

**L'ORÉAL**

**STATUTORY AUDITORS' SPECIAL REPORT ON  
RELATED-PARTY AGREEMENTS**

**(Annual General Meeting held to approve the financial  
statements for the year ended 31 December 2020)**

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year ended 31 December 2020)**

**L'ORÉAL**  
14, rue Royale  
75008 Paris

*This is a free translation into English of the statutory auditors' special report on related-party agreements issued in the French language 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.  
It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related-party transactions described in IAS 24 or other equivalent accounting standards.*

To the L'Oréal Annual General Meeting,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related-party agreements.

The terms of our engagement require us to communicate to you, based on the information provided to us, the principal terms and conditions of those agreements brought to our attention or which we may have discovered in the course of our audit, as well as the reasons justifying that such agreements are in the Company's interest, without having to express an opinion on their usefulness and appropriateness or identify such other agreements, if any. It is your responsibility, pursuant to Article R.225-31 of the French Commercial Code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

Where applicable, it is also our responsibility to provide shareholders with the information required by Article R.225-31 of the French Commercial Code in relation to the performance during the year of agreements already approved by the Annual General Meeting.

We performed the procedures that we considered necessary with regard to the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

### **AGREEMENTS SUBMITTED FOR THE APPROVAL OF THE ANNUAL GENERAL MEETING**

#### **Agreements authorized and entered into during the year**

We were not informed of any agreements entered into during the year to be submitted for approval at the Annual General Meeting pursuant to the provisions of Article L.225-38 of the French Commercial Code.

#### **Agreements authorized and entered into since the year-end**

We were informed that the following agreement, authorized and entered into since the year-end, was previously authorized by your Board of Directors.

#### ***Agreement concerning the position of Nicolas Hieronimus whose employment contract will be suspended upon his appointment as Chief Executive Officer***

##### *Nature and purpose*

On 11 February 2021, your Board of Directors authorized an agreement to suspend the employment contract between your company and Nicolas Hieronimus, current Deputy Chief Executive Officer and employee of your company, who will become the Company's Chief Executive Officer as of 1 May 2021, following the decision of the Board of Directors' meeting to be held after the Annual General Meeting of 20 April 2021.

This agreement will be entered into following the Board of Directors' meeting. It will become effective as of 1 May 2021, subject to the effective appointment of Nicolas Hieronimus as Chief Executive Officer by the Board of Directors' meeting to be held after the Annual General Meeting of 20 April 2021.

##### *Reasons justifying the interest for your Company*

Your Board of Directors recalled that L'Oréal's constant practice has been to appoint as executive officers employees who have fully succeeded in the various stages of their career in the Group. The remuneration policy applicable to executive officers is the logical result of this choice. Your Board also considered that this policy should attract the most talented employees of L'Oréal to the highest positions in General Management, without them being deprived, after a long career in the Group, of the benefits to which they would have continued to be entitled had they remained employees.

To achieve this objective, the Board of Directors decided to maintain the employment contract of executive officers who, when appointed, have at least 15 years of service

in the Group and ensured that the benefits under the suspended employment contract are not combined with those in respect of the corporate office.

Pursuant to this policy, the Board of Directors did not wish that Nicolas Hieronimus, who has accepted the position of Chief Executive Officer after 34 years of career at L'Oréal, be deprived, as of 1 May 2021, of the benefits that he would have continued to obtain had he remained an employee and that he will not receive as executive officer.

#### *Terms and conditions*

- Suspension of Nicolas Hieronimus' employment contract on the start date of his corporate office, and during the term of his corporate office

In the event of termination of his suspended employment contract during the term of office, and depending on the reasons for such termination, Nicolas Hieronimus will only receive the severance pay (save for gross misconduct or gross negligence) or retirement indemnities in the event of voluntary retirement or retirement at the Company's request payable under the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the French collective bargaining agreement for the chemicals industry (*Convention collective nationale des industries chimiques*) and the company-level agreements applicable to all L'Oréal managers, are automatically due pursuant to the public policy rules of French labor law. They are not subject to any condition other than those provided for by the collective bargaining agreement or the above-mentioned company-level agreements. The same applies to the non-compete clause and the related financial consideration.

