L'ORÉAL EMPLOYEE SHARE OWNERSHIP PLAN 2022

LOCAL SUPPLEMENT FOR INDIA

You have been invited to invest in shares of L'Oréal S.A. ("L'Oréal Shares") in L'Oréal Group Employee Share Ownership Plan 2022 ("2022 Employee Share Ownership Plan"). Below, you will find a summary of the local offering information and principal tax consequences relating to the 2022 Employee Share Ownership Plan.

For a complete description of the 2022 Employee Share Ownership Plan, please refer to the Employee Information Brochure, the Key Investor Information Document ("KIID") and other related documents for the L'Oréal Employee Share Plan" FCPE provided together with this Local Supplement, which are available on https://invest.loreal.com.

Before investing in the 2022 Employee Share Ownership Plan, you should read this document carefully. Please consult your tax adviser, accountant, lawyer, or other professional advisers if you have any queries about the course you should follow. The decision of whether to participate in the offer is yours to make, having regard to your circumstances and any independent advice you have received.

Your decision to participate in the 2022 Employee Share Ownership Plan will not affect, either positive or negative, your employment with the L'Oréal group. Nothing in the present document or any other materials distributed or made available to you in connection with the 2022 Employee Share Ownership Plan shall confer any right or entitlement regarding your employment. Participation in this plan is separate from and does not form part of your employment agreement

This 2022 Employee Share Ownership Plan relies on the exemption from publishing a prospectus in Article 1.4(i) of the EU Prospectus Regulation 2017/1129/EC.

LOCAL OFFERING INFORMATION

Subscription Period

The subscription period starts on June 8, 2022, and lasts until June 22, 2022 (*inclusive*). During the subscription period, you will be able to submit your orders to subscribe to L'Oréal Shares in the 2022 Employee Share Ownership Plan.

During the subscription period, you may subscribe online at https://invest.loreal.com. Username and password will be provided to you by email or post-mail. You may also subscribe with a paper subscription form should you not have internet access. Please get in touch with your Human Resources Department to receive a subscription form.

Unless you subscribe through the Internet, please return your duly completed subscription form and the requisite enclosures before June 22, 2022, 5 pm to your Human Resources Department. If you subscribe by submitting a paper subscription form as well as via https://invest.loreal.com, the subscription via the Internet would be used and considered final, and the paper subscription would be ignored.

Subscription Price

The subscription price will be set on June 3, 2022, as the average opening price of the L'Oréal Shares over the 20 preceding trading days minus a 20% discount. The subscription price will be communicated to you on or around June 3, 2022, via postings in your workplace and the internet site dedicated to the 2022 Employee Share Ownership Plan.

It is to be noted that your subscription will be in euro (€). Consequently, for purposes of your subscription, the amount of your payment in Indian Rupees will be converted by your Employer using the exchange rate applicable that will be communicated to you on June 2, 2022. In all other circumstances, exchange rates may affect the value of your investment as they are governed by market forces and not guaranteed. During the life of your investment, besides the market risks, the value of L'Oréal Shares subscribed through the FCPE will be affected by fluctuations in the currency exchange rate between the euro and Indian Rupees. As a result, if the value of the euro strengthens relative to the Indian Rupee, the value of L'Oréal Shares expressed in Indian Rupees will increase. Conversely, if the value of the euro weakens relative to the Indian Rupee, the value of L'Oréal Shares expressed in Indian Rupees will decrease.

Method of Payment – What are the payment methods available for my subscription?

The following payment methods are available:

- Payment by Cheque; or
- Financing for the total subscription price.

Financing would be in the form of a short-term 'interest-free' loan, which would be repayable/ recoverable from your salary over a period of 12 (twelve) months through a monthly payroll deduction starting August 2022. Although the said financing would be interest-free, according to the Income-tax Act, a notional interest would be chargeable and treated as a perquisite and taxable in your hands until repayment[1]. If you leave employment before repayment of the loan, your Employer would be entitled to deduct the unpaid contribution and costs (if any) from your payroll/salary at the time of full and final settlement.

Maximum & Minimum Subscription

The maximum subscription (excluding free bonus shares) you are permitted is up to 25% of your gross annual compensation for 2022, subject to the limit of the equivalent of 50 L'Oréal Shares. Gross annual compensation means the Annual Base Salary + Total Variable Compensation as mentioned in the salary annexure of your last Year-End Compensation Review letter.

Custody of your shares, voting rights, dividends

Your L'Oréal Shares will be subscribed and held on your behalf by a collective shareholding vehicle, known as a *Fonds Commun de Placement d'Entreprise*, or an FCPE, commonly used in France for the conservation of shares held by employee-investors. You will be issued units in the FCPE corresponding to the L'Oréal Shares you subscribe to, and those representing the Bonus shares once delivered to you at the end of the lock-up period subject to the conditions described below.

As long as your L'Oréal Shares are held by the FCPE **«L'OREAL EMPLOYEE SHARE OWNERSHIP PLAN»**, the voting rights pertaining to such shares will be exercised by the FCPE's supervisory board on behalf of the employees.

[1] *Further details are provided in the Tax Section*

Any dividends paid by L'Oréal will be automatically reinvested in the FCPE[2]. Such reinvestment will increase the net asset value of your units of the FCPE. It will help if you read the tax supplement concerning the taxability of dividends.

Currency Exchange Control

All Indian resident individuals, who are either eligible employees or executive directors of the participating L'Oréal entities in India, are allowed to acquire foreign securities under ESOP schemes.

