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## 2008 Management Report of the Board of Directors \*

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\* This information forms an integral part of the Annual Financial Report as provided for in Article L.451-1-2 of the French Monetary and Financial code.

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This Management Report reviews the activity of the company and its Group in 2008. The Chairman's Report is attached to this Report and supplements it with regard to all the topics concerned. The Board of Directors describes in a separate report the reasons for the draft resolutions submitted to the vote of the shareholders at the Annual General Meeting. This latter report will be published within the statutory time periods with the notice for the Ordinary and Extraordinary General Meeting on April 16<sup>th</sup>, 2009.

## 2.1. The Group's Business Activities in 2008

### 2.1.1. Overview of the results for 2008

Increase in Sales to 17.542 billion euros

- +2.8% based on reported figures
- +3.1% like-for-like
- +6.6% at constant exchange rates\*

Rise in net earnings per share <sup>(1)</sup> to 3.49 euros

- +3.8% based on reported figures
- +6.8% at constant exchange rates\*

Strengthened worldwide market share\*\*

- 15.8% (15.2% in 2007)

Growth in dividend\*\*\* to 1.44 euro

- +4.3%

### 2.1.2. Consolidated sales

Like-for-like, i.e. based on a comparable structure and identical exchange rates, the increase in the sales of the L'Oréal Group was +3.1%.

The net impact of changes in consolidation, mainly as a result of the acquisitions of *YSL Beauté*, and of *PureOlogy*, *Beauty Alliance*, *Maly's West*, *Columbia Beauty Supply* and *CollaGenex Pharmaceuticals* in the United States, amounted to +3.5%.

Currency fluctuations had a negative impact of -3.8%.

Growth at constant exchange rates was +6.6%.

Based on reported figures, the Group's sales, at December 31<sup>st</sup>, 2008, amounted to 17.542 billion euros, an increase of +2.8%.

\* Based on constant translation rates: 2008 data at 2008 rates / 2007 data at 2008 rates.

\*\* L'Oréal estimate. 2008 with YSL Beauté over a full year.

\*\*\* Proposed at the Annual General Meeting on April 16<sup>th</sup>, 2009.

(1) Diluted net earnings per share, based on net profit excluding non-recurrent items after minority interests.

€ million	4 <sup>th</sup> quarter 2008			12.31.2008		
	Growth			Growth		
	Like-for-like	Reported		Like-for-like	Reported	
<b>By operational Division</b>						
Professional Products	623.3	-2.2%	+0.1%	2,471.7	+1.3%	+3.3%
Consumer Products	2,052.8	+2.5%	3.2%	8,354.9	+4.1%	+0.9%
Luxury Products	1,275.7	-6.3%	+10.4%	4,169.6	+0.7%	+6.2%
Active Cosmetics	269.3	+2.1%	+2.2%	1,289.3	+4.2%	+3.3%
<b>Cosmetics total</b>	<b>4,246.5</b>	<b>-1.0%</b>	<b>+5.0%</b>	<b>16,358.9</b>	<b>+2.7%</b>	<b>+2.8%</b>
<b>By geographic zone</b>						
Western Europe	1,841.9	-1.9%	+4.0%	7,381.5	-0.3%	+1.8%
North America	1,009.7	-11.6%	-2.5%	3,739.3	-4.8%	-6.6%
Rest of the world, of which:	1,394.8	+9.0%	+12.7%	5,238.1	+13.8%	+12.5%
Asia	533.6	+11.8%	+29.6%	1,844.3	+16.3%	+16.7%
Eastern Europe	349.2	+8.2%	+6.9%	1,380.3	+21.1%	+20.8%
Latin America	308.6	+8.7%	+1.6%	1,151.2	+6.7%	+2.4%
Africa, Orient, Pacific	203.4	+4.9%	+4.0%	862.2	+8.1%	+6.7%
<b>Cosmetics total</b>	<b>4,246.5</b>	<b>-1.0%</b>	<b>+5.0%</b>	<b>16,358.9</b>	<b>+2.7%</b>	<b>+2.8%</b>
The Body Shop	245.9	-0.9%	-7.6%	756.0	+4.6%	-3.9%
Dermatology <sup>(1)</sup>	137.1	+15.4%	+22.0%	426.9	+17.1%	+16.2%
<b>Group total</b>	<b>4,629.5</b>	<b>-0.6%</b>	<b>+4.7%</b>	<b>17,541.8</b>	<b>+3.1%</b>	<b>+2.8%</b>

(1) Group share, i.e. 50%.

### 2.1.2.1. Cosmetics sales trends by Division

The cosmetics market slowed in 2008 but remained positive, L'Oréal strengthens its worldwide positions in each of its Divisions.

#### Professional Products

The **Professional Products Division** achieved like-for-like growth of +1.3% in 2008, +7.3% at constant exchange rates, after a final quarter affected in the developed countries by the impact of the economic crisis on salon visits. Despite this slowdown, the Division has significantly strengthened its worldwide leadership with market share gains in its 3 main zones.

- This achievement is the result of the comprehensive range of complementary brands, making the Professional Products Division the partner of choice for a growing number of hair salons. From luxury hair care (*Kérastase*, *Shu Uemura Art of Hair*, *Mizani*) to affordable services with *Matrix*, together with the major core brands (*Redken* and *L'Oréal Professionnel*), each type of salon can find a solution for its needs.

Hair care is growing strongly, driven by *Kérastase*, and the successes of *Nature's Therapy by L'Oréal Professionnel* and *Real Control by Redken*. *PureOlogy*, acquired in 2007, is confirming its ranking as the number 1 professional hair care brand in the United States.

In styling and texture, 2008 was notable for the successes of the «alternative» *Play Ball* range, and the launch of *Texture Expert* at *L'Oréal Professionnel*; meanwhile, permanent wave and hair smoothing sales are growing in Asia and Latin America.

In hair colourants, growth is being driven by major technological innovations. *Platinum +* lightening paste, the new *Rubilane* range of patented high fidelity red hair colourants, and *Cover 5*, a service for men which covers grey hair in 5 minutes. The new version of *So Color Beauty* and *Wonderbrown* from *Matrix* and *Shades EQ* by *Redken* are establishing themselves as a must for professionals.

- Western Europe achieved very slight growth with a contrast in results between Northern Europe where the Division is making significant market share gains, and Southern European countries, more severely affected by the economic slowdown. The highlights of the year were the success of *L'Oréal Professionnel for men*, and the launch of *Kéraskin Esthetics*.

In North America, the sharply negative market trend, and the Division's intense anti-diversion efforts, affected amounts invoiced for salon retail sales of shampoos and skincare products. The +6% growth in the sell-out of technical hair colourant products reflects the conquest of new salons and the effectiveness of the distribution strategy.

The Rest of the World is growing very strongly, driven by Eastern Europe where the Division is strongly boosting its leadership. Growth is spectacular in China and India, thanks to the local adaptation of the range. Latin America is dynamic, driven by the successes in Argentina and Brazil, where *Force Relax* by *L'Oréal Professionnel* has proved a winner with hair relaxer users.

## Consumer Products

The Consumer Products Division achieved annual like-for-like growth of +4.1%, following a fourth quarter figure of +2.5%, in a market which has slowed slightly since September. The Division's three worldwide brands performed well, consolidating the Division's worldwide market share.

- The skincare category is the number one growth driver thanks to the success of the Skin Genesis range from *L'Oréal Paris*, and the new *Skin Genesis Pore Minimizing* line in particular, together with *Caffeine Eye Roll-On* by *Garnier* which has taken top spot in the eye care market of the countries where it has been launched.

Make-up is also highly dynamic with the success of *Colossal* mascara by *Maybelline*, *Infaillible* lipstick from *L'Oréal Paris* and *Mineral Power* powders by *Maybelline*.

Hair colourants have also achieved good growth, particularly with the launch of *Excell 10'* in Europe and the worldwide growth of *Casting Crème Gloss*.

Hair care sales have been bolstered by *L'Oréal Paris* product initiatives such as *Elsève Re-Nutrition* with royal jelly.

- In Western Europe, where there has been a clear trend towards inventory reductions by distributors, the Division ended the year with positive growth, thanks to increases in Germany, the Netherlands and the Scandinavian countries. In France as in Spain, the situation at the end of the year was more difficult. The Division's total sell-out grew slightly faster than the market, thanks to the continuing leadership of *L'Oréal Paris* and *Garnier* in facial skincare and toiletries, and the good growth of *L'Oréal Paris* and *Maybelline* make-up.

In the United States, in a stable market, also affected by inventory reductions by some large distributors, the Division is increasing its market share, with significant advances in facial skincare with *Revitalift* by *L'Oréal Paris* and the increasingly successful *Garnier Nutritionist*, launched in 2007.

Growth is very high in the Rest of the World. China and the ASEAN countries are advancing very strongly, driven by extremely important breakthroughs by *L'Oréal Paris* and *Garnier* in facial skincare. In Eastern Europe, the three brands have achieved very strong growth. Growth in Russia and Ukraine was particularly high until October.

In Latin America, growth has remained very strong in Argentina and Chile. After a difficult start to the year, there was a gradual acceleration in Brazil towards the end of the year. In the Africa-Orient-Pacific zone, good growth in the Middle East and South Africa is worth noting.

## Luxury Products

In the context of a very clear slowdown in the selective market in the final quarter, the sales of the Luxury Products Division contracted by -6.3% in the fourth quarter, but increased by +0.7% like-for-like in 2008. After the consolidation of YSL Beauté from July 1<sup>st</sup>, 2008, and at constant exchange rates, sales grew by +9.9%. With this acquisition, three of the Division's brands are now in the top ten of the selective market, and the Division ranks world leader in its distribution channel.

- Sales grew in the skincare category, bolstered by the success in the anti-ageing segment of *Prodigy Re-Plasty* by *Helena Rubinstein*, *Rides Repair* by *Biotherm* and *Rénergie Morpholift Nuit R.A.R.E. serum* by *Lancôme*. The international expansion of the *Kiehl's* brand is continuing with six new countries, including Japan.

In make-up, the Division is strengthening its leadership in mascara with *Ôscillation* by *Lancôme*, the revolutionary powermascara by micro-oscillation. The Division is also scoring successes in lipstick with *Rouge Volupté* by *Yves Saint Laurent* and *Absolu Rouge* by *Lancôme*, the winner of a Prix d'Excellence award from Marie-Claire. Face *Fabric* foundation by *Giorgio Armani* is another award winner. Lastly, *Shu Uemura* is accelerating its worldwide growth.

In fragrances, the Division has benefited from the success of its two worldwide launches - *Magnifique* by *Lancôme* and *Emporio Armani Diamonds For Men* by *Giorgio Armani* - together with the launch of *Elle Intense* by *Yves Saint Laurent*. The market fell substantially in the fourth quarter.

- In Western Europe, the Division recorded a slight decline in invoicing, in the context of inventory adjustments by distributors. The Division held on to its market share, particularly in France and increased it in key countries such as the United Kingdom.

In North America, the Division had a difficult fourth quarter, held back by a significant decline in store footfall, and a high comparison base due to new perfume launches at the end of 2007. The Division's sales were slightly below the market trend.

The Rest of the World zone achieved excellent performances in Eastern Europe, Asia, the Middle East and Latin America. However the fourth quarter saw a lower growth rate in some zones such as Eastern Europe and Dubai.

## Active Cosmetics

The sales of the Active Cosmetics Division at December 31<sup>st</sup> grew by +4.2% like-for-like. These results reflect market share gains across the world, achieved through growth in new market positions.

- *Vichy* is once again demonstrating its leadership in pharmacies, thanks to substantial advertising and promotional investments on major initiatives in the second half. The launch of *Liftactiv CxP* in October has enabled *Vichy* to consolidate its number one position in anti-ageing skincare sales in pharmacies throughout Europe.

*La Roche Posay* registered another year of double-digit growth, thanks to the brand's success across all categories, particularly in skincare with the success of the *Physiologique* make-up remover range.

*Innéov* has confirmed its number one position in oral cosmetics in Europe. This reflects the strong breakthrough made in the hair care segment. *Innéov* has made a spectacular start in Brazil.

Lastly, the Division has continued the roll-out of its *SkinCeuticals* and *Sanoflore* brands in major European countries.

There are contrasting trends in the results of the geographic zones:

- Sales in Western Europe are down slightly due to a slowdown in market growth, combined with a disappointing performance by *Vichy* in seasonal markets, and the concentration of launches in the final quarter.
- Expansion is continuing in North America, despite a significant reduction in footfall, particularly in spas and medispas at the end of the year.
- The Rest of the World remains highly dynamic, even though the financial difficulties of some distributors had a negative impact on the last 2 months of the year.

### Western Europe

Western Europe is at -0.3% like-for-like. While still growing, the market has slowed significantly; it deteriorated gradually quarter by quarter in France and in several countries in Southern Europe, particularly in the luxury channel. The Group's sales trend is favourable in the United Kingdom and Germany, and sales are growing strongly in several countries in Northern Europe. The Group has bolstered its overall market share in Western Europe. However, very strict inventory management by distributors has had an impact on sales.

### North America

North America at -4.8% like-for-like had a difficult end to the year, with a clear deterioration in the market during the fourth quarter, particularly in department stores, where sales were disappointing over the year-end holiday period, and in salons, as the number of visits continued to decline. Overall, the Group was slightly below the market trend, but still strengthened its positions in Consumer Products, Professional Products and Active Cosmetics.

### Rest of the World

**Asia:** L'Oréal's like-for-like growth reached +16.3% in 2008 after a slowdown in the fourth quarter, with the Group continuing to outperform the market significantly. In Japan, the Group is winning market share. Outside Japan, annual growth amounted to +20.2%. Dynamic growth is continuing in China (+27.7%) and in the countries of South-East Asia, particularly Thailand, Indonesia and Malaysia. The Group is growing more than three times faster than the market across Asia as a whole.

**Eastern Europe:** L'Oréal is maintaining its very strong momentum, with like-for-like growth of +21.1% across all the Divisions, but the pace changed in the fourth quarter, reflecting the difficulties of some distributors in Russia and Ukraine.

**Latin America:** Sales have grown by +6.7% like-for-like, and are improving quarter by quarter, but there are sharp contrasts in trends. Argentina, Venezuela, Chile and Uruguay are growing strongly. Brazil returned to growth in the second half. The situation in Mexico remains difficult.

**Africa-Orient-Pacific:** The year was marked by the creation of a multi-Division zone to accelerate the Group's entry into new markets. Sales grew by +8.1% like-for-like. Growth is being driven by the excellent performance of North Africa and the Middle East, and the good growth in South Africa. Growth in Australia is satisfactory. There are contrasting trends in India, with a highly dynamic year for the Professional Products Division, and a year of consolidation for Consumer Products. Lastly, the Group set up a multi-Division subsidiary in Egypt at the end of the year.

### 2.1.2.2. The Body Shop sales trend

The like-for-like sales of The Body Shop increased by +4.6%. Retail sales <sup>(1)</sup> increased by +1.9%. With a comparable store base <sup>(2)</sup>, the sales were down by -2.3%.

The brand recorded good results in Sweden, Switzerland, the Middle East, Hong Kong, Singapore, Korea, Indonesia and India. However, due to a lower consumption in its stores because of the difficult economic climate during the fourth quarter, sales were disappointing in Great Britain, Spain and North America.

With new communications based on "Nature's way to beautiful", The Body Shop is reasserting its philosophy as a natural and ethical brand and re-energising the customer experience.

The brand launched four *Wellbeing* ranges that each contain natural ingredients based on traditional remedies, *Nature's Minerals™* make-up range, as well as *Moringa*, a body care range rich in moisturising Community Trade ingredients.

124 stores were opened in 2008, taking the total to 2,550.

(1) Retail sales: total sales to consumers through all channels.

(2) Retail sales with a comparable store base: total sales to consumers by stores which operated continuously from January 1<sup>st</sup> to December 31<sup>st</sup>, 2007 and over the same period in 2008.

