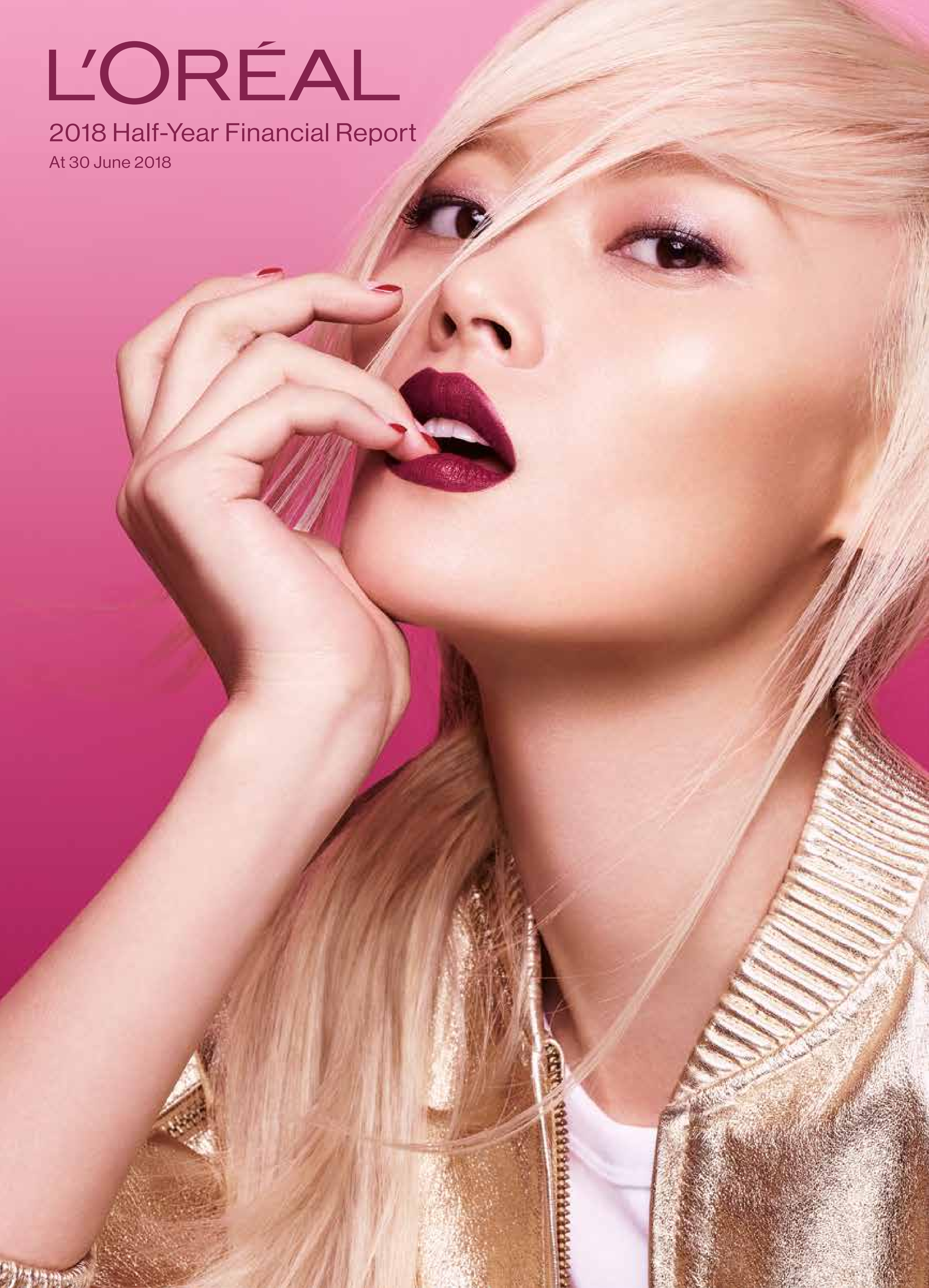
L'ORÉAL

2018 Half-Year Financial Report

At 30 June 2018



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HALF-YEAR FINANCIAL *REPORT*

AT 30 JUNE 2018

Half-year situation at 30 June 2018

The following statements have been examined by the Board of Directors of 26 July 2018 and have been the object of a limited review by the Statutory Auditors.

This is a free translation into English of the L'Oréal 2018 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 growth of the L'Oréal group was +6.6%.

The net impact of changes in the scope of consolidation was +0.4%.

Currency fluctuations had a negative impact of -7.2%. If the exchange rates at 30 June 2018, i.e. €1 = $1.164, are extrapolated until 31 December 2018, the impact of currency fluctuations on sales would be approximately -4.3% for the whole of 2018.

Based on reported figures, the Group's sales at 30 June 2018 amounted to 13.39 billion euros, i.e. -0.2%.

Income tax excluding non-recurring items came out at 646 million euros, i.e. a tax rate of 22%, below that of the first half of 2017, which was 24%.

Net profit excluding non-recurring items after non-controlling interests came out at 2,300 million euros, an increase of +5.2% compared with the net profit of continuing operations excluding non-recurring items reported on 30 June 2017.

Earnings per share [(1)]**,** at 4.08 euros, has risen by +5.3% compared with the first half of 2017.

1.1.1. CONSOLIDATED INCOME STATEMENTS

Gross profit, at 9,792 million euros, came out at 73.1% of sales, a strong improvement of 130 basis points.

Research and Development expenses, at 447 million euros, have risen by +5.2%. Their relative level is slightly growing at 3.3% of sales.

Advertising and promotional expenses came out at 30.0% of sales, an increase of 80 basis points, demonstrating the support provided for our brands.

Selling, general and administrative expenses, at 20.5% of sales, have decreased slightly by 10 basis points.

Overall, **operating profit,** at 2,575 million euros, amounted to 19.2% of sales, an increase of 30 basis points.

Overall financial revenues are positive at 14.5 million euros.

Sanofi dividends amounted to 358 million euros.

1.1.2. CASH FLOW STATEMENTS / BALANCE SHEET

Gross cash flow amounted to 2,779 million euros, up by +5.5% compared with the first half of 2017.

The **change in working capital** amounted to 431 million euros. As in the first half every year, it increased noticeably, particularly because of the impact of the seasonality of part of our business on trade receivables.

Investments, at 780 million euros, represented 5.8% of sales.

Operating cash flow amounted to 1,568 million euros, that is -3.7%.

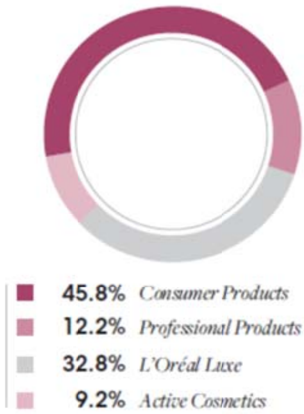
After payment of the dividend, share buybacks and the costs of acquisitions, the **residual cash flow** came out at -1,490 million euros.

At 30 June 2018, **net cash** amounted to 362 million euros, compared with a net debt of 1,492 million euros at 30 June 2017.

(1) Diluted net profit per share of continuing operations, excluding non-recurring items, after non-controlling interests.

1.2. SEGMENT INFORMATION

1.2.1. TURNOVER BY OPERATIONAL DIVISION



At the end of June, the Professional Products Division posted +1.6% like-for-like growth and -6.2% based on reported figures.

All the geographic Zones are growing, except for Western Europe, still impacted by the sluggishness of some markets. The United States and the Asia Pacific Zone continue to grow, while Latin America is maintaining its good growth rate.

Hair colour is benefiting from the strong growth of *Shades EQ* at *Redken* and the dynamic contribution of *SoColor* by *Matrix* and *Dialight* by *L'Oréal Professionnel*. In haircare, *Kérastase* is being boosted by the new *Résistance Extentioniste* line and the continuing success of *Fusio-Dose*, the customised in-salon haircare treatment. At *L'Oréal Professionnel*, the *Source Essentielle* natural haircare range has made a promising start.

In the first half, the Consumer Product Division posted growth of +2.5% like-for-like, and -4.0% based on reported figures.

L'Oréal Paris is maintaining its growth momentum, thanks to the good performance in facial skincare and particularly its *Revitalift* anti-ageing franchise, but also the success of new launches such as *Dream Lengths* in haircare and *Color Riche Shine* in makeup. *Maybelline New York* is posting good growth thanks to its foundations and especially *Fit me*, but also to the strong success of *Superstay Matte Ink* lipstick and the new *Total Temptation* mascara.

The Division is still facing difficulties in France – where the market trend is negative – and in Brazil, while growth has edged down in the United Kingdom. It is growing in the other regions, thanks to dynamic performances in Asia, especially in China and India, and in Eastern Europe.

E-commerce sales are growing strongly.

At the end of June, L'Oréal Luxe posted growth of +13.5% like-for-like and +5.9% based on reported figures, maintaining the dynamism it achieved at the start of the year.