Subject to the terms and conditions of the 2022 Employee Share Ownership Plan, you may transfer by way of sale the foreign securities acquired under the offering provided the sale proceeds are repatriated immediately on receipt thereof, and in any case not later than 90 days from the date of sale of such securities. All remittances made by you under the 2022 Employee Share Ownership Plan should be in accordance with and subject to all the applicable Indian foreign exchange control laws and regulations in force.

Securities Notices

There are no Indian securities law or other filing or reporting requirements applicable to this 2022 Employee Share Ownership Plan.

Lock-up period and Early Exit Events - In which cases may I ask for early redemption?

Under the 2022 Employee Share Ownership Plan, your investment must be held for a period of five (5) years, ending on July 26, 2027. Nevertheless, you may be able to request early release and exit from the plan before the end of the lock-up period in the case of early exit events as described below:

1) marriage,
2) divorce or other judicial recognition of separation, if custody of at least one child is retained,
3) disability of the employee or spouse or child resulting in permanent or temporary (of at least six (6) months) disability to exercise any professional activity,
4) domestic violence committed against the employee by the spouse or the former spouse,
5) death of the employee, or spouse,
6) termination of employment for any reason, including resignation, dismissal, or retirement,
7) creation by the employee's children, spouse of a particular business venture,
8) acquisition or enlargement of the principal residence, and
9) bankruptcy (as defined under Indian law).

These early exit events are defined by French law (other than bankruptcy) and must be interpreted and applied according to French law. Accordingly, it would help if you did not conclude that an early exit event is available unless you have explained your specific case (by providing requisite supporting documentation) and your Employer has confirmed, in writing, that it applies to your situation. The decision of your Employer, in this regard, shall be final and binding.

[2] *Reinvestment of dividends in additional L'Oréal S.A shares is subject to RBI approval. As of June 2, 2022, RBI approval is awaited. For India, the 2022 Employee Share Ownership Plan will be managed/processed subject to the terms of RBI approval.*

Free Bonus Shares

Your investment will be rewarded by the grant of rights to additional shares of L'Oréal S.A. for free ("**Bonus Shares**"). You would be entitled to free Bonus Shares proportionally to your subscription for the ratio described in the Information Brochure. These shares will be delivered to you at the end of the vesting period, in July 2027, subject to the terms and conditions of the Free Share Plan Rules.

You will find below a summary of certain conditions applicable to the grant, vesting and delivery of the free Bonus Shares. For the full description, please refer to the Free Share Plan Rules made available to you at https://invest.loreal.com (in French and English) and upon request from your HR correspondent. Please note that subscription to L'Oréal Employee Share Plan 2022 implies acceptance of the Free Share Plan Rules.

Eligibility to the grant of free Bonus Shares: To qualify for a grant of free Bonus Shares, within the framework of L'Oréal Employee Share Ownership Plan 2022, you must satisfy the following conditions:

- you must have validly subscribed under L'Oréal Employee Share Ownership Plan 2022 and satisfied all conditions of participation,
- your participation in, or your subscription/payment for L'Oréal Employee Share Ownership Plan 2022 must not have been rejected or cancelled on (or prior to) the Grant Date (defined below),
- payment of subscription must have been fully settled at the Delivery Date (defined below).

Grant Date: The date of grant shall occur on the date when L'Oréal Shares subscribed pursuant to L'Oréal Employee Share Ownership Plan 2022 are issued, i.e., on July 26, 2022, or shortly thereafter. Within few weeks of the Grant Date, each beneficiary will receive a letter or statement electronically confirming that he or she is a beneficiary of the grant of free Bonus Shares and stipulating the number of Bonus Shares granted to him or her, subject to the conditions of the Free Share Plan Rules (as summarized hereafter).

Delivery Date: Subject to the satisfaction of the conditions stipulated below, free Bonus Shares will be delivered to you on or around July 26, 2027.

Conditions to be satisfied to receive the free Bonus Shares at the end of lock-up period (*You may refer to article 6 of Free Share Plan Rules for a detailed and full description of the conditions; stipulations below are only a summary of the applicable conditions and do not supersede provisions of the Free Share Plan Rules*):

To receive free Bonus Shares, you must remain an employee or corporate officer of L'Oréal Group from the last day of the subscription period pursuant to L'Oréal Employee Share Ownership Plan 2022 until the 20th calendar day preceding the Delivery Date ("**Continued Employment Condition**"), unless one of the Exceptions to the Continued Employment Condition occurs (see below).

The period between the last day of the subscription period pursuant to L'Oréal Employee Share Ownership Plan 2022 and the 20th day calendar day preceding the Delivery Date shall be referred to as the "**Acquisition Period**".

Nevertheless, you will be deemed to have satisfied the above Continued Employment Condition if, at any time during the Acquisition Period, you lose the status of employee or corporate officer of L'Oréal Group for one of the following reasons ("**Exceptions to the Continued Employment Condition**"):

A. **Death:** In the event of death, your heir(s) may request, the delivery of the free Bonus Shares within six months of the death. In such a case, any Bonus Share granted shall be delivered to the assigns shortly after the submission of their request and the Acquisition Period shall not apply. In the absence of such request, the free Bonus Shares granted to the deceased beneficiary shall be delivered to the heirs on the Delivery Date.

B. **Disability:** In the event of disability, as defined in Article L. 225-197-1 of the French Commercial Code, during the Acquisition Period, the free Bonus Shares granted shall be delivered shortly after the occurrence of the relevant disability event.

