

2008 Report of the Chairman of the Board of Directors of L'Oréal

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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.

3.1. Summary of the principles

3.1.1. The French Commercial Code

Under the terms of Article L. 225-37, paragraph 6, of the French Commercial Code, the Chairman is required to present a supplementary Report, attached to the Management Report:

"The Chairman of the Board of Directors gives an account, in a Report attached to the Report mentioned in Articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26, of the Board's composition, of the ways in which the Board's work is prepared and organised, and on the Internal Control and risk management procedures put in place by the company, describing in particular those of its procedures that relate to the preparation and processing of accounting and financial information for the parent company financial statements and, where applicable, for the consolidated financial statements. Without prejudice to the provisions of Article L. 225-56, the Report also indicates any limitations that the Board of Directors imposes on the powers of the Chief Executive Officer."

This same article of the French Commercial Code states that *"where a company voluntarily refers to a code of corporate governance drawn up by organisations representing businesses, the report [...] also specifies the provisions which have not been applied and the reasons for this non-application."* In accordance with paragraph 9 of Article L. 225-100-3 of the French Commercial Code, the information provided for in such Article is published in the Management Report. Pursuant to paragraph 10 of the same Article L. 225-37 of the French Commercial Code, the Board of Directors of L'Oréal has approved this report.

3.1.2. AFEP-MEDEF Code

At its November 2008 meeting, the Board of Directors of L'Oréal reviewed the AFEP and MEDEF recommendations of October 2008 on the remuneration of executive officers of listed companies, which supplement all the recommendations with regard to corporate governance published in October 2003.

The Board considers that these recommendations fit in with the company's corporate governance practices. Accordingly, the AFEP-MEDEF Code, as supplemented and published in full in December 2008 (hereinafter the AFEP-MEDEF Code), is the code referred to by the company to prepare this Report of the Chairman, approved by the Board at its meeting on Monday February 16th, 2009.

The section of this Report on the ways in which the Board's work is prepared and organised (corporate governance), identifies those provisions of the AFEP-MEDEF Code which have not been applied and explains the reasons for this choice in accordance with Article L. 225-37 of the French Commercial Code.

In addition, the information referred to in Article L. 225-100-3 of the French Commercial Code is published in the Management Report.

3.2. Report of the Chairman of the Board of Directors on the ways in which the Board's work is prepared and organised

The composition of the Board of L'Oréal, the rules it applies to its work, its *modus operandi*, and the work that it has carried out in the year, evaluated on an annual basis since 1996 by the directors, as well as the decisions made, are dealt with in this Report. The L'Oréal Board of Directors wishes to point out that it carries out its work above all on a collective basis, in accordance with ethical principles and in compliance with the legal provisions, regulations and recommendations.

3.2.1. Method of general management chosen: separation of the duties of Chairman from those of the Chief Executive Officer

In 2006, the Board decided to separate the roles of Chairman and Chief Executive Officer. With a clear definition of the responsibilities of each of them, this separation enables a

— 2008 report of the Chairman of the Board of Directors of L'Oréal

Report of the Chairman of the Board of Directors on the ways in which the Board's work is prepared and organised

high level of continuity in strategic vision, while giving new impetus to the Group's businesses.

The Chairman of the Board of Directors organises and oversees the Board's work and reports thereon to the shareholders' Annual General Meeting. He is actively involved in defining the company's growth strategy and encourages and strengthens, *inter alia*, links between the company and the main economic players. The Chairman oversees the work of the company's bodies responsible for corporate governance and ensures, in particular, that the directors are able to perform their duties. He may ask for any document or information that is likely to assist the Board of Directors in preparing for its meetings. The Chairman of the Board of Directors must use his best efforts to promote the values and image of the company at all times. The Chairman expresses his views in that capacity. He is provided with the material resources required to perform his duties.

The Chief Executive Officer, who may be the Chairman of the Board of Directors or another individual, is vested with the broadest powers to act in all circumstances in the name of the company. He must exercise these powers within the limit of the company's purpose subject to the powers expressly granted by French law to the shareholders' General Meetings and the Board of Directors.

However, transactions which may materially impact the scope of consolidation of the company, in particular transactions involving an amount in excess of €150,000,000, and all new transactions which are outside the normal course of business, must be submitted to the Board. In any event, the Board of Directors must be informed of the conclusion and implementation of all transactions.

The directors of L'Oréal once again noted, at the end of 2008 and at the time of the evaluation of the *modus operandi* of the Board, that this separation of roles gives entire satisfaction, notably by making an effective contribution to the quality of their exchanges. The Chairman and the Chief Executive Officer each duly fulfil their respective roles, within the framework of the Internal Rules laid down by the Board¹.

3.2.2. Independence of directors

At its meeting on November 28th 2008 and at the time of the evaluation of its *modus operandi*, the Board of L'Oréal reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria provided for in the AFEP-MEDEF Code.

A member of the Board is considered as independent when he does not maintain any relationship of any kind with the company, its Group or its general management which may interfere with its freedom of judgment.

In this spirit, the criteria which guide the Board in determining whether a member can qualify as independent are the following criteria specified by the AFEP-MEDEF Code:

- the member must not be an employee or corporate officer of the company, an employee or director of its parent company or a company which it consolidates in its financial statements, and must not have held any of these positions during the previous five years;
- the member must not be a corporate officer of a company in which the company directly or indirectly holds the office of director or in which an employee designated as such or a corporate officer of the company (either currently or having performed such duties within the last five years) holds an office as director;
- the member must not be a customer, supplier, investment banker or financial banker:
 - which is important for the company or its Group;
 - or for which the company or its Group represents a significant portion of activities;
- the member must not have any close family links with a corporate officer;
- the member must not have been the company's auditor over the five previous years.

The Board failed to adopt one of the criteria specified by the AFEP-MEDEF Code as it considers that the fact that a member has performed a term of office for over 12 years does not lead to such member losing his independent status. Indeed, the quality of a director is also measured on the basis of his experience, his skills, his authority and his good knowledge of the company, which are all assets that make it possible to conduct a long-term strategy. The directors of L'Oréal are present, active and closely involved, which contributes to a continued improvement in the quality of the deliberations and decisions of the Board. They are committed and vigilant and actively participate in the discussions, with complete freedom of judgment and a high level of availability. In a spirit of loyalty, all the directors strictly respect the collegial nature of the decisions made by the Board.

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

(1) See. § 3.6.1.2 et seq. of the Internal Rules of the Board of Directors on page 125 of this document.

The proportion of independent directors is thus at least one-third and is in line with the provisions of the AFEP-MEDEF Code. Under these conditions, the Board's responsibilities are carried out with the necessary independence and objectivity. All the directors take into account the interests of all the shareholders.

3.2.3. Members of the Board of Directors

3.2.3.1. Appointment of a new director in 2008

After the members of the Board of Directors had noted the resignation of Mr Franck Riboud in 2007 and the resulting vacancy in his seat as a director, a proposal was made to the Board to make a temporary appointment through cooptation, in accordance with French law. On November 30th, 2007, the Board decided to appoint Mr Charles-Henri Filippi as a director on a provisional basis, subject to ratification by the Annual General Meeting of 2008, for the remainder of the tenure of his predecessor, that is until the close of the Annual General Meeting called to review the financial statements for the 2009 financial year in 2010.

Mr Filippi, Chairman of the Board of Directors of HSBC France until December 2008, is an independent director, with freedom of interest, who is available and competent and harmoniously supplements the Board's expertise in the field of finance.

After reviewing the report of the Board of Directors, the Annual General Meeting of April 22nd, 2008, ratified the cooptation of Mr Filippi as director, decided by the Board in November 2007, until the end of the Annual General Meeting to be held in 2010 to review the financial statements for the 2009 financial year.

Mr Filippi was appointed as Chairman of the Audit Committee of L'Oréal in April 2008.

3.2.3.2. Renewal of the tenure of a director in 2008

The Board of Directors proposed to the Annual General Meeting the renewal of the tenure as director of Mr Bernard Kasriel which was due to expire at the close of the Annual General Meeting in 2008. Mr Kasriel is 61 years of age. He is married and has three children. He is a graduate of the Ecole Polytechnique, Insead and Harvard Business School. He joined Lafarge in 1977, and was appointed Senior Executive Vice-President in 1982. After being seconded to the United States from 1987 to 1989, he was appointed as Vice-President and Chief Operating Officer from 1989 to 2003 then as Chief Executive Officer from 2003 to 2005. He has been a director of L'Oréal since 2004 and is also a director of Lafarge and Arkema. Mr Kasriel is completely independent in the context of his membership of the Board of Directors, is very available, attentive to his duties, and has freedom of judgement. The Board has asked him to act as Chairman of the Appointments Committee and the Remuneration Committee. He is a member of the Strategy and Implementation Committee.

The Annual General Meeting of April 22nd, 2008 renewed the tenure as director of Mr Bernard Kasriel for a period of four years as provided for by the Articles of Association. This tenure will expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the 2011 financial year.

3.2.3.3. Presentation of all the directors

A detailed list of the offices and directorships held in any company, in 2008 and during the last five years, by each of the corporate officers and directors, is set out hereafter:

3.3. Corporate officers

LIST OF OFFICES AND DIRECTORSHIPS HELD BY CORPORATE OFFICERS AND DIRECTORS DURING THE LAST FIVE YEARS

Sir Lindsay Owen-Jones		Expiry date of term of office
Director since 1984		2010
Chairman of the Board		
Chairman of the "Strategy and Implementation" Committee		
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy Cedex – France		
Holds 2,829,005 L'Oréal shares		
Other corporate offices and directorships held		
French companies		
Alba Plus SASU	Chairman	
L'Air Liquide S.A.	Vice-Chairman of the Board	
Sanofi-Aventis S.A.	Director	
Foreign companies		
Ferrari S.p.A. (Italy)	Director (<i>Amministratore</i>)	
L'Oréal U.K. Ltd (United Kingdom)	Chairman & Director	
L'Oréal USA Inc. (United States)	Chairman & Director	
Other		
Fondation d'Entreprise L'Oréal	Chairman of the Board Director	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
L'Air Liquide S.A.	Vice-Chairman of the Supervisory Board	May 2006
L'Oréal S.A.	Chief Executive Officer	April 2006
BNP Paribas S.A.	Director	December 2005
Gesparal S.A. (merged into L'Oréal)	Director	April 2004
Foreign company		
Galderma Pharma (Switzerland)	Director	May 2006
	Chairman of the Board Director	May 2004

Jean-Paul Agon	Expiry date of term of office
Director since 2006 Chief Executive Officer Professional address: L'Oréal – 41 rue Martre – 92117 Clichy Cedex – France Holds 11,500 L'Oréal shares	2010

Other corporate offices and directorships held**Foreign companies**

Galderma Pharma S.A. (Switzerland)	Director
L'Oréal USA Inc. (United States)	Director
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director

Other

Fondation d'Entreprise L'Oréal	Director
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Main corporate offices and directorships ⁽¹⁾ over the last five years that have expired**Expiry date of term of office****French company**

L'Oréal S.A.	Deputy Chief Executive Officer	April 2006
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Foreign companies

Galderma Pharma S.A. (Switzerland)	Chairman of the Board	May 2008
L'Oréal Canada (Canada)	Director and Chairman of the Board	June 2005
L'Oréal USA Inc. (United States)	President & Chief Executive Officer	June 2005

(1) Mr Jean-Paul Agon has also held various corporate offices and directorships over the last five years in Group companies that are subsidiaries of L'Oréal USA where he was President and Chief Executive Officer until June 2005.

