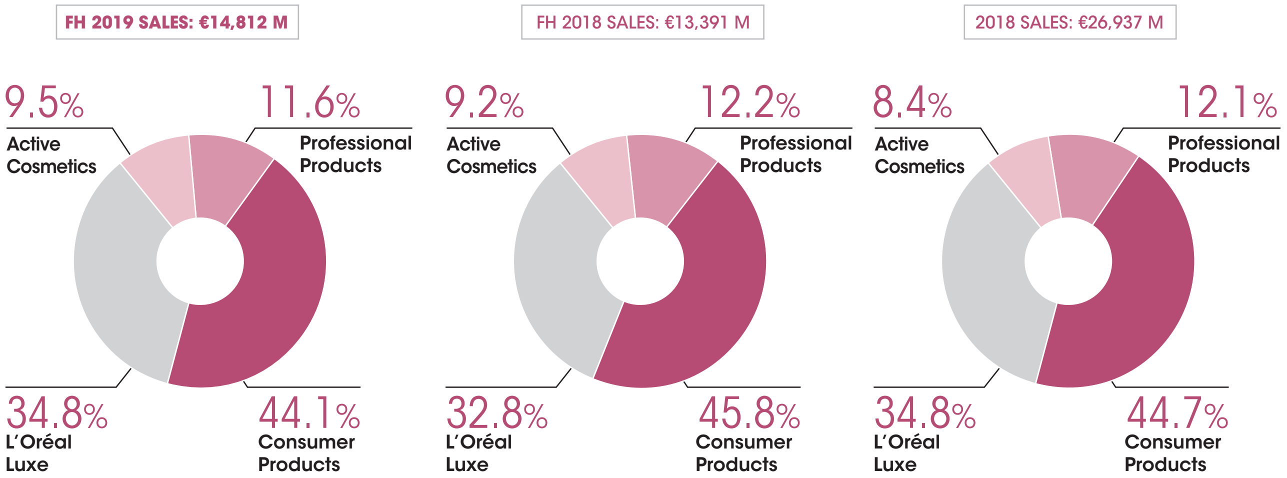
Data by operational Division are prepared using the same accounting principles as those used for the preparation of the consolidated financial statements.

The performance of each Division is measured on the basis of operating profit.

3.1.1.1. Sales of Divisions

€ millions	**1st half 2019**	1st half 2018	2018
Professional Products	1,714.2	1,631.5	3,262.5
Consumer Products	6,530.5	6,136.8	12,032.2
L'Oréal Luxe	5,150.1	4,391.4	9,367.2
Active Cosmetics	1,416.7	1,231.0	2,275.5
GROUP	**14,811.5**	**13,390.7**	**26,937.4**

Sales by Division changed as follows over the three financial periods:



3.1.1.2. Operating profit of Divisions

€ millions	**1st half 2019**	1st half 2018	2018
Professional Products	327.9	313.4	651.5
Consumer Products	1,351.1	1,275.4	2,428.1
L'Oréal Luxe	1,227.3	1,026.7	2,072.4
Active Cosmetics	376.1	326.2	523.0
Operational Divisions Total	**3,282.3**	**2,941.7**	**5,675.0**
Non-allocated	-393.9	-365.7	-753.1
GROUP	**2,888.4**	**2,575.9**	**4,922.0**

3.1.2. Information by geographic zone

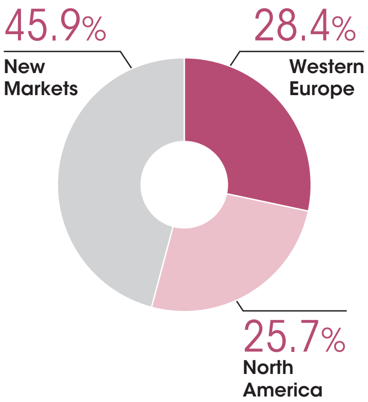
All information is presented on the basis of geographic location of the subsidiaries.