C. **Retirement:** In the event of retirement at the minimum retirement age stipulated by the relevant laws of India or in the event of retirement pursuant to any retirement scheme, the free Bonus Shares shall be delivered to the beneficiary on the Delivery Date.

D. **Dismissal for a reason other than gross misconduct or serious misconduct:** In the event of dismissal for a reason other than gross misconduct or serious misconduct, the free Bonus Shares granted shall be delivered to the Beneficiary on the Delivery Date. For the purposes of the plan, dismissal for gross misconduct or serious misconduct entailing the forfeiture of the right to receive the free Bonus Shares shall be assessed having regard to the Indian regulations applicable to the dismissal of the beneficiary.

E. **Termination of employment contract pursuant to mutual agreement of the employee and employer:** In the event of termination of employment contract of the beneficiary pursuant to a mutual agreement, free Bonus Shares shall be delivered to the beneficiary on the Delivery Date. Resignation by employee which is later accepted by the Employer would not be considered termination pursuant to mutual agreement.

F. **Change of control of your company/employer:** In the event of a change of control over your company/employer, those beneficiaries who are employees or corporate officers of the relevant company shall receive their free Bonus Shares on the Delivery Date.

Ownership of the free Bonus Shares: At the Date of Delivery, any free Bonus Shares delivered will become your full property. Your free Bonus Shares will be delivered and held through the FCPE «L'OREAL EMPLOYEE SHARE OWNERSHIP PLAN» and you shall receive units of the FCPE representing those shares. In the event that a L'Oréal company is required to pay taxes, social charges or any other governmental charges on behalf of any beneficiary of the free Bonus Shares as a result of the grant or delivery of the free Bonus Shares, L'Oréal reserves the right to delay the transfer of the free Bonus Shares to such person until such person has paid all such amounts, or made arrangements for payment that are satisfactory to L'Oréal, or to cause the sale of the shares and withhold from the proceeds the relevant amounts, as provided for in the article 10 of the Free Share Plan Rules.

Labour Law Disclaimer

Please note that the 2022 Employee Share Ownership Plan is provided by the French company, L'Oréal S.A., not by your local employer. L'Oréal S.A., in its sole discretion, decides to include a beneficiary in this or any future offering. 2022 Employee Share Ownership Plan does not form part of your employment agreement and does not amend or supplement such agreement. Participation in the 2022 Employee Share Ownership Plan does not entitle you to future benefits or payments of a similar nature or value. It does not entitle you to any compensation if you lose your rights under the 2022 Employee Share Ownership Plan due to termination of your employment. Benefits or payments that you may receive or be eligible for under the 2022 Employee Share Ownership Plan will not be considered in determining the amount of any future benefits, payments or other entitlements that may be due to you (including in cases of termination of employment).

Change of Date or Cancellation

Please note that the dates provided in the documentation relative to the 2022 Employee Share Ownership Plan are indicative and may be changed by L'Oréal S.A. L'Oréal S.A. may also, at its discretion, choose to cancel the 2022 Employee Share Ownership Plan.

* * *

TAX INFORMATION FOR EMPLOYEES RESIDENT IN INDIA

This document aims to answer some of your questions regarding income tax and social charges consequent to your participation in L'Oréal Employee Share Ownership Plan 2022 ('2022 Employee Share Ownership Plan').

This summary sets forth general principles that are expected to apply to employees who (i) are residents in India for the purposes of the Indian tax laws and the Convention between India and the French Republic for the avoidance of double taxation dated September 29, 1992, as amended (the "Treaty"), and (ii) are entitled to the benefits of the Treaty; and who would continue to remain tax residents of India until their rights concerning the units/shares in the 2022 Employee Share Ownership Plan will have ended. Tax consequences listed below are described in accordance with India and specific French tax law and tax practices and the Treaty, all of which are applicable as of date.

Please note that this Country Supplement is based on the laws in force as of May 1, 2022. These laws, practices and the Treaty are subject to change over time and may affect your tax position. For more specific and definitive personal advice and to take care of any possible changes in the personal tax legislation, it is recommended that you consult your tax advisors.

This summary is given for informational purposes only and should not be considered complete or conclusive. Your Employing company ("Employer") does not take responsibility for the accuracy.

UPON SUBSCRIPTION

I. *Will I be required to pay any tax or social security charges at the time of subscription?*

Yes, at the time of allotment of L'Oréal Shares, you would be liable to pay tax on the difference between the fair market value of L'Oréal Shares and the subscription price paid by you.

I(1) *Taxation on the difference between the subscription price and the market value of the L'Oréal share at the time of subscription*

<u>Taxation in India – at the time of Subscription</u>

<u>In the hands of the Employee:</u>

For the financial year 2022-2023, at the time of allotment, you would be liable to pay tax on the amount of difference between the fair market value of L'Oréal Shares (which is to be determined by a Merchant Banker) and the subscription price paid by you. Accordingly, such amount shall be treated as "*perquisite*" income and taxable in your hands under section 17(2) of the Income-tax Act, 1961.

The valuation of perquisite is calculated on the ***difference*** between:

(i) ***the "fair market value" of L'Oréal Shares (as determined by a "category I merchant banker" registered with the SEBI)***; and

(ii) ***the subscription amount paid by you***.

Consequently, a share valuation certificate issued by a category I merchant banker would be required to determine the "fair market value" and the difference between the subscription price paid by you and such "fair market value" will be treated as perquisite income taxed at the applicable tax rate. Accordingly, your Employer will procure such a share valuation certificate.