# 2 2008 Management Report of the Board of Directors —

The Group's Business Activities in 2008

## 2.1.2.3. Galderma sales trend

Galderma achieved record sales, with a like-for-like increase of +17.1%. Growth in North America amounted to +18.5%. Sales have risen by +7.3% in Europe and +26.3% in the Rest of the World.

Galderma continued to gain market share thanks to its leading brands *Differin®* and *Epiduo®* (acne), *Rozex®/Metro®* (rosacea), *Clobex®* (psoriasis), *Oracea®* (rosacea), *Dysport®* (hyperfunctional facial lines) and *Cetaphil®* (therapeutic skin care product line).

With the acquisition of *CollaGenex* in the US, Galderma reinforced its portfolio of therapeutic solutions for rosacea with *Oracea®*, the first systemic antibiotic approved for the treatment of rosacea in the US. *Oracea®* was also approved by the European health authorities. Galderma significantly expanded its presence in the corrective and aesthetic dermatology segment with *Dysport®* in Brazil and Argentina. *Epiduo®* was a significant contributor to growth in Europe and Latin America, where the product was launched, and received the FDA approval at the end of the year. *Differin®* Gel 0.1% was launched in Japan where it is the first topical retinoid approved for acne.

## 2.1.3. 2008 Results

### 2.1.3.1. Operating profitability and Consolidated profit and loss account

€ million	12.31.2007	As % of sales	12.31.2008	As % of sales	Excl. YSLB
<b>Sales</b>	<b>17,063</b>	<b>100%</b>	<b>17,542</b>	<b>100%</b>	
Cost of sales	-4,941	29.0%	-5,240	29.9%	
<b>Gross Profit</b>	<b>12,122</b>	<b>71.0%</b>	<b>12,302</b>	<b>70.1%</b>	
Research and development expenses	-560	3.3%	-581	3.3%	
Advertising and promotion expenses	-5,127	30.0%	-5,275	30.1%	
Selling, general and administrative expenses	-3,618	21.2%	-3,779	21.5%	
Foreign exchange gains and losses	10	0.1%	58	0.3%	
<b>Operating profit</b>	<b>2,827</b>	<b>16.6%</b>	<b>2,725</b>	<b>15.5%</b>	<b>15.8%</b>

Gross profit amounted to 70.1% of sales, compared with 71.0% in 2007.

After allocating exchange gains and losses which are related to gross profit for 2007 and 2008, and if the impact of consolidating *YSL Beauté* is excluded, gross profit was down by 50 basis points.

Research and development expenses, stable as a percentage of sales at 3.3%, increased by some +4%.

Advertising and promotion expenses, at 30.1% of sales, increased by 10 basis points compared with 2007, after a second half at 30.4%, significantly higher than the first half, as we had announced.

Selling, general and administrative expenses represented 21.5% of sales. They included over the full year the impact of the operating costs of distributors of professional products to American salons, the increase in depreciation of intangible assets, and the mix effect linked to conversion rates.

After an exchange gain of 58 million euros, operating profit amounted to 2,725 million euros, representing 15.5% of sales, and would have represented 15.8% of sales without the dilutive impact of consolidating *YSL Beauté*.

### 2.1.3.2. Operating profit by branch and Division

€ million	2007	As % of sales	2008	As % of sales	Excl. YSLB
<b>By operational Division</b>					
Professional Products	502	21.0%	519	21.0%	
Consumer Products	1,582	19.1%	1,578	18.9%	
Luxury Products	844	21.5%	767	18.4%	20.0%
Active Cosmetics	256	20.5%	259	20.1%	
Cosmetic Divisions total	3,180	20.0%	3,110	19.0%	
Non-allocated <sup>(1)</sup>	-479	-3.0%	-502	-3.1%	
<b>Cosmetics branch total</b>	<b>2,701</b>	<b>17.0%</b>	<b>2,608</b>	<b>15.9%</b>	<b>16.3%</b>
The Body Shop	64	8.1%	36	4.8%	
Dermatology branch <sup>(2)</sup>	62	16.9%	80	18.7%	
<b>Group</b>	<b>2,827</b>	<b>16.6%</b>	<b>2,725</b>	<b>15.5%</b>	<b>15.8%</b>

(1) Non-allocated = Central Group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total sales.

(2) Group share, i.e. 50%.

The profitability of the Professional Products Division remained stable in 2008 at 21% of sales.

The profitability of the Consumer Products Division was slightly lower at 18.9%, compared with 19.1% in 2007.

Half of the decrease in the profitability of the Luxury Products Division is attributable to the YSL Beauté consolidation.

Active Cosmetics profitability amounted to 20.1%.

The Body Shop, which makes all its profits in the second half of each year, was particularly affected this year by lower store footfall at the end of the year.

And finally, the profitability of the Dermatology branch, Galderma, grew strongly in 2008 to reach 18.7%.

### 2.1.3.3. Profitability by geographic zone: another strong improvement in the Rest of the World

	2007		Operating profit		
			2008		2008
	€ million	% of sales	€ million	% of sales	excl. YSL Beauté % of sales
Western Europe	1,633	22.5%	1,634	22.1%	22.8%
North America	774	19.3%	593	15.9%	16.0%
Rest of the World	774	16.6%	884	16.9%	17.1%
<b>Cosmetic zones total</b>	<b>3,180</b>	<b>20.00%</b>	<b>3,110</b>	<b>19.0%</b>	<b>19.4%</b>

After excluding the dilutive impact of consolidating YSL Beauté, the profitability trends by zone were as follows:

- further improvement in profitability in Western Europe at 22.8%;

- significant deterioration in profitability in North America, which had a tough year, particularly in its Luxury Products and Professional Products businesses;

- another increase in the profitability of the Rest of the World zone to 17.1%.

## 2.1.3.4. Net earnings per share: +6.8% at constant exchange rates

€ million	12.31.2007	12.31.2008	
<b>Operating profit</b>	<b>2,827</b>	<b>2,725</b>	
Finance costs	-175	-174	
Other financial income (expense)	-7.6	-7.2	
Sanofi-Aventis dividends	250.3	244.7	
Share in net profit (loss) of equity affiliates	0.1	-	
<b>Pre-tax profit excluding non-recurrent items</b>	<b>2,896</b>	<b>2,788</b>	
Income tax excluding non-recurrent items	-856	-722	
Minority interests	-1.5	-2.7	
<b>Net profit after minority interests<sup>(1)</sup></b>	<b>2,039</b>	<b>2,064</b>	
<b>EPS<sup>(2)</sup></b>	<b>3.36</b>	<b>3.49</b>	<b>+6.8% at constant exchange rates</b>
<b>Diluted average number of shares</b>	<b>606,012,471</b>	<b>590,920,078</b>	

(1) Net profit excluding non-recurrent items after minority interests does not include capital gains and losses on disposals of long-term assets, impairment of assets, restructuring costs, associated tax effects or minority interests.

(2) Diluted net earnings per share excluding non-recurrent items, after minority interests.

The cost of net debt remained stable at €174 million. The slight increase in the average interest rate of the debt in euros was offset by the sharp decline in the cost of our debt in dollars.

Dividends received from Sanofi-Aventis remained almost stable at €244.7 million.

Tax amounted to €721.5 million. The tax rate at 25.9% is significantly lower than the 2007 rate of 29.5%, thanks in particular to the research tax credit and lower tax rates in some countries.

In all, net profit excluding non-recurrent items after minority interests totalled €2,064 million, up by +1.2%.

After the accretive effect of share buybacks, net earnings per share amounted to €3.49, an increase of +3.8%, i.e. +6.8% at constant exchange rates, very close to the target indicated in October 2008. Excluding the dilutive impact of YSL Beauté, mainly generated by the step-up in inventories, net earnings per share would have amounted to €3.52.

## 2.1.3.5. Net profit after minority interests: €1,948 million

€ million	12.31.2007	12.31.2008	Growth
Net profit excluding non-recurrent items after minority interests	2,039	2,064	-
Non-recurrent items	617	-115	-
<b>Net profit after minority interests</b>	<b>2,656</b>	<b>1,948</b>	<b>-26.6%</b>
Diluted earnings per share (euros)	4.38	3.30	-24.8%

After allowing for non-recurrent items, which amounted to a charge of €115 million, compared with a profit of €617 million in 2007 (capital gain of €643 million on the sale of Sanofi-Aventis shares in November 2007), net profit came out at €1,948 million.

The charge of 115 million euros mainly reflects the industrial reorganisation in Europe, with the transfer project for the

factories at Llantrisant in the United Kingdom and the closure of the Monaco factory, but also the rationalisation of YSL Beauté product distribution contracts, the reorganisation of the L'Oréal USA subsidiary, the consolidation of the American company CollaGenex acquired by Galderma, and the accelerated depreciation of intangible assets relating to Yue Sai goodwill and the Biomedic brand.

### 2.1.3.6. Cash flow statement, Balance sheet and Debt

Gross cash flow amounted to €2,745 million, up by +1%.

Working capital requirement amounted to €148 million.

Capital expenditure, at €745 million, decreased by some 4%, representing 4.3% of sales, compared with 4.5% in 2007.

After dividend payment, acquisitions (primarily *YSL Beauté* and *CollaGenex*), and net share buybacks amounting to €912 million, the residual cash flow amounts to €-1,209 million.

The balance sheet structure is very robust, with shareholders' equity representing 52% of total assets.

Net financial debt amounted to €3,700 million. Its increase is mainly the result of the acquisition of *YSL Beauté* in 2008.

Financial debt is well secured. It consists of some €2.5 billion of medium-term bank loans, most of which mature between 2011 and 2012, with the rest consisting of short-term paper and commercial paper, which are well secured by standby lines.

### 2.1.4. Prospects

2009 is being approached with realism, confidence and voluntarism. Realism because the economic environment will certainly continue to be difficult and L'Oréal is prepared for this. Confidence because the cosmetics market has always demonstrated its ability to resist in times of crisis and because L'Oréal has strong fundamentals and a robust financial position. But also voluntarism as, thanks to the dynamism of product innovation, the unique quality of its trademark portfolio, the possibilities of geographic expansion and its determination to strengthen driving forces and control costs, L'Oréal should be able to ride out the unfavourable economic conditions.

### 2.1.5. Research and Development

Ever since its creation by a researcher 100 years ago, the group has never stopped investing in research. For L'Oréal, there can be no innovative product without an advance in knowledge. Driven by this conviction, the group's laboratories have constructed the largest scientific data base, drawing on the observation of beauty routines and the evaluation of product performances across the globe. L'Oréal Research is constantly anticipating regulations and consumption trends to turn them into competitive advantages. For many years,

our researchers have been helping to eliminate animal testing by the use of reconstructed skin, supporting demand for natural products by analysing plant-based ingredients, and exploring the potential of the life sciences to imagine the beauty of the future. That future will be active and personalised, and will respect the planet.

See also the chapter in Volume 1 of the Annual Report on Research and Development, pages 88 et seq.

### 2.1.6. Production and Technology

The restructuring of Operations, which began in 2007, is continuing, in order to increase efficiency and creativity while lowering costs. The same organisational model has been applied in four geographic poles (Europe, Asia, Latin America and North America), and the setting up of mutualising processes has continued. Furthermore, the ongoing move to specialise plants by technology is modernising the industrial facilities and optimising the supply chain. Lastly, concrete initiatives are being taken to develop a sustainable partnership with our suppliers.

See also the chapter in Volume 1 of the Annual Report on Operations, pages 92 and 93.

### 2.1.7. Sustainable development

To be sustainable, L'Oréal's growth must be exemplary and for the benefit of all: consumers, employees, suppliers, distributors, shareholders and communities. It is built on the founding values of the group — respect, integrity and excellence — rooted in the everyday reality of all its businesses. Committed to accepting the full responsibilities of a leader, L'Oréal is taking practical and measurable initiatives to contribute to a more respectful and more beautiful world.

See also the chapter in Volume 1 of the Annual Report on Sustainable Development, pages 14 et seq. and the Group's Sustainable Development Report on the [www.loreal.com](http://www.loreal.com) website.

### 2.1.8. Significant events that have occurred since the beginning of 2009

No significant event has occurred since the beginning of 2009.

## 2.2. Report on the parent company financial statements

The financial statements of the L'Oréal parent company were reviewed by the Audit Committee and the Board of Directors and then closed off by the Board of Directors at its meeting on February 16<sup>th</sup>, 2009, in the presence of the Statutory Auditors.

### 2.2.1. Net sales

€ million	2008	2007	Change as a %
<b>Net sales</b>			
1 <sup>st</sup> quarter	569.0	522.0	9.00%
2 <sup>nd</sup> quarter	574.8	576.1	-0.23%
3 <sup>rd</sup> quarter	473.0	471.8	0.25%
4 <sup>th</sup> quarter	498.3	503.8	-1.09%
<b>Total</b>	<b>2,115.2</b>	<b>2,073.8</b>	<b>2.00%</b>

*N.B: These net sales figures include sales of goods and finished products, accessories and services after deducting reductions in respect of sales. These sales include, in particular, supplies of goods to various subsidiaries which are recorded as intercompany sales from a consolidated standpoint.*

### 2.2.2. L'Oréal parent company balance sheet and profit and loss account

The balance sheet and profit and loss account of the L'Oréal parent company are presented in the notes to this Management Report.

At December 31<sup>st</sup>, 2008, total assets amounted to €11,669.3 million, compared to €11,498.0 million at December 31<sup>st</sup>, 2007.

The parent company financial statements are prepared in accordance with French laws and regulations and with generally accepted accounting principles.

At December 31<sup>st</sup>, 2008, the share capital consisted of 602,415,810 shares with a par value of €0.2 each.

The notes form an integral part of the annual financial statements.

The results presented include the various types of income received from licenses for use of patents and trademarks and also for the use of technology.

The royalties received for the use of patents and trademarks are included in the "Other revenue" item and those with respect to technology are included in the "Net sales" item.

A certain proportion of the above amounts are taxed at a reduced rate.

The profit and loss account shows net profit of €1,552.1 million compared with €2,822.4 million at December 31<sup>st</sup>, 2007.

The year-on-year decrease in net profit is mainly due to the fact that an after-tax capital gain of €1,376.5 million was made on the sale of Sanofi-Aventis shares in 2007.

Net profit for 2008 benefited from an increase of €48.4 million in net financial income (financial income from investments and purchase of PDI, offset by the unfavourable changes in provisions for impairment of treasury stock) and a decrease in the income tax charge, essentially linked to favourable changes in provisions and tax credits.

Net profit amounts to 1,552.1 million euros for 2008:

- after reversal of the provision for capital expenditure set aside in 2003 with regard to the 2002 financial year amounting to €5.4 million, which is exempt from income tax at the end of the statutory 5-year period;
- after setting aside, pursuant to the French ordinance of October 21<sup>st</sup>, 1986 with regard to mandatory profit-sharing;
  - a reserve for the benefit of employees amounting to €19.3 million for which a provision was booked in 2007 for the same amount,
  - and a provision of €21.6 million booked for employee profit sharing for 2008,
- after setting aside the provision for capital expenditure, including the transfer made by subsidiaries in favour of L'Oréal parent company, pursuant to the provisions with regard to mandatory employee profit-sharing, for an amount of €3.8 million, compared with €2.7 million in 2007.

It is stipulated that the total amount of expenses and charges falling under Article 223 quater of the French Tax Code and

the amount of tax applicable to such expenses and charges are as follows:

- expenses and charges €0.8 million;
- corresponding tax amount €0.3 million.

## 2.3. Risk factors

The Group's Internal Control is aimed at creating and maintaining an organisation which enables the prevention and management of risks, particularly those of an economic, legal and financial nature to which the company and its subsidiaries are exposed inside and outside France. However, no guarantee of a total absence of risk can ever be provided.

### 2.3.1. Business risks

#### Image and reputation

The company's reputation and its brand image may be compromised at any time in a globalised world where the report of an incident is conveyed from one continent to the next at the speed of the Internet. No company is safe from an undesirable event whether this involves the use or misuse of a product or reprehensible individual conduct. In order to reduce the risks that may arise from events of this kind, L'Oréal has set up a crisis management unit, whose task is to prevent, manage and limit the consequences of undesirable events on the company. Likewise, the deployment of the Ethics Charter throughout the whole Group aims at reinforcing the spreading of the rules of good conduct which ensure L'Oréal's integrity and strengthen its ethics. The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee.