Jean-Pierre Meyers	Expiry date of term of office
Director since 1987 Vice-Chairman of the Board of Directors Member of the Audit Committee Member of the Strategy and Implementation Committee Member of the Appointments Committee and the Remuneration Committee Professional Address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France Holds 15,332 L'Oréal shares	2009

Other corporate offices and directorships held**French company**

Téthys SAS	Member of the Supervisory Board Chief Executive Officer
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Foreign company

Nestlé S.A.	Director
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Other

Fondation Bettencourt Schueller	Vice-Chairman of the Board
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Corporate offices and directorships over the last five years that have expired**Expiry date of term of office****French companies**

Gesparal S.A. (merged into L'Oréal)	Director	April 2004
Gespral S.A.	Director	July 2007

Other

Fondation Ophtalmologique Adolphe de Rothschild	Director	October 2007
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Peter Brabeck-Letmathe	Expiry date of term of office
Director since 1997 Vice-Chairman of the Board Member of the "Strategy and Implementation" Committee Member of the Appointments Committee and the Remuneration Committee Holds 27,400 L'Oréal shares	2009

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	Chairman of the Board
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Other corporate offices and directorships held

Foreign companies

Credit Suisse Group (Switzerland)	Vice-Chairman of the Board [since April 25 th , 2008] Director
Roche Holding S.A. (Switzerland)	Director
Uprona (Canada) Ltd (Canada)	Director and Chairman
Delta Topco Limited (Jersey)	Director [since September 4 th , 2006]

Other

Forum Economique Mondial (Switzerland)	Member of the Foundation Board
Table Ronde des Industriels Européens (Belgium)	Member

Main corporate offices and directorships over the last five years that have expired

Expiry date of term of office

French company

Gesparal S.A. (merged into L'Oréal)	Director	April 2004
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Foreign companies

Alcon, Inc (Switzerland)	Vice-Chairman of the Board	May 2006
Dreyer's Grand Ice Cream Holdings, Inc (United States)	Vice-Chairman of the Board	March 2006
Credit Suisse (Switzerland)	Vice-Chairman of the Board	April 2005
Credit Suisse First Boston (Switzerland)	Vice-Chairman of the Board	April 2005
Credit Suisse Group (Switzerland)	Vice-Chairman of the Board	April 2005
Nestlé S.A. (Switzerland)	CEO "Administrateur délégué"	April 2008
Winterthur Insurance Company (Switzerland)	Vice-Chairman of the Board	April 2005
Winterthur Life (Switzerland)	Vice-Chairman of the Board	April 2005

Other

Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board	April 2008
ECR Europe (Belgium)	Co-Chairman of the Executive Board	May 2008
Fondation Avenir Suisse (Switzerland)	Board Member	December 2004
Fondation pour la Fédération Internationale des sociétés de la Croix-Rouge et du Croissant-Rouge (Switzerland)	Board Member	November 2005
Prince of Wales International Business Leaders Forum (United Kingdom)	Deputy Chairman	March 2005

Liliane Bettencourt	Expiry date of term of office
Director since 1995 Member of the "Strategy and Implementation" Committee Professional address: Téthys - 27-29 rue des Poissonniers – 92200 Neuilly sur Seine - France 5,633 L'Oréal shares held in absolute ownership and 185,654,833 L'Oréal shares held in absolute ownership or beneficial ownership by Téthys, a company of which Mrs Bettencourt is the Chairwoman and of which she holds almost all the shares and attached voting rights in absolute ownership or beneficial ownership	2011

Other corporate offices and directorships held**French companies**

Clymene SAS	Chairwoman
Eugène Schueller SARL	Managing Director
Téthys SAS	Chairwoman Chairwoman of the Strategy Committee Member of the Supervisory Board

Other

Fondation Bettencourt Schueller	Chairwoman
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Corporate offices and directorships over the last five years that have expired

French companies	Expiry date of term of office
Compagnie Nouvelle d'Investissement S.A.	Director June 2005
Gesparal S.A. (merged into L'Oréal)	Director April 2004
Gespral S.A.	Chairman of the Board of Directors July 2007

Françoise Bettencourt Meyers	Expiry date of term of office
Director since 1997 Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France Holds 283 L'Oréal shares in absolute ownership and 76,440,541 shares in bare ownership	2009

Other corporate offices and directorships held**French companies**

Société Immobilière Sebor SAS	Chairwoman
Téthys SAS	Member of the Supervisory Board

Other

Fondation Bettencourt Schueller	Director
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Corporate offices and directorships over the last five years that have expired

French companies	Expiry date of term of office
Gesparal SA (merged into L'Oréal)	Director April 2004
Gespral S.A.	Director July 2007

Werner J. Bauer	Expiry date of term of office
Director since 2005 Holds 1,975 L'Oréal shares	2009

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	Executive Vice-President
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Other corporate offices and directorships held

Foreign companies

Alcon, Inc. (Switzerland)	Director
Life Ventures S.A. (Switzerland)	Director Vice-Chairman of the Board
Nestlé Deutschland AG (Germany)	Member of the Supervisory Board Chairman of the Supervisory Board
Nestlé Nespresso S.A. (Switzerland)	Director Chairman of the Board [since December 1 st , 2008]
Nutrition-Wellness Venture AG (Switzerland)	Director Vice-Chairman of the Board [since October 19 th , 2004]
Sofinol S.A. (Switzerland)	Director Chairman
Uprona (Canada) Ltd. (Canada)	Director

Other

Cereal Partners Worldwide (Switzerland)	Member of the Supervisory Board
Bertelsmann Foundation (Germany)	Member of the Board of Trustees
Société Suisse des Industries Chimiques (Switzerland)	Member of the Board

Corporate offices and directorships over the last five years that have expired **Expiry date of term of office**

Foreign company

Hans Rychiger AG (Switzerland)	Director	February 2007
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Francisco Castañer Basco	Expiry date of term of office
Director since 1998 Member of the Audit Committee Member of the "Strategy and Implementation" Committee Holds 3,500 L'Oréal shares	2010

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	Executive Vice-President
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Other corporate offices and directorships held

Foreign companies

Alcon, Inc. (Switzerland) [formerly Alcon Universal]	Director Vice-Chairman
Galderma Pharma S.A. (Switzerland)	Director Chairman of the Board [since May 23 rd , 2008]
Nestlé España	Director and Chairman of the Board [since June 30 th , 2008]
Uprona (Canada) Ltd. (Canada)	Director

Corporate offices and directorships over the last five years that have expired **Expiry date of term of office**

French company

Gesparal S.A. (merged into L'Oréal)	Director	April 2004
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Foreign company

Galderma Pharma S.A. (Switzerland)	Chairman of the Board	May 2006
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Charles-Henri Filippi		Expiry date of term of office
Chairman of the Audit Committee [since April 22 nd , 2008] Director since 2007 Holds 1,000 L'Oréal shares		2010
Main corporate office held outside L'Oréal		
Octagones (parent company) and Alfina (subsidiary) Professional address: 9 rue Boissy d'Anglas – 75008 Paris – France	Chairman [since January 15 th , 2009]	
Other corporate offices and directorships held		
French companies		
Euris	Member of the Supervisory Board [since August 2 nd , 2007]	
France Telecom	Director	
Nexity	Observer	
Piasa S.A.	Director [since May 27 th , 2008]	
Foreign company		
CVC Capital Partners ("CVC")	Senior Advisor [since November 20 th , 2008]	
Other		
Centre National d'Art et de Culture Georges Pompidou Association des Amis de l'Opéra Comique Association des Amis du Festival d'Automne à Paris	Director Director [since October 10 th , 2007] Chairman [since March 7 th , 2007]	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Altadis	Director Member of the Executive Commission	February 2008
Galleries Lafayette	Member of the Supervisory Board	May 2005
HSBC Asset Management Holding	Director	June 2006
HSBC France	Chief Executive Officer Chairman of the Board	September 2007 December 2008
HSBC Private Bank France	Chairman of the Supervisory Board	June 2007
Foreign companies		
HSBC Bank plc (United Kingdom)	Director	December 2008
HSBC Private Banking Holdings (Suisse) S.A	Director	December 2008
HSBC Holdings plc (United Kingdom)	Group Managing Director and Member of the Group Management Board	September 2007
HSBC Trinkaus & Burkhardt AG (Germany)	Member of the Supervisory Board	September 2007
Seita	Director	April 2005

Xavier Fontanet	Expiry date of term of office
Director since 2002 Chairman of the Audit Committee [until April 22 nd , 2008] Holds 1,050 L'Oréal shares	2010

Main corporate office held outside L'Oréal

Essilor International S.A. Professional address: 147, rue de Paris – 94227 Charenton Cedex – France	Chairman and Chief Executive Officer
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Other corporate offices and directorships held

French companies

Crédit Agricole S.A.	Director
Fonds Stratégiques d'Investissement S.A.	Director [since December 19 th , 2008]

Foreign companies

EOA Holding Co. Inc. (United States)	Director Chairman
Essilor India PVT Ltd (India)	Director
Essilor of America Inc. (United States)	Director
Essilor Manufacturing India PVT Ltd (India)	Director
Nikon Essilor Co. Ltd (Japan)	Director
Shanghai Essilor Optical Company Ltd (China)	Director
Transitions Optical Holding B.V. (Netherlands)	Director
Transitions Optical Inc. (United States)	Director