In terms of the 2022 Employee Share Ownership Plan, L'Oréal Shares are offered at a 20% discount. Therefore, the proposed discount on the fair market value of L'Oréal Shares would be treated as perquisite under Section 17 of the Income-tax Act, 1961 and, as a result, would form part of your compensation and liable to be taxed in your hands as income under the head "***Salaries***". Accordingly, the tax will be incurred at the time of subscription.

Employer will withhold tax at the rate applicable and remit the withheld tax to tax authorities.

Illustration:	
Fair Market value of 1 L'Oréal share	**Rs. 100.00**
Subscription price paid by you @ 20% discount	**Rs. 80.00**
Discount	**Rs. 20.00**
Discount of Rs. 20 will be treated as "perquisite" income and added to your taxable salary	

There would be no social tax consequences for you when you subscribe to shares through the FCPE.

<u>In the hands of the Employer:</u>

There will be no liability on the Employer to pay tax.

I(2) ***Will the interest-free loan be taxable?***

Under Section 17(2)(vi) of the Income-tax Act, 1961, read with Rule 3 of the Income-tax Rules, 1962, perquisite includes the value of any benefit or amenity granted or provided free of cost or at a concessional rate. Per the provisions of Rule 3(7)(i) of the Income-tax Rules, 1962, an interest-free loan or loan provided at a concessional rate qualifies as a perquisite. Therefore, the benefit, concession or amenity extended by the Employer to you (*if you so opt*) would take the form of perquisite and be liable to tax in your hands.

<u>Valuation of Perquisite (in the form of an interest-free loan)</u>

Since financing by the Employer would be free of interest, the Indian tax law requires a charge of notional rate of interest on the loan amount, which would be treated as a perquisite granted to you and subject to tax. However, no perquisite value would be charged if the loan amount is less than INR 20,000 in the aggregate.

According to Rule 3(7)(i) of the Income-tax Rules, 1962, the value of the benefit to the employee resulting from the interest-free or concessional loan (above INR 20,000) for any purpose by the employer shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India as on the first day of the relevant previous year[3] in respect of loans for the same purpose advanced by it, on the maximum outstanding monthly balance as reduced by the interest, if any, actually paid with respect to the amount above INR 20,000.

The rate charged by the State Bank of India for such type of loan is 13.5%[4] per annum (which is subject to change from time to time). As the value of perquisite in the hands of the employee would be the difference between the interest rate charged by the State Bank of India and the rate offered by the employer (in the present case since the Employer will not charge interest), the value of perquisite will be 13.5% on the maximum outstanding monthly balance. Since the perquisite value on account of an interest-free/concessional loan would be taxable in your hands, the Employer would be required to withhold tax at the appropriate rate.

There would be no social security tax consequences for you in case of financing by the Employer.

---

[3] *1st April 2022 / 1st April 2023*

[4] *Tentative SBI rate of interest. The interest rate undergoes a change periodically. Rate to be reconfirmed by the Employer*

Illustration:

1. *Sameer takes a loan of Rs. 18,000 from his Employer on July 1, 2022, to subscribe to L'Oréal Shares. As the loan amount is less than Rs. 20,000, no amount is chargeable to tax (provided this loan (or other outstanding interest-free loans) do not exceed, in the aggregate, Rs.20,000).*

2. *Sameer takes a loan of Rs.50,000 from his Employer on July 1, 2022, to subscribe to L'Oréal Shares. The loan is repayable by way of monthly payroll deductions over 12 months. However, the perquisite is not exempt from tax as the loan amount is higher than Rs. 20,000.*

Perquisite calculation: The perquisite value for the year 2022-23 is calculated as follows:

On 01-July-2022, an employee is provided with an interest-free personal loan of Rs.100,000, which is recovered across 12 instalments. The repayment, through payroll deduction, happens on the last day of each month, with the first loan instalment falling due on 31-July-2022. The SBI interest rate as of 01-Apr-2022 is presumed to be 13.5% per annum.

Interest-Free/concessional Loan to Employee - Valuation of Perquisite - Financial Years 2022-23 / 2023-24		
SBI Interest applicable as on 01.04.2022		**13.5%**[5]
Actual Interest charged by Employer		**0**
Loan Outstanding on 01.07.2022 (Rs.)		**1,00,000**
Monthly Repayment instalment (Rs.)		**8,333**
Month	**Maximum amount outstanding on Last day of Month (Rs.)**	**Perquisite Value[6] (Interest as per SBI rate) (Rs.)**
Jul-22	91,667	1031
Aug-22	83,333	938
Sep-22	75,000	844
Oct-22	66,667	750
Nov-22	58,333	656
Dec-22	50,000	563
Jan-23	41,667	469
Feb-23	33,333	375
Mar-23	25,000	281
Apr-23	16,667	188
May-23	8,333	94
Jun-23	0	0
Total Interest (Rs.)		**6188**
Less: Recovered		**0**
Valuation of Perquisite (Rs.)		**6188**

For tax purposes, as of March 31 2023, the perquisite value would be added to the employee's income for FY 2022-23 and taxed. From April 2023 to June 2023, the employee would be taxed in the relevant financial year.

[5] *Assumptive rate of interest*

[6] *Perquisite value = Maximum Outstanding Monthly Balance (Closing Balance) x 13.5% / 12*

DURING THE LIFE OF THE PLAN

II. *Will I be required to pay any tax or social security charges on dividends?*

Yes. Any dividend declared or distributed (including reinvestment) by L'Oréal would be taxable in your hands under the head "***Income from other sources***"[7]. A dividend received from a foreign company is not exempt under the Income-tax Act, 1961. Dividends, despite reinvestment, will be added to your income for the year in which such dividend is declared (and reinvested) even though the FCPE «L'OREAL EMPLOYEE SHARE OWNERSHIP PLAN» will not redistribute it to you.