#### Product quality and safety

Consumer safety is an absolute priority for L'Oréal. The International Safety Assessment Department specifically evaluates the safety of raw materials and finished products. It establishes the toxicological profile of the ingredients which are used and the tolerance of the formulas before they are launched on the market.

L'Oréal goes one step further in the safety evaluation by monitoring the potential adverse effects that may arise when the product is marketed. This makes it possible to take the appropriate corrective measures, where necessary.

Faced with the questions that civil society may ask regarding certain substances and their effects on health and the

### 2.2.3. Subsidiaries and holdings

Details of subsidiaries and holdings as well as the main changes and thresholds crossed during the 2008 financial year are set out in the notes to this report pages 53 to 57, page 97 and pages 154 to 158.

environment, L'Oréal's position may be summed up in three points:

- vigilance with regard to any new scientific data;
- cooperation with the relevant authorities;
- precautions leading to substitution in the event of a proven risk.

#### Seasonal nature of the business

The pace of sales may, in certain cases, and for specific products, be linked to climate conditions, such as for example skincare products. The products and brands sought after by consumers as gifts are reliant on a strong concentration of sales at year-end and during holiday periods. This is the case in particular for The Body Shop products and for perfumes. Any major disruption in either of these factors could affect L'Oréal's sales. L'Oréal endeavours to mitigate these risks through the diversity and enrichment of its product offerings and by arranging product launches and special product promotional events throughout the entire year.

#### Geographic presence and overall economic situation

L'Oréal is present in over 130 countries with 55% of its sales being generated outside Western Europe. Besides the currency risks mentioned on pages 46 to 48 and 72 of this document, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.

However, its global presence helps to maintain a balance in sales and enables results to be offset between countries and geographic regions. In periods of major economic slowdown, growth in the Group's sales may however be affected.

The production of cosmetics depends on the purchase of raw materials, at fluctuating prices. An exceptionally large increase in the price of these raw materials and energy prices on the world market may have a direct effect on the manufacturing cost of the products and therefore potentially on the gross margin. To offset this effect, L'Oréal makes ongoing efforts to enhance value and improve industrial productivity.

### Distribution network

To sell its products, L'Oréal uses independent distribution channels, except for a limited number of stores which are owned by the company. The concentration or disappearance of distribution chains and changes in the regulations with regard to selective distribution could have an impact on the development of the Group's brands in the country or countries concerned. The presence of the Group's brands in all types of distribution outlets would help to attenuate any potential negative effect.

### Competition

Due to its size and the positioning of its brands, L'Oréal is subject to constant pressure from local and international competitors in all countries.

This competition is healthy; it leads our teams, all over the world, to always do their best to serve the interests of consumers and our brands. In the context of a permanent struggle to obtain the best positions and launch the most attractive and most effective product ranges, with an optimal price/quality ratio, winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge.

### Information systems

The day-to-day management of activities which notably include production and distribution, invoicing, reporting and consolidation operations as well as exchanges of internal data and access to internal information, relies on the proper functioning of all the technical infrastructures and IT applications. The risk of a malfunction or breakdown in these systems for exogenous or endogenous reasons cannot be precluded. In order to minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-ups, protection, access and security with regard to both computer hardware and software applications.

## 2.3.2. Legal risks

### Intellectual property: trademarks and models

L'Oréal is the owner of the major intangible assets on behalf of the Group's companies, to which it grants licences in exchange for the payment of royalties. Thus, L'Oréal is the owner of most of its brands, which are a strategic asset for

the Group, in particular the 23 major international brands described in its 2008 annual report, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used by the Luxury Products Division, primarily the Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor & Rolf and Diesel brands.

The trademark name, the products themselves and the models may be infringed or counterfeited by economic players wishing to illegally and illegitimately claim the benefits of their reputation. Special care is given to the protection of the trademarks and models belonging to L'Oréal, and is entrusted to a special section of the Group's Legal Department, which has responsibility for registering trademarks in all countries. This department also keeps a close watch on the market and launches the necessary action against infringers and counterfeiters.

The L'Oréal Group is also an active member of the organisations who have set themselves the task of combating counterfeiting and promoting good commercial practice. This is the case, in particular, of the French Manufacturers' association (namely "Union des Fabricants"), the International Chamber of Commerce and Business Europe.

Before any trademark and model registration, prior rights searches are conducted. In light of the large number of countries in which the products are sold and the multiple potential prior rights that may exist in each of these countries, we cannot rule out the possibility that third parties may claim prior rights with regard to certain L'Oréal trademarks and models.

This is a potential risk which has to be cited in order to be exhaustive even though the likelihood of its occurrence is low due to the care taken when conducting prior rights searches.

### Industrial property: patents

Research and innovation are the historic pillars of L'Oréal's development. The dedication of L'Oréal's research teams has made it one of the leading industrial patent filers in its field for many years.

In order to protect the Group against the risk of another company claiming one of its molecules, a production process or packaging, L'Oréal has set up a specific structure, the International Industrial Property Department as part of the Research and Development Division; this department is responsible for filing the Group's patents, exploiting them and defending them on a worldwide basis.

### Changes in the regulations

L'Oréal is subject to the laws which apply to all companies and strives to adopt an attitude beyond reproach. L'Oréal asks its employees to comply with the regulations of the countries in which the company operates. Being an active member of professional associations in the countries where our industry is represented, L'Oréal plays an active role in the ongoing dialogue with the national or regional authorities in charge of the specific regulations governing the products in our industrial sector in order to prevent the risks that may result from changes in regulations.

### Other legal risks and litigation

In the ordinary course of its business, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Group sets aside a provision whenever a risk is found to exist and an estimate of its cost is possible. We consider that there is currently no exceptional event nor any governmental procedure, legal or arbitration proceeding which has recently materially affected, or is seriously likely to materially affect, the financial situation, assets or operations of the company and the L'Oréal Group.

In addition, the Group may be the subject of proceedings initiated by national competition authorities, in particular in the countries of the European Union.

### 2.3.3. Industrial and environmental risks

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 42 factories, each specialising in a specific type of technology.

Furthermore, products must be made available on the market on fixed dates to meet launch deadlines and customer demand, in order to enable new product ranges to be listed by distribution in a cosmetics market that requires companies to be more and more responsive. Therefore, a major production stoppage in an industrial facility could have an adverse effect on the achievement of commercial objectives. Furthermore, L'Oréal is dependent on its external suppliers for the delivery of materials that are essential for the manufacture of finished products, which may therefore suffer disruption as the result of a default by an important supplier. In order to prevent these risks, L'Oréal has prepared business continuity plans for production which aim notably at looking for replacement solutions (for example: supplier back-up, availability of several moulds for strategic products).

To manufacture its products, L'Oréal uses chemical raw materials and the packaging of certain products requires them to be handled with special care. Like in the case of any industrial process, L'Oréal is exposed to safety and environmental issues (relating, for example, to the use of machines or electrical equipment for production or storage, handling operations liable to cause accidents involving bodily injury, to waste water treatment etc.).

To ensure that the Group complies with its commitments to protect the environment and improve occupational health and industrial safety conditions, and to achieve concrete targets, a rigorous Safety, Health and Environment (SH&E) policy has been implemented throughout the Group for several years.

The General Operations Division issues internal rules fixing the principles of the L'Oréal policy with regard to SH&E. A SH&E representative is appointed at each industrial site. The L'Oréal Group operates a total of 115 manufacturing sites, of which 3 have the "High Seveso" classification.

Within the scope of this SH&E policy, the SHAP (Safety Hazard Assessment Procedure) is a hazard prevention programme based on the assessment of risks by employees at grassroots level under the responsibility of the factory Manager. This programme contributes to identifying the dangers overall and for each workstation and assessing the corresponding risks. The SHAP method thus makes it possible to prepare a risk mapping for each factory. This method enables the level of risks to be evaluated and the necessary means of control to be put in place. Generally applied throughout all the Group's industrial sites, it is supported by dialogue between persons in charge, thus contributing to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly depending on changes at sites and experience on the ground. SH&E audits are conducted every three or four years in each factory and the site map is reviewed within the scope of this audit. In 2008, an SH&E audit was carried out at 20 factories and 43 distribution centres.

### 2.3.4. Liquidity risks

The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.

To this effect, the Group has confirmed credit lines from first-rate banks totalling €2,461 million for terms ranging from 1 to 4 years depending on the case.

These credit lines are not subject to any conditionality clause based on financial criteria. Furthermore, the Group uses the financial markets, on a very regular basis, to meet liquidity needs through the use of short term papers in France and short term commercial paper in the United States (see note 23, pages 44 et seq.).

The L'Oréal Group is rated by the credit rating agencies which respectively gave it, in October 2008 for the Standard & Poor's and in July 2008 for Moody's and Fitch, the following short-term credit ratings: A1+, Prime1 and F1+. See note 24.5 on page 49 of this document.

### 2.3.5. Financial and market risks

Financial risks include currency risk, interest rate risk, share risk, risks with regard to the assets hedging employee commitments and the counterparty risk and accounts receivable risk.

### Currency risk

Due to its international presence, L'Oréal is naturally exposed to currency variations. The fluctuations between the main currencies may therefore have an impact on the Group's results, at the time of translation into Euro of the non-Euro financial statements of subsidiaries, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows involving the purchase and sale of items and products are carried out between different countries. Procurement by subsidiaries is mainly made in the currency of the supplier's country. In order to limit currency risk, the Group forbids its subsidiaries from speculating in currency and adopts a conservative approach of hedging at year-end annual requirements for the following year through forward purchases or sales contracts or through options. Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress. Currency risk management is centralised with the Treasury Department at head office (Financial Services Department) to offer better visibility of the flows generated.

The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 24.1 on pages 46-48 of this document called *Derivatives and exposure to market risk*.

### Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings. The Group mainly refinances at floating rates.

In order to limit the negative impact of interest rate variations, the Group has a non-speculative interest rate management policy using derivatives, as described in notes 24.2 and 24.3 on pages 48 and 49 of this document called *Derivatives and exposure to market risk*.

### Share risk

L'Oréal does not invest its cash in shares. For L'Oréal, the main share risk lies in the 8.99% stake that it holds in the capital of Sanofi-Aventis, as described in note 24.6 on page 49 of this document. If the Sanofi Aventis share price were to fall below the initial share price significantly or on a prolonged basis, this would potentially expose L'Oréal to impairing its assets through the profit and loss account.

### Risks with regard to the assets hedging employee commitments

The assets hedging employee commitments consist of investments which are, by nature, exposed to financial market fluctuations. The allocation of these assets is governed by

investment limits between the various categories aimed in particular at obtaining balanced financing between shares and bonds. However, a large, lasting fall in the financial markets may have an impact on the value of the portfolios set up (see note 21 on pages 39 to 41). The Group adopts a conservative policy for the choice of insurers and custodians for these assets.

### Counterparty risk

The Group enters into financial relations in priority with international banks given the best ratings by specialised rating agencies. The Group therefore considers that its exposure to the counterparty risk is weak (see note 24.4 page 49).

### Customer risk

The accounts receivable risk may result from non-collection of receivables due to cash problems encountered by customers or due to the disappearance of customers. Due to the large number and variety of distribution channels at worldwide level, the risk for L'Oréal is disseminated and the likelihood of occurrence of significant damage on the scale of the Group remains limited.

At the level of the subsidiaries, Group policy is to take out customer insurance cover in as much as this is permitted by local conditions. The amount considered as posing a risk of non-collection for which a provision for liability is therefore booked is set out in note 17 (on page 33 of this document). It represents less than 2% of gross accounts receivable.

## 2.3.6. Insurance

### The Group's overall insurance policy

The objective of the Group's policy on insurance is to protect the Group's balance sheet and profit and loss account from the occurrence of identified material risks that could adversely affect it. This risk transfer forms an integral part of the Group's risk management process. This policy is applied at two levels:

- at parent company level, the Group has negotiated worldwide insurance programmes to cover its main risks after reviewing the cover available;
- in a local context, subsidiaries have to purchase insurance cover to meet their local regulatory obligations and supplement the Group's worldwide programmes for any specific risks.

The financial solvency of the insurers is an important criterion in the Group's insurer selection process. Each insurance programme subscribed by the Group involves the participation of a pool of insurers. The majority of the main global insurance companies are involved in one or more of these Group programmes.

## Integrated worldwide programmes

### Third party liability

The Group has had an integrated global programme covering all its subsidiaries for several years. This programme covers the financial consequences of the third party liability of Group entities. In particular, it covers operating liability, including sudden and accidental environmental pollution, product liability and product recall costs.

Claim activity under this programme has historically been low, which shows the extremely high quality requirements and safety standards applied by the Group in managing its operations and in designing and manufacturing its products. The health and safety of consumers and employees is a constant priority at all levels of Group operations.

### Property damage and interruption of operations

The Group has set up an integrated global programme to cover all the property (fixed assets and inventories) of all its subsidiaries. This programme also covers operating losses directly resulting from a business interruption and/or insured property loss or damage. The level of insurance cover has been selected to cover the maximum reasonably foreseeable loss, taking into account the scale of the prevention and protection measures implemented at the Group's manufacturing sites together with the business continuity plans.

As the capacity of the insurance market is limited for certain types of events, this programme includes aggregate sublimits, particularly in the event of natural disasters. This programme

includes the performance, by the insurer's engineers, of loss prevention audits for the Group's locations. These audits form part of the Group's general safety management system.

### Transport

The Group has set up a programme to cover the transportation of all its products. All subsidiaries subscribe to this programme, which ensures optimum transport insurance for all flows of goods.

### Customer credit risk

Subsidiaries are encouraged to purchase credit insurance, with the assistance of the Group's insurance department and under terms and conditions negotiated by this department, in addition to their own credit management procedures, provided that such cover is compatible with their level of commercial activity and is available under financially acceptable conditions. In a period of major economic slowdown, a reduction of commitments by major insurance companies could be noted on the credit insurance market as they may decide to reduce their cover of amounts receivable in certain countries. The insurance policies put in place in these countries could be affected by this trend.

### Self-insurance

Through its reinsurance subsidiary, the Group carries risk retention levels that are not material at consolidated level, and these are applicable over and above local deductible amounts absorbed by the subsidiaries insured.

## 2.4. Organisation of the Board of Directors

This chapter is dealt with in the Report of the Chairman of the Board of Directors.

All the information on offices and directorships held by directors over the last five years are described in the Chairman's Report, on pages 103 et seq.

## 2.5. Remuneration of the corporate officers

### 2.5.1. Remuneration of the members of the Board of Directors

The provisions adopted by the Board in this regard in September 2003, at the time when the Board published its Internal Rules for the first time are as follows:

*“The directors receive attendance fees in the amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board:*

*The attendance fees are divided between the directors as follows:*

- *an equal share allocated to each director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings,*

- *an additional share for Review Committee members.”*

For 2008, the Board adopted for a full year: a fixed annual sum of €30,000; an amount of €5,000 for each Board meeting which the director attends; an amount of €15,000 for each director who is a member of the Strategy and Implementation Committee and an additional amount of €15,000 for the Chairman of this Committee; an amount of €7,500 for each director who is a member of the Remuneration Committee and the Appointments Committee and an additional amount of €7,500 for the Chairman of each of these Committees; an amount of €20,000 for each director who is a member of the Audit Committee and an additional amount of €20,000 for its Chairman.