Corporate offices and directorships over the last five years that have expired

Expiry date of term of office

French company

Chantiers Bénéteau S.A.	Director	January 2005
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Foreign companies

Essilor Laboratories of America Holding Co. Inc. (United States)	Director	March 2004
Transitions Optical Ltd (Ireland)	Director	July 2004

Other

IMS – Entreprendre pour la Cité	Director	October 2005
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Bernard Kasriel		Expiry date of term of office
Director since 2004		2012
Member of the "Strategy and Implementation" Committee		
Chairman of the Appointments Committee and the Remuneration Committee		
Holds 1,290 L'Oréal shares		
Other corporate offices and directorships held		
LBO France	Partner	
Professional address: 148 rue de l'Université – 75007 Paris – France	Member of the Management Board	
Other corporate offices and directorships held		
French companies		
Lafarge S.A.	Director	
Arkema S.A.	Director	
Foreign company		
Nucor (United States)	Director	
Main corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Lafarge S.A.	Chief Executive Officer	December 2005
Foreign companies		
Blue Circle North America (United States)	Director	December 2006
Compagnie Coppée de Développement Industriel (Belgium)	Director	May 2004
Lafarge North America (United States)	Vice-Chairman of the Board Director	December 2005 November 2006
Lafarge Roofing GmbH (Germany)	Member of the Supervisory Board ("Aufsichtsratsvorsitzender")	July 2006
Sabelfi (Belgium)	Director	May 2006
Sonoco Products Company (Etats-Unis)	Director	February 2007
Ybitas Lafarge (Turkey)	Director	March 2004

Marc Ladreit de Lacharrière	Expiry date of term of office
Director since 1984 Holds 40,040 L'Oréal shares	2010

Main corporate office held outside L'Oréal

F. Marc de Lacharrière (Fimalac) Professional address: 97, rue de Lille – 75007 Paris – France	Chief Executive Officer
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Other corporate offices and directorships held

French companies

Agence France Museums	Chairman of the Board
Casino	Director
Fimalac Participations	Managing Director
Groupe Marc de Lacharrière	Chairman of the Management Board
Renault S.A.	Director
Renault SAS	Director

Foreign companies

Algorithmics (Canada)	Director
Fitch Group (United States)	Chairman
Fitch Ratings (United States)	Chairman

Other

Banque de France	Member of Consultative Council
Comité National des Conseillers du Commerce Extérieur de la France	Honorary Chairman
Conseil Artistique des Musées Nationaux	Member
Fondation d'Entreprise Culture et Diversité	Member
Fondation Bettencourt Schueller	Member
Fondation d'Entreprise L'Oréal	Director
Fondation des Sciences Politiques	Member
Institut de France	Member
Musée des Arts Décoratifs	Member

Corporate offices and directorships over the last five years that have expired

Expiry date of term of office

French companies

Groupe Marc de Lacharrière	Managing Director	December 2006
Sibmar SC	Managing Director	February 2004

Foreign companies

Cassina (Italy)	Director	June 2005
Fitch Group Holdings (United States)	Chairman	2006

Other

Conseil Stratégique pour l'Attractivité de la France	Member	March 2005
Musée du Louvre	Member	March 2005
Le Siècle	Member	June 2005

Annette Roux	Expiry date of term of office	
Director since 2007 Holds 1,000 L'Oréal shares	2011	
Main corporate office held outside L'Oréal		
Bénéteau S.A. ^{(1) (2)} Professional address: Les Embruns - 16 boulevard de la Mer - 85800 Saint-Gilles-Croix-de-Vie - France	Vice-Chairwoman of the Supervisory Board	
Other corporate offices and directorships held		
French companies		
Beri 21 S.A.	Chairwoman of the Supervisory Board	
Beri 3000 S.A.	Chairwoman and Chief Executive Officer	
Chantiers Bénéteau S.A. ⁽²⁾	Director	
Chantiers Jeanneau S.A. ⁽²⁾	Director	
Construction Navale Bordeaux S.A. ⁽²⁾	Director	
O'Hara S.A. ⁽²⁾	Director	
Foreign company		
Beneteau España ⁽²⁾	Director	
Other		
Fédération des Industries Nautiques	Chairwoman	
Fondation d'Entreprise Bénéteau	Chairwoman	
Corporate offices and directorships over the last five years that have expired		
Expiry date of term of office		
French companies		
Bénéteau S.A.	Chairwoman of the Board	January 2005
Caisse Régionale de Crédit Maritime Mutuel de Vendée "La Vendéenne" SC	Director	December 2006
Foreign company		
Beneteau España ⁽²⁾	Chairwoman	March 2008

(1) Company listed on compartment A of Eurolist.

(2) Companies controlled by Beri 21 S.A.

Louis Schweitzer		Expiry date of term of office
Director since 2005 Holds 2,000 L'Oréal shares		2009
Main corporate office held outside L'Oréal		
Haute Autorité de Lutte contre les Discriminations et pour l'Égalité Professional address: 11 rue Saint-Georges – 75009 Paris – France	Chairman	
Other corporate offices and directorships held		
French companies		
BNP Paribas	Director	
Renault	Chairman of the Board (renewal of his term of office as director not requested in 2009)	
Veolia Environnement	Director	
Le Monde (Impa, Imsa, sem)	Chairman of the Supervisory Board [since February 11 th , 2008]	
Foreign companies		
AB Volvo (Sweden)	Director	
Allianz AG (Germany)	Member of the Consultative Council	
AstraZeneca (United Kingdom)	Director Chairman of the Board	
Other		
Banque de France	Member of the Consultative Council	
Comité des Salons	Chairman	
Festival d'Avignon	Chairman	
Fondation Nationale des Sciences Politiques	Member of the Board	
Institut Français des Relations Internationales	Member of the Board	
Musée du Quai Branly	Director	
Société des Amis du Musée du Quai Branly	Chairman	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Electricité de France	Director	April 2008
RCI Banque (formerly called Renault Crédit International)	Director	February 2005
Renault	Chief Executive Officer	April 2005
Foreign companies		
Philips (Netherlands)	Vice-Chairman of the Supervisory Board	April 2008
Renault-Nissan B.V (Netherlands)	Chairman of the Management Board	April 2005
Other		
Le Cercle de l'Orchestre de Paris	Chairman of the Board	June 2008
MEDEF	Member of the Executive Committee	October 2005
MEDEF International	Chairman	November 2005
Musée du Louvre	Member of the Board	May 2008

Other information required pursuant to Annex 1 of European Regulation No. 809/2004

Family relationships existing between the corporate officers or directors (Article 14.1 of the Annex)

Mrs Françoise Bettencourt Meyers is Mrs Liliane Bettencourt's daughter and Mr Jean-Pierre Meyers' wife.

No conviction or incrimination of the corporate officers and directors (Article 14.1 of the Annex)

To the company's knowledge, over the last five years, the corporate officers and directors have not been convicted for fraud, associated with a bankruptcy, receivership or liquidation, or the subject of any official public incrimination or sanction imposed by statutory or regulatory authorities

(including designated professional bodies) or a decision by a court disqualifying them from acting as a member of an administrative, management or supervisory body or from acting in the management or conduct of the business of any issuer.

Potential conflicts of interest between the duties of the corporate officers and directors with regard to L'Oréal, and their private interests and/or other duties (Articles 14.2 and 18.3 of the Annex)

Point 3.2.2 of the Report of the Chairman (on page 101 of this Volume 2) reviews the situation of each of the directors with regard to the independence criteria provided for in the AFEP-MEDEF Code.

The method of organisation and *modus operandi* adopted by the Board would allow it, where applicable, to prevent any wrongful exercise of control by a shareholder, in particular due to the presence of six independent directors on the Board of Directors.

See also point 2.6.8. of the Management Report (page 82 of this Volume 2) which concerns agreements relating to shares in the company's share capital.

Information on service contracts with members of the administrative bodies (Article 16.2 of the Annex)

No corporate officers or directors have a service contract with L'Oréal or any of its subsidiaries providing for the granting of benefits upon termination of such contract.

3.4. Information on Board Meetings: best practices

The Board constantly strives to apply a *modus operandi* that strictly complies with legal requirements, and is also conducive to good corporate governance. Appointed by shareholders, the directors control the economic and financial management of the Group and participate in determining its strategy. They review and approve the main lines of action adopted by the General Management, which implements them.

The Board met six times in 2008, with an average attendance rate of 90%. The directors all attended the Annual General Meeting. For 2008, the Board particularly appreciated the presentations that were made to them, often in the presence of senior managers, and the discussions which followed on a large number of aspects of the Group's strategy and the prospects of each Division.

Further progress has been noted in the functioning of the Board Committees, whose preparatory work assists the Board in making its decisions. A description of the main work carried out by each Committee is set out below; this makes it possible to identify the main topics that are then handled at Board meetings.

The rate of attendance of each of the directors at Board meetings is shown in the table showing the breakdown of attendance fees in the chapter of the Management Report on the remuneration of the corporate officers, on pages 74 *et seq.*

3.4.1. Evaluation of the Board of Directors: a Board that regularly reviews its *modus operandi* and assesses its organisation and the quality of its work

At its last meeting every year, the Board reviews its composition, its organisation and its *modus operandi*.

On the basis of a summary of prior individual interviews between the director and the Secretary of the Board, the Board considers the avenues of progress that still remain open and, at the end of the discussion that takes place, adopts the improvement measures that it considers appropriate.

This review is now carried out within the framework of the AFEP-MEDEF Code, to which the Board refers as stated in a news release of November 28th, 2008.

The directors again exercised their complete freedom of judgement in 2008. This freedom of judgement allowed them in particular to participate, in total independence, in the work and collective decisions of the Board, and, where applicable, in conducting preparatory work and making proposals through the Board Committees. The Board considered that the quality of its meetings has continued to improve. It takes a more wide-ranging look at strategy in accordance with the wishes of directors who feel that they have a better knowledge of businesses, markets and competition. The Board regularly assesses the various strategic challenges faced by the Group and takes the necessary decisions.

In order to participate in the discussions and to make well-informed decisions, each director must be provided with the documents and information required for the accomplishment of his or her duties and for the appropriate

collective organisation of the Board's work. In 2008, the Board received regular, reliable information on the Group's activities. The directors want the progress that has thus been noted to continue to enrich their deliberations and they have proposed to enlarge even further the topics to be included on the agenda for their meetings, in particular with regard to strategy.