(i) ***Taxation in France***

In the absence of distribution to employees of the dividends received from L'Oréal, no withholding tax will be levied in France.

(ii) ***Taxation in India***

Dividends will be reinvested/capitalized in the FCPE, thus increasing the net asset value of your units (or fractional units) of the FCPE[8]. However, the same would be taxable in your hands as you would be deemed to have received the dividend upon its distribution. The FCPE «L'OREAL EMPLOYEE SHARE OWNERSHIP PLAN» will use the dividend to purchase (on the stock exchange) new L'Oréal shares (in a way, these shares will represent the dividend). The value of the units will increase to reflect this dividend reinvestment. The amount so reinvested will become the cost of acquisition for the reinvested units, and the same shall be deductible (with or without indexation, as the case may be) from the sale consideration as and when the units are sold in future. In other words, out of the sale proceeds of the reinvested units, the amount of dividend originally invested shall be treated as the cost of acquisition, and the differential will be taxed as capital gains. Hence, there will not be any double taxation. There is no monetary threshold of dividends on which no tax is payable.

(a) ***Nature of the tax (e.g. income, capital gains, etc.)***

You will be liable to pay income tax under the head "***Income from Other Sources***".

(b) ***Method by which the taxable amount is to be calculated***

Since the incidence of tax is on the dividend distribution, any dividend declared or distributed by L'Oréal would be taxable in your hands. This income will be added to your other income, and the total income, including the dividend, will be taxed accordingly. Liability to pay tax on dividend vests with you, and your Employer will not be liable to withhold tax or pay the same. While filing your income-tax return (ITR), you must report the dividend earned from the units/shares. Such reporting is necessary (irrespective of the value) in the tax return using the appropriate ITR form. For further details, please refer to Section VIII – Reporting Obligations.

(c) ***Rate of taxation***

You generally will be taxed at ordinary income tax rates on the amount of dividend that is paid in cash or reinvested on your behalf. The rate of taxation would depend on your total income, including the dividend income and taxed at the rate applicable to you (for tax rates, please refer to the tax table under Section "***On Redemption***" below).

---

[7] Under Indian tax laws, an employee would be deemed to have received the dividend upon distribution

[8] Capitalization of dividend/reinvestment of dividend in additional L'Oréal Shares is subject to RBI approval. As of June 2, 2022, RBI approval is awaited. For India, the 2022 Employee Share Ownership Plan will be managed/processed subject to the terms of RBI approval.

WEALTH TAX

III. *Will I be required to pay any wealth tax on the units I own?*

No. Assets such as shares and securities generally termed 'productive assets', are exempt from wealth tax in India.

UPON REDEMPTION

IV. *Will I be required to pay any tax or social security charges when, at the end of the lock-up period (or in the event of an authorized early exit event), I ask the FCPE to redeem my units for cash?*

(i) **Taxation in France**

You will not be subject to income taxes in France on the gain realized on the redemption of your units.

(ii) **Taxation in India**

You may be subject to capital gains tax in India on the profit or gain realized on the redemption of your units/shares. There are no social security taxes or other charges payable other than income tax.

Under the Income-tax Act, 1961, any profits or gains arising from the transfer of a capital asset (herein redemption or sale of units) are chargeable to income tax under the head "***Capital Gains***". In simple terms, the difference between the selling price and the indexed fair market value of the units/shares at subscription can be described as capital gain/loss. If the selling price is higher than the indexed fair market value of the units/shares at subscription, it results in a capital gain. Conversely, if the selling price is lower than the indexed fair market value of the units/shares at subscription, it leads to a capital loss. In other words, capital gains tax would be attracted only on profit or gain made at the time of transfer/redemption of the units/shares.

(a) **Nature of the tax (e.g. income, capital gain or another form of tax),**

Since L'Oréal Shares are not listed on a stock exchange in India, the tax treatment of L'Oréal Shares would be similar to the shares that are unlisted in India. The nature of capital gain, i.e., *short term* or *long term*, would depend on the holding period of units/shares. If units/shares are held for a period exceeding twenty-four (24) months, the capital gain will be treated as long term; otherwise (i.e., held for less than twenty-four (24) months), capital gain would be treated as short term and taxed accordingly. The holding period is calculated from the date of allotment of shares up to the date of sale.

Long-term and short-term capital gains are taxed differently. Further detail on the rate of tax payable on the long-term and short-term capital gain is provided in the below section.

***Illustration*:**

1. *Sameer is a salaried employee of L'Oréal India. In August 2022, he subscribed to L'Oréal Shares; Due to an early exit event, Sameer sold his shares in January 2026. Hence, the period of holding L'Oréal shares being more than 24 months, the shares would be treated as long term capital assets, and capital gain, if any, earned would be taxed as long-term capital gains.*
2. *Sameer is a salaried employee of L'Oréal India. In August 2022, he subscribed to L'Oréal Shares; Due to an early exit event, Sameer sold his shares in February 2024, i.e. after holding for less than 24 months. Hence, L'Oréal Shares would be treated as short term capital assets, and capital gain, if any, earned would be taxed as short-term capital gains.*

(b) **<u>Method by which the taxable amount is to be calculated</u>**

Capital Gain is calculated as the difference between the sale consideration at the time of redemption/transfer) and the (indexed) Fair Market Value (FMV) of L'Oréal Shares at the time of subscription. In other words, capital gains will be computed by taking the fair market value of L'Oréal Shares at the time of allotment (regardless of the 20% discount at subscription) as the cost of acquisition. In addition, if your employer finances the shares, the amount of interest paid will be included in the cost of acquisition[9].

