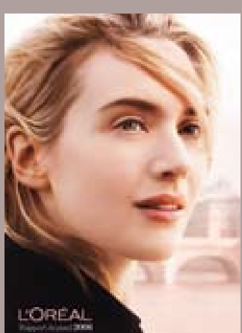
L'ORÉAL

2008 Annual Report

Contents



Kate Winslet for Trésor by LANCÔME.

This is a free translation into English of the L'Oréal 2008 Annual Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

L'ORÉAL PARIS
PROFESSIONNEL

KÉRASTASE
PARIS

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5TH AVENUE NYC

MATRIX
N°1 IN AMERICAN SALONS

L'ORÉAL
PARiS

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LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

innéov

SKINCEUTICALS

THE BODY SHOP®

The L'Oréal adventure

Inventing beauty: this is L'Oréal's vocation. Since its creation by a researcher, one century ago, the group has never stopped believing in research, pushing back the boundaries of science and knowledge, increasing the number of innovations and patents, driven by a passion for exploration and a single-minded focus on quality. Beauty is a scientific adventure.

Responding to the desire for well-being of millions of men and women: this is L'Oréal's tireless quest. For the past 100 years, generations of employees have engaged in this fabulous adventure with diligence, imagination and drive, asserting the relevance of the group's brand portfolio and its distribution networks in different countries in order to make beauty —every type of beauty—accessible to all, the world over. Beauty is a human adventure.

Sharing its good fortune and success: this, one century after its creation, is L'Oréal's greatest wish. The centenary celebrations—convivial, generous-spirited and outward-looking—will mirror the nature of the group and its history. A new century is beginning for L'Oréal, a century of commitment to make the world ever more beautiful.

World's number 1 cosmetics group

23 international brands[(1)]

17.5 billion euros of sales in 2008

130 countries

67,500 employees

628 patents registered in 2008

(1) Brands with annual sales of more than 50 million euros.

With solid governance, true to its values, L'Oréal is maintaining its course

A year ago, I told you we were looking forward to 2008 with confidence. As it turned out, nothing could predict the force and scale of the economic crisis which has spared no sector of the economy.

And yet, in the eye of the storm, L'Oréal is staying on course and further strengthening its worldwide leadership. The group is confirming its investment in research, actively supporting the development of its brands, and continuing to expand its global reach. Resolutely focused on the long-term, it accepts the constraints of the present while concentrating its efforts, in priority, on preparing for the future.

Although sales growth slowed in 2008, it remained, given the economic environment, at a good level and profits have continued to increase, despite the headwinds of currency fluctuations and the price of raw materials. The balance-sheet structure is extremely healthy.

This achievement reflects both the group's remarkable capacity for resilience and the quality of the management of Jean-Paul Agon and his teams.

The loyalty of our shareholders is an asset

Convinced that the confidence and loyalty of our shareholders are essential to implement this long-term strategy, we are particularly attached to the continuity of our dividend policy.

The proposal at the Annual General Meeting to pay a dividend of 1.44 euro per share is thus an expression of both our confidence in the solidity of L'Oréal, and our legitimate concern to maintain the right balance.

> "L'Oréal is staying on course and further strengthening its worldwide leadership."

As L'Oréal prepares to celebrate its centenary, the Board of Directors has also chosen to propose to the Annual General Meeting a resolution enabling the payment of a dividend, increased by 10% for all registered shareholders of at least two years standing, as from the dividend payment in 2012 and limited to 0.5% of the nominal capital.
We believe that, in a period of turbulence, encouraging stability is a modern approach which is in the interest of all the shareholders.

Taking care to continually improve governance

I have often expressed here the need for careful monitoring of best practices in corporate governance and our determination to make constant progress.

All the Board's committees—the Remuneration Committee, the Appointments Committee, the Audit Committee and the Strategy and Implementation Committee—have thoroughly prepared for the Board's deliberation.

The Board has taken note of the recommendations made by AFEP and MEDEF concerning the remuneration of corporate officers of listed companies. The Board considers that these recommendations are in line with the company's corporate governance policy. The Code of AFEP and MEDEF, completed in this way, serves as reference for the company for all relevant matters.