3.1.2.1. Consolidated sales by geographic zone

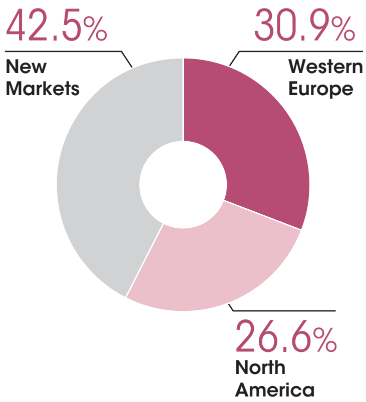
	1st half 2019		Growth *(%)*		1st half 2018		2018	
	€ millions	**% of total**	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	4,212.6	28.4%	1.9%	1.8%	4,134.1	30.9%	8,065.1	29.9%
of which France	1,288.6	8.7%	0.1%	0.1%	1,287.4	9.6%	2,424.1	9.0%
North America	3,805.7	25.7%	6.8%	0.1%	3,564.4	26.6%	7,234.3	26.9%
New Markets	6,793.1	45.9%	19.3%	18.7%	5,692.2	42.5%	11,638.1	43.2%
Asia Pacific	4,626.4	31.2%	30.4%	26.6%	3,548.1	26.5%	7,405.6	27.5%
Latin America	878.6	5.9%	-0.5%	6.7%	882.7	6.6%	1,784.8	6.6%
Eastern Europe	931.3	6.3%	3.5%	7.4%	899.4	6.7%	1,754.2	6.5%
Africa, Middle East	356.7	2.4%	-1.5%	-5.4%	362.1	2.7%	693.5	2.6%
GROUP	**14,811.5**	**100.0%**	**10.6%**	**8.4%**	**13,390.7**	**100.0%**	**26,937.4**	**100.0%**

Sales by geographic zone changed as follows over the three financial periods:

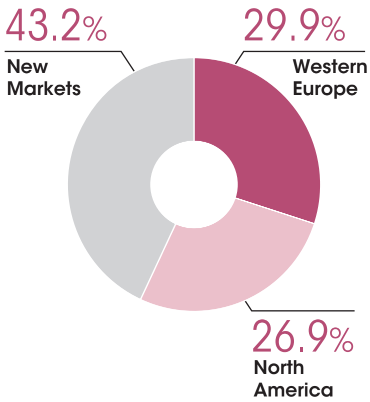
FH 2019 SALES: €14,812 M



FH 2018 SALES: €13,391 M



2018 SALES: €26,937 M



3.2. Depreciation and amortisation expense and Property, plant and equipment

3.2.1. Depreciation and amortisation expenses

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amounted to €769.3 million of which €209.5 million of right-of-use (IFRS 16) for the first half of 2019 compared with €522.9 million and €1,095.3 million respectively for the first half of 2018 and year 2018.

3.2.2. Property plant and equipment

Acquisitions for the first half of 2019 amounted to €660.6 million of which €225.5 million of new leases (IFRS 16) compared with €412.0 million and €900.8 million respectively for the first half of 2018 and year 2018.

Depreciation and provision for the first half of 2019 amounted to €665.4 million of which €209.5 million of right-of-use (IFRS 16) compared with €433.8 million and €900.6 million respectively the first half of and year 2018.

NOTE 4 Other operational income and expenses

This item breaks down as follows:

€ millions	**1st half 2019**	1st half 2018	2018
Capital gains and losses on disposals of property, plant and equipment and intangible assets	1.9	-0.1	2.7
Impairment of property, plant and equipment and intangible assets (1)	-79.8	-	-
Restructuring costs (2)	-90.4	-27.3	-85.1
Other (3)	-2.1	-13.0	-12.3
TOTAL	**-170.4**	**-40.4**	**-94.7**

(1) In the first half of 2019, the Clarisonic brand and goodwill (€33 million and €47 million, respectively).

(2) Of which:

- *In the first half of 2019, the redesign of NYX Professional Makeup's distribution channels (€70 million), the refocus of production facilities on Luxe, mainly in France, for (€9 million) and additional costs on various restructuring projects in 2018, mainly in Brazil and Western Europe, for (€10 million);*
- *in the first half of 2018, the global transformation plan of the Professional Products Division (€11.9 million), the reorganisation in Brazil (€6.4 million), various plans to restructure sales forces and operating structures in Western Europe (€5.9 million) and the closure of the Canton masks production plant in China (€6.3 million);*
- *in 2018, the global plan to transform the Professional Products Division (€15.6 million), the reorganisation in Brazil (€26.8 million), various plans to restructure sales forces and operating structures in Western Europe (€19.3 million), the streamlining of production and the refocussing of the distribution of the Decléor brand (€12.1 million) as well as the closure of the Canton mask production plant in China (€6.0 million) and the discontinuing of various selective brands in Malaysia and Singapore (€4.6 million).*

(3) Of which:

- *in the first half of 2019, acquisition-related costs (€2 million) ;*
- *in the first half of 2018, acquisition-related costs (€12 million);*
- *in 2018, acquisition-related costs (€17.3 million) as well as the downward adjustment of the Atelier Cologne earn-out (-€3.8 million).*

NOTE 5 Employee benefits – Free shares

5.1. Employee benefits – Actuarial gains and losses

a) At 30 June 2019

The decline in the interest rates used to determine the present value of our pension obligations recorded since 31 December 2018 is approximately 75 basis points for the United States and France, and 25 basis points for the United Kingdom. It is virtually offset by an upward trend in hedging assets for the United States and the United Kingdom, and partially for France.