The income chargeable as capital gains shall be computed by deducting from the value of the sale consideration received from the redemption of the FCPE units, the "***indexed cost of acquisition***[10]**"** of the units, the cost of improvement and any expenditure incurred wholly and exclusively in connection with the transfer of the asset.

<u>Example:</u> The capital gain will be calculated in the following manner:

	Amount
Sale consideration from redemption/transfer of all shares	**X**
Cost of acquisition[11] of subscribed shares / Indexed cost of acquisition (in case of long-term capital gain)	**Y**
Cost of financing shares at purchase / Indexed cost of financing shares at purchase (in case of long-term capital gain)[12]	**Y1**
Reinvested value of dividends / Indexed cost of acquisition (in case of long-term capital gain)	**Y2**
Capital Gain (Z) =	**X – (Y+Y1+Y2)**

In the case of short-term capital gain, the cost of acquisition would not be indexed.

(c) **<u>Rate of taxation and whether any social charges or other charges are applicable</u>**

- **<u>Long term capital gains</u>**: The present applicable tax rate for long term capital gains is 20% (after indexation of cost of acquisition), plus the applicable surcharge, health, and education cess. If a participating L'Oréal entity in India finances the shares, the amount of interest paid by an employee to the local employer will be added to the cost of acquisition.

- **<u>Short term capital gains</u>**: Short-term capital gains are included in the income of the employee and are taxed as per the slab wise income tax rates specified below:

[9] *Please consult your tax advisor on the capital gains tax payable by you.*

[10] *Definition of "**Indexed cost of acquisition**" under the Income-tax Act,1961:*

> *"Indexed cost of acquisition means an amount, which bears to the cost of acquisition the same proportion as Cost Inflation Index ('CII') for the year in which the asset is transferred bears to the CII for the first year in which the asset was held by the person."*

[11] *The fair market value of shares at the time of subscription will be considered as the 'cost of acquisition'.*

[12] *Please consult your tax advisor.*

Let us take an example to make it clear:

A. Long–Term Capital Gains

Sameer subscribed to L'Oréal shares/units in July 2013, whose fair market value (FMV) was Rs.140,000 (i.e., reference price without discount). L'Oréal declared a dividend of Rs.14,000 (which was reinvested) in 2014-15, and he paid Rs. 6,250 as interest on the loan. He sold the shares/units in July 2018 and received Rs.330,000. Since L'Oréal shares are unlisted in India, the tax payable by Sameer would be @ 20% of the long-term capital gains (after indexation benefit).

Calculation of Capital Gains (after Indexation):

- Purchase Price (after indexation) will be[13]: 140,000 x 280[14] / 220[15] = **Rs. 178,182**

- Purchase Price for dividends (after indexation) will be: 14,000 x 280 / 240[16] = **Rs. 16,333**

- Capital gains earned by Sameer (after indexation) will be **Rs.129,235**, as per the following calculation:

Sale value – (Indexed cost of interest paid on loan at subscription[17] + Indexed FMV of shares at subscription as cost of acquisition + Indexed cost of dividends as cost of acquisition) =

330,000 – (6,250 + 178,182 + 16,333) = Rs.129,235

Therefore, Long-term Capital Gains tax @ 20% (after indexation) would be = Rs.129,235 x 20 / 100 = Rs.25,847, plus applicable surcharge, health, & education cess.

B. Short–Term Capital Gains

Sameer is a salaried employee of L'Oréal India. In August 2022, he subscribed to L'Oréal Shares; Due to an early exit event, Sameer sold the shares in February 2024, i.e., after holding for less than 24 months. Hence, L'Oréal Shares would be treated as short term capital assets, and capital gain, if any, earned would be taxed as short-term capital gains.

In this case, the income from the sale of the shares will be added to the regular income of Sameer and taxed according to the slab rates applicable, plus the surcharge and health and education cess, as applicable.

(d) Income-tax Slab Rates

Income tax is levied on the income earned by all individuals as per the Income-tax Act, 1961. The tax is assessed per the slab system if their income is above the minimum threshold limit (known as the basic exemption limit).

INCOME TAX SLABS & RATES FOR AY 2023-24 (FY 2022-23)

(Individuals less than 60 years)

From the financial year 2020-21, individual taxpayers can choose between two tax regimes - the old tax regime and the new, concessional one. The old tax regime allows the taxpayer to continue with existing tax exemptions, such as house rent allowance, leave travel allowance and deductions under different sections of the Income-tax Act. While those opting for the new tax regime would pay taxes at lower rates, they will have to forego most tax exemptions and deductions under the Income-Tax Act[18]. The following Income Tax slab rates are notified in the ***New Tax Regime Vs Old Tax Regime***:

[13] *The formula to check the indexed purchase price of the asset is: **Cost of purchase** multiplied by **CII of the year of sale** divided by **CII of the year of purchase (CII = Cost Inflation Index)***

[14] *Government of India's Cost Inflation Index for FY 2018-19*

[15] *Government of India's Cost Inflation Index for FY 2013-14*

[16] *Government of India's Cost Inflation Index for FY 2014-15*

[17] *Please consult your tax advisor before claiming deduction*

[18] *Illustrative list of exemptions/deductions that a taxpayer may have to give up while choosing the new tax regime:- Leave travel allowance, house rent allowance, conveyance, daily expenses in course of employment, relocation allowance, helper allowance, children education allowance, other special allowances (section 10(14), standard deduction, professional tax, interest on housing loan (section 24), chapter VI-A deductions (sections 80C, 80D, 80E and so on, except section 80CCD(2) and 80JJA).*