Nicolas Hieronimus will continue to benefit, under his employment contract suspended for the term of his corporate office, from the "*Garantie de Ressources des Retraités Anciens Cadres Dirigeants*" (Retirement Income Guarantee for former senior managers) scheme, closed to new entrants as from 31 December 2015. Indemnities are calculated according to the number of years of professional activity within the company as of 31 December 2019, up to a maximum of 25 years. In general, subsequent to 31 December 2019, no new entitlement is granted under this scheme pursuant to Order 2019-697 of 3 July 2019 on supplementary pension schemes, which provides for the closure of all defined-benefit schemes governed by Article L. 137-11 of the French Social Security Code. The main features of this scheme are described in Note 4.3.2.5 to the 2019 L'Oréal Universal Registration Document. In this specific case, Nicolas Hieronimus reached the limit of 25 years' professional activity in the Group provided under the scheme in 2012 and therefore has not benefited from any new entitlement to supplementary annuities since such date.

Under his employment contract and in accordance with the French collective bargaining agreement for the chemicals industry, in the event of termination of the employment contract, the compensation under the non-compete clause would be payable monthly over two years based on two-thirds of the monthly fixed remuneration provided for in the suspended employment contract, unless

Nicolas Hieronimus was released from the application of this clause. This clause is not applicable in the event of voluntary retirement or retirement at the Company's request and no non-compete compensation would be paid in this situation.

Under no circumstances shall the remuneration received for the corporate office be taken into consideration in calculating benefits likely to be payable under the above-mentioned employment contract.

- Terms and conditions relating to the suspension of Nicolas Hieronimus' employment contract
  - The reference remuneration to be taken into account for all entitlements attached to the employment contract will be based on the amount of remuneration at the date of suspension of the employment contract, namely, fixed remuneration of €1,750,000 and variable remuneration of €1,850,000. This reference remuneration will be revised annually by applying the revaluation coefficient in respect of salaries and pension contributions published by the French state pension fund (*Caisse nationale d'assurance vieillesse*).
  - The length of service applied will cover his entire career within the Group, including his years as executive officer.
- Nicolas Hieronimus will continue to be treated in the same way as a senior manager throughout the term of his corporate office, which allows him to benefit from the additional social protection schemes, including the defined-contribution pension scheme and employee benefit and healthcare schemes applicable to the Company's employees. This information is contained in the remuneration policy submitted for approval to the Annual General Meeting of 20 April 2021.

## **AGREEMENTS ALREADY APPROVED BY ANNUAL GENERAL MEETING**

### ***Agreements approved during previous years***

In accordance with Article R.225-30 of the French Commercial Code, we were informed that the following agreement, already approved by the Annual General Meeting of 27 April 2010 and described in the statutory auditors' special report of 19 February 2010, continued to be performed during the year.

### ***Agreement concerning Jean-Paul Agon, Chairman and Chief Executive Officer***

- Suspension of Jean-Paul Agon's employment contract during the term of his corporate office

In the event of termination of his employment contract during the term of office, and depending on the reasons for such termination, Jean-Paul Agon will only receive the severance pay (save for gross misconduct or gross negligence)

or retirement indemnities in the event of voluntary retirement or retirement at the Company's request payable under the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the French collective bargaining agreement for the chemicals industry (*Convention collective nationale des industries chimiques*) and the company-level agreements applicable to all L'Oréal managers, are automatically due pursuant to the public policy rules of French labor law. They are not subject to any condition other than those provided for by the collective bargaining agreement or the above-mentioned company-level agreements. The same applies to the non-compete clause and the related financial consideration.

Jean-Paul Agon will continue to benefit from the defined-benefit pension scheme currently applicable to the Group's senior managers, as described in chapter 2 of the management report.

- Terms and conditions relating to the suspension of Jean-Paul Agon's employment contract
  - The reference remuneration to be taken into account for all entitlements attached to the employment contract and in particular for the calculation of the pension under the defined-benefit scheme will be based on the amount of remuneration at the date of suspension of the employment contract in 2006, namely, fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This reference remuneration is revised annually by applying the revaluation coefficient in respect of salaries and pension contributions published by the French state pension fund (*Caisse nationale d'assurance vieillesse*). As of 1 January 2021, the fixed remuneration amounted to €1,731,000 and the variable remuneration to €1,442,500.
  - The length of service applied will cover his entire career, including his years as Chief Executive Officer and Chairman and Chief Executive Officer. For information purposes, Jean-Paul Agon reached the limit of 40 years of service required under the scheme, namely, on 1 September 2018.
- Jean-Paul Agon will continue to be treated in the same way as a senior manager throughout the term of his corporate office, which allows him to benefit from the additional social protection schemes, including the defined-contribution pension scheme and employee benefit and healthcare schemes applicable to the Company's employees. This information is contained in the remuneration policy submitted for approval to the Annual General Meeting of 20 April 2021.

In Neuilly-sur-Seine and Paris-La Défense, 17 February 2021

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Anne-Claire FERRIE

Frédéric MOULIN