A total amount of €1,045,000 was distributed to directors at the beginning of 2009 in respect of the 2008 financial year, for a total of six meetings as compared with five in 2007, according to the following breakdown:

<i>In euros</i>	2007: total 5 meetings	2008: total 6 meetings
Mr. Jean-Paul Agon	55,000	60,000
Mr. Werner Bauer	55,000	60,000
Ms. Liliane Bettencourt	90,000	70,000
Mrs. Françoise Bettencourt Meyers	55,000	60,000
Mr. Peter Brabeck-Letmathe	75,000	80,000
Mr. Francisco Castañer Basco	90,000	95,000
Mr. Charles-Henri Filippi		100,000
Mr. Xavier Fontanet	95,000	55,000
Mr. Bernard Kasriel	85,000	100,000
Mr. Marc Ladreit de Lacharrière	55,000	55,000
Mr. Jean-Pierre Meyers	90,000	110,000
Sir Lindsay Owen-Jones	85,000	90,000
M <sup>rs</sup> . Annette Roux	50,000	55,000
Mr. Louis Schweitzer	50,000	55,000

### 2.5.2. Remuneration of the corporate officers

It is to be noted that the Remuneration Committee is primarily instructed by the Board of Directors to examine the conditions in which the remuneration of the corporate officers is established, and to report to the Board in this respect.

The remit of the Remuneration Committee also includes preparing for the Board of Directors, in respect of each corporate officer appointed by the Board, proposals of

remuneration that include a fixed part and a variable part, and proposals to grant stock options. These proposals are reviewed in a completely independent manner by the whole of the Board of Directors which deliberates and votes on each of these proposals on a collegial basis.

The Board always wishes to incite the General Management both to maximise performance for each financial year and to ensure that the performance is repeated and remains steady year after year.

To ensure that the corporate officers appointed by the Board are offered remuneration and stock options that will attract

them, motivate them, and foster their loyalty, the Board is guided in its reflections by two clear principles:

- cash remuneration must be modulated in accordance with responsibilities actually exercised, and must be competitive. It must also depend, for the determination of the variable part, partly on the company's performance, and on the role played in this performance by each of the corporate officers, and partly on qualitative management criteria;
- stock options must be allocated to the corporate officers, in order to involve them in the long-term development of the value of the company and its share price, in a way that reflects their contribution to this increase in value.

In assessing these different components of remuneration, reference is made to the situation of executive officers in large international companies with the position of world leaders and operating on similar markets.

Based on this approach, and in light of this data, the Remuneration Committee makes its proposals to the Board.

At the beginning of the year, the Committee proposes to the Board the amount of the fixed part of the remuneration of the corporate officers for the current financial year and decides on the allocation of the variable part of remuneration for the previous financial year based on previously defined criteria.

For the Chief Executive Officer, the variable remuneration, for which the target objective is equivalent to 100% of the fixed part, is determined as follows:

- half is based on an analysis of the company's performance by reference to significant economic indicators, reflecting in particular comparable growth in sales, market share, operating profit, net earnings per share and cash flow;
- and half is based on an assessment of the qualitative aspects of management, such as the appropriateness of strategic choices, prospects for products and markets, research projects, renewal of structures, the ability to generate team spirit, the image of the company projected, or the quality of communication.

The variable remuneration of the Chairman of the Board is based on achievement of specific objectives linked to his

responsibilities as described in the Internal Rules of the Board of and particularly:

- his ability to put into play, in the most constructive possible manner, the separation of the roles between the Chairman and the Chief Executive Officer;
- his contribution to the overall performance of the company.

It may represent up to 75% of the fixed part.

At the same time, the Remuneration Committee formulates proposals for the grant of stock options to the corporate officers appointed by the Board.

On February 11<sup>th</sup>, 2009, the Remuneration Committee made the following proposals to the Board, which reviewed and accepted them at its meeting on February 16<sup>th</sup>, 2009.

### 2.5.2.1. Remuneration of the Chief Executive Officer

The fixed remuneration of the Chief Executive Officer was set by the Board of Directors on November 22<sup>nd</sup>, 2007 at €2,100,000 on an annual basis for 2008.

The Board of Directors' meeting of February 16<sup>th</sup>, 2009 reviewed the conditions of achievement of the objectives giving rise to the allocation of the variable part of remuneration for 2008, according to the method described in this document. Compared with a target objective of €2,100,000 (100% of the fixed part of remuneration), it was decided to pay Mr Jean-Paul Agon a gross amount of €1,365,000 (65% of the fixed part), after review of the achievement of the allocation criteria described above.

For 2009, the Board of Directors' meeting of February 16<sup>th</sup>, 2009 set the fixed part of remuneration at a gross amount of €2,100,000 on an annual basis, an amount which remains unchanged compared to 2008, and set the same target objective of a variable part that may represent 100% of the fixed part on the basis of the same assessment criteria as for 2008.

The Chief Executive Officer has a company car and a chauffeur at his disposal.

The table summarising the remuneration of the Chief Executive Officer is as follows:

Mr. Jean-Paul Agon	2007		2008	
In euros	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,000,000	2,000,000	2,100,000	2,100,000
Variable remuneration	2,000,000	2,000,000	1,365,000	0 <sup>(1)</sup>
Exceptional remuneration	-	-	-	-
Attendance fees	57,279	35,000 <sup>(2)</sup>	62,035	57,279 <sup>(2)</sup>
Benefits in kind				
<b>Total</b>	<b>4,057,279</b>	<b>4,035,000</b>	<b>3,527,035</b>	<b>2,157,279</b>

(1) From 2008 onwards, the bonus for year *n* is paid in year *n+1*.

(2) Attendance fees for year *n* are paid in year *n+1*. These include USD3,000 in respect of L'Oréal USA.

# 2 2008 Management Report of the Board of Directors —

## Remuneration of the corporate officers

The summary table showing the remuneration and stock options allocated to the Chief Executive Officer is as follows:

<i>In euros</i>	2007	2008
Remuneration due in respect of the financial year	4,057,279	3,527,035
Valuation of stock options granted during the financial year	9,058,000	0
Valuation of performance shares awarded during the financial year	0	0
<b>Total</b>	<b>13,115,279</b>	<b>3,527,035</b>

### 2.5.2.2. Remuneration of the Chairman

The Board of Directors' meeting of November 22<sup>nd</sup>, 2007 set the fixed part of the Chairman's remuneration at a gross amount of €2,000,000 on an annual basis for 2008 including benefits in kind.

For 2009, the Board of Directors' meeting of February 16<sup>th</sup>, 2009 set the fixed part of remuneration at a gross amount of €2,000,000 on an annual basis, an amount which remains unchanged compared to 2008.

It moreover allocated him a variable part of €975,000 for 2008 as compared to a target objective of €1,500,000, representing the same percentage of 65% of the target objective as that

applied in respect of the Chief Executive Officer. The Board thus acceded to the wish expressed by Sir Lindsay Owen-Jones on the grounds of solidarity to be put on the same footing as the Chief Executive Officer with regard to the assessment of his performance.

For 2009, the Board has maintained the fixed remuneration at €2,000,000, like for 2008 and set the same target objective of a variable part that may represent up to 75% of the fixed remuneration on the basis of assessment criteria that remain unchanged.

The Chairman has secretarial services, a company car and a chauffeur at his disposal.

The summary table showing the Chairman's remuneration is as follows:

<i>Sir Lindsay Owen-Jones</i>	2007		2008	
<i>In euros</i>	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	1,989,873	1,989,873	1,985,450	1,985,450
Variable remuneration	1,500,000	1,500,000	975,000	0 <sup>(1)</sup>
Exceptional remuneration	0	0	0	0
Attendance fees	87,279	47,544 <sup>(2)</sup>	92,035	87,279 <sup>(2)</sup>
Benefits in kind	10,127	10,127	14,550	14,550
<b>Total</b>	<b>3,587,279</b>	<b>3,547,544</b>	<b>3,067,035</b>	<b>2,087,279</b>

(1) From 2008 onwards, the bonus for year *n* is paid in year *n*+1.

(2) Attendance fees for year *n* are paid in year *n*+1. These include USD3,000 in respect of L'Oréal USA.

The summary table showing the remuneration and stock options allocated to the Chairman is as follows:

<i>In euros</i>	2007	2008
Remuneration due in respect of the financial year	3,587,279	3,067,035
Valuation of stock options granted during the financial year	0	0
Valuation of performance shares awarded during the financial year	0	0
<b>Total</b>	<b>3,587,279</b>	<b>3,067,035</b>

### 2.5.3. Stock Options granted to the corporate officers appointed by the Board

The stock options which were granted by the Board of Directors to Sir Lindsay Owen-Jones in previous years, and which can still be exercised are as follows:

Date of grant	Number of options not yet exercised	1 <sup>st</sup> possible date of exercise	Date of expiry	Purchase (A) or subscription (S) price (in €)
12.07.1999	200,000	12.08.2004	12.07.2009	61.00 (A)
04.05.2000	-	-	-	-
09.28.2000	150,000	09.29.2005	09.28.2010	83.00 (A)
12.07.2000	-	-	-	-
03.28.2001	200,000	03.29.2006	03.28.2011	79.60 (A)
09.18.2001	300,000	09.19.2006	09.18.2011	77.60 (A)
10.08.2001	-	-	-	-
03.26.2002	-	-	-	-
09.04.2002	-	-	-	-
12.03.2003	500,000	12.04.2008	12.03.2013	63.02 (S)
	500,000			71.90 (A)
03.24.2004	-	-	-	-
12.01.2004	1,000,000	12.02.2009	12.01.2014	55.54 (S)
06.29.2005	-	-	-	-
11.30.2005	700,000	12.01.2010	11.30.2015	61.37 (S)
	300,000			62.94 (A)
04.25.2006	2,000,000	04.26.2011	04.25.2016	72.60 (S)

The stock options which were granted by the Board of Directors to Mr. Agon, since his appointment as a corporate officer, are as follows:

Date of grant	Number of options not yet exercised	1 <sup>st</sup> possible date of exercise	Date of expiry	Subscription price (in €)
12.01.2006	500,000	12.02.2011	12.01.2016	78.06
11.29.2007	350,000	11.30.2012	11.29.2017	91.66

The Board of Directors decided, within the scope of the Plan of November 30<sup>th</sup>, 2007, that Mr Jean-Paul Agon, as a corporate officer, will retain a number of shares corresponding to 50% of the "balance of the shares resulting from the exercise of the stock options", in registered form, until the termination of his duties as Chief Executive Officer of L'Oréal.

The "balance of the shares resulting from the exercise of the stock options" should be understood to mean the total number of shares resulting from the exercise of stock options minus the number of shares that have to be sold to finance the exercise of the stock options in question and, where applicable, the payment of any immediate or deferred taxes, social levies and costs relating to the exercise of these stock options as applicable at the date of exercise of the

options. If the number of shares thus determined that must be retained until the termination of Mr Jean-Paul Agon's duties as Chief Executive Officer is not a whole number of shares, this number of shares would be rounded down to the nearest lower whole number of shares.

### 2.5.4. Stock options exercised by the corporate officers appointed by the Board

No stock options were moreover exercised in 2008 by the corporate officers.

## 2.5.5. Employment contract / corporate office

### Undertakings made with regard to the Chairman

In response to the recommendations made by the French Financial Markets Authority (Autorité des Marchés Financiers – “AMF”) in table No. 10 of its recommendation, the following details are provided:

As Sir Lindsay Owen-Jones, Chairman of the Board of Directors, claimed his pension entitlements in 2006, he no longer has an employment contract with L'Oréal. He will not be entitled to any indemnity in the event of non-renewal or removal from his corporate office.

### Undertakings made with regard to the Chief Executive Officer

In response to the recommendations made by the French Financial Markets Authority (Autorité des Marchés Financiers – “AMF”) in table No. 10 of its recommendation, the following details are provided:

The Board of Directors of L'Oréal has an ongoing policy of treating the corporate officers it appoints, as equivalent to senior managers for all matters which are linked to their remuneration <sup>(1)</sup>. These corporate officers are therefore covered by the same benefit schemes as senior managers of L'Oréal, particularly relating to pension and provident schemes. The Board keeps itself regularly informed of these schemes.

The undertakings with regard to pension <sup>(2)</sup> and provident <sup>(3)</sup> schemes from which Mr Jean-Paul Agon benefits due to the fact that he is treated in the same way as a senior manager for the duration of his term of office and which were submitted to the Annual General Meeting on April 24<sup>th</sup>, 2007 remain in full force and do not need to be subject to performance conditions or reiterated pursuant to the last paragraph of Article L. 225-42-1 of the French Commercial Code. These undertakings are set out in detail in the *statutory auditors' special report*.

Furthermore, the Board of Directors' meeting of February 13<sup>th</sup>, 2008 authorised the signature of an agreement with Mr Jean-Paul Agon providing that:

- In the event of removal or non-renewal from his corporate office, except for gross misconduct or gross negligence and unless he resigns or retires, Mr Jean-Paul Agon will be

entitled to an indemnity for termination of his corporate office capped at a maximum of 12 months of the last fixed remuneration received in respect of his corporate office, subject to fulfilment of performance conditions defined in accordance with the legal provisions.

This indemnity will be combined, where applicable, with the severance payment to which he would be entitled pursuant to his reinstated employment contract, it being specified that the amount of the two indemnities combined would thus be considerably lower than the amount recommended by the AFEP-MEDEF of a maximum of two years' fixed + variable remuneration.

- In the event of retirement at the company's request or voluntary retirement which takes place at the time of termination of his corporate office or thereafter, Mr Jean-Paul Agon will be entitled to a departure or retirement indemnity determined in accordance with the same terms and conditions as those applicable to a senior manager of L'Oréal <sup>(4)</sup>.

This indemnity will be calculated on the basis of the fixed and variable remuneration received as a corporate officer and the total length of service accrued pursuant to his employment contract and his corporate office, subject to fulfilment of performance conditions defined in accordance with the legal provisions.

This indemnity may not be lower than the departure or retirement indemnity to which he would be entitled pursuant to his resumed employment contract, and will not be received cumulatively with such indemnity.

The performance conditions adopted by the Board of Directors on February 13<sup>th</sup>, 2008 will be based as follows: one-half on the rate of growth in L'Oréal's sales as compared to the market growth rate while the other half on the increase in net earnings per share (diluted net profit per share excluding non-recurrent items attributable to the Group).

These undertakings were submitted for the approval of the Annual General Meeting of April 22<sup>nd</sup>, 2008, and were described in detail in the *statutory auditors' special report*. Authorisation of this commitment by the Board of Directors and its approval by the Annual General Meeting will be required at the time of each renewal of Mr Jean-Paul Agon's term of office as Chief Executive Officer.

No other non-competition indemnity is currently provided for in respect of the corporate office, other than under the terms and conditions of the non-competition clause included in the employment contract that has been suspended for the time being and that is in line with the clause in force for the other members of the Group's Management Committee.

(1) Cf. § 3.6.5.2 of the *Internal Rules of the Board of Directors* (page 130).

(2) See *terms and conditions of the Pension Cover for Members of the "Comité de Conjoncture"*, page 93).

(3) See *Employee Benefit schemes*, page 94.

(4) See *Retirement indemnities on page 93*.

It is specified that the cumulative amount of the termination or departure indemnities with regard to the employment contract and the corporate office and any indemnities that may be due pursuant to the non-competition clause gives a total amount of indemnities of around 24 months' fixed and variable remuneration for the corporate office.

The Board of Directors has not made any specific undertaking with regard to the Chief Executive Officer appointed by it other than those specified above.

Finally, in accordance with the recommendations made by the AFEP-MEDEF, the Board of Directors will make a decision, at the time of the renewal of Mr Jean-Paul Agon's corporate office in 2010, as to what will happen to his employment contract which is currently suspended.