Upward impacts of approximately €1 million and €6 million on pension provisions for the United States and the United Kingdom respectively were not taken into account in the financial statements at 30 June 2019 due to their immaterial nature. Only the increase of approximately €131 million for France was included in these half-year financial statements.

b) At 30 June 2018

The interest rates used to determine the present value of our pension obligations have increased by approximately 50 basis points for the United States and 25 base points for the United Kingdom since 31 December 2017. The increase is partially offset by a downward trend on plan assets for the United States, the United Kingdom and France.

The downward impact of approximately €6 million of the provision for pensions was not taken into account in the financial statements for the period ended 30 June 2018 due to its immaterial nature.

5.2. Free shares

On 18 April 2019, the Board of Directors decided to conditionally grant 843,075 free shares.

a) 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.

The performance conditions, under the 18 April 2019 plan, concern:

- for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2020, 2021 and 2022 fiscal years 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 2020, 2021 and 2022 fiscal and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

The plans of 17 April 2014 and 22 April 2015 were definitively vested by the allocation of respectively 993,765 shares on 18 April 2018 and 706,262 shares on 23 April 2019. The shares definitively awarded in respect of the 22 April 2015 plan took into account the percentage performance achieved at the end of the plan.

At 30 June 2019, the performance conditions were deemed satisfied.

b) 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.

On the basis of these assumptions, the fair values amount to €226.25 compared to a share price of €243.8.

c) Share capital increase reserved for employees

In June 2018, Group employees had the opportunity of subscribing to a Share Ownership Plan based on a traditional format with discount and matching contribution.

The subscription price was set at €162.52, representing 80% of the average share price over the 20 trading sessions prior to the decision by the Chairman and Chief Executive Officer setting the subscription period from 4 June to 18 June 2018 during which 423,916 shares were subscribed. This number does not include the subscription reserved for a Trustee under the laws of England and Wales, as part of a Share Incentive Plan established for Group employees in the UK, with the final number of shares subscribed determined at 4,514 in November 2018.

For French employees, free shares were offered upon subscription having regard to their personal contribution to the plan with a maximum of 4 shares offered for every 10 shares subscribed.

For employees in other countries, shares were offered under a free share plan with a condition of the continued employment of the employee and having regard to the personal contribution to the plan with a maximum of 4 shares offered for every 10 shares subscribed. The shares will be allocated to employees on 25 July 2023 provided they are still with the Group on that date.

The IFRS 2 expense measuring the benefit offered to employees is calculated with reference to the fair value of the discount offered on the non-transferable shares.

The capital was increased on 24 July 2018 by 455,613 shares and on 15 November 2018 by 6,524 shares.

The IFRS 2 expense for free shares granted amounted to:

- €5.1 million for French employees on the basis of a subscription price of €162.52 per share; and
- €7.1 million for employees outside France. This cost is amortised over the vesting period and corresponds to the share reference value adjusted for the expected dividends over the vesting period namely €180.94 per share, except for the Share Incentive Plan for which the acquisition cost is €205.66 per share.

NOTE 6 Intangibles assets

An impairment test was performed on the L'Oréal Beauty Device cash-generating unit, and an impairment loss was recorded in view of adverse events, the performance not being in line with expectations. The slippage on the business plan results from the fact that the brush market is now focused on skincare, and from the transfer of the market from the United States to Asia.

The recoverable amount of the L'Oréal Beauty Device cash-generating unit was €95.1 million at the end of June 2019.

The €25.9 million reduction in "Goodwill" resulted essentially from this impairment of the L'Oréal Beauty Device goodwill (-€47.1 million) partially offset by the positive change in exchange rates in the amount of €18.8 million and changes in the scope of consolidation and other movements over the half-year in the amount of €2.3 million.

