

# An independent, available and vigilant Board of Directors

L'Oréal's Board of Directors attaches great importance to the quality of corporate governance, closely monitors changes in best practices in this field, and strives to ensure constant progress. In accordance with the decisions made by the Board of Directors at the end of 2007 to split in two the Management and Remuneration Committee, the Remuneration Committee and the Appointments Committee were set up at the beginning of 2008.

## A harmonious allocation of roles

Following the separation of the roles of Chairman and Chief Executive Officer, pursuant to the decision made by the Board of Directors in 2006, the directors of L'Oréal once again noted, at the end of 2008 and at the time of the evaluation of the *modus operandi* of the Board, that this separation of roles gives entire satisfaction, by making an effective contribution to the quality of their exchanges. The Chairman and the Chief Executive Officer each duly fulfil their respective roles, within the framework of the Internal Rules laid down by the Board (see Volume 2 of the Reference Document, page 124).

The Board of Directors of L'Oréal comprises 14 members: the Chairman and the Chief Executive Officer, six directors from the majority shareholders, three of whom represent Mrs Bettencourt's family group and three represent Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent directors: Annette Roux, Charles-Henri Filippi, Xavier Fontanet, Bernard Kasriel, Marc Ladreit de Lacharrière and Louis Schweitzer. Mr Ladreit de Lacharrière has been a director of L'Oréal for over 12 years but his professional experience and his freedom of judgment, combined with his good knowledge of the company, make a big contribution to the Board's discussions and decisions.

## Responsible and experienced directors

The L'Oréal Board of Directors reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria set out in the AFEP-MEDEF Code of December 2008, which has been chosen by the company as its reference for best practices in terms of corporate governance.

The quality of a director is also measured on the basis of his experience, his skills, his authority and his good knowledge of the company, which are all assets that make it possible to conduct a long-term strategy. The directors of L'Oréal are present, active and closely involved, which contributes to a continued improvement in the quality of the deliberations and decisions of the Board. They are committed and vigilant and actively participate in the discussions, with complete freedom of judgment and a high level of availability. In a spirit of loyalty, all the directors strictly respect the collegial nature of the decisions made by the Board.

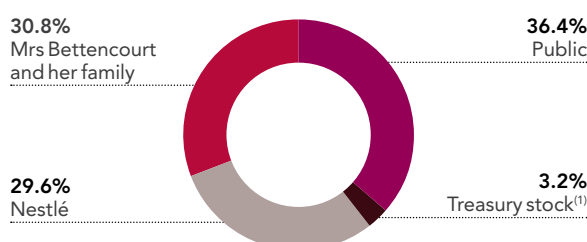
## Actively involved Committees

The Board's Committees act strictly within the framework of the remit given to them by the Board. They are actively involved in preparing for the Board's work, and make proposals but do not have any decision-making powers.

## The Strategy and Implementation Committee

This Committee clarifies, through its analyses, the strategic orientations submitted to the Board and monitors the implementation and advancement of significant operations in progress. It ensures that the main financial balances are preserved. In this context, the Committee reviews the main strategic lines of development, options and projects presented by the General Management, together with their economic and financial consequences, acquisition opportunities, and financial transactions that may significantly change the balance sheet structure.

BREAKDOWN OF SHAREHOLDING STRUCTURE AT DECEMBER 31<sup>st</sup>, 2008



(1) In accordance with the law, treasury stock carries no voting rights.

The Strategy and Implementation Committee met four times in 2008. Besides the activities of the group's divisions and geographic zones, with notably the trends in sales and results, the Committee reviewed the conditions of the acquisition of Yves Saint Laurent Beauté and the share buyback programme. Various aspects of strategy and particularly the positioning of the businesses of L'Oréal were presented and discussed by the Committee, and then during Board meetings in the presence of the senior managers. At the end of the year, the Committee's attention turned to the consequences of the financial crisis which once again enabled the Board to note the robustness of the L'Oréal balance sheet.