The Board, in conjunction with General Management, has contributed to setting up a Stock Market Code of Ethics within the Group. On the basis of the legal provisions, regulations and recommendations, this code points out that confidential information must only be passed on and used for professional purposes. Confidential information is precise information of a non-public nature, which, if made public, could have a significant influence on the share price. Such confidential information may, in particular, fall into one of three main categories: strategic, linked to the definition and application of the Group's growth strategy; recurring, linked to the annual schedule for production and publication of annual and interim financial statements, regular releases or periodic meetings of a financial nature; exceptional, linked to a specific programme, project or financial transaction.

The Stock Market Code of Ethics states that any person in possession of confidential information must proceed with the greatest caution when trading in or enabling others to trade in L'Oréal shares, and emphasises that any misconduct in this area may result in criminal proceedings. The Internal Rules of the Board point out specifically that a director, who has permanent insider status, is requested to refrain from trading in L'Oréal shares in certain periods and when he has access to confidential information, as a result of his particular functions.

Lastly, directors are required to notify the AMF (the french financial markets authority) of each transaction carried out by themselves or their close relatives and friends relating to L'Oréal shares. The company reminds them regularly of this obligation.

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

See the Management Report, page 79.

3.4.3. The Internal Rules of the Board of Directors

The Board conducts its work in accordance with Internal Rules designed to supplement legal, regulatory and statutory rules upheld by the Board as a whole and by each director individually. The Internal Rules define the *modus operandi* of the Board, in the interest of the company and all its shareholders, as well as that of its Committees made up of directors to which it gives preparatory assignments with regard to its work.

These Internal Rules may be amended by the Board of Directors to reflect the changes in the laws and regulations, but also those made in its own *modus operandi*. In this case, the new Internal Rules are made public as soon as possible, initially via the company's website.

These Rules were initially updated in 2006, when the Board decided to separate the roles of Chairman and Chief Executive Officer, in the context of which it appeared appropriate to specify the duties and roles of each of them. The latest update of the Rules was made in February 2008, notably after the split-up of the "Management and Remuneration" Committee and the creation by the Board of two new review committees: the Remuneration Committee and the Appointments Committee (see below).

See the full text of the Internal Regulations, attached to this Report.

3.4.4. Provision of information to the Board on the financial position, the cash situation and the company's commitments

The financial position and the cash situation are reviewed twice a year at Board meetings, at the time of closing of the annual financial statements and the review of the interim financial statements.

The company's commitments are examined at the time of annual renewal of the authorisations given to the Chief Executive Officer and the delegations of authority that he grants.

3.4.5. The Board Committees: review committees that actively prepare the Board's work

The Board's discussions and decisions are assisted by the preparatory work performed by its Review Committees, which report to it after each of their meetings. The Committees were again given responsibility by the Board for preparing its deliberations in 2008. The membership of these Committees is set out in the introduction to the Reference Document (Volume 1, page 7), their remits are set out in the Internal Rules of the Board of Directors, and their work in 2008 is described in detail in this Report. The Committees act within the framework of the powers delegated to them by the Board, and do not therefore have any decision-making powers.

In accordance with the decisions made by the Board of Directors at the end of 2007 to split in two the "Management and Remuneration" Committee, the Remuneration Committee and the Appointments Committee were set up in L'Oréal at the beginning of 2008. The Board noted that this represents real progress in the preparation and follow-up of its work.

3.4.5.1. The “Strategy and Implementation” Committee

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

The Committee is composed of six L'Oréal directors, of whom two represent the Bettencourt family (Mrs Liliane Bettencourt and Mr Jean-Pierre Meyers) and two represent Nestlé (Mr Peter Brabeck Letmathe and Mr Francisco Castañer Basco). It is chaired by the Chairman of the Board of Directors (Sir Lindsay Owen-Jones); moreover, an independent director also serves on this committee (Mr Bernard Kasriel). These directors participate actively in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

The Strategy and Implementation Committee met four times in 2008, in the presence of all its members. Besides the activities of the Group's Divisions and geographic zones, with notably the trends in sales and results, the Committee reviewed the conditions of the acquisition of Yves Saint Laurent Beauté and the share buyback programme.

Various aspects of strategy and particularly of the businesses of L'Oréal were presented and discussed at Committee meetings, then at Board meetings in the presence of the senior managers. At the end of the year, the Committee's attention turned to the consequences of the financial crisis; the Board was thus given another occasion to note the robustness of the balance sheet of L'Oréal.

The Committee reported to the Board on all its work.

3.4.5.2. The Audit Committee

The Audit Committee ensures that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its routine and exceptional operations.

Furthermore, if in the course of its work the Committee detects a substantial risk, which in its view is not adequately dealt with, it warns the Chairman of the Board accordingly. The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its duties, particularly managers with economic and financial responsibilities and those in charge of processing financial information.

Three directors are members of the Committee: Mr Charles Henri Filippi, an independent director who has recognised financial expertise and who has been the Chairman of the Committee since April 2008, Mr Jean-Pierre Meyers and Mr Francisco

Castañer, both of whom have been members of the Committee since it was created in 1999. These directors participate actively in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code that recommends that two-thirds of the directors should be independent has not been adopted inasmuch as the company is controlled by two main shareholders.

The Audit Committee met four times in 2008, in the presence of all its members and the Statutory Auditors. The necessary accounting and financial documents, particularly within the scope of the closing of the annual financial statements and the review of the interim financial statements, were provided to it prior to the meetings concerned.

In 2008, the Committee interviewed the Vice-President of the Administration and Finance Division, the Director of Economic Affairs, the Director of Financial Operations and Treasury Transactions, the Head of the Legal Department, the Director of Internal Control, the Director of the Internal Audit Department and the Director of Organisation and Information Systems. The Committee considered that the work by the Internal Audit Department and the Internal Control process put in place, which it reviewed on several occasions particularly with regard to the risk aspects, are improving in quality. The Committee moreover reviewed the company's indebtedness and its financing structure, as well as the main counterparty risks.

The Committee also reviewed the legal risks and the situation of the provisions and litigation within the scope of the accounts closing, the implementation of plans to improve the security of the information systems and the preparation of an IT risk map.

The Committee reported to the Board on all its work.

3.4.5.3. The Appointments Committee

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

Three directors are members of this Committee: Mr Bernard Kasriel, an independent director and Chairman of the Committee, Mr Jean-Pierre Meyers and Mr Peter Brabeck Letmathe. These directors actively participate in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code that recommends that a majority of the directors should be independent has not been adopted inasmuch as the company is controlled by two main shareholders.

The Appointments Committee met three times in 2008, in the presence of all its members. The Chairman of the Board is associated with its work, except with regard to all the topics that may concern him in any way.

The Committee reviewed the Board's organisation and that of its Committees and particularly the organisation of the Audit Committee whose financial expertise has been strengthened. It worked on a better scheduling of the renewal of the terms of office of directors.

In light, *inter alia*, of the new obligations in terms of information to be published with regard to the directors, the Committee proposed to the Board to validate the independence criteria and to review the corresponding situation of each director on a case-by-case basis. In this 2008 Reference Document (Volume 1 page 07 and Volume 2 pages 101 to 113), the independent directors clearly qualify as independent within this framework, and also in light of the criteria adopted by the Board.

The Committee also monitored the changes in the Group's Management Committee.

The Committee reported to the Board on all its work.

3.4.5.4. The Remuneration Committee

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

Three directors are members of this Committee: Mr Bernard Kasriel, an independent director and Chairman of the Committee, Mr Jean-Pierre Meyers and Mr Peter Brabeck Letmathe. These directors actively participate in Board meetings, with complete freedom of judgement and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code that recommends that a majority of the directors should be independent has not been adopted inasmuch as the company is controlled by two main shareholders.

The Remuneration Committee met three times in 2008, in the presence of all its members, and with complete independence. The Chairman of the Board is associated with its work, except with regard to all the subjects concerning him.

On the proposal of the Committee which discussed this issue, the Board adopted in 2008 the principle and method of calculation of the conditions related to performance by the Chief Executive Officer for the calculation of the indemnities due to him within the scope of the termination of his duties. The regulated commitment resulting from this was covered by a Report by the Statutory Auditors, published in the

Reference Document, and was approved at the Annual General Meeting in April 2008.

In addition, to follow on from the authorisations voted two years ago by the Annual General Meeting of shareholders (in 2007), the Board reviewed the possibility and conditions of allocation at the end of 2008 of stock options or of free shares to employees of the company. It decided to recommend to the Board that it postpone any allocations until a period after the closing of the financial statements, in accordance with the recommendations made by the AFEP and the MEDEF.

Finally, within the scope of the recommendations of October 2008 of the AFEP and the MEDEF on the remuneration of corporate officers, the Committee proposed to the Board that it publish a news release based on the recommended model, that it adopt the presentation of the remuneration of the Chairman and the Chief Executive Officer in the 2008 Reference Document as recommended, and that it undertake a reflection process on the terms and conditions and the consequences of implementation of a potential removal of any reference to a suspended employment contract.

The Committee reported to the Board on all its work.

3.4.6. Remuneration of the corporate officers

The principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers are set out in full in the Management Report of the Board of Directors, pages 74 *et seq.*:

- remuneration of the members of the Board;
- remuneration of the corporate officers:
 - remuneration of the Chairman,
 - remuneration of the Chief Executive Officer.
- employment contract and corporate office:
 - commitments made with regard to the Chairman,
 - commitments made with regard to the Chief Executive Officer.

The stock options and free grants of shares are dealt with in full in the Management Report, pages 90 *et seq.*

- authorisation granted to the Board of Directors in 2007 to grant share purchase and/or subscription options;
- currently existing L'Oréal parent company share purchase or subscription option plans;
- stock options granted to employees other than corporate officers of L'Oréal and the exercise of such options;
- stock options exercised by the corporate officers appointed by the Board;

- stock options granted to the corporate officers appointed by the Board;
- authorisation granted to the Board of Directors in 2007 to make free grants of shares.

3.4.7. Financial rating

The L'Oréal Group is rated by the credit rating agencies which respectively gave it, in October 2008 for the Standard & Poor's agency and in July 2008 for the Moody's and Fitch agencies, the following short-term credit ratings: A1+, Prime1 and F1+, such ratings being unchanged as compared with 2007.