The €73.1 million reduction in "Other intangible assets" is attributable chiefly to the reclassification of the key money as a right-of-use asset following the introduction of IFRS 16 (reduction of €56.3 million as of 30 June 2019), the impairment loss on the Clarisonic brand (reduction of €32.8 million) and amortisation expense of -€104.3 million for the period. These impacts were offset principally by acquisitions in the amount of €90.8 million over the half-year, the recognition of brands adding €22.9 million and positive change in exchange rates for €9.4 million.

NOTE 7 Investments in associates

€ millions	**30.06.2019**	30.06.2018	31.12.2018
Investments in associates			
• LIPP Distribution (1)	8.6	8.8	8.1
• Nutricos Technologies	0.9	1.1	0.9
TOTAL	**9.5**	**9.9**	**9.0**

(1) On 13 June 2018, L'Oréal acquired 49% of the Tunisian company LIPP Distribution, which distributes the Group's brands in Tunisia.

NOTE 8 Financial assets and liabilities – Cost of debt

8.1. Borrowings and debt

The Group takes out bank loans to cover its medium-term financing needs and issues short-term marketable instruments in France and commercial paper in the US to cover its financing needs in the short term. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

8.1.1. Debt by type

	30.06.2019		30.06.2018		31.12.2018	
€ millions	**Non-current**	**Current**	Non-current	Current	Non-current	Current
Short-term marketable instruments	-	754.3	-	1,133.8	-	748.6
MLT bank loans	-	-	0.3	0.7	0.6	-
Debt on capital lease contracts	-	-	3.8	3.1	3.6	2.4
Lease debt	1,748.8	402.2	-	-	-	-
Overdrafts	-	117.7	-	342.3	-	363.8
Other borrowings and debt	9.4	153.1	8.8	157.8	9.3	113.0
TOTAL	**1,758.2**	**1,427.4**	**12.9**	**1,637.6**	**13.5**	**1,227.8**

8.1.2. Change in debt

€ millions	31.12.2018	Change in accounting policy	Cash-flows	Non-cash changes: Changes in the scope of consolidation	Non-cash changes: Translation adjustments/ differences	Non-cash changes: Changes in fair value	Non-cash changes: Other	30.06.2019
Short-term marketable instruments	748.6	-	1.0	-	4.8	-	-	754.3
MLT bank loans	0.6	-	-0.6	-	-	-	-	-
Lease debt	6.1	2,155.4	-158.2	-	13.4	-	134.4	2,151.0
Overdrafts	363.8	-	-128.1	-	-1.5	-	-116.4	117.7
Other borrowings and debt	122.3	-	44.3	-	-6.2	0.1	2.1	162.5
TOTAL	**1,241.4**	**2,155.4**	**-241.8**	**-**	**10.4**	**0.1**	**20.0**	**3,185.6**

8.1.3. Debt by maturity date

€ millions	30.06.2019	30.06.2018	31.12.2018
Under 1 year (1)	1,427.4	1,637.6	1,227.8
1 to 5 years	1,176.8	3.5	3.6
Over 5 years	581.4	9.4	9.9
TOTAL	**3,185.6**	**1,650.5**	**1,241.4**

(1) *At 30 June 2019, the Group had confirmed undrawn credit lines for €3,795.3 million compared with €3,636.5 million at 30 June 2018 and €3,643.6 million at 31 December 2018. These lines were not subject to any covenants.*

8.1.4. Debt by currency

€ millions	30.06.2019	30.06.2018	31.12.2018
Euro (EUR)	1,348.8	661.6	404.8
US Dollar (USD)	1,033.0	761.0	571.7
Chinese Yuan Renminbi (CNY)	112.0	17.1	16.9
Hong Kong dollar (HKD)	96.1	-	15.6
Brazilian Real (BRL)	74.5	27.5	19.8
British Pound (GBP)	59.8	1.5	46.3
Canadian dollar (CAD)	49.5	-	-
Chilean Peso (CLP)	46.0	36.8	26.2
Turkish Lira (TRY)	36.9	17.7	6.5
Russian Rouble (RUB)	33.2	1.3	1.6
Colombian Peso (COP)	31.5	25.2	25.4
Other	264.3	100.8	106.5
TOTAL	**3,185.6**	**1,650.5**	**1,241.4**

8.1.5. Breakdown of fixed rate – floating rate debt (after allowing for interest rate hedging instruments)

€ millions	30.06.2019	30.06.2018	31.12.2018
Floating rate	914.1	1,560.7	1,162.0
Fixed rate including lease debt	2,271.5	89.7	79.4
TOTAL	**3,185.6**	**1,650.5**	**1,241.4**

8.1.6. Effective interest rates

Effective interest rates on Group debt excluding lease debt after allowing for hedging instruments are 0.50% at 30 June 2019 compared with 1.13% at 30 June 2018 and 1.69% at 31 December 2018 for short-term marketable instruments.