The Division's top four brands have all recorded double-digit growth. *Lancôme*, thanks especially to *Génifique*, and *Kiehl's* with *Line-Reducing Concentrate* and the *Midnight Recovery* range in particular, are benefiting from accelerating skincare sales and the excellent performance of their star franchises across all regions. *Giorgio Armani* is accelerating in fragrances, with the success of *Sì Passione* following that of *Emporio You* and *Acqua di Giò Absolu*. *Yves Saint Laurent* is building up its long-lasting product range in foundations with *All Hours* and in lip makeup with *Tatouage Couture*.

The Division is strengthening its positions worldwide, thanks to strong growth in Asia, especially in China where L'Oréal Luxe is confirming its leadership. The Division is also benefiting from the fast growing pace of Travel Retail, and a solid performance in Europe where it is also winning market share. The Division's e-commerce is accelerating, with the successful launch of its *Yves Saint Laurent* and *Giorgio Armani* brands on Tmall.

The Active Cosmetics Division continued to accelerate in the first half, with growth of +11.4% like-for-like and +8.5% based on reported figures.

All the major brands are contributing to the Division's growth. *La Roche-Posay* remains very dynamic with double-digit first-half growth, and excellent performances across all Zones. The innovative *Hyalu B5* and *Anthelios* lines are the leading contributors to this success story. *Vichy* is maintaining a good growth rate, thanks to the acceleration of *Minéral 89*, now launched across all Zones, and the excellent start in Asia. *SkinCeuticals* is continuing its worldwide acceleration. *CeraVe* is now a significant contributor to the Division's growth, thanks to its excellent performance on its original home market, the United States, and the start of its internationalisation drive in 25 countries.

The Division is growing and winning market share across all Zones. The e-commerce distribution channel is continuing to grow very strongly.

1.2.2. OPERATING PROFIT BY OPERATIONAL DIVISION

	30/06/2017		31/12/2017		30/06/2018	
	M €	% CA	M €	% CA	M €	% CA
By operational Division						
Professional Products	319.9	18.4%	669.4	20.0%	313.4	19.2%
Consumer Products	1,267.5	19.8%	2,419.0	20.0%	1,275.4	20.8%
L'Oréal Luxe	970.2	23.4%	1,855.8	21.9%	1,026.7	23.4%
Active Cosmetics	303.5	26.7%	471.2	22.6%	326.2	26.5%
Total Divisions before non-allocated	**2,861.1**	**21.3%**	**5,415.4**	**20.8%**	**2,941.7**	**22.0%**
Non-allocated [(1)]	*- 330.7*	*- 2.5%*	*- 739.1*	*- 2.8%*	*- 365.7*	*- 2.7%*
Group	**2,530.4**	**18.9%**	**4,676.3**	**18.0%**	**2,575.9**	**19.2%**

(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** increased from 18.4% to 19.2%.

The **Consumer Products Division's** profitability went from 19.8% to 20.8%.

L'Oréal Luxe maintained its profitability at 23.4%.

The **Active Cosmetics Division** remains at a very high profitability level at 26.5%, compared with 26.7% in the first half of 2017.

1.2.3. SALES BY GEOGRAPHIC ZONE

1.2.3.1. Western Europe

Western Europe posted growth of -0.8% like-for-like and -1.6% based on reported figures. It is being held back by the slowdown in the United Kingdom market and by persistent difficulties in France. L'Oréal Luxe is winning market share thanks to *Kiehl's* facial skincare and *Giorgio Armani* fragrances. The Active Cosmetics Division is also outperforming its market, with *La Roche-Posay* proving extremely dynamic. In a sluggish mass market sector, the Consumer Products Division saw its skincare market share edge slightly down in the first half, but is strengthening its position as the makeup leader and posting very promising results for the key haircare launches of *Elsève Dream Lengths* by *L'Oréal Paris* and *Fructis Hair Food* by *Garnier*.

1.2.3.2. North America

The Zone recorded growth of +3.0% like-for-like and -6.8% based on reported figures. While the mass market sector posted moderate growth, the Consumer Products Division increased its market share in makeup, hair colour and haircare, thanks to flagship brands *L'Oréal Paris* and *Maybelline New York*. L'Oréal Luxe is continuing to accelerate in skincare, thanks to *Kiehl's* and *Lancôme* in particular. The men's fragrances of *Yves Saint Laurent* and *Giorgio Armani* are outperforming the market. Professional Products Division sales are growing, driven by a good performance in hair colour. The Active Cosmetics Division is continuing to record outstanding growth, with double-digit increases for the *CeraVe, SkinCeuticals, La Roche-Posay* and *Vichy* brands.

1.2.3.3. New Markets

- **Asia, Pacific:** Growth in this Zone came out at +22.0% like-for-like and +13.2% based on reported figures. This strong growth is being boosted by Chinese consumers, as reflected in the growth in China and Hong Kong across all Divisions, especially for premium brands. E-commerce and Travel Retail accelerated in the first half. Southern Asia is extremely dynamic, with market share gains particularly in India and Malaysia.
- **Latin America:** The Zone recorded growth of +0.6% like-for-like and -10.4% based on reported figures. In Brazil, the Consumer Products Division is continuing to face difficulties, whilst the other Divisions are back to a good level of growth. In the rest of the Zone, the Active Cosmetics Division has accelerated, particularly thanks to *Vichy* and the launch of the *CeraVe* brand. L'Oréal Luxe is continuing to expand in Mexico and Chile. The Professional Products Division is posting good performances, particularly in Argentina.
- **Eastern Europe:** In this Zone growth amounted to +8.1% like-for-like and -1.0% based on reported figures. Growth is being driven by Turkey and the countries of Central Europe, especially Ukraine and Romania. Among the Divisions, Active Cosmetics posted strong growth, thanks to the robust health of the *La Roche-Posay* brand. L'Oréal Luxe and the Consumer Products Division are growing. So is e-commerce, which remains very dynamic.
- **Africa, Middle East:** The Zone recorded growth of +12.2% like-for-like (1) and +1.9% based on reported figures. The Gulf states are growing, even though the market contexts remain difficult. Trends are very positive in Egypt and South Africa. The Consumer Products and Active Cosmetics Divisions are driving growth in this Zone.

1.3. IMPORTANT EVENTS DURING THE PERIOD

- On 17 April 2018, the L'Oréal Board of Directors decided, in application of the authorisation approved by the Annual General Meeting of 20 April 2017, to buy back L'Oréal shares for a maximum amount of 500 million euros in the second quarter of 2018. 2,497,814 shares were bought back from 23 April to 29 May 2018. They were cancelled by the Board of Directors on 26 July 2018.
- On 2 May 2018, L'Oréal announced the acquisition of 100% of Nanda Co. Ltd., the Korean lifestyle makeup company founded by Mrs Kim So-Hee in Seoul in 2004. The acquisition was finalised on 20 June 2018.
- On 15 May 2018, L'Oréal announced the launch of its first Employee Share Ownership Plan, rolled out in 52 countries, representing a maximum of 500,000 shares. The scheme has proven extremely successful, and gave rise to a capital increase on 24 July 2018.
- On 25 May 2018, L'Oréal finalised the acquisition of professional hair colour brand Pulp Riot, which, under the leadership of its two founders David and Alexis Thurston, has been creating industry-leading content and using social media to inspire stylists.
- On 28 May 2018, L'Oréal and Valentino announced the signature of a long-term licence agreement for the creation, development and distribution of fine fragrances and luxury beauty products under the Valentino brand.
- On 13 June 2018, L'Oréal acquired a stake of 49% in the Tunisian company LiPP-Distribution which distributes the Group's brands in Tunisia.
- At 26 july 2018 and after allowing for the issuance of the employee share ownership plan and the cancellation of 2,497,814 shares, the share capital of L'Oréal amounts to 112,016,437.40 euros, divided into 560,082,187 shares, each with a par value of 0.20 euro.

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 2017 Registration Document and did not change significantly during the first half-year of 2018. The amounts relating to market and financial risks at 30 June 2018 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 2018. Furthermore, during the first six months of 2018, 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) The application of the IFRS 15 accounting rule from 1 January 2018 has resulted in the restatement of sales with distributors when they operate as agents and not on their own behalf. The impact of this restatement amounted to 11.6 million euros on the sales of the Africa, Middle East Zone in the 2nd quarter and the 1st half of 2018. The effect of this new accounting method on the profit and loss account and the balance sheet is not material.

1.5. PROSPECTS

In a beauty market which remains dynamic and is becoming more premium, L'Oréal is continuing to achieve strong growth. In lively markets, the L'Oréal Luxe and Active Cosmetics Divisions have both recorded double-digit growth, driven by the power of their brand portfolios and the quality of their innovations. The Consumer Products Division, especially with a robust performance at *L'Oréal Paris,* has recorded moderate growth, held back by an environment that is very difficult in some markets. The Professional Products Division, meanwhile, has posted a slight increase in sales.