3.4.8. Annual General Meeting and the terms and conditions of participation of the shareholders

It is to be noted, in accordance with Article 12 of the Company's Articles of Association, that the terms and conditions of participation by the shareholders in Annual General Meetings are those provided for by the regulations in force, and that any shareholder may, if the Board of Directors so decides when calling the Annual General Meeting, participate in the meeting by videoconference or by any telecommunication or remote transmission means including the Internet, under the conditions provided for by the applicable regulations at the time of their use. Where applicable, this decision is communicated in the meeting notice published in the Bulletin des Annonces Légales et Obligatoires (B.A.L.O.), the official French gazette.

3.5. Report of the Chairman of the Board of Directors on Internal Control

At the request of the Chairman of the Board of Directors and the Chief Executive Officer, the Administration and Finance Division compiled the information contained in this report based on the different types of work carried out by departments working on Internal Control within the Group.

For the content and drafting of this report and the definition of Internal Control, we used the Reference Framework recommended by the French financial markets authority (the *Autorité des Marchés Financiers*) on January 22nd, 2007.

3.5.1. Definition and objectives of Internal Control

In L'Oréal, Internal Control is a system that applies to the company and its consolidated subsidiaries ("the Group") and aims at ensuring that:

- economic and financial targets are achieved in compliance with the laws and regulations in force;
- the orientations set by General Management are followed;
- the company's assets are valued and protected;
- the Group's financial and accounting information is reliable and provides true and fair statements.

By contributing to prevent and manage the risks to which the Group is exposed, the Internal Control system enables the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment

appropriate for the Group's businesses. However, no absolute guarantee can be given that these objectives will be met.

3.5.2. Components of the system

3.5.2.1. The Internal Control organisation and environment

The control environment, which is critical to the Internal Control system, good risk management and the application of procedures, is based on people, behaviour and the organisational structure. In L'Oréal, it forms part of a culture of rigour and commitment communicated by senior management and is also in line with the Group's strategic choices.

The Group's values

L'Oréal has built up its business on the basis of strong values that have guided its development and contributed to make its reputation: integrity, loyalty, confidence and transparency, together with respect for the individual and diversity. The Code of Business Ethics provides insight into how these values need to be reflected in the behaviour and actions of its employees through simple rules and a description of concrete situations to which they may be exposed. This document, which exists in 43 different languages, has been issued to all employees throughout the world and a copy is also given to each new employee. The Director of Ethics, who reports directly to the Chief Executive Officer, has specific

responsibility for ensuring that the Code of Business Ethics is duly complied with. An intranet site featuring additional information on ethics is available to employees. A widespread ethics training campaign was conducted in 2008 and is to continue in 2009. In particular, a training module on ethics is included in a seminar attended by all newly hired executives. Ethics modules have been incorporated into the 9 existing training programmes intended in particular for Country Heads, Factory Managers, purchasers, recruiters and other categories of senior management.

Responsibilities of the Operational and Functional Divisions

The Group is structured into Operational Divisions and geographical Zones, which are fully responsible, with the management of each country, business unit or industrial entity, for the achievement of the objectives approved by the General Management. Functional Divisions bring their expertise to each Operational Division or geographical Zone and are represented within these structures by specialists dedicated to the service of the Divisions and the Zones.

Worldwide responsibilities for representation, co-ordination and Internal Control of the activities of their Division or department are entrusted to each of the members of the Management Committee. The process for granting formal delegations of authority and responsibilities is continuing. The powers of the legal representatives of Group companies and of their delegates are limited and controlled, notably in accordance with the provisions of the Legal Charter.

In the Divisions and Zones, specialists in financial control, information systems, human relations or industrial and logistics techniques, who provide support to operational employees at all levels of the organisation, have a twofold reporting line, both operational and functional. This matrix organisational structure facilitates communication of best practices and control of operations, while incorporating the specific aspects of different markets and distribution channels.

The Supply Chain department, integrated into the Operations Division in 2007, puts in place the measures aimed at managing product and information flows. These measures involve more in-depth management of our inventories to improve responsiveness to market changes and customer service, by streamlining our physical networks (distribution centres and transport) to cut our costs, and optimisation of our sales forecasting techniques.

In addition, the reorganisation and pooling of all categories of purchases within the Operations Division in 2008 were carried out as the result of a strong willingness to reinforce our relationships with suppliers and enhance our purchasing conditions, and also to gain better command over the entire purchasing processes.

Human resources policy

The quality and skills of male and female employees are key components of the Internal Control system. Human resources policy within L'Oréal is defined by the constant search for excellence in recruitment and by the development of talent

within the Group, so as to ensure that it has the required level of skills in all areas. These activities also form part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation. Management Development Centres offer programmes in technical areas or to help employees with integration or management; such programs are tailored to different job profiles and aimed at providing mastery of different skills in all areas of activity.

Information systems

Strategic choices in terms of systems are determined by the Administration and Finance Division, which is responsible for harmonisation of a single ERP (Enterprise Resource Planning), management software application for the great majority of subsidiaries, and which issues instructions regarding system security. The worldwide roll-out plan for the integrated software package also contributes to strengthening the reliability and the security of the process of production of information, notably accounting and financial information. In pursuit of the same objective, the Operations Division is continuing the deployment of an integrated production and management solution in the Group's industrial entities.

The procedures and standards governing the activities

Each Functional Division has responsibility, in its own specific field, for defining the principles and standards applicable to all the consolidated entities. In order to make it easier for employees to take onboard all these principles and standards, the key points have been summarised in the "Fundamentals of Internal Control". This guide is a reference framework for the Group's operational activities, and is presented in the form of an information sheet for each area. Each information sheet refers to the detailed Charters, Codes and standards of the Group. The information sheets were updated and supplemented in 2007, then validated by the experts in each area of expertise and presented to the Group Management Committee. A questionnaire per operational function is proposed to subsidiaries so that they can make an assessment with regard to their entity, make their own diagnosis with regard to Internal Control and determine the areas of improvement within their own scope of activity.

3.5.2.2. Communication of information inside the Group

Sharing of information

The brochure "Fundamentals of Internal Control" has been circulated individually to the Managing Directors and Finance Directors in charge of all the consolidated subsidiaries, including the industrial entities. Furthermore, the Fundamentals, self-diagnosis questionnaires, Charters and standards, together with the information related to the organisation, changes and instructions from the Functional Divisions are made permanently available to the subsidiaries on the Group's intranet sites.



The other means of internal communication

The Zones and Divisions have the responsibility of passing on information about orientations provided by General Management to the subsidiaries. The Zones and Divisions regularly organise General Policy Committee (GPC) meetings or international meetings aimed at communicating directly with the heads of countries and business units. The Functional Divisions also coordinate their networks of experts through seminars and training sessions.

3.5.2.3. Risk management

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity. These risks have been identified in the chapter on "Risk factors" on pages 69 *et seq.* of the Management Report and the systems put in place to better anticipate and handle risks are mentioned. In addition, the Internal Rules of the Board of Directors specify the role played by the Audit Committee which "must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its routine and exceptional operations."

An analysis of the main accounting and financial risks in relation to subsidiaries' processes has made it possible to identify the improvements required in terms of Internal Control, particularly in the fields of sales, purchases, inventories and fixed assets. These topics were assigned to a working Group with responsibility for updating Group standards in the above fields (see "management standards" in paragraph 3.5.4.2 below).

3.5.2.4. Control activities

The measures recommended by the Group

In each area of activity, the recommended measures with regard to the key control points are determined by the Functional Divisions concerned.

- in the area of Human Resources, the requirements for to personnel management consists of rules concerning the documents to be provided to employees, the way to book and report headcount and personnel charges, and the procedures for recruitment, training and appraisal;
- in the legal area, the Legal Charter reaffirms the obligation to comply with local legislation and notably sets out the internal principles for signature on behalf of the company, the general and specific rules relating to contracts, trademark law, intellectual property law, company law and competition law. The Insurance Charter issues a reminder that the Group mainly uses integrated worldwide programmes to cover all its entities against third party liability, damage to property and operating losses resulting from an insured event;

- in the area of safety and quality, procedures relating to the protection of persons property and data, including in particular the internal rules issued by the Group's Operations Division, set out the principles for covering industrial and logistical risks relating to organisation and safety. In addition, production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the plants are ISO 9001-certified as far as their production is concerned, ISO 14001-certified for their environmental policy and OHSAS 1800-certified for their safety policy;
- in the area of purchasing, the Purchasing Code of Business Ethics provides guidelines for the behaviour to be followed with regard to the management of suppliers. The standard for "Management of suppliers" and tender procedures specify the conditions for competitive tendering and for the registration of the main suppliers. The general terms of purchase are used as the framework for transactions with suppliers. The "Purchase Commitments and Order Management" standard, which requires an approval prior to commitment, is aimed at facilitating and strengthening control of the spending and investments of Group entities;
- in the area of the Supply Chain, the main assignments consisted in defining recommendations concerning: firstly, customer service, expressed, notably, through the general terms of sale, the follow-up of orders, management of customer returns and customer disputes as well as accounts receivable collection procedures, and secondly the management of distribution centres and inventories, subcontracting, product traceability, business continuity plan and transport;
- in the area of finance and treasury, the Financial Charter and the exchange risk management standard specify, in particular, the principles to be applied by Group entities to ensure that management of exchange risk is both prudent and centralised. In addition, the Stock Market Code of Ethics referred to above, in the section concerning the way in which the Board's work is prepared and organised, is applicable to all employees;
- in the area of consolidation and financial control, the control activities are described in the paragraph relating to accounting and financial Internal Control.

3.5.2.5 Ongoing supervision of the Internal Control system

The supervision carried out by the Functional Divisions

Through their network of specialists or via regular audits, the Functional Divisions review the functioning of their respective areas of responsibility: in this way, the Purchasing department is responsible for the oversight with regard to suppliers and their working conditions, the Safety, Health & Environment department is responsible for checks related to site safety and environmental compliance while the Quality department measures performance and the press

made by the industrial entities with regard to the quality of production. Indicators and reporting procedures enable the regular monitoring of the local activities of each of these Functional Divisions.

The role of the Internal Audit department

The Internal Audit Department is a central team that reports directly to the Vice-President of the Administration and Finance Division and carries out regular assignments to audit major processes and check on the application of Group principles and standards.