Bank loans amounted to €0.0 million at 30 June 2019 compared with €1.0 million at 30 June 2018 and €0.6 million at 31 December 2018.

8.1.7. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

	30.06.2019	30.06.2018	31.12.2018
Euro (EUR) (1)	-0.44%	-0.45%	-0.45%
US Dollar (USD)	2.48%	1.81%	1.97%

(1) The fall in euro interest rates is now reflected by drawdowns of short-term marketable instruments with negative interest rates.

8.1.8. 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 excluding lease debt amounted to €1,034.6 million at 30 June 2019 compared with €1,651.0 million at 30 June 2018 and €1,241.8 million at 31 December 2018.

8.2. Cash and cash equivalents

	30.06.2019		30.06.2018		31.12.2018	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	1,407.2	1,407.2	524.2	524.3	1,899.8	1,900.5
Bank accounts and other cash and cash equivalents	1,979.1	1,979.1	1,489.3	1,489.3	2,092.2	2,092.2
TOTAL	**3,386.3**	**3,386.3**	**2,013.5**	**2,013.6**	**3,992.0**	**3,992.7**

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). They are considered as financial assets at fair value through profit or loss.

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.

8.3. Non-current financial assets

	30.06.2019		30.06.2018		31.12.2018	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Non-consolidated securities						
• Sanofi (1)	8,974.6	4,033.5	8,116.3	4,033.5	8,945.0	4,033.5
• Unlisted securities (2)	63.3	158.2	36.1	131.0	52.5	147.5
Financial assets at amortised cost						
• Non-current loans and receivables	119.9	122.6	237.9	240.6	103.0	105.5
TOTAL	**9,157.8**	**4,314.3**	**8,390.3**	**4,405.2**	**9,100.5**	**4,286.5**

(1) L'Oréal's stake in Sanofi was 9.44% at 30 June 2019. The carrying amounts at 30 June 2019, 30 June 2018 and 31 December 2018, (€8,974.6 million, €8,116.3 million and €8,945.0 million, respectively) correspond to the market value of the shares based on the closing price at each of these dates (€75.91, €68.65 and €75.66, respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12. The investment is measured at fair value through other comprehensive income.

(2) This heading mainly includes:

- *strategic investments in investment funds measured at fair value through other comprehensive income,*
- *securities of our subsidiaries in Venezuela deconsolidated since 31 December 2015, for €94.4 million fully written down.*

In the absence of specific events, their acquisition cost is deemed to be the best possible estimate of fair value.

NOTE 9 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.

9.1. 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.

Based on information supplied by the subsidiaries, future operating transactions are covered by exchange rate hedges, either by options, or by purchases or sales of forward contracts.

At 30 June 2019, the change in the mark to market value of the hedging instruments allocated to future transactions and deferred through equity amounts to +€35.0 million compared with +€95.7 million at 30 June 2018 and +€41.9 million at 31 December 2018.

9.2. Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	**1st half 2019**	1st half 2018	2018
Time value	-58.0	-45.7	-76.7
Other foreign exchange gains and losses	-18.2	58.2	87.1
TOTAL	**-76.3**	**12.5**	**10.4**

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 spot rate between the inception of the hedge and the date when 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 -€3.5 million for the first half of 2019, -€0.2 million for the first half of 2018 and -€ 4.3 million for year 2018.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	**1st half 2019**	1st half 2018	2018
Cost of sales	-66.1	16.3	13.2
Research and development	6.4	-7.9	-6.2
Advertising and promotion	-9.0	2.3	1.9
Selling, general and administrative expenses	-7.5	1.8	1.6
FOREIGN EXCHANGE GAINS AND LOSSES	**-76.3**	**12.5**	**10.4**

9.3. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at 30 June 2019, 30 June 2018 and 31 December 2018.

9.4. 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 30 June 2019, marketable securities consist only of unit trusts (note 8.2.).

At 30 June 2019, the Group held 118,227,307 Sanofi shares for an amount of €8,974.6 million (note 8.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €75.91 on 30 June 2019 would have an impact of plus or minus €897.5 million before tax on Group equity.