Across the geographic Zones, the New Markets accelerated once again, especially in Asia. North America is gradually improving, while Western Europe is affected by persistent difficulties in France, and by the slowdown in the United Kingdom.

The Group's digital lead is continuing, particularly in e-commerce [(1)], which posted +36.4% growth in the first half and represents 9.5% of sales. L'Oréal also reaffirms its leadership in Travel Retail, which grew by +27.3%[(2)].

The Group has delivered quality results paving the way for the future. The strong growth in gross profit indeed enables the Group at the same time to increase profitability, support investments in Research and Innovation, and raise the business drivers to further develop our brands. Net earnings per share has increased by +5.3% [(3)] and by +10.7% at constant exchange rates.

The good sales growth and the quality of the first-half results reinforce our confidence in our ability to once again outperform the cosmetics market in 2018, and to achieve significant like-for-like[(2)] sales growth and an increase in our profitability.

1.6. SUBSEQUENT EVENTS

No significant events occurred between the balance sheet date and the date when the Board of Directors authorised the condensed half-year consolidated financial statements for issue.

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

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

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

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2018 Condensed consolidated financial statements

2.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	1st half 2018	1st half 2017	2017
Net sales	**3.1**	**13,390.7**	**13,411.9**	**26,023.7**
Cost of sales		-3,598.3	-3,780.5	-7,359.2
Gross profit		**9,792.4**	**9,631.4**	**18,664.5**
Research and development		-447.2	-425.1	-877.1
Advertising and promotion		-4,018.3	-3,913.5	-7,650.6
Selling, general and administrative expenses		-2,751.0	-2,762.4	-5,460.5
Operating profit	**3.1**	**2,575.9**	**2,530.4**	**4,676.3**
Other income and expenses	4	-40.4	-96.2	-276.3
Operational profit		**2,535.5**	**2,434.2**	**4,400.0**
Finance costs on gross debt		-11.3	-18.1	-35.5
Finance income on cash and cash equivalents		33.5	21.3	38.5
Finance costs, net		**22.2**	**3.2**	**3.1**
Other financial income (expenses)		-7.7	-13.1	-26.0
Sanofi dividends		358.3	350.0	350.0
Profit before tax and associates		**2,908.3**	**2,774.3**	**4,727.0**
Income tax		-631.6	-710.3	-901.3
Share of profit in associates		-0.1	-0.2	-0.1
Net profit from continuing operations		**2,276.6**	**2,063.8**	**3,825.6**
Net profit from discontinued operations	**2.2**		**-29.1**	**-240.1**
Net profit		**2,276.6**	**2,034.7**	**3,585.5**
Attributable to:				
• owners of the company		2,275.2	2,037.5	3,581.4
• non-controlling interests		1.4	-2.8	4.1
Earnings per share attributable to owners of the company *(euros)*	10.3	4.07	3.65	6.40
Diluted earnings per share attributable to owners of the company *(euros)*	10.3	4.04	3.62	6.36
Earnings per share of continuing operations attributable to owners of the company *(euros)*		4.07	3.70	6.83
Diluted earnings per share of continuing operations attributable to owners of the company *(euros)*		4.04	3.67	6.78
Earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items *(euros)*	10.3	4.11	3.91	6.70
Diluted earnings per share of continuing operations attributable to owners of the company, excluding non-recurring items *(euros)*	10.3	4.08	3.88	6.65

2.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ millions	Notes	1st half 2018	1st half 2017*	2017**
Consolidated net profit for the period		**2,276.6**	**2,034.7**	**3,585.5**
Financial assets available-for-sale	*8.3*	*-*	*811.0*	*-597.1*
Cash flow hedges		*-6.6*	*83.6*	*88.9*
Cumulative translation adjustments		*46.8*	*-653.4*	*-824.8*
Income tax on items that may be reclassified to profit or loss (1)		*1.0*	*-57.8*	*4.5*
Items that may be reclassified to profit or loss		**41.2**	**183.4**	**-1,328.5**
Financial assets at fair value through profit or loss	*8.3*	*-378.3*	*-*	*-*
Actuarial gains and losses	*5.1*	*-*	*139.6*	*280.0*
Income tax on items that may not be reclassified to profit or loss (1) (2)		*10.8*	*-40.4*	*-107.9*
Items that may not be reclassified to profit or loss		**-367.5**	**99.2**	**172.1**
Other comprehensive income		**-326.3**	**282.6**	**-1,156.5**
Consolidated comprehensive income		**1,950.3**	**2,317.2**	**2,428.9**
Attributable to:				
• **owners of the company**		**1,948.9**	**2,319.6**	**2,424.8**
• non-controlling interests		1.4	-2.4	4.1

** Half-year 2017 as reported including The Body Shop.*

*** Including The Body Shop over eight months in 2017.*

(1) Including, in 2017, €20.4 million and - €21.5 million respectively from the revaluation of deferred tax in France following the change in the tax rate by 2022, and deferred tax in the USA following the change in the tax rate at 1 January 2018.

(2) The tax effect is as follows:

€ millions	1st half 2018	1st half 2017	2017
Financial assets available-for-sale	-	*-28.1*	*37.3*
Cash flow hedges	*1.0*	*-29.7*	*-32.8*
Items that may be reclassified to profit or loss	**1.0**	**-57.8**	**4.5**
Financial assets at fair value through profit or loss	*11.8*	*-*	*-*
Actuarial gains and losses	*-1.0*	*-40.4*	*-107.9*
Items that may not be reclassified to profit or loss	**10.8**	**-40.4**	**-107.9**
TOTAL	**11.8**	**-98.2**	**-103.4**

2.3. COMPARED CONSOLIDATED BALANCE SHEETS

| ASSETS

€ millions	Notes	30.06.2018	30.06.2017 (1)	31.12.2017 (1)
Non-current assets		**24,981.3**	**26,010.1**	**24,320.1**
Goodwill	6	9,551.0	9,064.4	8,872.3
Other intangible assets	6	2,884.8	2,694.4	2,579.1
Property, plant and equipment	3.2	3,582.0	3,591.8	3,571.1
Non-current financial assets	8.3	8,390.3	10,128.4	8,766.2
Investments in associates		9.9	1.0	1.1
Deferred tax assets		563.3	530.1	530.3
Current assets		**10,506.9**	**11,271.8**	**11,019.0**
Current assets excluding assets held for sale		*10,506.9*	*9,994.6*	*11,019.0*
Inventories		2,689.4	2,638.4	2,494.6
Trade accounts receivable		4,334.4	4,237.8	3,923.4
Other current assets		1,400.6	1,381.5	1,393.8
Current tax assets		69.0	50.9	160.6
Cash and cash equivalents	8.2	2,013.5	1,686.0	3,046.6
Assets held for sale	*2.2*	-	1,277.2	-
TOTAL		**35,488.2**	**37,281.9**	**35,339.1**

| EQUITY & LIABILITIES

€ millions	Notes	30.06.2018	30.06.2017 (1)	31.12.2017 (1)
Equity	**10**	**24,349.8**	**24,594.5**	**24,818.5**
Share capital		112.4	112.0	112.1
Additional paid-in capital		2,977.7	2,889.4	2,935.3
Other reserves		16,382.4	14,684.8	14,752.2
Other comprehensive income		3,521.9	5,173.3	3,904.7
Cumulative translation adjustments		-366.9	-242.7	-413.5
Treasury stock		-555.9	-56.4	-56.5
Net profit attributable to owners of the company		2,275.2	2,037.5	3,581.4
Equity attributable to owners of the company		**24,346.9**	**24,597.9**	**24,815.7**
Non-controlling interests		2.9	-3.4	2.8
Non-current liabilities		**1,219.6**	**1,682.7**	**1,347.2**
Provisions for employee retirement obligations and related benefits		327.4	544.4	301.9
Provisions for liabilities and charges	11.1	295.8	367.8	434.9
Deferred tax liabilities		583.5	756.0	597.0
Non-current borrowings and debt	8.1	12.9	14.5	13.4
Current liabilities		**9,918.8**	**11,004.7**	**9,173.4**
Current liabilities excluding liabilities relating to assets held for sale		*9,918.8*	*10,759.3*	*9,173.4*
Trade accounts payable		4,396.7	3,996.8	4,140.8
Provisions for liabilities and charges	11.1	948.5	816.5	889.2
Other current liabilities		2,682.0	2,543.9	2,823.9
Income tax		254.0	238.6	158.5
Current borrowings and debt	8.1	1,637.6	3,163.5	1,161.0
Liabilities relating to assets held for sale	*2.2*	-	*245.4*	-
TOTAL		**35,488.2**	**37,281.9**	**35,339.1**

(1) The balance sheets at 30 June 2017 and 31 December 2017 have been restated to reflect the change in accounting policies resulting from the application of IFRS 9 "Financial Instruments" (see note 1).

