

L'ORÉAL EMPLOYEE SHARE OFFERING 2022

TAX INFORMATION TO EXPAT EMPLOYEES OF L'ORÉAL DANMARK A/S

*This note highlights certain Danish tax rules that are relevant to expat employees of L'Oréal Danmark A/S, who participate in the L'Oréal employee share offering 2022 (the "**Offering**") and who are tax resident in Denmark at the time of the share subscription. The note has been prepared on the basis of the rules and tax rates which are applicable at the time of the Offering. These rules and tax rates may change over time.*

The note is provided as guidance only and should not be relied upon as being either complete or conclusive. For definite advice on the matter, you should consult your own tax advisor.

Share incentive taxation of expat employees of L'Oréal Denmark

As an expat employee, you may possibly have opted for salary taxation under the special Danish expat tax regime set out in Sections 48 E - 48 F of the Danish Act on Source Taxation (in Danish *kildeskatteloven*) (the "**Expat Tax Regime**"). The Expat Tax Regime does, however, not apply to benefits granted under an employee share plan. Expat employees will therefore be taxed on their participation in the Offering under the general Danish tax regime **regardless** of whether they have opted for taxation under the Expat Tax Regime.

As a consequence, expat employees will be subject to ordinary salary taxation of the benefits received under the Offering unless they make an election to apply the special Danish employee share tax regime set out in Section 7 P of the Danish Tax Assessment Act (the "**Section 7 P Regime**").

The Section 7 P Regime is an alternative, optional tax regime that is generally more favourable than the general Danish tax rules due to the fact that the regime postpones taxation until the sale of the shares and reduces the maximum rate of taxation from approx. 56% to 42%.

However, Section 7 P has a disadvantage that may possibly override the benefits to expat employees. Thus, if Section 7 P is applied, an expat employee may incur an exit tax when leaving Denmark that would not otherwise arise. The information below has been provided to guide you on this matter.

Taxation under the general tax regime versus the Section 7 P Regime

Taxation under the general tax regime

If you choose to be taxed under the general Danish tax regime, Danish tax is expected to arise as follows:

- The benefits received in connection with the Offering will be taxed as salary income.
- The benefits to be taxed as salary income include the subscription price discount and, subject to vesting, the free shares granted in connection with the Offering (the "**Free Shares**").
- Salary taxation of the subscription price discount arises in the year of subscription, i.e. 2022.
- Salary taxation of the Free Shares arises when and if the employee obtains a legal entitlement to the shares. Based on Danish tax practice, it is believed that the employees obtain a legal entitlement to the Free Shares for Danish tax purposes at the expiry of the vesting period in 2027, or at the occurrence of an early vesting event.
- Salary taxation will occur at progressive tax rates of up to approx. 56%, including labour market tax (*AM-bidrag*).

Further, if you dispose of your L'Oréal shares while residing in Denmark, you will be subject to Danish capital gains tax on any increase in the value of the shares compared to the value at the time of subscription / legal entitlement. Capital gains tax will apply at a rate of 27% or 42%.

However, if you leave Denmark, i.e. terminate your Danish tax residency, before disposing of your L'Oréal shares, you will only be subject to Danish capital gains tax on your L'Oréal shares if you meet the following criteria of the Danish exit tax regime (the "**Exit Tax Regime**"):

- (1) Your share portfolio has a total value of at least 100,000 DKK, or includes shares that have a negative acquisition cost base (in Danish *negative anskaffelsessum*);

and

- (2) you have been subject to Danish tax for a period of at least 7 years within the last 10 years as mentioned in one of the following categories:
 - a) Residence taxation (including taxation under the Expat Tax regime);
 - b) Source taxation (*begrænset skattepligt*) with respect to capital gains on shares.

Unless you meet both of these criteria, you should not be subject to Danish capital gains tax on your L'Oréal shares upon terminating your Danish tax residency.

As regards criterion (1) it is noted that the total value of your share portfolio is to be determined on the day that your Danish tax residency is terminated and includes all shares own by you on that date (i.e. not only your shares in L'Oréal).

Taxation under Section 7 P

Application of Section 7 P to the participation in the Offering would, as a point of departure, entail the following:

No salary taxation should arise (subject to a 20% limit), and no taxation should occur until disposal of the shares. See the Local Supplement for details on the 20 % limit. At the time of disposal, any gains realized on the shares would be subject to capital gains taxation at a maximum rate of 42%.

The tax treatment under Section 7 P is generally considered more favourable than the tax treatment under the general Danish tax regime. However, there is a significant disadvantage attached to Section 7 P, namely that capital gains tax will always arise upon termination of Danish tax residency if Section 7 P is applied. No exceptions are available.

Thus, if Section 7 P has been applied, an expat employee will always become subject to capital gains tax on his/her shares in L'Oréal upon termination of his/hers Danish tax residency. Further, this taxation will apply to all L'Oréal shares held by the expat employee, including L'Oréal shares acquired on other occasions than the Offering. As regards the shares acquired under the Offering and Section 7 P, the basis for taxation would be the market value of the shares on the date of terminating the Danish tax residency less the subscription price paid by the expat employee pursuant to the Offering.

Due to this special exit tax rule, it may not necessarily be advantageous for expat employees to apply Section 7 P and expat employees should therefore carefully consider whether to apply Section 7 to their participation in the Offering. In this context it is also noted that expat employees who are normally taxed under the Expat Tax Regime (on ordinary salary) may possibly be entitled

to a personal allowance (in Danish "personfradrag") that may reduce the salary tax arising if Section 7 P is not applied. Your personal tax advisor should be able to determine if this applies to you.

For completeness, it is noted that in order to apply the Section 7 P regime, a tax agreement must be signed and delivered by you to L'Oréal Danmark A/S in connection with your share subscription.

Note on the Danish tax treatment of the Free Shares

The Danish Exit Tax Regime only applies to shares to which the expat employee has obtained a legal entitlement at the time of terminating his/hers Danish tax residency. In this regard, it does not matter whether the expat employee has applied Section 7 P.

This means that the Free Shares should only become subject to capital gains tax under the Exit Tax Regime upon termination of the expat employee's Danish tax residency if the expat employee has obtained a legal entitlement to the Free Shares at such time. Based on Danish tax practice, it is believed that participants in the Offering will be considered to obtain a legal entitlement to the Free Shares upon expiry of the vesting period in 2027, or at the occurrence of an early vesting event.

However, if the expat employee obtains a legal entitlement to the Free Shares after terminating his/hers Danish tax residency, the expat employee will (instead) be subject to Danish salary tax on the Free Shares (or on a portion thereof) at such time. This applies even though the expat employee no longer resides in Denmark and regardless of whether the expat employee has applied Section 7 P. It is recommended that you seek advice from your personal tax advisor in relation to the computation of your tax liability and your reporting and payment obligations toward the Danish tax authorities that will arise upon obtaining a legal entitlement to the Free Shares.

You are reminded that the above information is given as guidance only and should not be relied upon as being either complete or conclusive. Neither L'Oréal nor your local employer provides tax advice and neither L'Oréal nor your local employer accepts any responsibility for your personal tax situation or tax cost. You should thus consult your own tax advisor for definite advice on the above matters.