## 2.5.6. Summary of trading by the corporate officers in L'Oréal shares in 2008

(Article 223-26 of the General Regulation of the *Autorité des marchés financiers*)

Person concerned	Date of the transaction	Nature of the transaction	Unit price	Total amount
Peter Brabeck-Letmathe, Vice-Chairman of the Board	April 28 <sup>th</sup> , 2008	Purchase of shares	€75.568	€1,133,520
Peter Brabeck-Letmathe, Vice-Chairman of the Board	April 30 <sup>th</sup> , 2008	Purchase of shares	€76.7145	€874,545.30
Francisco Castañer Basco, Director	March 10 <sup>th</sup> , 2008	Purchase of shares	€78.08	€156,160
	June 19 <sup>th</sup> , 2008	Purchase of shares	€72.52	€72,520
Xavier Fontanet, Director	June 19 <sup>th</sup> , 2008	Sale of shares	€71.908	€71,908
	December 17 <sup>th</sup> , 2008	Purchase of shares	€61.915	€61,915
	December 17 <sup>th</sup> , 2008	Sale of shares	€61.915	€61,915
Fimalac, Legal entity related to Marc Ladreit de Lacharrière, Director	September 19 <sup>th</sup> , 2008	Sale of puts	€4.6357	€891,023.26

## 2.6. Information concerning the share capital

### 2.6.1. Statutory requirements governing changes in the share capital and shareholders' rights

None.

### 2.6.2. Issued share capital and authorised unissued share capital

The share capital amounts to €120,483,162.00 as of December 31<sup>st</sup>, 2008. It is divided into 602,415,810 shares with a par value of €0.20 each, all of the same class and ranking *pari passu*.

The table set out below summarises (particularly in application of Articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code) the currently valid authorisations granted to the Board of Directors by the Annual General Meeting concerning the capital, shows the use made of such authorisations over the financial year and presents the authorisations which are to be put to the vote at the Annual General Meeting on April 16<sup>th</sup>, 2009.

# 2 2008 Management Report of the Board of Directors —

## Information concerning the share capital

Nature of the authorisation	Authorisations in force				Authorisations proposed to the AGM of April 16 <sup>th</sup> , 2009		
	Date of authorisation by the AGM (resolution no.)	Length (expiry date)	Maximum authorised amount	Use made of the authorisation in 2008	Resolution No.	Length	Maximum ceiling
<b>Share capital increases</b>							
Capital increase through the issue of shares with maintenance of preferential subscription rights or via the capitalisation of share premiums, reserves, profits or other amounts	April 24 <sup>th</sup> , 2007 (8 <sup>th</sup> )	26 months (June 24 <sup>th</sup> , 2009)	An increase in the share capital to €185,000,000	None	11	26 months (June 16 <sup>th</sup> , 2011)	An increase in the share capital to €175,000,000
Capital increase reserved for employees	April 24 <sup>th</sup> , 2007 (11 <sup>th</sup> )	26 months (June 24 <sup>th</sup> , 2009)	1% of share capital at the date of the Annual General Meeting (i.e. a maximum of 6,261,269 shares)	None	14	26 months (June 16 <sup>th</sup> , 2011)	1% of share capital at the date of the Annual General Meeting (i.e. a maximum of 5,984,452 shares at February 16 <sup>th</sup> , 2009)
<b>Buyback by the company of its own shares</b>							
Buyback by the company of its own shares (maximum authorised purchase price: €130)	April 22 <sup>nd</sup> , 2008 (7 <sup>th</sup> )	18 months (October 22 <sup>nd</sup> , 2009)	10% of share capital on the date of the buybacks (i.e. 59,844,521 shares at February 16 <sup>th</sup> , 2009)	6,433,000 shares for €438.0 million (Capital held by the company at December 31 <sup>st</sup> , 2008: 3.20% of the share capital)	10	18 months	10% of the share capital on the date of the buybacks (i.e. 59,844,521 shares at February 16 <sup>th</sup> , 2009)
<b>Reduction in the share capital via cancellation of shares</b>							
Cancellation of shares purchased by the company within the scope of Article L. 225-209 of the French Commercial Code	April 22 <sup>nd</sup> , 2008 (8 <sup>th</sup> )	26 months (June 22 <sup>nd</sup> , 2010)	10% of share capital on the date of cancellation per 24-month period	8,073,000 shares (i.e. 1.32% of the initial capital)		None	
Cancellation of shares purchased by the company within the scope of Article L. 225-208 of the French Commercial Code	April 22 <sup>nd</sup> , 2008 (8 <sup>th</sup> )	26 months (June 22 <sup>nd</sup> , 2010)	500,000 shares	337,400 shares		None	
<b>Stock options and free grants of shares</b>							
Allocation of share purchase or subscription options (no discount with regard to exercise price)	April 24 <sup>th</sup> , 2007 (9 <sup>th</sup> )	26 months (June 24 <sup>th</sup> , 2009)	2% of share capital on the date of the decision to allocate the options	None	12	26 months (June 16 <sup>th</sup> , 2011)	2% of share capital on the date of the decision to allocate the options
Free grant of existing shares or shares to be issued to employees	April 24 <sup>th</sup> , 2007 (10 <sup>th</sup> )	26 months (June 24 <sup>th</sup> , 2009)	0.2% of share capital on the date of the decision to make the grant	None	13	26 months (June 16 <sup>th</sup> , 2011)	0.2% of share capital on the date of the decision to make the grant

At December 31<sup>st</sup>, 2008, 23,915,300 share subscription options were allocated (of which 19,961,800 were granted within the framework of authorisations prior to that voted by the Annual General Meeting of April 24<sup>th</sup>, 2007). All these options are exercisable on the basis of one new share per option, and are therefore liable to lead to the creation of

the same number of shares. Accordingly, the potential share capital of the company amounts to €125,266,222.00 divided into 626,331,110 shares with a par value of €0.20 each.

The company has not issued any securities which grant indirect entitlement to shares in the capital.

### 2.6.3. Changes in the share capital over the last five years

Date	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of the share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
December 31 <sup>st</sup> , 2003	-	-	-	€135,212,432	-	676,062,160
April 29 <sup>th</sup> , 2004	- Merger with Gesparal	€72,808,580	€907,375,804.00	€208,021,012	364,042,900	1,040,105,060
	- Cancellation of shares previously held by Gesparal	-€72,808,580	-€907,312,807.00	€135,212,432	-364,042,900	676,062,160
April 26 <sup>th</sup> , 2005	Cancellation of shares	-€3,460,000	-	€131,752,432	-17,300,000	658,762,160
April 27 <sup>th</sup> – December 31 <sup>st</sup> , 2005	Exercise of share subscription options	€1,500	€433,750.00	€131,753,932	7,500	658,769,660
January 1 <sup>st</sup> – April 24 <sup>th</sup> , 2006	Exercise of share subscription options	€5,600	€1,683,395.00	€131,759,532	28,000	658,797,660
April 25 <sup>th</sup> , 2006	Cancellation of shares	-€3,845,850	-	€127,913,682	-19,229,250	639,568,410
April 26 <sup>th</sup> – December 31 <sup>st</sup> , 2006	Exercise of share subscription options	€9,600	€2,906,710.00	€127,923,282	48,000	639,616,410
January 1 <sup>st</sup> – February 14 <sup>th</sup> , 2007	Exercise of share subscription options	€250	€78,525.00	€127,923,532	1,250	639,617,660
February 14 <sup>th</sup> , 2007	Cancellation of shares	-€2,698,150	-	€125,225,382	-13,490,750	626,126,910
February 15 <sup>th</sup> – August 30 <sup>th</sup> , 2007	Exercise of share subscription options	€11,290	€3,516,221.50	€125,236,672	56,450	626,183,360
August 30 <sup>th</sup> , 2007	Cancellation of shares	-€1,645,020	-	€123,591,652	-8,225,100	617,958,260
August 31 <sup>st</sup> – December 31 <sup>st</sup> , 2007	Exercise of share subscription options	€3,470	€1,090,637.00	€123,595,122	17,350	617,975,610
February 13 <sup>th</sup> , 2008	Cancellation of shares	-€1,437,400	-	€122,157,722	-7,187,000	610,788,610
February 14 <sup>th</sup> – August 27 <sup>th</sup> , 2008	Exercise of share subscription options	€6,920	€2,087,532.00	€122,164,642	34,600	610,823,210
August 28 <sup>th</sup> , 2008	Cancellation of shares	-€1,682,080	-	€120,482,562	-8,410,400	602,412,810
August 29 <sup>th</sup> – December 31 <sup>st</sup> , 2008	Exercise of share subscription options	€600	€185,572.50	€120,483,162	3,000	602,415,810

### 2.6.4. Legal entities or individuals exercising control over the company to the company's knowledge

The Bettencourt family, on the one hand, and Nestlé S.A., on the other hand, are shareholders of the company and have declared that they are acting in concert (see "Changes in allocation of the share capital and voting rights" and "Shareholders' agreements relating to shares in the company's share capital" hereafter).

### 2.6.5. Changes in allocation of the share capital and voting rights over the last three years

Over the last three years, the allocation of the share capital and the voting rights has changed as follows:

	12.31.2006				12.31.2007				12.31.2008			
	Number of shares	% of capital	% of voting rights <sup>(2)</sup>	% of voting rights <sup>(3)</sup>	Number of shares	% of capital	% of voting rights <sup>(2)</sup>	% of voting rights <sup>(3)</sup>	Number of shares	% of capital	% of voting rights <sup>(2)</sup>	% of voting rights <sup>(3)</sup>
Family Bettencourt <sup>(1)</sup>	185,661,879	29.03%	29.03%	30.65%	185,661,879	30.04%	30.04%	31.19%	185,661,879	30.82%	30.82%	31.84%
Nestlé SA <sup>(1)</sup>	178,381,021	27.89%	27.89%	29.45%	178,381,021	28.87%	28.87%	29.96%	178,381,021	29.61%	29.61%	30.59%
Public	241,679,210	37.78%	37.78%	39.90%	231,267,773	37.42%	37.42%	38.85%	219,097,568	36.37%	36.37%	37.57%
Treasury stock	33,894,00	5.30%			22,664,937	3.67%			19,275,342	3.20%		

(1) The Bettencourt family and Nestlé S.A. act in concert (see "Shareholders' agreements relating to shares in the company's share capital hereafter).

(2) Calculated in accordance with Article 223-16 of the General Regulation of the Autorité des marchés financiers.

(3) At Annual General Meetings: it should be noted that, pursuant to the Articles of Association, each share grants entitlement to one vote at Annual General Meetings and that, pursuant to French law, shares of treasury stock are deprived of voting rights.

To the company's knowledge, at December 31<sup>st</sup>, 2008, the members of the Management Committee directly held less than 1% of the share capital.

The number of shares held by each of the members of the Board of Directors is set out in the notes to the Management Report in the section concerning "Information about corporate officers".

The company is authorised to trade in its own shares on or off the Stock Exchange in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, within the limits and in accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting.

At December 31<sup>st</sup>, 2008, the company held, on this basis, 19,275,342 of its own shares, which, if they were to be valued at their purchase price, represented 1,410.4 million euros, of which:

- 15,467,342 (2.57% of the share capital) are used to cover the existing stock option plans for the purchase of shares allocated to employees and corporate officers of Group companies;
- 3,808,000 (0.63% of the share capital) were intended for cancellation.

## 2.6.6. Employee share ownership

The employees of the company and its affiliates held 3,870,953 shares as at December 31<sup>st</sup>, 2008, that is 0.64% of the share capital, through the company savings plan.

## 2.6.7. Disclosures to the company of thresholds crossed

During 2008, the company was not informed of any crossing of the legal thresholds.

However Credit Agricole asset management disclosed a downwards crossing of the threshold provided for in the articles of association. The disclosure date was on September 26<sup>th</sup>, 2008 for a threshold crossing on September 23<sup>rd</sup> 2008. It declared holding 0.99% of the capital and voting rights at this date.

## 2.6.8. Shareholders' agreements relating to shares in the company's share capital

The company is not aware of any shareholders' agreements relating to shares in its share capital other than the agreement described below.

A memorandum of agreement was signed on February 3<sup>rd</sup>, 2004 between Mrs Liliane Bettencourt and her family, and Nestlé, providing for the merger of Gesparal into L'Oréal. It contains the following clauses:

### 2.6.8.1. Clauses relating to the management of the L'Oréal shares held

#### Clause limiting the shareholding

The parties agreed not to increase their shareholdings or their voting rights held in L'Oréal, either directly or indirectly, in any manner whatsoever, for a minimum period of three years as from April 29<sup>th</sup>, 2004, and in any case not until six months have elapsed after the death of Mrs Bettencourt.

#### Lock-up clause

The parties agreed not to transfer any or all of their L'Oréal shares either directly or indirectly, for a period of five years as from April 29<sup>th</sup>, 2004.

#### Exceptions to the undertaking to limit the shareholding and the lock-up clause

- a) The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the company of its own shares, or the suspension or removal of the voting rights of a shareholder
- b) The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision (*avis de recevabilité*) and up until the day after the publication of the notice of results (*avis de résultat*).
- c) In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe for new shares, in order to maintain their holding at the percentage existing prior to the said operation.
- d) The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital or voting rights.

#### Pre-emption clause

The parties have reciprocally granted each other a pre-emption right concerning the L'Oréal shares they hold since the date of the merger, and those they will hold after such date.

This pre-emption right will come into force on expiry of the lock-up clause for a period of five years; as an exception, it will come into force before the expiry of the lock-up period in the event of a takeover bid for L'Oréal shares for a period beginning on the day of the clearance decision and ending the day after the publication of the notice of results.

#### "No concert party" provision

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement

with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right with regard to the shareholding of the party having committed such breach, for a price per share equal to the average of the share prices for the last thirty trading sessions prior to notification of exercise of the pre-emption right.

### 2.6.8.2. Board of Directors

The agreement did not provide for any change to the composition of the Board of Directors as compared to its composition at the date of signing, but did stipulate an undertaking by the parties to vote in favour of the appointment as directors of three members proposed by the other party.

The Bettencourt family and Nestlé also agreed to vote in favour of the appointment of two Vice-Chairmen of the Board of Directors, one proposed by the Bettencourt family, and the other by Nestlé.

The parties provided for the creation of a Strategy and Implementation Committee on the Board of Directors of L'Oréal, which has six members, and is chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt family, two members proposed by Nestlé and one other independent director. The committee meets six times a year.

### 2.6.8.3. Term

Unless otherwise stipulated, the agreement will remain in force for five years from April 29<sup>th</sup>, 2004, and in all cases until a period of six months has elapsed after the death of Mrs Bettencourt.

### 2.6.8.4. Concerted action between the parties

The parties have declared that they will act in concert for a period of five years from April 29<sup>th</sup>, 2004 onwards.

## 2.6.9. Buyback by the company of its own shares

### 2.6.9.1 Information concerning share buybacks during the 2008 financial year

In 2008, the company bought back 12,787,000 of its own shares for an amount of €943.4 million, representing an average purchase price of €73.78 per share.

These share buybacks were all made directly by the company, without being entrusted to an investment services provider, and without the use of derivatives. They generated €1,543,471.65 in trading fees inclusive of VAT.

The table set out below summarises the transactions carried out within this framework, and the use made of the shares bought back:

Date of authorisation of the Annual General Meeting	April 24 <sup>th</sup> , 2007 (7 <sup>th</sup> Resolution)	April 22 <sup>nd</sup> , 2008 (7 <sup>th</sup> Resolution)
Expiry date of the authorisation	October 23 <sup>rd</sup> , 2008	October 21 <sup>st</sup> , 2009
Maximum amount of authorised buybacks	10% of the capital at 02/14/2007, i.e. 62,612,691 shares, for a maximum amount of €7,500 million	10% of the capital at the date of the buybacks (i.e. at 02/13/2008: 61,078,861 shares), for a maximum amount of €7,900 million
Maximum purchase price per share	€120	€130
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meeting that decided on the buybacks (maximum amount)	June 27 <sup>th</sup> , 2007 (€1,250 million)	June 19 <sup>th</sup> , 2008 (€1,250 million)
Purpose of buybacks	Cancellation and/or allocation to employees and corporate officers	Cancellation
Period of buybacks made	January 1 <sup>st</sup> – June 17 <sup>th</sup> , 2008	June 20 <sup>th</sup> – December 31 <sup>st</sup> , 2008
Number of shares purchased	6,354,000	6,433,000
Average purchase price per share	€79.55	€68.08
Use of shares purchased	Cancellation: 6,354,000 <sup>(1)</sup> Other: none	Cancellation: 2,625,000 <sup>(2)</sup> Other: none

(1) 906,000 shares cancelled by the Board of Directors at its meeting of February 13<sup>th</sup>, 2008, and 5,448,000 shares cancelled by the Board of Directors at its meeting on August 28<sup>th</sup>, 2008.