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 stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2016	**560,098,396**	**112.4**	**2,817.3**	**17,057.3**	**4,237.6**	**-133.6**	**410.9**	**24,501.9**	**2.1**	**24,504.0**
Changes in accounting policies at 01.01.2017				10.3	-10.3			-		-
At 01.01.2017 (1)	**560,098,396**	**112.4**	**2,817.3**	**17,067.6**	**4,227.3**	**-133.6**	**410.9**	**24,501.9**	**2.1**	**24,504.0**
Consolidated net profit for the period				3,581.4				3,581.4	4.1	3,585.5
Financial assets available-for-sale					*-559.7*			*-559.7*		*-559.7*
Cash flow hedges					*55.5*			*55.5*	*0.4*	*55.9*
Cumulative translation adjustments							*-824.5*	*-824.5*	*-0.3*	*-824.8*
Other comprehensive income that may be reclassified to profit and loss					**-504.2**		**-824.5**	**-1,328.7**	**0.1**	**-1,328.6**
Actuarial gains and losses					*172.1*			*172.1*		*172.1*
Other comprehensive income that may not be reclassified to profit and loss					**172.1**			**172.1**	**-**	**172.1**
Consolidated comprehensive income				**3,581.4**	**-332.2**		**-824.5**	**2,424.8**	**4.1**	**2,428.9**
Capital increase	1,509,951	0.3	118.0					118.3		118.3
Cancellation of Treasury stock		-0.6		-498.6		499.2		-		-
Dividends paid (not paid on Treasury stock)				-1,857.7				-1,857.7	-3.5	-1,861.2
Share-based payment				128.8				128.8		128.8
Net changes in Treasury stock	-1,860,384			-77.2		-422.0		-499.2		-499.2
Purchase commitments for non-controlling interests								-		-
Changes in scope of consolidation				-1.3				-1.3		-1.3
Other movements				0.3				0.2		0.2
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**

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury stock	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 policies at 01.01.2018				-11.6				-11.6	-0.8	-12.4
At 01.01.2018 (2)	**559,747,963**	**112.1**	**2,935.3**	**18,331.7**	**3,895.0**	**-56.5**	**-413.5**	**24,804.1**	**2.0**	**24,806.1**
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 stock								-		-
Dividends paid (not paid on Treasury stock)				-2,006.6				-2,006.6	-3.7	-2,010.3
Share-based payment				57.6				57.6		57.6
Net changes in Treasury stock	-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**	**18,657.6**	**3,521.9**	**-555.9**	**-366.9**	**24,346.9**	**2.9**	**24,349.8**

(1) Taking into account the change in accounting policies resulting from the application of IFRS 9 "Financial Instruments" (see note 1).

(2) Taking into account the change in accounting policies resulting from the application of IFRS 15 "Revenue from contracts with customers" (see note 1).

| CHANGES IN FIRST-HALF 2017

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Other compre-hensive income	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 31.12.2016	**560,098,396**	**112.4**	**2,817.3**	**17,057.3**	**4,237.6**	**-133.6**	**410.9**	**24,501.9**	**2.1**	**24,504.0**
Changes in accounting policies at 01.01.2017				10.3	-10.3			-		-
At 01.01.2017 (1)	**560,098,396**	**112.4**	**2,817.3**	**17,067.6**	**4,227.3**	**-133.6**	**410.9**	**24,501.9**	**2.1**	**24,504.0**
Consolidated net profit for the period				2,037.5				2,037.5	-2.8	2,034.7
Financial assets available-for-sale					*782.9*			*782.9*		*782.9*
Cash flow hedges					*53.6*			*53.6*	*0.3*	*53.9*
Cumulative translation adjustments							*-653.6*	*-653.6*	*0.2*	*-653.4*
Other comprehensive income that may be reclassified to profit and loss					**836.5**		**-653.6**	**182.9**	**0.5**	**183.4**
Actuarial gains and losses					*99.2*			*99.2*		*99.2*
Other comprehensive income that may not be reclassified to profit and loss					**99.2**			**99.2**	**-**	**99.2**
Consolidated comprehensive income				**2,037.5**	**935.7**		**-653.6**	**2,319.6**	**-2.4**	**2,317.2**
Capital increase	958,123	0.2	72.1					72.3		72.3
Cancellation of Treasury stock		-0.6		-498.8		499.4		-		-
Dividends paid (not paid on Treasury stock)				-1,857.7				-1,857.7	-3.3	-1,861.0
Share-based payment				63.6				63.6		63.6
Net changes in Treasury stock	-1,860,384			-77.2		-422.2		-499.4		-499.4
Purchase commitments for non-controlling interests								-	0.2	0.2
Changes in scope of consolidation				-1.3				-1.3		-1.3
Other movements				-1.1				-1.1		-1.1
AT 30.06.2017 (1)	**559,196,135**	**112.0**	**2,889.4**	**16,732.6**	**5,162.9**	**-56.4**	**-242.7**	**24,597.9**	**-3.4**	**24,594.5**

(1) Taking into account the change in accounting policies resulting from the application of IFRS 9 “Financial Instruments” (see note 1).

2.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	1st half 2018	1st half 2017	2017
Cash flows from operating activities				
Net profit attributable to owners of the company		2,275.2	2,037.5	3,581.4
Non-controlling interests		1.4	-2.8	4.1
Elimination of expenses and income with no impact on cash flows:				
• depreciation, amortisation and provisions		467.3	556.9	1,218.5
• changes in deferred taxes		-22.0	-46.9	-194.8
• share-based payment (including free shares)		57.6	61.1	126.7
• capital gains and losses on disposals of assets		0.1	-0.8	-3.9
Net profit from discontinued operations	2.2	-	29.1	240.1
Share of profit in associates net of dividends received		0.1	0.2	0.1
Gross cash flow		**2,779.7**	**2,634.3**	**4,972.2**
Changes in working capital		-431.2	-362.8	261.1
Net cash provided by discontinued operations activities	2.2	-	-24.9	-36.7
Net cash provided by operating activities (A)		**2,348.5**	**2,246.6**	**5,196.6**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-780.0	-641.9	-1,263.5
Disposals of property, plant and equipment and intangible assets		1.8	2.6	8.2
Changes in other financial assets (including investments in non-consolidated companies)		-15.3	-18.0	-70.7
Effect of changes in the scope of consolidation		-553.0	-1,240.0	-166.5
Net cash (used in) from investing activities from discontinued operations	2.2	-	-18.4	-24.4
Net cash (used in) from investing activities (B)		**-1,346.5**	**-1,915.7**	**-1,516.9**
Cash flows from financing activities				
Dividends paid		-2,035.4	-1,899.7	-1,870.7
Capital increase of the parent company		42.5	72.3	118.3
Disposal (acquisition) of Treasury stock		-499.4	-499.4	-499.2
Purchase of non-controlling interests		-	-1.9	-2.0
Issuance (repayment) of short-term loans		457.5	1,980.1	-86.6
Repayment of long-term borrowings		-2.1	-4.3	-7.0
Net cash (used in) from financing activities from discontinued operations	2.2	-	35.2	71.5
Net cash (used in) from financing activities (C)		**-2,036.9**	**-317.7**	**-2,275.7**
Net effect of changes in exchange rates and fair value (D)		1.8	-52.2	-65.3
Change in cash and cash equivalents (A+B+C+D)		**-1,033.1**	**-39.0**	**1,338.7**
Cash and cash equivalents at beginning of the period (E)		**3,046.6**	**1,746.0**	**1,746.0**
Net effect of changes in cash and cash equivalents of discontinued operations (F)	2.2	-	-21.0	-38.1
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E+F)	**8.2**	**2,013.5**	**1,686.0**	**3,046.6**

Income tax paid amount to €445.1 million, €491.3 million and €989.2 million excluding The Body Shop respectively for first-half 2018 and 2017 and year 2017.

Interest paid amount to €12.1 million, €18.3 million and €35.8 million excluding The Body Shop respectively for first-half 2018 and 2017 and year 2017.

Dividends received, excluding those from discontinued operations, amount to €358,3 million, €350.0 million and €350.0 million respectively for first-half 2018 and 2017 and year 2017, 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 2017.

The Board of Directors reviewed the condensed half-year consolidated financial statements as at 30 June 2018, on 26 July 2018.

The accounting policies applied are identical to those applied when preparing the annual consolidated financial statements for the year ended 31 December 2017, except as regards income tax and changes in accounting methods resulting from the application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".

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 Group did not early adopt any standards or interpretations not mandatorily applicable in 2018.

The Group is concerned by IFRS 16 "Leases" applicable at 1 January 2019. The Group has completed the lease-identification stage and is now working on simulating the impact that the application of this standard will have on its financial statements. The processing of data and the calculation of the impact this standard will have on the Group's financial statements will be carried out by a specific information system that will make it possible to generate the associated accounting entries.

The Group is not concerned by the new standards and amendments to standards published and effective as of 1 January 2018.

Changes in accounting methods applied as of 1 January 2017: IFRS 9 "Financial Instruments" applicable from 1 January 2018

This standard came into force on 1 January 2018.