Income Tax Slab	Tax Rates as Per New Tax Regime	Tax Rates as Per Old Tax Regime
Rs.0 – 250,000	Nil	Nil
Rs.250,001 - 500,000	5%	5%
Rs.500,001 - 750,000	Rs. 12,500 + 10% of total income exceeding Rs. 500,000	Rs.12,500 + 20% of total income exceeding Rs. 500,000
Rs.750,001 - 1,000,000	Rs. 37,500 + 15% of total income exceeding Rs. 750,000	Rs. 62,500 + 20% of total income exceeding Rs. 750,000
Rs.1,000,001 – 1,250,000	Rs. 75,000 + 20% of total income exceeding Rs.1,000,000	Rs. 112,500 + 30% of total income exceeding Rs.1,000,000
Rs.1,250,001 - 1,500,000	Rs. 125,000 + 25% of total income exceeding Rs.1,250,000	Rs. 187,500 + 30% of total income exceeding Rs.1,250,000
Above Rs.1,500,000	Rs. 187,500 + 30% of total income exceeding Rs. 1,500,000	Rs. 262,500 + 30% of total income exceeding Rs.1,500,000

Notes:

1. *The basic exemption limit is Rs. 250,000 for every individual below the age of 60; New tax regime slab rates are not differentiated based on age. However, under the old tax regime, the basic income threshold exempt from tax for senior citizens (aged 60 to 80 years) and super senior citizens (aged above 80 years) is Rs. 300,000 and Rs.500,000, respectively.*
2. *Surcharge @10% of such income tax if a person has a total income exceeding Rs.5 million but up to Rs.10 million.*
3. *Surcharge @15% of such income tax if a person has a total income exceeding Rs. 10 million but up to Rs.20 million.*
4. *Surcharge @25% of such income tax if a person has a total income exceeding Rs. 20 million but up to Rs. 50 million.*
5. *Surcharge @37% of such income tax if a person has a total income exceeding Rs. 50 million.*
6. *Health and Education Cess: at 4% on the amount of income tax and surcharge.*
7. *Maximum marginal tax rate (MMR) for individuals having income:*
   - *(a) between Rs. 5 to 10 million = 34.32%*
   - *(b) between Rs. 10 to 20 million = 35.88%*
   - *(c) between Rs. 20 to 50 million = 39%*
   - *(d) above Rs. 50 million = 42.74%*
8. *The new tax regime is optional and will co-exist with the old one with three slabs and various exemptions and deductions available to the taxpayer. Any individual opting to be taxed under the new tax regime from FY 2020-21 onwards will have to give up certain exemptions and deductions. On the other hand, individuals opting for the existing tax regime will continue to pay tax on their income in FY 2022-23, the same as FY 2019-20.*
9. *In case the taxable income of a resident individual is up to Rs. 500,000, the tax payable shall be nil on account of tax relief u/s 87A of the Income Tax Act, 1961, in both the existing and new tax regimes. In other words, a resident individual (whose net income does not exceed Rs. 500,000) can avail rebate u/s 87A of the Income Tax Act, 1961). The same is deductible from income tax before calculating education cess. Effectively, this would mean that individual taxpayers with a net taxable income of up to Rs 5 lakh will continue to pay zero tax. The rebate amount is 100% of income tax or Rs.12,500, whichever is less.*

Please note that the above tax rates may change as tax rates are fixed by the Finance Act of the assessment year in which the disposal/redemption occurs.

(e) Time and method of payment of tax

Liability to pay capital gains tax would vest with you, and your Employer will not be liable to withhold tax or pay the same. You will pay the income tax when filing your income tax return pertaining to each financial year by the due dates mentioned in the Income-tax Act, 1961. Advance tax is paid in instalments. For the financial year 2022-23, instalments are due on June 15, September 15, December 15 and March 15. Advance tax rules require that your tax dues (estimated for the whole year) be paid in advance. While your Employer deducts tax at source at the time of subscription, you may have to deposit advance tax if you have earned capital gains. By March 15, 100% of your taxes must be paid. Non-payment or delayed payment of advance tax may result in a levy of penal interest. However, it may be hard to estimate tax on capital gains and deposit advance tax in the first few instalments if the sale occurs later in the year. Therefore, when advance tax instalments are being paid, no penal interest is charged where the instalment is short due to capital gains. The remaining instalment (after the sale of shares) of advance tax, whenever due, must include the tax on capital gains.

Tax or social security charges that may be applied if I do not choose immediately to redeem my investment upon the expiration of the lock-up period.

If you choose not to immediately redeem your investment upon the expiry of the lock-up period, i.e., units are held '*as is*' in the FCPE, no profit or gain is likely to arise, and, consequently, no tax would be payable. Capital gains tax may arise only when you choose to sell the shares.

BONUS SHARES

V. Will I be required to pay any tax or social security charges at the Grant Date of free Bonus Shares?

There will be no tax payable at the Grant Date of the free Bonus Shares.

VI. Will I be required to pay any tax or social security charges at the Delivery Date of free Bonus Shares?

Yes. At the Delivery Date (at vesting) of the free Bonus Shares, you would be liable to pay tax.