(2) Board of Directors meeting on August 28<sup>th</sup>, 2008.

## 2.6.9.2. Transactions carried out by L'Oréal with respect to its shares in 2008

Percentage of share capital held by the company directly and indirectly at December 31 <sup>st</sup> , 2008: Including:	3.20%
those intended to cover existing share purchase option plans	2.57%
those intended for cancellation	0.63%
Number of shares cancelled during the last 24 months:	37,313,250
Number of shares held in the portfolio:	19,275,342
Net book value of the portfolio at 12/31/2008:	€1,204.1 million <sup>(*)</sup>
Market portfolio value at 12/31/2008:	€1,200.9 million

<sup>(\*)</sup> After recording a provision.

	Total gross transactions	
	Purchases	Sales/Transfers <sup>(*)</sup>
Number of shares	12,787,000	579,195
Average transaction price	€73.78	
Average exercise price		€55.04
Amounts	€943.4 million	€31.9 million

<sup>(\*)</sup> Exclusively the exercise of share purchase options granted to employees of Group companies.

No use was made of derivatives to make the share buybacks. There is no open buy or sell position as of December 31<sup>st</sup>, 2008.

## 2.6.9.3. Renewal by the Annual General Meeting of the authorisation given to the Board to trade in the company's shares

By voting a new resolution, the Annual General Meeting will be able to provide the Board of Directors with the means to enable it to continue its share buyback policy.

This authorisation would be given for a maximum period of 18 months as from the date of the Annual General Meeting and the purchase price per share could not exceed €130.

The company would be able to buy its own shares for the following purposes:

- their cancellation;
- their allocation to employees and corporate officers;
- stabilisation of the share price;
- retaining them and subsequently using them as payment in connection with external growth operations.

The authorisation would concern up to 10% of the share capital for a maximum amount of €7,779.8 million, it being specified that the company may never at any time hold over 10% of its own share capital. In light of the number of its own shares held by the company at February 16<sup>th</sup>, 2009\* representing 2.56% of the capital, i.e. 15,304,742 shares, the maximum percentage of share buybacks that may be made as at this date amounts to 7.44%, i.e. an amount of €5,788.1 million on the basis of a maximum purchase price of €130 per share.

Share purchases made within the scope of this authorisation may be made by any available means, either on or off the stock market and, in particular, in whole or in part through transactions involving blocks of shares or the use of derivatives.

## 2.7. Employee and Environmental Information

### 2.7.1. Human relations

Our ambition is to make L'Oréal the preferred employer in all the countries where the Group has locations. To do this, we endeavour to attract the best talents and create a strong link with all our employees, based on a long-term career vision. While the demographic trends are making the job market more competitive, the Human Resources teams at

L'Oréal are more than ever tasked with enhancing expertise, developing potential, promoting and fostering loyalty among the talents of the future to contribute to sustainable growth. They also have the role of providing ongoing support to the Divisions in their projects for development and changes to their organisations, in accordance with L'Oréal's corporate values, with an ongoing concern for the interests of each and every employee.

\* The Board of Directors having decided to cancel 3,970,600 shares.

## 2.7.2. L'Oréal parent company employee information

### 2.7.2.1. Number of employees and number of persons hired

#### Total number of employees at 12.31.2008

L'Oréal had a total of 5,818 employees at December 31<sup>st</sup>, 2008. L'Oréal hired 316 persons on permanent contracts, 378 on fixed-term contracts and 160 persons on work and training contracts (102 apprenticeship contracts and 58 contracts offering professional experience). In addition, 342 persons were hired on a short-term basis during the holiday period or for a single season.

2008	Men	Women	All
Executives	1,284	1,491	2,775
Supervisors and technical staff	464	1,630	2,094
Administrative staff	133	230	363
Manual workers	184	99	283
Sales representatives	185	118	303
<b>Total</b>	<b>2,250</b>	<b>3,568</b>	<b>5,818</b>

For information, the total number of Group employees (including all consolidated Group companies worldwide) was 67,662 as of December 31<sup>st</sup>, 2008. See detail in the Human Resources chapter in volume 1 pages 94 to 97.

#### Difficulties in recruiting

L'Oréal does not have any problems in recruiting either executives or other categories of staff.

#### Redundancies or dismissals

In 2008, there were no redundancies for economic reasons.

Out of a total of 5,818 employees, 42 persons were dismissed for personal reasons including 7 dismissals for physical incapacity.

#### Overtime

L'Oréal does not require its employees to work much overtime. The total number of hours of paid overtime in 2008 was 31,548 hours for a gross amount of €614,334, representing the equivalent of 19.9 persons, that is 0.34% of the total number of employees.

#### Temporary workers

Temporary workers at L'Oréal represent 2.74% of the total number of employees on average, for an average monthly total of 160 temporary workers and an average length of contract of 9 days.

Information relating to workforce reduction plans and job preservation schemes, efforts to find alternative positions for employees, rehiring and employment assistance measures.

No workforce reduction plan took place at L'Oréal in 2008.

### 2.7.2.2. Work organisation

L'Oréal applies the National Collective Bargaining Agreement for the Chemical Industries and various company-level agreements, of which the most recent, dated June 30<sup>th</sup>, 2000, was concluded in application of the French Law on the adjustment and reduction of working time.

#### Working week

The average working week for all full-time employees is 35 hours, except for executives receiving a flat-rate salary for a given number of days' work per year.

#### Working week for part-time employees

Some employees across all categories have chosen to work part-time. Out of the total of 497 part-time employees, the great majority work for 4/5 of the working week, primarily on the basis either of parental leave or absence on Wednesdays

#### Reasons for absenteeism

Reasons for absenteeism	No of working days' absence	No of working days normally worked	% absenteeism
Sick leave	32,478	1,444,195	2.25%
Accidents in the workplace/on the way to work – occupational diseases	2,188	1,444,195	0.15%
Maternity leave – adoption	19,402	1,444,195	1.34%
Family events	7,209	1,444,195	0.50%
Other absences	355	1,444,195	0.03%
<b>Total</b>	<b>61,632</b>	<b>1,444,195</b>	<b>4.27%</b>

% absenteeism

$$\frac{\text{Number of working days' absence} \times 100}{\text{Number of working days normally worked or public holidays}}$$

### 2.7.2.3. Remuneration: trends and professional equality

#### Average monthly remuneration

##### Average monthly remuneration of ongoing employees

These are employees (excluding senior managers) on

In euros	2007			2008			Change
	Men	Women	All	Men	Women	All	
Executives	5,610	4,649	5,089	5,933	4,938	5,394	5.99%
Supervisors and technical staff	2,706	2,701	2,702	2,862	2,844	2,848	5.40%
Administrative staff	2,065	1,937	1,985	2,171	2,039	2,089	5.24%
Manual workers	2,207	2,158	2,190	2,405	2,285	2,364	7.95%
Sales representatives	3,844	3,320	3,649	4,004	3,497	3,815	4.55%

#### Employer payroll contributions

Total employer payroll contributions for 2008 amounted to €138,837,891.

#### Application of Title IV of Book IV of the French Labour Code: incentives and employee profit-sharing arrangements

##### Incentives

The incentive system is governed by French law but is a non-mandatory system. It was set up as part of a Group agreement in France in 1988 and was renewed in 2006. The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items, and weighted on the basis of the salary/value added ratio.

The incentive amount is available immediately, but may also be frozen in the company savings plan for five years and benefit from a corresponding tax exemption.

#### Changes in incentive amounts paid in France for all companies covered:

€ thousands	2005	2006	2007
	84,935	89,141	94,986
Of which the L'Oréal parent company represents	45,573	48,137	51,766

For an annual gross salary of:	The gross incentive amount for 2007 paid in 2008 represented:
€25,000	€6,178 i.e. 2.96 months
€32,000	€7,001 i.e. 2.63 months
€45,000	€8,531 i.e. 2.27 months
€60,000	€10,295 i.e. 2.06 months

#### Employee profit-sharing

Profit-sharing is a mandatory system under French Law, set up in 1968 for all profit-making companies with over 50 employees. The profit-sharing agreement was renewed in June 2006.

permanent contracts, who have been present for two consecutive years.

Employees who have changed category are included in the category to which they belonged in the second year.

The L'Oréal Group has made adjustments to the legal formula that are more favourable for employees:

- the agreement is made at Group level: all the employees of companies having signed this agreement, whatever their sector of activity or earnings, receive the same profit share;
- it provides for addition to the taxable profit of royalties derived from licenses for patents, inventions and technical processes developed in France, which creates a direct relationship with the Group's international development;
- provisions are stipulated to limit the consequences of exceptional events on the calculation of the profit sharing amount.

#### Changes in employee profit-sharing in France for all companies covered:

€ thousands	2005	2006	2007
	27,881	31,211	34,872
Of which the L'Oréal parent company represents	15,386	17,292	19,489

Profit-sharing for 2007 paid in 2008 represented the equivalent of 0.78 month's salary.

#### L'Oréal company savings plan and funds

L'Oréal offers its employees a wide range of funds and thus great freedom of choice. It is possible for employees:

- to invest profit-sharing amounts in a frozen current account on which L'Oréal will pay interest at the average rate of yield of bonds in private companies (TMOP) in accordance with Article R.442-12 of the French Labour Code;
- to invest, since 2004, profit-sharing amounts in a collective retirement savings plan (PERCO) and receive an additional employer contribution of +50%;
- to invest profit-sharing and incentive amounts in a company savings plan consisting of seven investment funds offering

a wide range of possibilities and great flexibility of use. Five of the funds are diversified (money market, bonds, shares, French and international securities, etc.) and three are funds consisting entirely of L'Oréal shares. One of the funds is only intended to receive incentive payments and an additional employer contribution of +25% is paid. Another fund may receive, under the terms of the 35-hour working week agreement, a voluntary payment of the equivalent amount of days worked and an employer contribution of +100% is added.

In 2008, the employees of L'Oréal in France invested €33,578,072 and €1,467,615 respectively, net of the compulsory social levies – CSG (the general social contribution) and CRDS (the contribution to reimbursement of the French social security debt) – in the two funds that consist entirely of L'Oréal shares, "L'Oréal Intéressement" and "L'Oréal à Versements Personnels Protégés". The employer contributions added to these payments were €8,994,408.90 and €1,439,973.71 which, at the opening trading price for the L'Oréal share on the date of each of these employer contributions, namely €75.52 on April 30<sup>th</sup>, 2008 for "L'Oréal Intéressement" and €78.85 on February 29<sup>th</sup>, 2008 for "L'Oréal à Versements Personnels Protégés", represents the equivalent of 137,361 L'Oréal shares. As the total net amount of incentives allocated in 2008 was €88,877,772, L'Oréal therefore proposed nearly 300,000 shares free of charge to its employees in France in 2008, in the form of this additional employer's contribution.

**Company savings plan and frozen current account for all companies covered:**

€ thousands	2005	2006	2007	2008
Company savings plan and frozen current account	438,550	514,112	620,743	496,447

At December 31, 2008, 51% of the savings of L'Oréal employees were invested in L'Oréal shares, and 9,874 Group employees in France were shareholders of L'Oréal through the savings plan.

**Incentive schemes worldwide**

*Application of Title IV of Book IV of the French Labour Code: incentives and employee profit-sharing arrangement*

Since 2001, L'Oréal has implemented, outside France, a worldwide incentive scheme that is related to the results of its subsidiaries (WPS – Worldwide Profit Sharing program).

Compliance with the principles of the programme is ensured by a Corporate Coordination Committee, while it is implemented locally.

Within the scope of the WPS 2007, L'Oréal paid out €58.5 million in 2008, which represents approximately 2.95 weeks' salary (for all subsidiaries combined).

**Professional equality**

*Undertakings to promote professional equality between men and women*

For several years, L'Oréal has been conducting an active employment policy in favour of professional equality between men and women and developed very early on parental benefits making it possible to offer favourable conditions to achieve a better balance between family life and professional life.

The comparison between the general conditions of employment and training of men and women in the company is presented once a year to the works council of each establishment within the scope of the commission on "Professional Training and Employment".

Professional equality is also dealt with in a report reviewed each year as part of the compulsory annual salary negotiation process. This report, drawn up in accordance with the requirements of Article L. 432.3.1 of the French Labour Code, considers the respective position of men and women with regard to hiring, training, promotion, qualifications and classification, effective remuneration and working conditions for each professional category (executives, supervisors, administrative staff, manual workers and sales representatives).

In 2008, L'Oréal's management decided to make formal commitments in favour of professional equality between men and women in a company-level agreement signed on December 4<sup>th</sup>, 2008 with all the trade union organisations.

To show their shared desire to comply with the principle of equal treatment between men and women and make sure that maternity and parental leave are situations which should not adversely affect the career progression of men and women within the company, this agreement defines the principles of professional equality between men and women which L'Oréal intends to guarantee. It also provides a contractual framework for the benefits or measures that already existed at L'Oréal in this area and formally provides for new commitments with the aim of favouring a better balance between professional life and personal and family life and advancing the principles of professional equality.

**2.7.2.4. Professional relations and list of collective agreements**

**Professional relations**

The high quality of labour relations at L'Oréal is the result of an ongoing dialogue between the management, employees and their representatives.

The representational structure is highly decentralised in order to keep in touch with issues faced at the local sites.

**Composition of Central Works Council by category**

Since 2005, as no unanimous agreement could be reached between the trade union organisations, the local French Employment and Professional Training authority provided for the composition of the Central Works Council in strict accordance with the legal provisions, whereas it was previously three times bigger.

Number of elected representatives by category	2008
Executives	2
Supervisors and technical staff/ Sales representatives	1
Administrative staff/Manual workers	1

Number of meetings of the Central Works Council and its commissions: 10.

### List of collective agreements

#### Dates of signature and subject matter of the agreements signed in the company

- Agreement with regard to professional equality between men and women.
- Agreement relating to achievement of a better balance between private life and professional life.

#### Profit sharing and incentive schemes

- Agreement with regard to the exceptional measure to release frozen amounts in respect of Profit sharing paid pursuant to the agreements within the L'Oréal Group, signed on February 29<sup>th</sup>, 2008.
- Amendment Agreement No. 3 to the special Group profit sharing agreement for 2006-2007-2008, signed on March 25<sup>th</sup>, 2008.
- Amendment Agreement No. 2 to the Group incentive agreement for 2006-2007-2008, signed on April 7<sup>th</sup>, 2008.

#### Provident schemes

Signed on December 4<sup>th</sup>, 2008:

- Supplemental agreement No. 1 to the amendment agreement entered into on December 17<sup>th</sup>, 2007 with regard to the provident scheme applicable to the administrative staff, manual workers, supervisors and technical staff of L'Oréal who do not fall within the scope of Article 36 of Appendix 1 and Articles 4 and 4 bis of the AGIRC agreement of March 14<sup>th</sup>, 1947.
- Supplemental agreement No. 1 to the amendment agreement entered into on December 17<sup>th</sup>, 2007 with regard to the provident scheme applicable to the employees of L'Oréal who fall within the scope of Article 36 of Appendix 1 to the AGIRC agreement of March 14<sup>th</sup>, 1947.
- Supplemental agreement No. 1 to the amendment agreement entered into on December 17<sup>th</sup>, 2007 with regard to the provident scheme applicable to Executives and similar employees of L'Oréal who fall within the scope of Articles 4 and 4 bis of the AGIRC agreement of March 14<sup>th</sup>, 1947.
- Supplemental agreement No. 1 to the amendment agreement entered into on December 17<sup>th</sup>, 2007 with regard to the provident scheme applicable to sales representatives of L'Oréal affiliated with the IRREP.
- Supplemental agreement No. 1 to the amendment agreement entered into on December 17<sup>th</sup>, 2007 with regard to the provident scheme applicable to sales representatives of L'Oréal affiliated with the IRP/VRP.