The impact for the Group stems primarily from:

- 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 concerned are chiefly the investment in Sanofi, but also the strategic investments in the venture capital funds, for which the "equity" option has been adopted. This classification reflects the investment objectives of these holdings, which are not intended to be used for cash, but for investments related to L'Oréal's broader 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 method as regards the time value of the options on the income of the comparative periods was not considered material. As a result, the comparative data have not been restated.

This change resulted in the reclassification in opening equity 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 trade receivables impairment methodology currently applied at L'Oréal takes into account the expected level of losses in the customer portfolio based on past statistics. Moreover, this risk is limited because of the customer insurance policy followed by the Group. As a result, the application of IFRS 9 in this area has no impact on the Group's financial statements.

Changes in accounting methods applied as of 1 January 2018: IFRS 15 "Revenue from contracts with customers"

This standard came into force on 1 January 2018.

The main change identified concerns the Group's relations with distributors, it being considered that the distributor acts as an agent and not on its own account (principal). Sales are now recognised when the products are sold to the end customer.

The standard is applied retrospectively by recognising the cumulative effect of the initial application in equity at 1 January 2018. The impact of the new accounting method on the income statement is immaterial. It resulted in an increase of €11.6 million in sales in the first half of 2018, offset by an increase of the same amount in expenses.

This change has resulted in a reduction of €12.4 million in shareholders' equity against increases of €5.2 million in inventories, €2.2 million in deferred tax assets and €19.8 million in other liabilities.

NOTE 2 Main events of the period

2.1. Changes in the scope of consolidation

2.1.1. First-half 2018

Acquisitions

On 16 March 2018, L'Oréal announced the acquisition of 100% of the Canadian company ModiFace, an internationally recognized leader in augmented reality and artificial intelligence applied to the beauty industry.
This acquisition is in line with L'Oréal's digital acceleration strategy to provide the group's 34 international brands with the most innovative technologies in terms of services and beauty experience.
Founded by Parham Aarabi eleven years ago in Toronto, ModiFace has developed advanced technologies of 3D virtual make-up, color and skin diagnosis services using proprietary know-how which track facial features and color, and are used by nearly all the major beauty brands.
ModiFace employs nearly 70 engineers, researchers and scientists who have submitted more than 200 scientific publications and registered over 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 began as a fashion business and has since become a company spearheaded by its makeup brand 3CE which today represents more than 70% of the business. With a turnover of €127 million in 2017 and nearly 400 employees, the company now operates in Korea and Japan, and has expanded its business into overseas markets including Hong Kong, Singapore, Malaysia and Thailand.
Stylenanda is a highly desirable brand among Korean and Chinese millennials. Stylenanda's multichannel distribution model includes e-commerce, speciality retailers, point of sales in department and duty free stores.
This operation was finalised on 20 June 2018 after obtaining the necessary authorizations from the relevant authorities and this acquisition has been fully consolidated since 20 June 2018.

On 25 May 2018, L'Oréal finalized the acquisition of Pulp Riot, a professional haircolor brand launched by David and Alexis Thurston in the United States in June 2016.
Since its launch, Pulp Riot has been transforming the professional haircolor market by creating industry leading content, and using social media to effectively inspire and educate stylists across the world. To date, Pulp Riot has amassed over 675,000 Instagram followers.
Pulp Riot had net sales of US $ 11 million in 2017. Its largest distributor in the US is SalonCentric. The brand also started its international expansion.
This acquisition has been fully consolidated since 25 May 2018.

The cost of these new acquisitions represents €695.7 million.
The total amount of goodwill and other intangible assets resulting from these acquisitions has been provisionally estimated at €618.2 million and €4.3 million.
The allocation of the purchase price to the identifiable intangible assets of these acquisitions had not been finalised at 30 June 2018. The impact of these acquisitions on half-year sales is marginal.

2.1.2. Year 2017

a) Acquisitions

On 10 January 2017, L'Oréal announced the signing of a definitive agreement with Valeant to acquire the skincare brands CeraVe, AcneFree and Ambi for a cash purchase price of US $1.3 billion.
CeraVe was founded in 2005 and offers a range of advanced skincare products, specifically cleansers, moisturisers, sunscreens, healing ointments and a dedicated baby line. Developed with dermatologists, CeraVe is one of the fastest growing skincare brands in the US with average growth over the past two years exceeding 20%. CeraVe's multi-channel distribution strategy includes drug stores, mass and beauty retailers, and select online outlets. AcneFree markets and distributes, in the USA, a complete range of OTC skin-cleanser products that can be obtained without prescription, and acne-treatment products. Ambi distributes skincare products designed to meet the needs of multi-ethnic consumers. Both brands are distributed in drug stores, mass retailers and select online outlets.

These three brands generated combined annual sales of approximately US $168 million in 2016.
CeraVe, AcneFree and Ambi became part of L'Oréal's Active Cosmetics Division, which includes brands such as La Roche-Posay, Vichy and SkinCeuticals that are developed with and endorsed by health professionals – dermatologists, paediatricians and other physicians.
This operation was finalised on 3 March 2017.
This acquisition has been fully consolidated since 3 March 2017.

On 2 May 2017, L'Oréal USA announced that SalonCentric has agreed to acquire key assets from Four Star Salon Services, a full-service wholesale distributor headquartered in Hauppauge, New York. This acquisition provides SalonCentric, L'Oréal USA's professional salon distribution operation, with expanded distribution coverage of salon professional products within New York, New Jersey and Connecticut.
The acquisition aligns Four Stars' field sales and stores with SalonCentric's field sales and store network. In total, 11 stores and various field positions that service approximately 3,500 salons will be included in the transaction.
This operation was finalized on 31 May 2017.
This acquisition has been fully consolidated since 31 May 2017.

The cost of these new acquisitions represents €1,245.3 million.
The total amount of goodwill and other intangible assets resulting from these acquisitions has been estimated at €1,017.8 million and €198.4 million respectively.
In 2017, these acquisitions represent around €154.1 million in full-year net sales and €31.0 million in full-year operating profit.

b) Other operation

On 9 June 2017, L'Oréal announced, following an extensive review of the strategic options for The Body Shop to ensure its best future development, having received a firm offer from Natura Cosmeticos SA to acquire The Body Shop and has entered into exclusive discussions with Natura. The sale contract to Natura Cosmeticos SA was signed on 27 June 2017.

After obtaining the necessary authorisations from the competent authorities, L'Oréal and Natura Cosmeticos SA finalised the definitive agreement to sell The Body Shop to Natura on 7 September 2017, in accordance with the terms of the project communicated on 9 June 2017 (see note 2.2.).

2.2. Discontinued operations and assets and liabilities held for sale

The Body Shop business has been accounted for as a business held for sale as of 30 June 2017.

Consequently, The Body Shop business is shown within discontinued operations in the consolidated income statements and in the consolidated statements of cash flows for first-half 2017 and year 2017. Transactions carried out between The Body Shop group companies and other consolidated companies have been eliminated. At 31 December 2016, The Body Shop was financed by Group cash for an amount of €53.3 million. Other intragroup transactions are not material.

The notes to the income statements have been adjusted for The Body Shop business for all periods presented.

2.2.1. Income statements from discontinued operations (The Body Shop)

€ millions	1st half 2018	1st half 2017	2017
Net sales	-	394.6	524.7
Operating profit	-	-21.0	-15.7
Net profit of discontinued operations (1)	-	-29.1	-240.1

(1) Of which -€13.7 million in profits generated during the period until the disposal. The effective sale of this business generated a disposal loss net of expenses amounting to -€226.4 million, including a mechanical exchange loss of -€245.3 million.

2.2.2. Assets and liabilities held for sale

€ millions	30.06.2018	30.06.2017	31.12.2017
Non-current assets	-	1,038.4	-
Current assets	-	238.8	-
TOTAL ASSETS	**-**	**1,277.2**	**-**
Non-current liabilities	-	100.2	-
Current liabilities	-	145.2	-
TOTAL LIABILITIES	**-**	**245.4**	**-**

2.2.3. Statements of cash flows from discontinued operations (The Body Shop)

€ millions	1st half 2018	1st half 2017	2017
Net cash provided by operating activities	-	-24.9	-36.7
Net cash (used in) from investing activities	-	-18.4	-24.4
Net cash (used in) from financing activities	-	35.2	71.5
NET CASH (USED IN) FROM DISCONTINUED OPERATIONS	**-**	**-8.0**	**10.4**

NOTE 3 Operating items – Segment information

3.1. Segment information

3.1.1. Segment information

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

- the Professional Products Division, which, for over 100 years, 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, the growth of which 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 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 Operational Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

As of 31 December 2017, The Body Shop ceased to be an Operational Division following the definitive sales agreement signed at the beginning of September 2017 (see note 2.2.) The information below has been restated accordingly.

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 Operational Division is measured on the basis of operating profit.