Your Employer will offer the employer matching contribution in the form of Bonus Shares awarded for free, after the vesting period of five (5) years, subject to satisfying the Continued Employment Conditions. The free Bonus Shares will be limited to 4 L'Oréal shares awarded free of cost by your employer.

<u>Nature of Tax</u>

The amount of employer matching contribution in the form of Bonus Shares awarded for free at vesting after five years will be treated as a "*perquisite*" income and taxable in your hands[19]. In other words, taxation will occur at vesting upon receipt or delivery of free Bonus Shares from your employer.

<u>Method by which the taxable amount is to be calculated</u>

The difference between the subscription price paid by you (zero) and the fair market value of free Bonus Shares on the specified date at vesting will be treated as "perquisite" income and liable to tax in your hands at the time of delivery of free Bonus Shares. Your Employer will withhold tax on the perquisite income at the rate applicable and remit the withheld tax to the tax authorities[20]. The perquisite amount will be shown in your Form 16 and included as part of the total income from salary in the tax return.

[19] *Subject to extant laws at the Delivery Date. Please consult your tax advisor*
[20] *Please consult your tax advisor at the time of delivery of the free Bonus Shares*

Rate of Taxation

The rate of taxation would depend on your total income in the Financial Year 2027-2028 and be taxed at the applicable tax rates. Your Employer will withhold tax at the applicable tax rate and remit the withheld tax to the tax authorities.

Valuation of Perquisite Income

The valuation of perquisite is calculated on the ***difference*** between:

(i) ***"fair market value" of shares on the specified date (as determined by a "category I merchant banker" registered with SEBI)***; ***and***

(ii) ***subscription amount paid by or recovered from you***.

Consequently, a share valuation certificate issued by a category I merchant banker would be required to determine the "fair market value" and the difference between the subscription price paid by you (zero) and such "fair market value" will be treated as perquisite income taxed at the applicable tax rate. Therefore, the entire fair market value of L'Oréal Shares would be treated as perquisite under Section 17 of the Income-tax Act, 1961 and, as a result, would form part of your compensation and liable to be taxed in your hands as income under the head "***Salaries***". Accordingly, the tax will be incurred at the Delivery Date. Your Employer will withhold tax at the rate applicable and remit the withheld tax to tax authorities.

In the hands of Employer

There will be no liability on your Employer to pay tax.

VII. Will I be required to pay any tax or social security charges at the date of sale of shares/ redemption of the units representing the free Bonus Shares?

(i) **Taxation in France**

You will not be subject to income taxes in France on the gain realized on the redemption of your units representing the free Bonus Shares.

(ii) **Taxation in India**

You may be subject to capital gains tax in India on the profit or gain realized on the redemption of your units/shares representing free Bonus Shares. For further details, please refer to Section "***Upon Redemption***".

REPORTING OBLIGATIONS

VIII. What are my reporting obligations with respect to the subscription, holding and redemption of the FCPE units as well as the payment of dividends, as applicable?

If you are a resident and ordinarily resident as per the provisions of the Income-tax Act, 1961, in that case, you will be subject to taxation on your global income in India, subject to benefits available, if any, under the Treaty between India and France. Thus, while filing your income-tax return (ITR), you must report the shares held by you in L'Oréal (during each relevant financial year) and the earned foreign-sourced income therefrom. Such reporting is necessary (irrespective of the value) in the tax return using the appropriate ITR form. In addition, apart from the value/cost of L'Oréal shares, the income earned from the shares, along with the nature of income and head of income under which such income is being offered to tax, needs to be reported. Please note that you are required to provide details of the foreign assets held in Schedule F.A. of the ITR form and fill the Schedule

Foreign Source Income (FSI) and Schedule Tax Relief (T.R.) of the return of income, wherein details, such as taxpayer identification number in the overseas country (if any), type of foreign income earned, amount of income, foreign tax paid thereon and India tax payable on such income are required to be disclosed. You must consult your tax advisor to ensure compliance with applicable reporting obligations.

Subject to the terms and conditions of the 2022 Employee Share Ownership Plan, you may ask for the redemption of your FCPE units provided all cash proceeds from the redemption of the units are repatriated to India by the Indian resident employees within ninety (90) days of such redemption. A person resident in India to whom any foreign exchange is due or has accrued must take all steps to realize and repatriate to India such foreign exchange. On realization of foreign exchange due, a person must repatriate the same to India by transferring the proceeds to or receiving the proceeds in India and, *inter alia*, selling it to an authorized person in India in exchange for Indian Rupees. A person is deemed to have repatriated the realized foreign exchange to India when they receive in India payment in rupees from the account of a bank or an exchange house situated in any country outside India, maintained with an authorized dealer. The income received from redemption of shares must be reported in your ITR and tax paid thereon at the slab rates applicable, plus the surcharge and health and education cess.

VIII. What are the reporting obligations of the Employer?

The Employer is not subject to any reporting obligations under the Income-tax Act, 1961 (other than depositing the withheld tax within 7-days from the end of the month in which the tax is deducted. The Employer must also file quarterly withholding tax statements regarding the tax deducted at source. The perquisite value and the tax deducted thereon must be reflected in Form 16 and Form 12BA issued by the Employer annually after the financial year). However, your local Employer must annually submit an Annual Return in the prescribed form to RBI through the AD Category – I Bank, giving details of remittances, beneficiaries, etc. This return should be filed on Form ESOP Reporting of the Master Circular on Direct Investment by Resident in Joint Venture (JV)/ Wholly Owned Subsidiary Abroad and submitted as soon as possible at the end of the subscription process and the end of fiscal years.

* * *