The Internal Audit Department carried out 47 assignments in 2008. These audits concerned 32 commercial entities representing approximately 30% of the Group's sales and 11 plants or supply chains: the audited plants represent around 14% of the worldwide production in units. Furthermore, targets were pre-defined for 4 other assignments. Internal Audit assignments systematically lead to the preparation of a report comprising a presentation of the findings and related risks and making recommendations regarding the action plan to be put in place by the audited entity.

Cross-functional analyses of possible Internal Control weaknesses enable identification of areas for improvement and strengthening of procedures, in co-ordination with the Economic Affairs Department, the Internal Control Department, the Divisions and the Zones. The Internal Audit department relies on the support of the Group's integrated ERP software package for the performance of its work and has developed a certain number of specific transactions that contribute to increasing the efficiency of its work. Since 2007, assignments aimed at verifying certain key Internal Control points in the configuration of the ERP software have been performed with the participation of a systems expert. The Internal Audit department has carried out 12 such assignments over the last two years, 2007 and 2008.

The Internal Audit Department shares the results of its audits with the Group's Statutory Auditors. Conversely, the remarks made by the external auditors within the scope of their annual audit, are also taken into consideration.

3.5.3. The players

The main players involved in monitoring Internal Control are:

- the General Management, and in particular the Management Committee;
- the Audit Committee;
- the Functional Divisions;
- the Internal Audit Department;
- the Internal Control Department.

General Management, and in particular the Management Committee

The role of the General Management is to define the general principles regarding Internal Control and to ensure that they are correctly put in place.

Within the scope of their worldwide Internal Control responsibilities, the members of the Management Committee rely on operational and functional managers, according to their respective areas of expertise. These managers must ensure implementation of these general principles and ensure the correct functioning of procedures enabling the level of Internal Control required by General Management to be attained.

The Audit Committee

The Board of Directors has always asserted the importance that it attributes, together with General Management, to Internal Control and to its main areas of application. Since its creation, the Audit Committee has been responsible for monitoring actions undertaken in the area of Internal Control and it reports thereon to the Board of Directors.

Each year, the Committee performs a review of the principles and methods, the programme, the objectives and the general conclusions of Internal Audit assignments. Major Internal Control projects and initiatives are also presented to it. The Committee then prepares a report with its own remarks for the Board of Directors.

The Functional Divisions

The Functional Divisions each define guidance and procedures for their own areas, which they communicate to the different countries and entities.

The Administration and Finance Division

This Division is to assist and control the Operational Divisions in their administrative, financial and legal activities. It sets the operating rules that apply to all entities in these areas and is responsible for the definition and promotion of tools, procedures and best practices, particularly in the following areas: financial control, accounting and consolidation, financing and treasury, tax, legal affairs, financial communication, information systems, and insurance. In the area of Insurance, the Group's choice is to only have recourse to first-rate insurers and to give preference to insurance of its customer debt. The results of audits performed by insurance companies in plants and distribution centres are used to improve the Internal Control of these entities.

The Operations Division

This Division comprises the Quality, SH&E (Safety Health & Environment), Purchasing, Information Systems (production), Human Resources (production), Supply Chain, Production Organisation, Industrial Management and Real Estate Departments. It defines standards and methods in the areas of production quality, safety and the environment. It assists the Operational Divisions in the definition and implementation of their manufacturing and logistics policies.

The other Functional Divisions

The Divisions involved in Internal Control are the Human Resources Department, the Research and Development Department which is responsible in particular for cosmetovigilance and the quality of the formulae used in product composition, and the Communications and External Relations Department, which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied. This Department is also responsible for the co-ordination of sustainable development initiatives.

The Internal Audit Department

Internal Audit assignments are submitted to the General Management and the Audit Committee for their approval and, with their agreement, are included in an annual audit plan. The choice of assignments notably takes into account the assessment of the most important risks identified by the heads of the Divisions and the geographical Zones. The size, the contribution to key economic indicators and the length of existence of the entities, together with the pattern of their development, are factors that are also taken into consideration.

The action plans decided on at the time of the audits are followed up regularly by the Internal Audit Department, which measures the rate of implementation of recommendations, weighted by the risk levels applied, in close co-ordination with the Divisions and Zones in question. The summary of performance and results of the assignments and the progress of the action plans are presented to the Audit Committee.

The Internal Control Department

This Department is separate from Internal Audit and ensures the distribution and updating of the "Fundamentals of Internal Control" guide. Frequent actions at seminars and during training cycles help to increase knowledge of these tools and to improve their application and use by operational employees.

The Internal Control Department, together with the Group's business experts, strives to promote the understanding of Internal Control rules and, on this basis, co-ordinated in 2008 the work of a new Internal Control Committee in which the Economic Affairs Department and the Internal Audit Department participate. The objective of this Committee is to monitor the progress made in major organisational and Internal Control projects. In addition, the Internal Control Department also monitors compliance with regulatory Internal Control obligations on an ongoing basis.

3.5.4. Internal Control system relating to the preparation and processing of financial and accounting information

For the preparation of this Report, we based ourselves on the "Application Guide for Internal Control of accounting and financial information published by issuers", which is part of

the AMF Reference Framework. A detailed review of all the key principles and points of analysis that are described in that guide was carried out at the end of 2007. This approach is part of an overall process aimed at making continual progress and improving the Internal Control system that has already been set up.

3.5.4.1. Definition, scope and objectives

Internal Control of accounting and financial fields covers the processes that contribute to accounting data: i.e. the process of production of financial information, the process of accounts closings and actions of financial communication.

The Internal Control system aims to ensure:

- compliance with accounting standards and regulations and the correct application of the principles on which the financial statements are based;
- application of the guidelines set by the General Management with regard to financial information;
- protection of assets;
- quality of the reporting that contributes to the preparation of the published financial statements and the reliability of their centralised treatment by the Group with a view to their distribution and their use for monitoring purposes;
- control of the production of financial, general and management accounting information including fraud prevention.

The scope of application of Internal Control procedures relating to the preparation and processing of financial and accounting information encompasses the parent company and all subsidiaries included in the consolidated financial statements ("the Group").

3.5.4.2. Monitoring process for the organisation of the accounting and finance functions

Organisation of the Finance Divisions

Dedicated teams of specialists ensure the implementation of accounting and financial monitoring, under the supervision of the General Management, in the following areas: accounting, consolidation, financial control, financial services and treasury.

In the Administration and Finance Division, the preparation of the Group's consolidated results is the responsibility of the Economic Affairs Department. The presence, at each level of the matrix organisational structure, of a financial controller who has a twofold reporting line, both operational and functional, contributes to the strengthening of the Internal Control system. This network of subsidiary financial controllers is co-ordinated by the Economic Affairs Department in close liaison with the financial controllers of the Operational Divisions and the geographical Zones.

Processing and pooling of cash flows and hedging of exchange and interest rate risks is carried out by the Financial Services Department, which is in charge of identifying commitments and enabling their proper booking.

General accounting standards

The Group has put in place a set of accounting policies and standards, which all consolidated subsidiaries are required to apply and which enable reliable financial information to be provided. These accounting policies are regularly updated, taking into account the changes in regulations with regard to accounting principles. The scope of consolidation is continuously updated:

- accounting standards set out the principles required for harmonised accounting treatment of transactions. They specify in particular the methods of identification and valuation of off-balance sheet commitments. They are in accordance with IFRS standards, the accounting standards used to prepare the consolidated financial statements since 2005. The Group's Accounting Department monitors, on an ongoing basis, new accounting standards currently under preparation, in particular IFRS, with a view to alerting the General Management as to their effects on the Group's financial statements, and anticipating such impacts as far as possible;
- the chart of accounts provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.

Management standards

Management standards not only specify the rules applicable to the valuation of certain significant accounts in the Balance Sheet and the Profit and Loss Account but also the controls and validations applicable to the key processes.

The major initiative undertaken in 2008 involves the review and improvement of the management standards and the related Internal Control procedures. The purpose of this work is both to take action in response to the findings of the Internal Audit Department and to cover the areas corresponding to the accounting and financial risks of subsidiaries referred to in paragraph 3.5.2.3 on "Risk management" above. This work has been carried out from the perspective of bringing the "Application Guide relating to Internal Control of accounting and financial information" more closely into line with the AMF Reference Framework, and is thus part of the ongoing improvement process.

Organisation and security of information systems

Decisions with regard to the choices of software that is adapted to the Group's financial and accounting requirements are made jointly by the Economic Affairs Department and the Information Systems Department.

At the level of information systems, the teams work on strengthening the procedures for the separation of tasks and improved control of access rights.

The Information Systems Security Charter, together with the confidentiality precautions and the management of business continuity plans, contains rules providing for the proper use of workstations, the management and administration of the servers and the choice of software tools. The Framework

Security Policy in line with the ISO 17799 standard has been formally laid down and distributed to all Group entities together with a self-diagnosis tool.

Management tools

The system for monthly reporting of various economic indicators enables developments in the performance of each entity or business unit to be monitored in a continuous and harmonised manner. It also enables assurance to be obtained that such performance is in line with the objectives set for the entities.

The reporting and consolidation system, used by all entities, ensures the consistency and reliability of figures at the level of each subsidiary, through blocking controls that operate before the financial data is uploaded to Group level. In this regard, the operating profit and loss account by destination, which is common to both management and general accounting, contributes to strengthening the control of accounts in the financial statements through the use of an identical reference framework for both areas.

In addition, the Group's organisation, which is based on reporting from each subsidiary that is provided directly to the parent company by each country, without any intermediate aggregates, enables optimisation of the data transfer and the completeness of the information, and in particular enables the checking of the accuracy of the exchange conversion rates.

The Audit Committee

The Audit Committee particularly analyses the procedures which contribute to:

- compliance with accounting standards and regulations and the correct application of the principles on which the financial statements are based;
- reporting and processing information;
- application of Internal Control standards in the area of preparation of financial information;
- compliance with stock market regulations, and more specifically with the correct application of the Stock Market Code of Ethics within the company.

The subjects which have been covered in Audit Committee meetings in 2008 are described above in the paragraph on "Review Committees that actively prepare the Board's work", on page 115.

3.5.4.3. Processes used to prepare accounting and financial information

Operational processes contributing to accounting figures

All of the processes that contribute to accounting figures, particularly sales and purchases, are covered by specific procedures, follow-up checks and rules for validation, authorisation and booking operations.

Investment plans are thus approved by the Management Committee when the strategic plans are prepared and all subsequent changes are compared to the amounts accepted that are made at the time of the budget or during a financial year must obtain prior specific authorisation by the Administration and Finance Division.