3.1.1.1. Sales of operational Divisions

€ millions	1st half 2018	1st half 2017	2017
Professional Products	1,631.5	1,739.3	3,350.4
Consumer Products	6,136.8	6,389.3	12,118.7
L'Oréal Luxe	4,391.4	4,148.5	8,471.7
Active Cosmetics	1,231.0	1,134.9	2,082.9
GROUP	**13,390.7**	**13,411.9**	**26,023.7**

3.1.1.2. Operating profit of operational Divisions

€ millions	1st half 2018	1st half 2017	2017
Professional Products	313.4	319.9	669.4
Consumer Products	1,275.4	1,267.5	2,419.0
L'Oréal Luxe	1,026.7	970.2	1,855.8
Active Cosmetics	326.2	303.5	471.2
Operational Divisions Total	**2,941.7**	**2,861.1**	**5,415.4**
Non-allocated	-365.7	-330.7	-739.1
GROUP	**2,575.9**	**2,530.4**	**4,676.3**

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 net sales by geographic zone

	1st half 2018		Growth *(%)*		1st half 2017		2017	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	4,134.1	30.9%	-1.6%	-0.9%	4,202.8	31.3%	8,125.3	31.2%
of which France	1,287.4	9.6%	-2.2%	-2.2%	1,316.5	9.8%	2,444.6	9.4%
North America	3,564.4	26.6%	-6.8%	3.8%	3,824.8	28.5%	7,350.5	28.2%
New Markets	5,692.2	42.5%	5.7%	15.9%	5,384.4	40.1%	10,547.8	40.5%
Asia Pacific	3,548.1	26.5%	13.2%	21.6%	3,135.4	23.4%	6,151.8	23.6%
Latin America	882.7	6.6%	-10.4%	5.4%	985.1	7.3%	1,952.9	7.5%
Eastern Europe	899.4	6.7%	-1.0%	8.2%	908.5	6.8%	1,750.8	6.7%
Africa, Middle East	362.1	2.7%	1.9%	12.4%	355.4	2.6%	692.4	2.7%
GROUP	**13,390.7**	**100.0%**	**-0.2%**	**7.0%**	**13,411.9**	**100.0%**	**26,023.7**	**100.0%**

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

3.2.1. Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amount to €522.9 million for first-half 2018, compared with €537.3 million (€515.3 million excluding The Body Shop) and €1,169.4 million (€1,147.6 million excluding The Body Shop) respectively for first-half 2017 and year 2017.

3.2.2. Property, plant and equipment

Investments for the first-half 2018 amount to €412.0 million compared with €517.6 million (€501.6 million excluding The Body Shop) and €1,064.1 million (€1,043.4 million excluding The Body Shop) respectively for first-half 2017 and year 2017.

The depreciation and provisions for the first-half 2018 amount to €433.8 million compared with €441.5 million (€424.6 millions excluding The Body Shop) and €920.1 million (€906.0 million excluding The Body Shop) respectively for first-half 2017 and year 2017.

NOTE 4 Other operational income and expenses

This item breaks down as follows:

€ millions	**1st half 2018**	1st half 2017	2017
Capital gains and losses on disposals of property, plant and equipment and intangible assets	-0.1	0.8	3.9
Impairment of property, plant and equipment and intangible assets	-	-	-
Restructuring costs (1)	-27.3	-80.7	-262.5
Other (2)	-13.0	-16.3	-17.8
TOTAL	**-40.4**	**-96.2**	**-276.3**

(1) Including:

- *in the first half of 2018, the global transformation plan of the Professional Products Division in the amount of €11.9 million, the reorganisation of Brazilian operations in the amount of €6.4 million, various restructuring projects for sales forces and operational structures in Western Europe in the amount of €5.9 million and the closure of the Canton masks production plant in China in the amount of €6.3 million;*
- *in first-half 2017, the repositioning of Clarisonic's distribution operations for €10.4 million, the discontinuance of various Selective Division brands in countries where they have a dilutive impact for €28.6 million, the reorganisation of operations in Brazil in line with the tough economic environment for €6.4 million, the reorganisation of IT structures in Europe for €6.4 million along with various downsizing projects affecting sales teams and operating structures in Germany and Belgium for €15.4 million, ongoing restructuring of the operations of the Consumer Products Division in China for €8.3 million, and the ongoing reorganisation of the French Commercial Entities of the four divisions for €5.5 million;*
- *in 2017, the repositioning of Clarisonic's distribution activities (€10.0 million), the discontinuance of several Selective Division brands in countries where they are dilutive (€26.4 million), the reorganisation of activities in Brazil to cope with the difficult economic environment (€50.3 million), the reorganisation of IT structures in Europe (€9.2 million) as well as various projects to rationalise sales teams and operational and administrative structures in Western Europe (€29.4 million), the restructuring of the activities of the Consumer Products Division in China (€58.2 million), the pooling of the "international marketing" Divisions of the Global Selective Divisions on one site (€33.9 million), the launch of the Professional Products Division global transformation plan (€21.8 million), the pooling of accounting activities in several geographic zones (€7.7 million), as well as the continued reorganisation of the French business activities of the four Divisions (€12.4 million).*

(2) Including:

- *in first-half 2018, acquisition-related costs of €12 million ;*
- *in first-half 2017, acquisition-related costs of €15.1 million;*
- *in 2017, acquisition-related costs (€12.9 million), as well as adjustments made to the opening balance sheet of Atelier Cologne (€4.5 million).*

NOTE 5 Employee benefits - Free shares

5.1. Employee benefits - Actuarial gains and losses

a) 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.

b) At 30 June 2017

The rise of around 25 basis points since 31 December 2016 in the benchmark EUR interest rates used to determine the present value of the Group's pension obligations led to a decrease in the provision for employee retirement obligations together with an increase in the value of plan assets. The net impact on the pension provision is a decrease of €139.6 million.

After recognition of a deferred tax liability for €40.4 million, the net effect after tax on actuarial gains and losses is €99.2 million.

5.2. Free shares

On 17 April 2018, the Board of Directors decided to conditionally grant 931,000 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 17 April 2018 plan, concern:

- for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2019, 2020 and 2021 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 2019, 2020 and 2021 fiscal years and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

A total of 986,220 shares and 993 765 shares were definitively granted, respectively on 27 April 2017 under the 26 April 2013 plan and on 18 April 2018 under the 17 April 2014.

At 30 June 2018, the performance conditions were deemed to have been met, with the exception of the plan of 22 April 2015, for which the expense was reviewed on the basis of the predefined schedule based on the best estimate of the percentage of performance achieved at the date of the end of the plan.

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 €176.17 compared to a share price of €191.85.

5.3. Capital increase reserved for employees

In June 2018, the Group's employees were able to subscribe to a Share Ownership Plan on the basis of a standard formula with a discount and a matching contribution.

The subscription price was set at €162.52, corresponding to 80% of the average market price of the shares during the 20 trading days preceding the decision of the Chairman and Chief Executive Officer setting the dates of the subscription period from 4 June to 18 June 2018, during which time 423,916 shares were subscribed. This figure does not take into account the subscription reserved to a Trustee under English law, as part of a Share Incentive Plan established for the Group's employees in the United Kingdom, for which the final number of shares subscribed will not be known until November 2018.

For French employees, free shares were offered on subscription based on the beneficiary's personal contribution to the plan, with a maximum of 4 free shares granted for 10 shares subscribed.

For employees in other countries, shares were awarded through a free share plan subject to an employee presence condition and depending on the beneficiary's personal contribution to the plan, with a maximum of 4 free shares granted for 10 shares subscribed. The shares will be allocated to employees on 25 July 2023, subject to their presence in the Group on that date.

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

The capital increase will take place on 24 July 2018 in the amount of 455,613 shares.

The IFRS 2 expense in respect of free shares granted is:

- €5.1 million for French employees on the basis of the subscription price of €162.52 per share, and;
- €7.1 million for international employees. This expense is amortised over the vesting period and corresponds to the reference value of the share adjusted for dividends expected during the vesting period; i.e. €180.94 per share.

NOTE 6 Intangible assets

Since no event of an adverse nature occurred in the period, no impairment test was carried out at 30 June 2018.

No impairment was recognized against goodwill or other intangible assets in first-half 2018.

The €678.7 million increase in "Goodwill" primarily reflects changes in the scope of consolidation and acquisitions carried out in the first half for €618.2 million along with the positive foreign exchange impact amounting to €66.6 million.

The €305.7 million increase in "Other intangible assets" essentially reflects acquisitions in the period representing €347.2 million and the positive foreign exchange impact for €38.0 million, partly offset by the amortisation charged in the period for - €89.0 million.

NOTE 7 Investments in associates

€ millions	30.06.2018	30.06.2017	31.12.2017
Investments in associates			
• LIPP Distribution (1)	8.8	-	-
• Nutricos Technologies	1.1	1.0	1.1
TOTAL	**9.9**	**1.0**	**1.1**

(1) On 13 June 2018, L'Oréal acquired a stake of 49% in 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 these borrowings are subject to an early repayment clause linked to compliance with financial ratios (covenants).