9.5. 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 30 June 2019	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		117.0		117.0
Sanofi shares	8,974.6			8,974.6
Marketable securities	1,407.1			1,407.1
TOTAL ASSETS AT FAIR VALUE	**10,381.7**	**117.0**	**-**	**10,498.7**
Liabilities at fair value				
Foreign exchange derivatives		179.5		179.5
TOTAL LIABILITIES AT FAIR VALUE	**-**	**179.5**	**-**	**179.5**

€ millions 30 June 2018	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		126.4		126.4
Sanofi shares	8,116.3			8,116.3
Marketable securities	524.3			524.3
TOTAL ASSETS AT FAIR VALUE	**8,640.6**	**126.4**	**-**	**8,767.0**
Liabilities at fair value				
Foreign exchange derivatives		104.0		104.0
TOTAL LIABILITIES AT FAIR VALUE	**-**	**104.0**	**-**	**104.0**

€ millions 31 December 2018	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		149.6		149.6
Sanofi shares	8,945.0			8,945.0
Marketable securities	1,899.8			1,899.8
TOTAL ASSETS AT FAIR VALUE	**10,844.8**	**149.6**	**-**	**10,994.4**
Liabilities at fair value				
Foreign exchange derivatives		182.5		182.5
TOTAL LIABILITIES AT FAIR VALUE	**-**	**182.5**	**-**	**182.5**

NOTE 10 Equity – Earnings per share

10.1. Share capital and additional paid in capital

Share capital consisted of 561,622,744 shares with a par value of €0.20 at 30 June 2019, compared with 562,101,813 shares at 30 June 2018 and 560,396,652 shares at 31 December 2018.

10.2. Treasury shares

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) 1st half of 2019

The change in the number of shares for the first half of 2019 is as follows:

In shares	Share capital	Treasury shares	Common shares outstanding
AT 01.01.2019	**560,396,652**	**-771,125**	**559,625,527**
Shares cancelled			-
Options and free shares exercised	1,226,092		1,226,092
Treasury shares purchased			
AT 30.06.2019	**561,622,744**	**-771,125**	**560,851,619**

The change in Treasury shares for the first half of 2019 is as follows:

In shares	Buyback programme	Allocated to stock options/free shares plans	Total	*€ millions*
AT 01.01.2019		**771,125**	**771,125**	**56.5**
Shares cancelled				
Options and free shares exercised	-			
Treasury shares purchased	-			
AT 30.06.2019	**-**	**771,125**	**771,125**	**56.5**
€ millions		56.5	56.5	

b) Year 2018

The change in the number of shares in 2018 was as follows:

In shares	Share capital	Treasury shares	Common shares outstanding
At 01.01.2018	**560,519,088**	**-771,125**	**559,747,963**
Shares cancelled	-2,497,814	2,497,814	
Options and free shares exercised	2,375,378		2,375,378
Treasury shares purchased		-2,497,814	-2,497,814
At 31.12.2018	**560,396,652**	**-771,125**	**559,625,527**

The change in Treasury shares in 2018 was as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	*€ millions*
AT 01.01.2018		**771,125**	**771,125**	**56.5**
Shares cancelled	-2,497,814		-2,497,814	
Options and free shares exercised				
Treasury shares purchased	2,497,814		2,497,814	
AT 31.12.2018	**-**	**771,125**	**771,125**	**56.5**
€ millions	-	56.5	56.5	

10.3. Net profit attributable to owners of the company excluding non-recurring items – Earnings per share

10.3.1. 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	1st half 2019	1st half 2018	2018
Net profit attributable to owners of the company	**2,326.7**	**2,275.2**	**3,895.4**
Capital gains and losses on property, plant and equipment and intangible assets	-1.9	0.1	-2.7
Impairment of property, plant and equipment and intangible assets	79.8	-	-
Restructuring costs	90.4	27.3	85.1
Other	2.1	13.0	12.3
Tax effect on non-recurring items	-30.8	-11.1	-25.1
Non-controlling interests on non-recurring items	-0.1	-	-
Tax effect on acquisitions and internal restructuring	-	-0.6	32.7
Impact of the decrease in the US tax rate	-	-3.3	-10.1
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**2,466.2**	**2,300.6**	**3,987.6**

10.3.2. Earnings per share attributable to owners of the company

The tables below set out earnings per share attributable to owners of the company (excluding the dilutive impact of shares carrying preferential dividend rights):

1st half 2019	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,326.7	560,214,334	4.15
Stock options	-	773,899	-
Free shares	-	2,258,920	-
DILUTED EARNINGS PER SHARE	**2,326.7**	**563,247,153**	**4.13**