Closing of the accounts, consolidation and Management Reporting information

The accounts closing process is governed by precise instructions and is based on a detailed time schedule circulated to all the subsidiaries to make sure that deadlines are met and the financial statements are prepared in a consistent manner. For the preparation of the consolidated financial statements, validation procedures apply to each stage of the process of reporting and processing information. On a half-yearly basis, their purpose is to verify in particular that:

- intercompany transactions are correctly adjusted and eliminated (these are reported on a monthly basis);
- consolidation operations are checked;
- standards are correctly applied, in particular the rules for setting aside provisions for liabilities;
- the consolidated published accounting and financial data is harmonised and properly determined and that, in particular, general accounting data and Management Reporting figures used in the preparation of the financial information are consistent.

Financial communication

Managers in charge of financial communication prepare a precise timetable for publication of up-to-date information on the Group to the financial markets. This timetable is communicated within the Group and complies with the requirements of market authorities. These managers ensure, with the assistance of the Legal Department, that

communications are made within the required deadlines and in accordance with laws and regulations, which they constantly monitor. Their role is also to convey, precisely and accurately, the information provided by the Economic Affairs Department and the Legal Department. All material information provided to the financial community reflects with truth and transparency the situation and activity of the Group and is carried out in accordance with the principle of equal provision of information to all shareholders.

The Statutory Auditors

All accounting and financial information prepared by consolidated subsidiaries is, at a minimum, subjected to a limited review at the time of the half-year closing process and to an audit at year-end, by the external auditors. Twice a year, the Managing Director and the Finance Director of each consolidated subsidiary make a joint commitment as to the quality, reliability and completeness of the financial information by jointly signing a representation letter.

Audit assignments in the countries in which the Group operates are almost all entrusted to members of the networks of the two Statutory Auditors who, after having jointly performed the review of all the Group's accounts and the manner in which they were prepared, are responsible for issuing an opinion on the Group's consolidated financial statements. The Statutory Auditors issue an opinion as to whether the consolidated financial statements and parent company financial statements give a true and fair view. They are kept informed from the early stages of preparation of the financial statements and present an overview of their work to the Group's accounting and finance managers and to the Audit Committee at the time of the half-year and annual closing.

The Chairman of the Board of Directors

3.6. Annexe: Complete text of the Internal Rules of the Board of Directors

Preamble

These Rules are applicable to all present and future directors, and are intended to complement the legal, regulatory and statutory rules in order to state accurately the *modus operandi* of the Board of Directors and its Review Committees, in the best interests of the company and of its shareholders.

3.6.1 Duties and authority of the Board of Directors

3.6.1.1 Board of Directors

The Board of Directors determines the company's business strategy and oversees the implementation thereof.

Subject to the powers expressly conferred during General Shareholders' meetings and within the limit of the company's purpose, the Board deals with all matters regarding the smooth running of the company and settles issues concerning the company by virtue of its decisions.

The Board of Directors carries out the controls and verifications it considers appropriate.

The company's Chairman or Chief Executive Officer must provide each director with all of the documents and information required to carry out his/her duties.

The Board of Directors may entrust one or more of its members or third parties with special assignments or projects with a view, inter alia, to examining one or more specific topics.

It can decide to set up Committees responsible for examining matters submitted by the Board or its Chairman for their opinion.

The directors of the company:

- provide their expertise and professional experience;
- are required to act with due care and attention, and have complete freedom of judgement.

This freedom of judgement enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its Review Committees.

3.6.1.2 Chairman of the Board of Directors

The Board of Directors must elect a Chairman from among its members.

The Chairman of the Board of Directors organises and oversees the Board's work and reports thereon to the Shareholders' Annual General Meeting. The Chairman is actively involved in defining the company's growth strategy and encourages and strengthens, inter alia, links between the company and the main market players.

The Chairman oversees the work of the company's bodies responsible for corporate governance and ensures, in particular, that the directors are able to perform their duties. He may ask for any document or information that is likely to assist the Board of Directors in preparing for its meetings.

The Chairman of the Board of Directors must use his best efforts to promote the values and image of the company at all times. The Chairman expresses his views in that capacity.

He is provided with the material resources required to perform his duties.

3.6.1.3 Form of general management

The Board of Directors determines the form of the company's General Management.

General Management of the company is carried out, under his responsibility, by either the Chairman of the Board of Directors or by another individual appointed by the Board of Directors with the position of Chief Executive Officer.

The Board of Directors chooses one of these two forms of General Management upon the appointment or renewal of the tenure of the Chairman of the Board or the Chief Executive Officer.

The Board of Directors consistently aims to ensure the ongoing and continued implementation by the General Management of the strategic orientations defined by the Board.

To this end, the Board entrusts its Chairman with the task of developing and maintaining an ongoing, trusting relationship between the Board of Directors and the Chief Executive Officer.

3.6.1.4 Powers of general management

The Chief Executive Officer, who may be the Chairman of the Board of Directors or another individual, is vested with the broadest powers to act in all circumstances in the name of the company. He must exercise these powers within the limit of the company's purpose subject to the powers expressly granted by French law to shareholders' meetings and the Board of Directors.

However, transactions which may materially impact the scope of consolidation of the company, in particular, transactions involving an amount in excess of €150,000,000, and all new transactions which are outside the normal course of business, must be submitted to the Board.

In any event, the Board of Directors must be informed of the conclusion and implementation of all transactions.

The Chief Executive Officer represents the company in its dealings with third parties.

Upon a proposal by the Chief Executive Officer, the Board of Directors may appoint one or more individuals responsible for assisting the Chief Executive Officer, who will hold the corporate office of Deputy Chief Executive Officer(s).

3.6.2 *Modus operandi* of the Board of Directors

3.6.2.1 Convening the board

The Board is convened by any appropriate means, and may even be convened verbally. Notices convening a meeting may be transmitted by the Board Secretary. Except in special circumstances notices convening a meeting are sent in writing at least eight days before each meeting. The notices specify the venue of the meeting, which may be the registered head office or any other venue.

3.6.2.2 Informing directors

All the documents that are necessary to inform the directors about the agenda and about any questions submitted to the

Board for review are enclosed with the notice convening the meeting or are sent or provided to them within a reasonable period of time, prior to the meeting.

With regard to the decisions to be taken, the director must ensure that he has at his disposal the information he considers essential for the Board or the Review Committees to carry out their work satisfactorily. If this is not the case, or if he considers it is not the case, he must request that the situation is rectified. His requests should be made to the Chairman of the Board, who is required to ensure that the directors are in a position to fulfil their mission.

3.6.2.3 Board meetings

The Board meets as often as required in the best interest of the company, and at least 5 times per year.

The dates of the Board meetings for the following year are set no later than the beginning of the summer, except in the case of extraordinary meetings.

3.6.2.4 Participation by videoconference or telecommunication facilities

In accordance with the legal and regulatory provisions and with Article 9 §2 of the Articles of Association, directors who take part in Board meetings by means of videoconference or telecommunication facilities are deemed to be present for the purpose of calculating the quorum and the majority.

However, these facilities may not be used when the Board is deliberating on any of the following points:

- the closing of the parent company financial statements and the consolidated financial statements;
- the preparation of the Management Report, including the Group Management Report.

The technical characteristics of the videoconference facilities must enable the uninterrupted broadcasting of the debates.

Before the deliberations begin, a check must be carried out to ensure the absence of all third parties, microphones and all other items that could compromise the confidential nature of the deliberations.

3.6.2.5 Minutes

The draft minutes of the previous Board meeting are sent or provided to all directors at the latest on the day on which the following meeting is convened.

The minutes of the meeting also mention the participation of directors by means of videoconference or telecommunication facilities. The minutes also indicate whether any technical incidents occurred during a meeting held by means of videoconference or telecommunication facilities, if such incidents disrupted the course of the meeting.

For each site other than the venue of the meeting, the director participating in the Board meeting by means of videoconference or telecommunication facilities will initial an attendance sheet on his own behalf and, where applicable, on behalf of the director that he represents. The Board Secretary will attach the attendance sheet to the attendance register, and will gather wherever possible any items constituting material evidence of the meeting held by videoconference or telecommunication facilities.

3.6.3 Review committees

If the Board of Directors sets up any Review Committees, the Board will appoint the members of these Committees and determine their duties and responsibilities.

The Committees act within the remit granted to them by the Board and therefore have no decision-making power.

The Board may entrust the Chairman of the Committee or one or more of its members with a special assignment or project to carry out specific research or study future possibilities.

The designated individual will report on this work to the Committee concerned such that the Committee may deliberate on this work and in turn report thereon to the Board of Directors.

3.6.3.1 Audit committee

3.6.3.1.1 Remit

The Audit Committee must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its normal and exceptional operations. This is in order to avoid the possibility of any impairment of the value of the company's assets.

In this context, the Committee analyses the procedures put in place inside the Group with a view to ensuring:

- compliance with accounting regulations and the correct application of the principles governing the preparation of the company's financial statements;
- the feedback of information and the processing of information at all levels;
- the identification, evaluation, anticipation and management of the economic, financial and legal risks to which the company and its subsidiaries are exposed inside and outside France;
- the application of the Internal Auditing standards that apply to financial information in force at all levels of the organisation;
- compliance with stock market regulations, and more particularly the correct application of the Stock Market Code of Ethics in force in the company.

This audit enables the Committee to issue recommendations, if necessary, concerning the improvement of existing procedures and the possible setting up of new procedures.

The Audit Committee can be consulted for all questions relating to procedures for controlling risks of an unusual nature, particularly when the Board or the General Management considers it appropriate to submit such questions to it.

3.6.3.1.2 Work organisation

The Audit Committee is composed of at least three members, who are non-executive directors of the company.

The Chairman of the Audit Committee issues guidelines for the Committee's work each year, based on his judgement concerning the importance of the specific types of risk faced, in agreement with the General Management and the Board.

The Committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate, and at least three times per year.

The agenda of the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting. The agenda is sent to the Committee members before the meeting, together with the information which is useful for their debates.

The secretarial work of the Committee is performed by the Board Secretary.

To carry out its mission, the Audit Committee consults the Statutory Auditors and the senior managers of the company, in particular those responsible for preparing the financial statements and for the Internal Audit. It reviews the principles and methods, the programme and the objectives and the general conclusions of the operational control missions of the Internal Audit Department.

The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its mission, particularly executives with economic and financial responsibilities, and those in charge of processing information.