#### Pension schemes

Signed on December 4<sup>th</sup>, 2008:

- Amendment Agreement No. 1 to the supplementary defined contribution pension scheme agreement.

### 2.7.2.5. Occupational health and safety

In application of the French decree of November 5<sup>th</sup>, 2001 relating to occupational risks, L'Oréal has prepared a single document for the evaluation of occupational risks in the company.

In 2008, 70 meetings of the CHSCTs (health, safety and working conditions committees) were held, in the 14 such committees that exist at L'Oréal.

Five occupational doctors are present on all the company's sites and 7,872 medical examinations were conducted in 2008 (medical examinations upon hiring, return to work after sick leave or regular medical examinations).

In 2008, there were 46 lost-time accidents.

#### Measures taken to improve safety

Preserving the health and safety of employees is a fundamental goal, which forms an integral part of the company's human resources and social policy. It is based on risk prevention, both at individual level, through medical screening tests which enables close and specifically adapted individual monitoring of employees, and at collective level, through the evaluation and control of occupational risks.

The health and safety programme forms part of an overall approach, implemented in close conjunction with occupational doctors, safety managers and the health, safety and working conditions committees.

### 2.7.2.6. Training

#### Percentage of total salaries allocated to continuing education in 2007

Amount allocated to training (€ thousands)	13,913
% of total salaries	4,4%

Number of persons receiving training: 4,284 i.e. 73.6% of the total number of employees at 12.31.2008.

Number of training units: 8,401 or 2 units of training on average per person trained.

Number of hours of training: 131,059 hours.

Number of employees who made use of the Individual Training Entitlement (*Droit Individuel à la Formation* - "DIF"): 64.

The L'Oréal Human Resources intranet site provides employees with comprehensive information on the possibilities of professional training offered and their Individual Training Entitlement.

### 2.7.2.7. Employment and job opportunities for disabled workers

The number of disabled workers was 132 at December 31<sup>st</sup>, 2008, as compared with 108 persons at December 31, 2007. Subcontracting to special workshops for disabled workers and occupational therapy centres represented an amount of €324,000, a +28% rise as compared with 2007.

### 2.7.2.8. Welfare

Breakdown of the company's expenses:

€ thousands	2008
Accommodation Payment to the "1% logement"	1,429
Transport Shuttle services	123
Catering Company restaurant facilities	6,636
Miscellaneous Special social events for personnel...	1,501
<b>Total</b>	<b>9,689</b>

Payment to the L'Oréal Central Works Council and to the three works councils at its establishments: €1,494 thousand.

### 2.7.2.9. Amount of subcontracting

€ thousands	2008
Subcontracting purchases	4,896
Special contract work	275,667

#### How the company promotes the provisions of the fundamental conventions of the International Labour Organisation (ILO) to its subcontractors and ensures that its subsidiaries comply with these fundamental conventions

In June 2003, L'Oréal signed the United Nations Global Compact, undertaking to adopt, uphold and implement, in its sphere of influence, the ten fundamental principles relating to human rights, labour standards, the environment and anti-corruption.

L'Oréal respects and promotes the Universal Declaration of Human Rights. In this area, Mr Emmanuel Lulin, the Director of Ethics, has the task of ensuring that all the values set out in the Group's Ethics Charter are strictly complied with, particularly as regards human rights.

L'Oréal refers to the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, which covers freedom of association, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation. Particular attention is paid to the eradication of child labour and forced labour. L'Oréal has chosen to set a minimum age of 16 for all its staff, a minimum age limit which is higher than that provided for in the ILO Declaration on Fundamental Principles and Rights

at Work. L'Oréal respects the right of its employees to join the associations they choose and encourages a constructive dialogue. The struggle against discrimination is one of the priorities of L'Oréal's diversity policy.

L'Oréal also wishes its business partners to share and enforce these values. This is why the Group makes sure that human rights are respected throughout its logistics chain. All L'Oréal's suppliers and subcontractors are asked to comply with the Group's General Purchasing Conditions, which require them to respect the ILO Declaration on Fundamental Principles and Rights at Work. Regular audits are performed to check on this compliance: nearly 688 supplier audits were performed in 2008. Besides L'Oréal's vast programme of audits with regard to supplier and subcontractor labour standards, the Group has also decided to carry out independent audits in all its factories and distribution centres.

L'Oréal's values are laid down in the Ethics Charter, which is available on the [www.loreal.com](http://www.loreal.com) website.

### 2.7.2.10. Territorial impact on employment and regional development

L'Oréal's establishments are situated in the Paris region: Paris, Clichy-la-Garenne, St Ouen, Asnières, Aulnay-sous-bois, Chevilly-Larue, Marly-la-Ville and Mitry-Mory.

Over the past three years on all these sites, L'Oréal has hired 2,153 employees on permanent and fixed-term contracts and has thus contributed to regional development.

In 2008, an amount of €17,036 thousand was paid in business tax.

### 2.7.2.11. Relations with educational establishments and associations

#### Educational establishments

For over 30 years, L'Oréal has been building close partnerships with universities, business schools and with engineering and research establishments.

L'Oréal offers students the possibility of discovering the company during their courses by offering them some 500 internships across all its professions each year.

In 2008, 578 students joined L'Oréal under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

492 young people on work and training contracts (295 apprenticeship contracts and 197 contracts offering professional experience) were present in the Group in France at December 31<sup>st</sup>, 2008, 222 of whom worked at L'Oréal.

Over 85% of the apprentices are preparing for qualifications at "bac+2" level (equivalent to a 2-year course after "A levels") or higher. Their pass rate is 80%.

A qualitative assessment of the apprentice training centres is carried out each year.

L'Oréal paid €2,109 thousand in apprenticeship tax in 2008.

### Environmental protection associations

L'Oréal is a member of environmental protection associations at national level (e.g. Eco-Emballages), European level (e.g. European) and international level (e.g. the World Business Council for Sustainable Development).

L'Oréal is also involved in a large number of working Groups, which play a crucial role in the exchange of expertise and advice.

### 2.7.2.12. Regional development and local populations

As L'Oréal's business is at the heart of people's everyday lives and their well-being, the Group plays an active role in the life of the communities in which its activities take place.

L'Oréal is committed to demonstrating good corporate citizenship through its behaviour and to making a contribution to projects which are useful to the wider community.

As a general rule, L'Oréal's establishments and those of its subsidiaries build good relations with the communities in the areas in which they operate, and make every effort to limit the impact of their activities on the environment and to provide exemplary working conditions for their employees.

In the internal Safety Health & Environment competitions, prizes are awarded for civic initiatives in recognition of the efforts made by a site (factory, distribution centre or administrative office) which demonstrates its commitment, mobilisation and involvement in the community in which it operates. Awards are made to the best local initiatives conducted each year in partnership with local authorities, local residents and schools in the fields of solidarity, education or the environment.

By these initiatives, L'Oréal is eager to demonstrate its good citizenship, and to show that it firmly respects the ethical values of the surrounding community.

### 2.7.3. Authorisation granted to the Board of Directors in 2007 to grant share purchase and/or subscription options

The Ordinary and Extraordinary General Meeting of April 24<sup>th</sup>, 2007 authorised the Board of Directors to grant to employees and some of the corporate officers of the company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code, stock options that give

entitlement to the purchase of existing shares of the company or the subscription of new shares. This authorisation was granted for a period of twenty-six months.

The total number of stock options that may be granted may not give entitlement to purchase or subscribe for a total number of shares representing over 2% of the share capital on the date of the Board of Directors' decision. The exercise price is in line with the legal provisions, except for the possibility to grant a discount, and this is clearly specified in the resolution.

General Management and the Board of Directors wish to stress the importance of stock options in bringing together the interests of the beneficiaries and those of the shareholders themselves. The employees and corporate officers who receive the options and the shareholders share the same confidence in the strong, steady development of the company.

They give the Board of Directors the means to involve, motivate and foster the loyalty particularly of employees and corporate officers who, through their abilities and their commitment, contribute most to the Group's performances. Stock options also form part of L'Oréal's strategy of encouraging or attracting new talents.

Potential stock option grants are decided by the Board of Directors, on the basis of the proposals made by General Management and reviewed by the Remuneration Committee.

Stock options are subject to a contractual non-exercise period of five years, while a stock option granted is valid for ten years. This provision ensures that the grant of the stock options is indeed a durable driving force for the Group's long-term development.

Stock options have been granted once a year, twice a year or three times a year to beneficiaries according to rules which take into consideration their performances and their levels of responsibility within the Group's worldwide organisation.

Special attention has been paid to ensuring an equitable balance between the different populations within the Group for the same level of position.

Beneficiaries of stock options are required to comply with the stock market code of ethics which is brought to their attention when they receive the regulations of the plan concerned. If they wish to sell shares after exercising their options, they must ensure they are not doing so during a sensitive period, or in a situation in which, due to their access to privileged information, decisions taken on the basis of such information could have an impact on the L'Oréal share price.

A decision was made not to issue any stock option plan at the end of 2008 and from now on to grant stock options after approval of the annual financial statements, thereby complying with the AFEP-MEDEF Recommendations. A new plan is currently in the process of being prepared for the beginning of 2009 within the scope of the authorisation given to the Board at the Annual General Meeting in 2007.

## 2.7.4 Currently existing L'Oréal parent company share purchase or subscription options <sup>(1)</sup>

The situation of the share purchase or subscription option plans that existed at L'Oréal as at December 31<sup>st</sup>, 2008 was as follows:

AGM date	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999
Date of grant	10.14.1999	12.07.1999	04.05.2000	09.28.2000	12.07.2000	03.28.2001	09.18.2001	10.08.2001	03.26.2002
Total number of shares that may be subscribed or purchased,	2,250,000	1,500,000	1,200,000	3,800,000	450,000	2,500,000	2,500,000	225,000	2,500,000
Of which may be subscribed or purchased by Management Committee members <sup>(2)</sup>	550,000	525,000	-	310,000	-	360,000	655,000	-	360,000
Number of senior managers/ Total number of beneficiaries	8/133	6/200	0/234	7/707	0/109	4/521	7/441	0/109	8/410
Start date for exercise of the options	10.15.2004	12.8.2004	4.6.2005	9.29.2005	12.8.2005	3.29.2006	9.19.2006	10.9.2006	03.27.2007
Date of expiry	10.14.2009	12.7.2009	4.5.2010	9.28.2010	12.7.2010	3.28.2011	9.18.2011	10.8.2011	03.26.2012
Purchase price (in euros)	57.60	61.00	65.90	83.00	89.90	79.60	77.60	76.50	81.65
Number of stock options exercised at 12.31.2008	1,661,808	780,100	654,200	801,700	18,000	573,400	470,500	35,500	414,450
Of which shares subscribed	0	0	0	0	0	0	0	0	0
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	107,500	133,500	196,000	583,500	85,500	321,000	365,500	38,250	263,000
Number of shares remaining to be subscribed or purchased at year-end	480,692	586,400	349,800	2,414,800	346,500	1,605,600	1,664,000	151,250	1,822,550
Of which to Management Committee members <sup>(2)</sup>	129,000	318,000	-	310,000	-	360,000	605,000	-	335,000

AGM date	06.01.1999	05.22.2003	05.22.2003	05.22.2003	05.22.2003	05.22.2003	04.25.2006	04.25.2006	04.26.2007
Date of grant	09.04.2002	12.03.2003 <sup>(3)</sup>	03.24.2004	12.01.2004	06.29.2005	11.30.2005 <sup>(4)</sup>	04.25.2006	12.01.2006	11.30.2007
Total number of shares that may be subscribed or purchased	2,500,000	5,000,000	2,000,000	4,000,000	400,000	6,000,000	2,000,000	5,500,000	4,000,000
Of which may be subscribed or purchased by Management Committee members <sup>(2)</sup>	280,000	1,000,000	435,000	1,555,000	300,000	2,275,000	2,000,000	1,530,000	1,245,000
Number of senior managers/ Total number of beneficiaries	6/394	1/693	6/257	10/274	2/3	10/771	1/1	9/788	13/839
Start date for exercise of the options	09.05.2007	12.04.2008	03.25.2009	12.02.2009	06.30.2010	12.01.2010	04.26.2011	12.02.2011	12.01.2012
Date of expiry	09.04.2012	12.03.2013	03.24.2014	12.01.2014	06.29.2015	11.30.2015	04.25.2016	12.01.2016	11.30.2017
Subscription or purchase price (in euros)	76.88 (A)	63.02 (S) 71.90 (A)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S) 62.94 (A)	72.60 (S)	78.06 (S)	91.66 (S)
Number of stock options exercised at 12.31.2008	505,500	110,250	26,000	58,750	0	62,000	0	8,500	0
Of which shares subscribed	0	59,500	26,000	58,750	0	43,400	0	8,500	0
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	181,500	365,000	62,500	69,750	0	94,000	0	65,250	46,500
Number of shares remaining to be subscribed or purchased at year end	1,813,000	4,524,750	1,911,500	3,871,500	400,000	5,844,000	2,000,000	5,426,250	3,953,500
Of which to Management Committee members <sup>(2)</sup>	255,000	1,000,000	435,000	1,555,000	300,000	2,275,000	2,000,000	1,530,000	1,245,000

(1) There are no share purchase or subscription option plans at subsidiaries of L'Oréal.

(2) Management Committee members in office on the date of grant: 9 people in 2006; 13 people in 2007.

(3) The stock option plan of December 3<sup>rd</sup>, 2003 is divided into two halves: a share subscription option offer at a price of €63.02 (S) and a share purchase option offer at a price of €71.90 (A). Each beneficiary received an offer comprising share subscription and purchase options, in equal parts.

(4) The stock option plan of November 30<sup>th</sup>, 2005 is composed, for 70%, of a share subscription option offer at a price of €61.37 (S) and, for 30%, of a share purchase option offer at a price of €62.94 (A). Each beneficiary received an offer comprising share subscription and purchase options, in the above proportions. There were no fractional share rights.

N.B: The number of stock options and the acquisition prices indicated take into account the adjustments relating to the financial transactions carried out with regard to the share capital, such as the ten-for-one share split in 2000.

These grants of stock options do not have any impact in terms of dilution, inasmuch as the Board of Directors authorised the company to buy back its own shares to cancel them.

## 2.7.5. Main grants of stock options to employees other than corporate officers of L'Oréal and the exercise of such options

In response to the recommendations made by the AMF in table No. 9 of their recommendations, the following information is provided:

In 2008, the Board of Directors did not decide on the grant of any stock options.

The ten employees who are not corporate officers and who exercised the largest number of stock options exercised a total of 215,500 share purchase or share subscription options at an average price of €51.74 per share, 72,000 of which were exercised by two members of the Management Committee, at an average price of €58.40 per share.

## 2.7.6. Authorisation granted to the Board of Directors in 2007 to make free grants of shares

A proposal was made to the Annual General Meeting on April 24<sup>th</sup>, 2007 to authorise the Board of Directors to make, on one or more occasions, free grants of existing shares or shares to be issued.

The authorisation requested from the Annual General Meeting was granted for a period limited to 26 months as from the date of the decision by the Annual General Meeting. This expiry date coincides with the end of the authorisation to grant share purchase or subscription options which was also voted by the Annual General Meeting.

A free grant of shares offers the advantage of not requiring any payment to be made by beneficiaries. It is considered either as a replacement for, or a means of supplementing, grants of small numbers of stock options as the attractiveness of such a grant may appear limited. The free grant of shares will be performance-related.

No free grants of shares will be made to corporate officers or to members of the Management Committee of L'Oréal.

The number of shares that may be granted free of charge may not represent over 0.2% of the share capital on the date of the Board of Directors' decision.

Any free grants of shares will be decided by the Board of Directors on the basis of the proposals by General Management reviewed by the Remuneration Committee.

In 2008, the Board of Directors did not decide on any free grant of shares.

## 2.7.7. Employee retirement obligations and additional benefits

All over the world, depending on the legislation and practices in each country, L'Oréal adheres to pension, retirement benefit and employee benefit schemes offering a variety of additional coverage for its employees.