8.1.1. Debt by type

	30.06.2018		30.06.2017		31.12.2017	
€ millions	Non-current	Current	Non-current	Current	Non-current	Current
Short-term marketable instruments	-	1,133.8	-	2,879.5	-	768.1
MLT bank loans	0.3	0.7	0.6	1.2	0.3	0.3
Debt on capital lease contracts	3.8	3.1	5.3	3.0	4.6	2.9
Overdrafts	-	342.3	-	81.9	-	261.0
Other borrowings and debt	8.8	157.8	8.6	197.8	8.6	128.7
TOTAL	**12.9**	**1,637.6**	**14.5**	**3,163.5**	**13.4**	**1,161.0**

8.1.2. Change in debt

			Non-cash changes			
€ millions	31.12.2017	Cash-flows	Changes in the scope of consolidation	Translation adjustments/ differences	Changes in fair value	30.06.2018
Short-term marketable instruments	768.1	342.9	-	22.7	-	1,133.8
MLT bank loans	0.6	-0.2	0.7	-0.1	-	1.0
Debt on capital lease contracts	7.5	-1.9	1.2	0.1	-	6.8
Overdrafts	261.0	85.7	1.4	-5.8	-	342.3
Other borrowings and debt	137.3	33.2	-1.4	-2.8	0.2	166.6
TOTAL	**1,174.4**	**459.8**	**1.9**	**14.2**	**0.2**	**1,650.5**

8.1.3. Debt by maturity date

€ millions	30.06.2018	30.06.2017	31.12.2017
Under 1 year (1)	1,637.6	3,163.5	1,161.0
1 to 5 years	3.5	5.3	4.2
Over 5 years	9.4	9.2	9.2
TOTAL	**1,650.5**	**3,178.0**	**1,174.4**

(1) At 30 June 2018, the Group had confirmed undrawn credit lines for €3,636.5 million compared with €3,693.9 million at 30 June 2017 and €3,675.2 million at 31 December 2017. These lines were not subject to any covenants.

8.1.4. Debt by currency

€ millions	30.06.2018	30.06.2017	31.12.2017
Euro (EUR)	661.6	1,538.8	378.2
US Dollar (USD)	761.0	1,389.2	630.2
Chilean Peso (CLP)	36.8	39.9	18.7
Brazilian Real (BRL)	27.5	46.0	27.6
Colombian Peso (COP)	25.2	24.3	29.4
Egyptian Pound (EGP)	19.6	11.1	13.6
Turkish Lira (TRY)	17.7	19.1	-
Chinese Yuan Renminbi (CNY)	17.1	23.0	19.2
Argentine Peso (ARS)	12.7	16.9	2.5
South African Rand (ZAR)	10.8	10.7	7.5
Kenyan Shilling (KES)	9.7	8.4	6.6
Other	50.8	50.6	40.9
TOTAL	**1,650.5**	**3,178.0**	**1,174.4**

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

€ millions	30.06.2018	30.06.2017	31.12.2017
Floating rate	1,560.7	3,119.5	1,132.3
Fixed rate	89.7	58.4	42.1
TOTAL	**1,650.5**	**3,178.0**	**1,174.4**

8.1.6. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments are 1.13% at 30 June 2018 compared with 0.33% at 30 June 2017 and 0.94 % at 31 December 2017 for short-term marketable instruments.

Bank loans amounted to €1.0 million at 30 June 2018 compared with €1.8 million at 30 June 2017 and €0.6 million at 31 December 2017.

8.1.7. Average debt interest rates

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

	30.06.2018	30.06.2017	31.12.2017
Euro (EUR) (1)	-0.49%	-0.42%	-0.42%
US Dollar (USD)	1.81%	0.85%	1.00%

(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 amounted to €1,651.0 million at 30 June 2018, compared with €3,178.5 million at 30 June 2017 and €1,175.0 million at 31 December 2017.

8.2. Cash and cash equivalents

	30.06.2018		30.06.2017		31.12.2017	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	524.2	524.3	515.7	515.7	1,810.4	1,810.8
Bank accounts and other cash and cash equivalents	1,489.3	1,489.3	1,170.4	1,170.4	1,236.1	1,236.1
TOTAL	**2,013.5**	**2,013.6**	**1,686.0**	**1,686.0**	**3,046.6**	**3,046.9**

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

There is no unrealised loss at 30 June 2018.

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

	30.06.2018		30.06.2017		31.12.2017	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Non-consolidated securities						
• Sanofi [(1)]	8,116.3	4,033.5	9,902.7	4,033.5	8,494.6	4,033.5
• Unlisted securities [(2)]	36.1	131.0	19.8	114.7	32.1	127.1
Financial assets at amortised cost						
• Non-current loans and receivables	237.9	240.6	205.8	209.2	239.5	242.4
TOTAL	**8,390.3**	**4,405.2**	**10,128.4**	**4,357.4**	**8,766.2**	**4,403.0**

(1) L'Oréal's stake in Sanofi was 9.47% at 30 June 2018. The carrying amounts at 30 June 2018, 30 June 2017 and 31 December 2017 (€8,116.3 million, €9,902.7 million and €8,494.6 million respectively) correspond to the market value of the shares based on the closing price at each of these dates (€68.65 , €83.76 and €71.85 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 item chiefly comprises:

- *the strategic investments in the investment fund measured at fair value through other comprehensive income,*
- *the securities of our subsidiaries in Venezuela, deconsolidated since 31 December 2015, in the amount of €94.4 million, fully impaired.*

In the absence of a specific event, the acquisition cost is deemed to be the best estimate possible 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 2018, the change in the mark to market value of the hedging instruments allocated to future transactions and deferred through equity amounts to +€95.7 million, compared with +€107.9 million at 30 June 2017 and +€115.4 million at 31 December 2017.

9.2. Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	1st half 2018	1st half 2017	2017
Time value	-45.7	-28.0	-90.5
Other foreign exchange gains and losses	58.2	-24.0	-5.0
TOTAL	**12.5**	**-52.0**	**-95.5**

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 a negative €0.2 million for the first-half 2018, a negative €2.4 million for the first-half 2017 and a negative €8.4 million for the year 2017.

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

€ millions	1st half 2018	1st half 2017	2017
Cost of sales	16.3	-46.5	-77.8
Research and development	-7.9	6.4	3.3
Advertising and promotion	2.3	-7.6	-12.4
Selling, general and administrative expenses	1.8	-4.3	-8.6
FOREIGN EXCHANGE GAINS AND LOSSES	**12.5**	**-52.0**	**-95.5**

9.3. Hedging of interest rate risk

The Group did not have any interest rate hedging instruments at 30 June 2018, 30 June 2017 and 31 December 2017.

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 2018, marketable securities consist mainly of unit trusts (note 8.2.).

At 30 June 2018, the Group held 118,227,307 Sanofi shares for an amount of €8,116.3 million (note 8.3.). A change of plus or minus 10% in the market price of these shares relative to the market price of €68,65 on 30 June 2018 would have an impact of plus or minus €811,6 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 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 30 June 2017	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		217.6		217.6
Sanofi shares	9,902.7			9,902.7
Marketable securities	515.7			515.7
TOTAL ASSETS AT FAIR VALUE	**10,418.4**	**217.6**	**-**	**10,636.0**
Liabilities at fair value				
Foreign exchange derivatives		183.5		183.5
TOTAL LIABILITIES AT FAIR VALUE	**-**	**183.5**	**-**	**183.5**

€ millions 31 December 2017	level 1	level 2	level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		230.3		230.3
Sanofi shares	8,494.6			8,494.6
Marketable securities	1,827.5			1,827.5
TOTAL ASSETS AT FAIR VALUE	**10,322.1**	**230.3**	**-**	**10,552.4**
Liabilities at fair value				
Foreign exchange derivatives		190.5		190.5
TOTAL LIABILITIES AT FAIR VALUE	**-**	**190.5**	**-**	**190.5**

NOTE 10 Equity – Earnings per share

10.1. Share capital and additional paid in capital

Share capital consists of 562,101,813 shares with a par value of €0.20 at 30 June 2018, compared with 559,967,260 shares at 30 June 2017 and 560,519,088 shares at 31 December 2017.