1st half 2018	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,275.2	559,702,996	4.07
Stock options	-	1,300,527	-
Free shares	-	2,238,537	-
DILUTED EARNINGS PER SHARE	**2,275.2**	**563,242,060**	**4.04**

2018	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	3,895.4	559,603,188	6.96
Stock options	-	1,155,173	-
Free shares	-	2,340,145	-
DILUTED EARNINGS PER SHARE	**3,895.4**	**563,098,506**	**6.92**

10.3.3. 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):

1st half 2019	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	2,466.2	560,214,334	4.40
Stock options	-	773,899	-
Free shares	-	2,258,920	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,466.2**	**563,247,153**	**4.38**

1st half 2018	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	2,300.6	559,702,996	4.11
Stock options	-	1,300,527	-
Free shares	-	2,238,537	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,300.6**	**563,242,060**	**4.08**

2018	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	3,987.6	559,603,188	7.13
Stock options	-	1,155,173	-
Free shares	-	2,340,145	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**3,987.6**	**563,098,506**	**7.08**

10.3.4. Calculation of the number of shares

All potential ordinary shares are included in the calculation of earnings per share since all stock option plans have a dilutive impact on the periods presented.

NOTE 11 Provisions for liabilities and charges – Contingent liabilities and material ongoing disputes

11.1. Provisions for liabilities and charges

11.1.1. Closing balances

€ millions	30.06.2019	30.06.2018	31.12.2018
Non-current provisions for liabilities and charges	**354.1**	**295.8**	**336.1**
Other non-current provisions (1)	354.1	295.8	336.1
Current provisions for liabilities and charges	**1016.9**	**948.5**	**979.8**
Provisions for restructuring	144.4	109.8	102.1
Provisions for product returns	346.9	333.1	316.8
Other current provisions (1)	525.6	505.6	560.9
TOTAL	**1,371.0**	**1,244.2**	**1,315.9**

(1) This item notably includes provisions for tax risks and litigation, as well as industrial, environmental and commercial risks relating to operations (breach of contract), personnel costs, investments in associates when the Group's share in the net asset is negative, as well as risks relating to investigations carried out by competition authorities (note 11.2.2.a and b).

At end-December 2017, L'Oréal and some of its subsidiaries in France received a reassessment proposal relative to 2014 financial year, mainly concerning corporate tax. After consulting with its tax advisors, L'Oréal decided to contest these reassessments and sought the legal means of recourse to ensure its defence. The process was ongoing at 30 June 2019 and the inspections for 2015 for L'Oréal and 2015 to 2017 for its subsidiaries were not yet complete.

11.1.2. Changes in provisions for liabilities and charges during the period

€ millions	30.06.2018	31.12.2018	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	30.06.2019
Provisions for restructuring	109.8	102.1	78.1	-27.6	-2.3	-5.9	144.4
Provisions for product returns	333.1	316.8	194.3	-126.0	-40.2	2.0	346.9
Other provisions for liabilities and charges	801.3	897.0	101.8	-98.2	-34.5	13.6	879.7
TOTAL	**1,244.2**	**1,315.9**	**374.2**	**-251.8**	**-77.0**	**9.7**	**1,371.0**

(1) Mainly resulting from translation differences.

(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit	284.5	-222.0	-73.6
Other income and expenses	78.1	-27.6	-2.4
Net financial income	-	-	-
Income tax	11.6	-2.2	-1.0

11.2. Contingent liabilities and material ongoing disputes

L'Oréal is party to several material disputes, described below:

11.2.1. Tax disputes

Brazil - IPI indirect tax base challenged

In January 2015, decree 8.393/2015 stated that commercial companies in Brazil would be liable for the indirect IPI tax on certain products as from 1 May 2015. L'Oréal is challenging the legal grounds of this decree and its application. In light of changes in market practices and a favourable change in the opinion of its advisers, since 1 January 2018 L'Oréal has recognised the IPI collected under revenue and the provision that had been funded was accordingly reversed in 2018.

L'Oréal received tax reassessment notices regarding the indirect IPI tax for financial years 2008 and 2011 to 2015 totalling €702 million, including interest and penalties. The Brazilian tax authorities are questioning the ex-works sales price to the commercial arm used to calculate the IPI tax base. After consulting with its tax advisors, L'Oréal considers that the Brazilian tax authorities' position is unfounded and has challenged these notices. L'Oréal continues its legal proceedings with the tax and legal authorities.
In light of the negative developments in administrative court decisions on the same matter for other Brazilian groups, L'Oréal funded a provision to partially cover this risk using as a basis for the tax the average prices applied by its subsidiaries and not its whole third party sales.