### Employee pension schemes in France

In France, L'Oréal has supplemented its retirement plan by creating on January 1<sup>st</sup>, 2001 a defined benefit scheme with conditional entitlements based on the employee's presence in the company at the end of his/her career. Then, on September 1<sup>st</sup>, 2003, a defined contribution scheme with accrued entitlements was introduced.

#### Defined benefit scheme

In order to provide additional cover, if applicable, to compulsory pensions provided by the French Social Security compulsory pension scheme, the ARRCO or AGIRC (mandatory French supplementary pension schemes), L'Oréal introduced on January 1<sup>st</sup>, 2001, a defined benefit scheme with conditional entitlements, the Retirement Income Guarantee for former Senior Managers. Prior to this, on December 31<sup>st</sup>, 2000, L'Oréal closed another defined benefit scheme, also with conditional entitlements, the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de conjoncture").

Access to the Retirement Income Guarantee for former Senior Managers, created on January 1<sup>st</sup>, 2001, is open to former L'Oréal Senior Executives who fulfil, in addition to having ended their career with the company, the condition of having been a Senior Manager within the meaning of Article L. 212-15-1 of the French Labour Code for at least ten years at the end of their career.

This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, the payment to the beneficiary's spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the company at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the

amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday and less all salaries paid under an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 400 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having ended their career with the company.

Access to the Pension Cover for Members of the "Comité de conjoncture" has been closed since December 31<sup>st</sup>, 2000.

This former scheme grants entitlement to payment to the beneficiary retiree, after having ended his/her career with the company, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years. The Pension Cover may not exceed 40% of the calculation basis for the Pension Cover, plus ½% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the salaries of the three years used for the calculation basis. Around 120 Senior Managers are eligible for this scheme subject to the condition, for those in active employment, of fulfilling all the conditions after having ended their career with the company.

#### Defined contribution scheme

In September 2003, L'Oréal set up a "defined-contribution pension scheme".

A new agreement was signed in December 2007, with effect from January 1<sup>st</sup>, 2008, as well as an amendment agreement applicable as from January 1<sup>st</sup>, 2009.

All executives and sales representatives affiliated with the IRPVRP are beneficiaries of this scheme.

The basis for contributions, which remains unchanged, amounts to between once and 6 times the French social security ceiling, with a contribution of 4% since January 1<sup>st</sup>, 2008, shared by the company and the employee.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlement from the French Social Security compulsory pension scheme, of a Life Annuity as well as after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension. The Life Annuity is calculated on the basis of the capital formed by the contributions made and the financial income on such contributions at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated.

	12.31.2006	12.31.2007	12.31.2008 *
Number of members	9,224	10,088	10,952
Total net contributions	€3,916,000	€5,118,997	€6,949,480

(\*) Estimated.

#### Early retirement benefit

L'Oréal pays particular attention to the retirement conditions of its employees and the specific retirement benefits or advantages made available to them:

They remain salaried employees of L'Oréal and their income is maintained (subject to a ceiling of €8,985 per month), as well as employee profit-sharing, incentives and paid holidays;

- End-of-career leave under the time savings account: This arrangement, linked to the 35-hour working week agreement and the Time Savings Account (Compte Epargne Temps – C.E.T), enables an employee who has saved 3 days' leave per year each year since 2001 under the C.E.T., to benefit from the possibility to terminate his/her activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave;
- Retirement Indemnities: The schedule for calculating retirement indemnities applied by L'Oréal is more favourable than that provided for under the French National Collective Bargaining Agreement for the Chemical Industries (L'Oréal agreement of October 1<sup>st</sup>, 2002).

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from one month's salary for five years' service, to six months' salary for 35 years' service, with this length of service being calculated up to the employee's 65<sup>th</sup> birthday.

In order to increase the special leave prior to retirement, the employee may opt to convert his retirement indemnities into time, or he/she may choose to receive payment of the retirement indemnities which will be made at the time when he/she leaves the company.

	12.31.2005			12.31.2006			12.31.2007			12.31.2008		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Early retirement leave	118	166	284	117	189	306	67	148	215	60	117	177
Compulsory retirement on the company's initiative			20			21			29			27
Voluntary retirement			200			256			307			247

(Source: HR France statistics 2005, 2006, 2007 and 2008)

These commitments are guaranteed partly by external financial cover aimed at gradually building up funds resulting from premiums paid to external organisations. The commitments net of funds invested and the actuarial differences are booked as a provision in consolidated balance sheet liabilities.

The evaluation method adopted to calculate the retirement and early retirement benefits commitments is the retrospective method and based on estimated calculations of the final salary.

These commitments take into account the employer's contribution to the healthcare schemes for retirees.

€ million	12.31.2006	12.31.2007	12.31.2008
Provision for pension commitments in consolidated balance sheet liabilities	567.1	525.2	448.6

(Source: HR France statistics 2006, 2007 and 2008)

### Employees Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4bis of the French National Collective Bargaining Agreement of 1947 (1.5% of Bracket A of income as defined by the French Social Security) and the guarantees accorded under the French National Collective Bargaining Agreement for the Chemical Industries, L'Oréal has set up, in France, under an agreement, an employee benefit scheme providing additional collective guarantees to its employees.

All these guarantees are based on the gross income up to eight times the Social Security ceiling, except for the education annuity which is limited to up to four times the ceiling. They are generally financed on Brackets A, B and C of income as defined by the French Social Security, except for the Education Annuity which is based on Brackets A and B, and the surviving Spouse Pension which is based on Brackets B and C.

This Employee Benefit scheme provides guarantees in the event of:

- temporary disability: for all employees, 90% of their gross income limited to eight times the French Social Security ceiling, net of all deductions, after the first 90 days off work;
- permanent disability: for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to eight times the French Social Security ceiling, net of all deductions;
- death,
  - a) for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,
  - b) for executives and comparable categories of employees, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,
  - c) for executives, comparable categories of employees, and sales representatives, the payment of an Education Annuity to each dependent child, according to an age-based schedule. For the other employees, this guarantee is optional and, if chosen, replaces part of the Lump Sum Death Benefit.

The total amount of the Lump Sum Equivalent for these guarantees may not exceed 2.3 million euros per event.

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic

scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

	12.31.2006	12.31.2007	12.31.2008
Net benefit scheme contributions	8,197,298 €	8,468,200	8,000,000 <sup>(1)</sup>

(1) Estimated

### Minimum guaranteed Lump Sum Death Benefits

Since December 1<sup>st</sup>, 2004, and January 1<sup>st</sup>, 2005 for sales representatives, L'Oréal has put in place an additional guaranteed Lump Sum Death Benefit that supplements, where applicable, for all employees, the Lump Sum Death Benefits to the extent of three years' average income. A maximum limit is set for this guarantee.

The total amount of the capital needed to fund the surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is also subject to a ceiling.

### Healthcare expenses

Additional healthcare schemes are offered to the employees of L'Oréal parent company and its French subsidiaries.

These schemes are generally optional and personal and usually financed by the company and the employees in equal shares.

Employees have the option of including their family members in these schemes.

Since October 1<sup>st</sup>, 2007, L'Oréal parent company's healthcare scheme has been improved substantially. This improvement mainly covers visits to specialists, optical and dental care and hospitalisation costs.

Furthermore, to anticipate for future regulatory and legal constraints, the scheme became mandatory for all L'Oréal employees as of that date.

Retirees can generally continue to benefit from the healthcare scheme, with a contribution by L'Oréal, subject to a membership duration clause.

The scheme for L'Oréal retirees has been specified in the regulations for the additional defined-benefit pension scheme applicable as from January 1<sup>st</sup>, 2008.

### Pension and Employee Benefit schemes outside France

In 2002, L'Oréal set up a supervisory committee for pension and employee benefit schemes offered by its subsidiaries. This committee ensures the implementation and the monitoring of L'Oréal's pension and employee benefits policy as defined by the L'Oréal Executive Committee.

This policy provides for general principles in the following areas: definition and implementation of schemes, relations with employees, financing and cost of the schemes, and management of the schemes. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. The Supervisory Committee works in collaboration with the operational departments of the Divisions and zones.

The characteristics of the pension schemes and other retirement benefits offered by the subsidiaries outside France vary depending on the applicable law and regulations as well as the practices of the companies in each country.

In many countries, L'Oréal participates in establishing additional retirement benefits for its employees through a whole series of defined benefit schemes and/or defined contribution schemes (e.g. United States, the Netherlands, Belgium, Canada, and Latin American countries). In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Germany and the United Kingdom). This series of defined benefit and defined contribution schemes makes it possible to share the financial risks and ensure improved cost stability. In defined contribution schemes, the company's commitment mainly consists in paying a percentage of the employee's annual salary into a pension plan each year.

The defined benefit schemes are financed by payments into specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the managers of the main funds established, as well as the financial stability rating of the custodians, is regularly reviewed by the Supervisory Committee.

## 2.7.8 Environmental information

In accordance with Article L. 225-102-1 of the French Commercial Code, L'Oréal includes in this Management Report information about the way the company monitors the environmental consequences of its activity. As the L'Oréal parent company is part of the L'Oréal Group, it applies the Group's rules, norms and standards. The L'Oréal parent company is made up of administrative offices, laboratories and distribution centres.

The environmental impact of the activities of the L'Oréal parent company is very limited. In 2008, it consisted mainly of the following (annual data):

2008	Total
Transportable waste (tonnes)	2,409
Recycled waste (tonnes)	2,402
Recycling ratio (%)	99.71
Direct CO <sub>2</sub> (tonnes)	6,223
SO <sub>2</sub> (tonnes)	0.178
Discharges to soil	0
Water consumption (m <sup>3</sup> )	149,074
Electricity (MWh)	53,821
Gas (MWh)	33,140
Fuel oil (MWh)	326
Energy consumption (MWh)	87,286

Note: The reporting scope includes 7 administrative offices and Research Centres.

The Group data are provided in the "Sustainable Development-Environment" chapter of Volume 1 of the Annual Report (pages 22 and 23). With regard to all the Group's factories and distribution centres (excluding recent acquisitions), the main data are as follows:

2008	Total
Transportable waste (tonnes)	137,515
Recycled waste (tonnes)	129,858
Recycling ratio (%)	95
Direct CO <sub>2</sub> (tonnes)	80,800
SO <sub>2</sub> (tonnes)	45.5
Discharges to soil	0
Water consumption (m <sup>3</sup> )	2,915,000
Electricity (MWh)	362,436
Gas (MWh)	393,283
Fuel oil (MWh)	29,820
Energy consumption (MWh)	785,539

The transportable waste is directly related to the activities at the site (excluding exceptional waste). For a factory, for example, these consist of raw material packaging waste or packaging items, waste oil or wastewater treatment unit sludge.

Exceptional waste is waste related to work on an exceptional scale carried out at sites resulting in tonnage of waste which would completely disrupt the routine handling of waste on these sites.

### The Board of Directors

## 2.8. Annexe: Subsidiaries and holdings

### Main changes including shareholding threshold changes

€ thousands	Situation at 12.31.2007		Acquisitions		Subscriptions		Sales		Situation at 12.31.2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Headings										
L'Oréal Hellas	1,625.9	77.41			16,602.9	6.08 <sup>(2)</sup>			18,228.8	83.49
L'Oréal Produits de Luxe Hellas A.E	2,135.0	99.89					2,135.0	99.89 <sup>(2)</sup>	0.0	0.00
Cosmétique Active Hellas	14,467.9	99.97					14,467.9	99.97 <sup>(2)</sup>	0.0	0.00
L'Oréal Italia SPA	161,803.8	100.00					161,803.8	100.00 <sup>(2)</sup>	0.0	0.00
L'Oréal Italia Spa (Formerly SAIPO)	0.0	0.00			161,803.8	100.00 <sup>(2)</sup>			161,803.8	100.00
Canan Kosmetiz			28,438.6	99.99					28,438.6	99.99
Canan Tuketim Urunleri			11,128.2	99.99					11,128.2	99.99
Seda Plastik			1,842.5	99.99					1,842.5	99.99
Sophie (formerly Alexandre de Paris)	2,278.6	100.00					2,278.6	100.00 <sup>(1)</sup>	0.0	0.00
Beauté Créateurs SAS	3,425.3	50.00	21,959.8	50.00					25,385.1	100.00
Club Créateurs Beauté Taiwan	328.4	50.00	0.0	50.00					328.4	100.00
Club Créateurs Beauté Belgique	250.9	50.00	0.0	50.00			0.00	0.01		99.99
Club Créateurs Beauté Japon	2,172.6	50.00	800.0	50.00					2,972.6	100.00
YSL Beauté Holding	0.0		99,610.0	0.00	1,000,410.0	100.00			1,100,020.0	100.00
Episkin	6,661.5	100.00			2,740.0	100.00			9,401.5	100.00
Laboratoire Innéov	12,050.0	50.00			4,750.0	100.00			16,800.0	50.00
Aofi	4,305.5	100.00					4,305.5	100.00 <sup>(2)</sup>	0.0	0.00
L'Oréal India	54,901.9	100.00			4,305.5	100.00			59,207.5	100.00
Masrelor					10.5	99.87			10.5	99.87
Egyptelor					7.0	99.80			7.0	99.80
Biotherm Monaco	3,541.8	99.80			3.5				3,545.3	99.80
L'Oréal Ukraine	1,390.0	100.00			1,600.0	100.00			2,990.0	100.00
L'Oréal China	37,482.1	100.00			177,012.1	100.00 <sup>(2)</sup>			214,494.2	100.00
Yue-Sai	168,403.4	100.00					168,403.4	100.00 <sup>(2)</sup>	0.0	0.00
<b>Total</b>	<b>477,224.6</b>		<b>163,779.2</b>		<b>1,369,245.4</b>		<b>353,394.3</b>		<b>1 656 603,9</b>	

(1) Transfert of all the asset and liabilities (to the company's sole shareholder).

(2) Merger.

## 2.9. Annexe: Five year financial summary

### L'Oréal parent company (excluding subsidiaries)

€ million (except for earnings per share, shown in euros)	2004	2005	2006	2007	2008
<b>I. Financial position at financial year-end</b>					
a) Share capital	135.2	131.8	127.9	123.6	120.5
b) Number of shares	676,062,160	65,769,660	639,616,410	617,975,610	602,415,810 <sup>(1)</sup>
c) Number of convertible bonds	0	0	0	0	0
<b>II. Overall results of operations</b>					
a) Net sales	1,774.2	1,856.6	2,003.4	2,073.8	2,115.2
b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and profit sharing reserve)	1,341.1	1,403.0	1,484.4	2,841.7	1,713.4
c) Income tax	-20.8	-58.8	-54.5	-68.7	-143.4
d) Net income	1,230.1	1,589.6	1,690.3	2,822.4	1,552.1
e) Amount of distributed profits	554.4	658.8	738.8	842.9	861.8 <sup>(2)</sup>
<b>III. Results of operations per share</b>					
a) Profit after tax and profit sharing, but before depreciation, amortisation and provisions	1.99	2.20	2.38	4.68	3.05
b) Net sales	1.82	2.41	2.64	4.57	2.58
c) Dividend paid on each share (not including tax credit)	0.82	1.00	1.18	1.38	1.44 <sup>(2)</sup>
<b>IV. Personnel</b>					
a) Number of employees	5,746	5,759	5,793	5,862	5,848
b) Total salaries	331.8	339.2	345.4	370.3	381.1
c) Amount paid for welfare benefits (social security, provident schemes, etc.)	133.9	138.8	142.3	158.7	159.3

(1) The share capital comprises 602,415,810 shares with a par value of €0.2, following the cancellation of 7,187,000 shares of treasury stock held by the company as of February 13<sup>th</sup>, 2008 and of 8,410,400 shares of treasury stock held by the company as of August 28<sup>th</sup>, 2008, and the subscription of 34,600 shares through exercising stock options.

(2) The dividend will be proposed to the Annual General Meeting of April 16<sup>th</sup>, 2009.