10.2. Treasury stock

Shares acquired under the shareholder-approved L'Oréal share buyback programme are deducted from consolidated equity. Capital gains or losses relating to these shares are also recorded in equity net of tax.

a) 1st half 2018

The change in the number of shares for the first-half 2018 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
AT 01.01.2018	**560,519,088**	**-771,125**	**559,747,963**
Shares cancelled			-
Options and free shares exercised	1,582,725		1,582,725
Treasury stock purchased		-2,497,814	-2,497,814
AT 30.06.2018	**562,101,813**	**-3,268,939**	**558,832,874**

The change in Treasury stock for the first-half 2018 is 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			-	
Options and free shares exercised			-	
Treasury stock purchased	2,497,814		2,497,814	499.4
AT 30.06.2018	**2,497,814**	**771,125**	**3,268,939**	**555.9**
€ millions	499.4	56.5	555.9	

b) Year 2017

The change in the number of shares in 2017 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2017	**561,855,741**	**-1,757,345**	**560,098,396**
Shares cancelled	-2,846,604	2,846,604	
Options and free shares exercised	1,509,951	986,220	2,496,171
Treasury stock purchased		-2,846,604	-2,846,604
At 31.12.2017	**560,519,088**	**-771,125**	**559,747,963**

The change in Treasury stock in 2017 was as follows:

In shares	Buyback programme	Allocated to stock options / free shares plans	**Total**	€ millions
AT 01.01.2017		**1,757,345**	**1,757,345**	**133.6**
Shares cancelled	-2,846,604		-2,846,604	-499.2
Options and free shares exercised		-986,220	-986,220	-77.2
Treasury stock purchased	2,846,604		2,846,604	499.2
AT 31.12.2017	**-**	**771,125**	**771,125**	**56.5**
€ millions	-	56.5	56.5	

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

10.3.1. Reconciliation with net profit from continuing operations

Net profit from continuing operations attributable to owners of the company excluding non-recurring items reconciles as follows with net profit of continuing operations attributable to owners of the company:

€ millions	**1st half 2018**	1st half 2017	2017
Net profit of continuing operations attributable to owners of the company	**2,275.2**	**2,066.7**	**3,821.7**
Capital gains and losses on property, plant and equipment and intangible assets	0.1	-0.8	-3.9
Impairment of property, plant and equipment and intangible assets	-	-	-
Restructuring costs	27.3	80.7	262.5
Other	13.0	16.3	17.8
Tax effect on non-recurring items	-11.1	-29.6	-83.4
Non-controlling interests on non-recurring items	-	-	-0.1
Tax effect on acquisitions and internal restructuring	-0.6	-3.3	-16.1
Impact of the decrease in the US tax rate	-3.3	-	-90.3
Impact of the decrease in the French tax rate on deferred tax liabilities relating to the Sanofi shareholding	-	-	-13.4
3% tax levied on dividends paid and 2017 exceptional and additional contributions (1)	-	55.7	-146.0
Costs net of tax of the discontinuation of the Innéov operation by L'Oréal and disposal of a part of its assets	-	0.1	-
NET PROFIT OF CONTINUING OPERATIONS ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**2,300.6**	**2,185.8**	**3,748.7**

(1) Following the decision taken by the Constitutional Court in October 2017 to invalidate the additional 3% contribution, the amounts paid for the financial years 2013 to 2017 were reimbursed with default interest. In return, exceptional contributions and an additional contribution to the exceptional contribution were introduced by the amended finance law for 2017 and are included in this line item.

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 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**

1st half 2017	Net profit attributable to owners of the company *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	2,037.5	558,958,873	3.65
Stock options	-	2,018,504	-
Free shares	-	2,446,324	-
DILUTED EARNINGS PER SHARE	**2,037.5**	**563,423,701**	**3.62**

2017	Net profit attributable to owners of the company *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	3,581.4	559,233,644	6.40
Stock options	-	1,792,615	-
Free shares	-	2,502,243	-
DILUTED EARNINGS PER SHARE	**3,581.4**	**563,528,502**	**6.36**

10.3.3. Earnings per share from continuing operations excluding non-recurring items

The tables below set out in detail earnings per share from continuing operations attributable to owners of the company excluding non-recurring items (excluding the dilutive impact of shares carrying preferential dividend rights):

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**

1st half 2017	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	2,185.8	558,958,873	3.91
Stock options	-	2,018,504	-
Free shares	-	2,446,324	-
Diluted earnings per share excluding non-recurring items	**2,185.8**	**563,423,701**	**3.88**

2017	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	3,748.7	559,233,644	6.70
Stock options	-	1,792,615	-
Free shares	-	2,502,243	-
Diluted earnings per share excluding non-recurring items	**3,748.7**	**563,528,502**	**6.65**

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	30.06.2018	30.06.2017	31.12.2017
Non-current provisions for liabilities and charges	**295.8**	**367.8**	**434.9**
Other non-current provisions (1)	295.8	367.8	434.9
Current provisions for liabilities and charges	**948.5**	**816.5**	**889.2**
Provisions for restructuring	109.8	84.9	146.0
Provisions for product returns	333.1	319.8	303.6
Other current provisions (1)	505.6	411.9	439.6
TOTAL	**1,244.2**	**1,184.4**	**1,324.1**

(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 et b).
At end-December 2017, some L'Oréal 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. There was no change in the first half of 2018.
In the first half of 2018, L'Oréal reconsidered the assessment of its risks in Brazil, particularly as regards IPI (see notes 11.1.2 and 11.2.1.)
L'Oréal considers that the provisions recognised in the financial statements are adequate to cover its tax risks and litigation

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

€ millions	30.06.2017	31.12.2017	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Other (1)	30.06.2018
Provisions for restructuring	84.9	146.0	16.2	-45.6	-4.0	-2.8	109.8
Provisions for product returns	319.8	303.6	172.5	-122.2	-24.6	3.8	333.1
Other provisions for liabilities and charges	779.7	874.5	192.9	-104.5	-155.6	-6.0	801.3
TOTAL	**1,184.4**	**1,324.1**	**381.6**	**-272.3**	**-184.2**	**-5.0**	**1,244.2**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
Operating profit *	356.6	-201.2	-157.9
Other income and expenses	16.2	-68.5	-4.0
Financial (income)/expense *	-	-	-15.4
Income tax	8.8	-2.6	-6.9

* *of which the IPI dispute in allowances in the amount of €47.8 million and reversals without cost in the amount of €118.9 million in the operating income and €15.2 million in the finance income. (see note 11.2.1.).*

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. Based on developments in market positions and the favourable development in the opinion of its legal advisors, L'Oréal has since 1 January 2018 recognised the IPI collected in revenue and the provision constituted was accordingly reversed in the first half of 2018 (see notes 11.1.1 and 11.1.2.).

L'Oréal received tax reassessment notices regarding the indirect IPI tax for fiscal years 2008, 2011, 2012 and 2013 totalling €507.7 million, including interest and penalties. The Brazilian tax authorities questioned the disposal price of the Brazilian plant to the commercial business 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 view of the unfavourable developments in the administrative decisions on the same subject for other Brazilian groups, L'Oréal has partially recorded this risk by applying a tax base based on the average of the prices charged by its subsidiaries and not the totality of its sales to third parties (see notes 11.1.1 and 11.1.2.).

India - Advertising, marketing and promotional costs challenged

L'Oréal received several tax reassessment notices regarding fiscal years 2007/08 to 2013/14 for the most part concerning the tax deductibility of advertising, marketing and promotional expenses for a total amount of €116.8 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. As a result, no provision has been recognised in this respect.

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)

The proceedings are at different stages:

- in Spain, the decision in first instance was appealed against before the Court of Cassation and subsequently the Constitutional Court. In October 2016, the Constitutional Court dismissed the appeal lodged by L'Oréal España claiming breach of the fundamental rights of the defence. The Court of Cassation's ruling is therefore final and binding. The competition authority recalculated the sanction in accordance with the criteria set by the Court of Cassation and confirmed the amount of the fine initially set at €23 million paid on 5 July 2018;
- in Greece, in its decision passed down on 4 October 2017, the Greek competition authority condemned L'Oréal Hellas to pay a fine of €2.6 million for carrying out anti-competitive practices in 2005-2006. L'Oréal Hellas refuted all allegations of having engaged in anti-competitive practices with other luxury cosmetics manufacturers. L'Oréal Hellas appealed this decision on 4 December 2017. The total amount of the fine has been provisioned.

b) France

In France, the decision in first instance was handed down by the French competition authority on 18 December 2014 in the household and personal care sector concerning events that took place in the early 2000s. L'Oréal S.A. was ordered to pay a fine of €189.5 million.

On 27 October 2016, the Paris Court of Appeal upheld this first instance decision.

L'Oréal refutes all accusations of concerted practices with its competitors and regrets that the French competition authority did not take into account the highly competitive French market in household and personal 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.

L'Oréal has lodged an appeal in cassation. No ruling from the Court of Cassation had been handed down at 30 June 2018.

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 2018, 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 2018 amounting to €189.5 million at 30 June 2018 compared with €214.4 million at 30 June 2017 and €212.3 million at 31 December 2017.

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

No significant events occurred between the balance sheet date and the date when the Board of Directors authorised the condensed half-year consolidated financial statements for issue.

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Statutory Auditors' Review Report on the 2018 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, 2018 ;
- 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.

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, July 27th, 2018

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 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, 27 July 2018,

On the authority of the Chairman and Executive Officer

Christian Mulliez

Executive Vice-President, Administration and Finance

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