## The Audit Committee

The Audit Committee ensures that the General Management is provided with the means enabling it to identify and manage the economic, financial and legal risks facing the group inside and outside France in carrying out its routine and exceptional operations. Mr Charles-Henri Filippi, L'Oréal director and a financial expert, was appointed Chairman of the Committee in April 2008.

The Committee met four times in 2008, in the presence of the Statutory Auditors. The necessary documents were provided to it prior to the meetings concerned. The Committee considered that the work by the Internal Audit Department and the Internal Control process put in place, which it reviewed on several occasions particularly with regard to the risk aspects, are improving in quality. The Committee also reviewed the company's level of debt and its financing structure, as well as the main counterparty risks.

## The Remuneration Committee

The Remuneration Committee makes proposals to the Board with regard to all aspects of the remuneration of the Chairman and the Chief Executive Officer, particularly in light of recommendations made by the relevant organisations on the French market, with regard to the implementation of long-term incentive plans, such as those providing, for example, for distributions of stock options or for free grants of shares, and on the amount of attendance fees and the method of distribution of such fees. In 2008, the Remuneration Committee met three times.

Further to the deliberations and a proposal of the Committee, the Board adopted in 2008 the principle and the method of calculation of the conditions related to the performance of the Chief Executive Officer for the calculation of the indemnities due to him in the event of the termination of his duties. The corresponding regulated commitment resulting from this was approved at the Annual General Meeting.

### REMUNERATION OF CORPORATE OFFICERS

**At the end of November 2008, the Remuneration Committee followed by the Board of Directors carefully reviewed the AFEP and MEDEF recommendations of October 2008 concerning the remuneration of corporate officers of listed companies. The Board considered that these recommendations are in line with the company's corporate governance approach.**

**The Committee proposed to the Board that it adopts the presentation of the remuneration of the Chairman and the Chief Executive Officer in the 2008 Reference Document as recommended. See Management Report chapter, Volume 2, beginning on page 74 of the Reference Document.**

## The Appointments Committee

The Appointments Committee makes proposals to the Board for the choice of directors, issues an opinion on the Chairman's proposals for the appointment of the Chief Executive Officer and ensures the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy. It supervises the method of evaluation of the Board and conducts the reflection process with regard to the Committees that are in charge of preparing the Board's work. It issues an opinion on whether directors can qualify as independent and verifies the assessment criteria.

The Committee met three times in 2008. The Committee reviewed the Board's organisation and that of its Committees and particularly the organisation of the Audit Committee whose financial expertise has been strengthened. In light of the new obligations in terms of information to be published, amongst others, with regard to the directors, the Committee proposed to the Board that it review on a case-by-case basis the situation of each director with regard to their independence. In the 2008 Reference Document, the independent directors are clearly identified as such, in light of the criteria adopted by the Board.

## Systematic self-evaluation

Every year, the Board reviews its composition, organisation and *modus operandi*. It considers the avenues of possible progress and makes any improvement that it considers appropriate. The Board met six times in 2008, with an average attendance rate of 90%. The directors all attended the Annual General Meeting. For 2008, the Board particularly appreciated the presentations that were made to them, often in the presence of senior managers, and the discussions which followed on a large number of aspects of the group's strategy and prospects. Further progress has been noted in the functioning of the Board Committees, whose preparatory work assists the Board in making its decisions. In 2008, the Board was provided with regular and reliable information on the group's business activities. The directors expressed the wish that the progress thus made should continue to enhance their deliberations, and have suggested broadening the scope of the subjects to be discussed at their meetings.

## Ensuring strict confidentiality

The directors, who have permanent insider status, apply strict rules to themselves with regard to the confidential information in their possession. In this respect, they meet the requirements of the law and comply with the preventive measures taken by L'Oréal in relation to its employees, particularly within the scope of Stock Market Code of Ethics and the Internal Control procedures. The improper use and transmission of insider information must be prevented, and investments in the company's shares must be carried out within a secure framework.