India – Advertising, marketing and promotional costs challenged

L'Oréal received several tax reassessment notices regarding financial years 2007/08 to 2014/15 for the most part concerning the tax deductibility of advertising, marketing and promotional expenses for a total amount of €146 million including interest and penalties. After consulting with its tax advisors, L'Oréal decided to contest these notices and continues the legal proceedings with the administrative and legal authorities.

Europe - Mutual agreement procedures

Mutual agreement procedures were instigated *vis-à-vis* the Italian, French and Spanish tax authorities in order to eliminate double taxation following disagreement between these authorities.

11.2.2. Investigations carried out by the competition authorities

The national competition authorities in several European countries have launched investigations targeting the cosmetics industry in particular.

a) Europe (excluding France)

In Greece, in its decision handed down on 4 October 2017, the Greek competition authority condemned L'Oréal Hellas to pay a fine of €2.6 million for anti-competitive practices in 2005-2006. L'Oréal Hellas has refuted all allegations of having engaged in anti-competitive practices with other luxury cosmetics manufacturers. The Greek Administrative Court of Appeal quashed this decision on 5 November 2018. The Greek competition authority filed an appeal against this decision on 28 January 2019. The hearing before the Council of State will be held in the second half of 2019.

b) France

In France, the French competition authority issued L'Oréal with an €189.5 million fine on 18 December 2014 in the personal hygiene and body care products segment for events dating back to the early 2000s. On 27 October 2016, the Paris Court of Appeal upheld the first instance decision. L'Oréal has refuted all accusations of concerted practices with its competitors and regretted that the French competition authority did not take into account the highly competitive French market in personal hygiene and body care products as illustrated by the number of manufacturers and retailers present on the market, the large choice of products available to consumers, and the high degree of innovation and number of product launches.

Following an appeal by L'Oréal, the Court of Cassation partially overturned the ruling on 27 March 2019 as regards the amount of the fine imposed on L'Oréal. Under the current schedule, a decision of the appellate court to which the case has been referred is not expected before mid-2020.

It should be noted that since the appeal and appeal in cassation do not entail a stay in the judgement, the fine provisioned at the end of 2014 was paid on 28 April 2015.

At 30 June 2019, the provision was maintained in liabilities and the payment recognised in *Other current assets*.

A provision has been set aside for all disputes still in progress at 30 June 2019 amounting to €189.5 million at 30 June 2019 as at 30 June 2018 and 31 December 2018.

At the present time, no other exceptional events or disputes are highly likely to have a material impact on the earnings, financial position, assets, or operations of the Company or the L'Oréal Group.

NOTE 12 Subsequent events

On 2 July 2019, L'Oréal announced it has entered in exclusive negotiation with the Clarins Group in view to acquire the brands Mugler and Azzaro. The Clarins Group develops these two iconic houses globally.

The acquisition under discussion will remain subject to consultation with employee representatives and the approval of the regulatory authorities. It should be completed in the course of 2019.

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Statutory Auditors' Review Report on the 2019 Half-year Financial Information

This is a free translation into English of the Statutory Auditors' review 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.

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*"Code monétaire et financier"*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of L'Oréal, for the six months ended June 30, 2019 ;
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

I. CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of half-year financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying the conclusion expressed above, we draw your attention to Note 1.1 to the condensed half-year consolidated financial statements, which describes the impacts of the first-time application as of January 1, 2019 of IFRS 16 “Leases”.

II. SPECIFIC VERIFICATION

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements subject to our review.

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

Neuilly-sur-Seine and Paris-La Défense, July 31, 2019

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit	Deloitte & Associés
Anne-Claire Ferrié	**Frédéric Moulin**

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Declaration by the person responsible for the 2019 Half-year Financial Report

I declare that, to the best of my knowledge, the summary consolidated financial statements for the ending semester have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and profit and loss of the Company and all the other companies included in the scope of consolidation, and that this Half-year Activity Report includes a fair review of the important events which occurred during the first six months of the year, their impact on the half-year financial statements and the main transactions between related parties, together with a description of the principal risks and uncertainties that they face in the remaining six months of the year.

Clichy, 31 July 2019,

On the authority of the Chairman and Executive Officer

Christophe Babule

Executive Vice-President, Chief Financial Officer

L'ORÉAL

Incorporated in France as a "Société Anonyme"
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