3.6.3.1.3 Activity report

The Audit Committee reports to the Board on its work whenever necessary and in all cases before the definitive closing of the annual financial statements, and takes note of the Board's observations.

In its report, the Audit Committee makes the recommendations it considers appropriate with regard to:

- the suitability of the various procedures and of the system as a whole in terms of achieving the objective of managing information and risk;

- the effective application of the procedures in place, and where appropriate the means implemented to achieve this aim.

It also formulates in its report all recommendations and proposals aimed at improving the effectiveness of the various procedures and the overall system, or at adapting them to a new situation.

If during its work the Committee detects a substantial risk which in its view is not adequately taken into account, it warns the Chairman of the Board accordingly.

Each year the Audit Committee carries out a review of its *modus operandi* and, taking into account any remarks made to it by the Board and the General Management, formulates within the framework of its remit all proposals aimed at improving the quality of its work.

3.6.3.2 Appointments committee

3.6.3.2.1 Remit

The main missions of the Appointments Committee, within the context of the work of the Board of Directors, are to:

- make proposals to the Board concerning the choice of directors;
- issue an opinion on proposals made by the Chairman of the Board of Directors for the appointment of the Chief Executive Officer;
- ensure the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy;
- supervise the Board evaluation process;
- conduct the reflection process with regard to the Committees that are in charge of preparing the Board's work.

3.6.3.2.2 Work organisation

The Appointments Committee is composed of at least three members, who are non-executive directors of the company.

The Committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting.

The Committee may meet at any time it considers to be appropriate, for example to assess the performance of the company's senior managers.

3.6.3.2.3 Activity report

The Committee must regularly report on its work to the Board and makes proposals to the Board.

3.6.3.3 Remuneration committee

3.6.3.3.1 Remit

The main missions of the Remuneration Committee, within the context of the work of the Board of Directors, are to make proposals with regard to the following in particular:

- the fixed and variable remuneration of the Chairman of the Board and any other benefits he receives;
- the fixed and variable remuneration of the Chief Executive Officer and any other benefits he receives (pension, termination indemnities, etc.);
- the total amount of attendance fees to be submitted to the Annual General Meeting and the method of distribution of such fees;
- the implementation of long-term incentive plans, such as for example, those that could provide for the distribution of stock options or for free grants of shares.

3.6.3.3.2 Work organisation

The Remuneration Committee is composed of at least three members, who are non-executive directors of the company.

The Committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate, and at least three times per year.

The agenda of the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting.

The Committee may meet at any time it considers to be appropriate, for example to assess the performance of the company's senior managers.

3.6.3.3.2 Activity report

The Committee must regularly report on its work to the Board and makes proposals to the Board.

3.6.3.4 “Strategy and implementation” committee

3.6.3.4.1 Remit

The remit of the “Strategy and Implementation” Committee is to throw light, through its analyses and debates, on the Group's strategic orientations as submitted to the Board of Directors and to monitor the implementation and advancement of significant operations in progress.

The Committee examines:

- the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences;
- opportunities for acquisitions or investments which involve significant amounts or which represent a departure from the Group's usual business operations, and the conditions relating to their implementation;
- financial transactions liable to significantly change the balance sheet structure.

More generally, the Committee debates all questions considered essential for the future strategy of the Group and for preserving its main financial balances.

3.6.3.4.2 Work organisation

The “Strategy and Implementation” Committee is composed of six L'Oréal directors. It is chaired by the Chairman of the Board of Directors.

It meets when convened by the Chairman of the Committee whenever he or the Board considers this appropriate, and no less than six times annually.

The agenda of the meetings is set by the Chairman of the Committee, in conjunction with the Board of Directors if the Board initiates the meeting.

3.6.3.4.3 Activity report

The “Strategy and Implementation” Committee reports on its work to the Board whenever necessary, and at least once a year.

3.6.4 Rights and obligations of directors

The directors must demonstrate total moral integrity.

3.6.4.1 Awareness of and compliance with regulatory texts

Each of the members of the Board declares that he is aware of:

- the company's Articles of Association;
- the legal and regulatory texts that govern Sociétés Anonymes with a Board of Directors under French law, especially:
 - the rules on limiting the number of directorships held,
 - the rules relating to agreements and transactions concluded between the director and the company,
 - the definition of the powers of the Board of Directors;
- and the rules relating to the holding and use of privileged information, which are set out below in 3.6.4.6.

3.6.4.2 Respect for the interests of the company

The directors are required to act in all circumstances in the interest of the company and all its shareholders.

The directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations.

3.6.4.3 Obligation of diligence

The director must devote the necessary time and attention to his duties.

He must limit the number of offices held so as to ensure his availability.

Each Board member undertakes to be diligent:

- by attending all Board meetings, where necessary by means of videoconference or telecommunication facilities, except in the case of a major impediment;
- by attending, wherever possible, all the Shareholders' General Meetings;
- by attending the meetings of the Review Committees of which he is a member.

3.6.4.4 Training of directors

Each director may benefit, on his appointment or throughout his directorship, from the training programmes which he deems necessary for the exercise of his office.

The training programmes are organised and provided by the company, and are at its expense.

3.6.4.5 Obligation of reserve and confidentiality

The directors undertake not to express themselves individually other than in the internal deliberations of the Board on questions raised at Board meetings. Outside the company, only collegial expression is possible, particularly in the form of releases intended to provide the markets with information.

With regard to information not in the public domain to which the director has access as a result of his duties, the director must consider himself to be bound by strict professional confidentiality, which is more demanding than the mere obligation of discretion stipulated in Article L. 225-37, paragraph 5, of the French Commercial Code.

It should be noted that the obligation of discretion applies to all persons called on to attend Board meetings, and covers all information of a confidential nature and all information presented as confidential by the Chairman of the Board.

3.6.4.6 Rules governing insider trading

3.6.4.6.1 Principles

Privileged information must only be used by the director in the exercise of his office. Such information must in no case be communicated to a third party other than in the exercise of the director's duties, and for any other purpose or any other activity than those for which it is held.

It is the duty of all directors to refrain from trading in, having others trade in, and enabling others to trade in the securities of the company on the basis of this information until such time as the information has been made public.

It is the personal responsibility of each director to determine whether the information he holds is privileged or not, and accordingly whether he may or may not use or transmit any of the information, and whether he may or may not trade or enable trading in the company's securities.

3.6.4.6.2 Periods of abstention

In addition to the period preceding the publication of any privileged information to which directors have access, during which insiders must by law refrain from all trading in L'Oréal securities, it is recommended that directors refrain from all trading in the company's securities for the 30 days preceding:

- the release concerning the annual results;
- the release concerning the first-half results.

3.6.4.6.3 Insider trading

The director has been informed of the provisions in force relating to the holding of privileged information and insider trading: Article L. 465-1 of the French Monetary and Financial Code and Articles 621-1 *et seq.* of the General Regulations of the French financial markets supervisory authority (AMF).

3.6.4.6.4 Obligation of declaring trading in the securities of the company

In accordance with the applicable regulations, the directors and individuals closely related to them, as defined by decree, must inform the AMF of all acquisitions, sales, subscriptions or exchanges involving the company's financial instruments and of transactions involving related instruments where the cumulative amount of such transactions is higher than €5,000 for the calendar year in progress.

The directors and individuals closely related to them must submit their declaration to the AMF by e-mail (declarationsdirigeants@amf-france.org) within five trading days following completion of the transaction.

These individuals must simultaneously provide a copy of this notice to the Secretary of the company's Board of Directors.

The declarations are then posted on the AMF's website and are mentioned in an annual summary set out in the company's Management Report.

3.6.4.7 Holding of a minimum number of shares

Each director owns at least 1,000 shares in the company.

The decision as to whether or not all or some of the shares held by the director should be registered is the responsibility of the director.

3.6.5 Remuneration of the corporate officers

3.6.5.1 Remuneration of directors

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, which amount is doubled for the Committee's Chairman.

The Board of Directors may award the directors special remuneration for specific assignments or projects entrusted to them.

3.6.5.2 Remuneration of the corporate officers appointed by the board

The Board of Directors sets the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers as it sees fit.

Upon the appointment by the Board of Directors of a corporate officer who has an employment contract with the company, the terms of the contract that also relate to his tenure are suspended.

To ensure good corporate governance, the Board of Directors considers that, upon the appointment of a corporate officer who has an employment contract with the company, the rights to indemnities or benefits arising from said contract must not be increased or reduced; they must simply be maintained in accordance with French law.

Therefore, the Board has an ongoing policy of considering corporate officers who have an employment contract with the company as senior managers within the meaning of the company's employment-related practice with regard to any amounts ancillary to their remuneration.

In this respect, these corporate officers will, in particular, be covered by the same pension and welfare funds as senior managers. During their tenure, these pension and welfare fringe benefits are determined based on their total length of service (in relation with their employment contract and corporate office) within the company.

In order to calculate the basis for these benefits, in particular where this is a multi-annual basis, periods of activity in relation with both the employment contract and corporate office are taken into account.

In the event of removal or non-renewal from a corporate office, an undertaking may be provided to pay a corporate officer who has an employment contract with the company an indemnity based on the fixed remuneration received with respect to the corporate office, under conditions set

by the Board, and subject to fulfilment of performance conditions defined, in accordance with the legal provisions. This indemnity may be combined, where applicable, with the severance payment to which the corporate officer could potentially be entitled pursuant to his reinstated employment contract.

In the event of voluntary retirement or retirement at the company's request, an undertaking may be provided to pay a corporate officer who has an employment contract with the company the departure indemnity provided for in respect of senior managers calculated in accordance with the collective agreements in force on the date of retirement, and assessed on the basis of the fixed and variable remuneration received as a corporate officer, depending on the total length of service accrued pursuant to both the employment contract and the corporate office under conditions set by the Board, and subject to fulfilment of performance conditions defined. This indemnity may not be lower than the departure or retirement indemnity to which the corporate officer would be entitled pursuant to his employment contract, and will not be received cumulatively with such indemnity or with any indemnity received due to non-renewal or removal from his corporate office.

3.6.6 Annual review of the Board's *modus operandi*

Once a year the Board carries out a formal review of its *modus operandi*, and where appropriate takes all steps considered appropriate to improve it. The Board informs the shareholders accordingly in the Annual Report.

3.6.7 Amendments to the internal rules

These Rules may be amended by a decision of the Board.