L'Oréal's directors, individuals with a very diverse range of professional backgrounds and experience, are regular and active contributors. They are vigilant, closely monitoring all the activities and businesses; they play an active part in reviewing the group's strategy, as in the case of the major acquisition of Yves Saint Laurent Beauté, an exceptional opportunity thanks to which L'Oréal is now number 1 in luxury products in its distribution channel.

The Board has also given due consideration to the impact of the financial crisis in the cosmetics market and has in particular validated the strategy of powerfully supporting the brands, to drive growth in the group's positions.

Deepening our values

In 2008, L'Oréal also made progress in areas outside the financial sphere, particularly in the expression of its values.

The L'Oréal Corporate Foundation, created a year ago, has expanded its initiatives. Its flagship "For Women in Science" programme celebrated its 10th anniversary. In the space of a decade, this programme has been built up step by step and is now a benchmark in its field worldwide. This is a source of immense pride for all those who believed in it from the start, and who have supported it with the ambition of making a useful contribution to progress both for women and science.

Furthermore, L'Oréal is increasing the scope of its action in other fields: business ethics, for which the group has drawn up a new and more explicit charter, and also diversity in its teams, which is firmly anchored at the heart of our business practices. Its initiatives in this field have moreover received broad international acclaim. Lastly, L'Oréal is continuing its long-standing efforts to be ever more respectful of the environment.

Excellence, respect and integrity. These values, which have been held at L'Oréal since the very beginning, are the bedrock of the company. They are at the heart of the relationship between the group and all its stakeholders. They provide the support for our long-term vision which is necessary in such turbulent times.

Inaugurating a new century of beauty

The group has weathered storms in the past.

L'Oréal has numerous assets:

L'Oréal can draw on the unique richness of its brand portfolio, the most comprehensive in the industry; on the inventiveness of its research, the most powerful in the sector; on the quality of its international teams, stimulated by the adverse conditions of the moment, and driven by a remarkable spirit of conquest. Lastly, the group has an extremely solid financial structure.

The force of its convictions has enabled our company to achieve an outstanding performance in its first century. The centenary of L'Oréal, which we are celebrating this year, is a symbol of continuity and confidence. Continuity in our business model, and confidence in our managers and in our ability to reinvent ourselves every day.

L'Oréal's teams share the same culture, which has been forged over a century around a constant quest for innovation, a taste for excellence, a passion for talent and diversity, and a sense of openness to the world.

On my own behalf and also on behalf of the Board of Directors, I would like to express my confidence in the ability of L'Oréal to successfully inaugurate a new century of beauty.

Sir Lindsay Owen-Jones
Chairman

In a difficult context, L'Oréal is proving resilient, continues to grow and prepares for the future

In 2008, in a difficult environment, L'Oréal has demonstrated its resilience and continued to grow in terms of sales, net earnings per share and market share.

Annual sales grew by +3.1% like-for-like and by +6.6% at constant exchange rates, including the acquisition of Yves Saint Laurent Beauté, outperforming the growth of the cosmetics market. L'Oréal's worldwide market share continued to expand, reaching +15.8%(1).

The group strengthened its overall positions, even though the market slowdown affected us as a result of our high exposure to businesses more sensitive to the economic climate, such as luxury and hair salons, together with our substantial presence in categories where inventory reductions hit harder, such as make-up, colourants and fragrances.

Differentiated trends across the divisions

The Consumer Products Division outperformed the growth rate in its market with a strong performance in the Rest of the World zone that will drive future growth. Its performance in the strategic markets of skincare and make-up was particularly strong.

The impact of the economic climate was greater on the Luxury Products Division, which was handicapped by distribution channel difficulties. The event of the year was the strategic acquisition of Yves Saint Laurent Beauté, an ideal addition to the division's brand portfolio, in particular with the legendary global brand Yves Saint Laurent. By making this acquisition, the division has now become the world leader in luxury cosmetics in its distribution channel.

In a channel which is particularly sensitive to the consumer mood and is thus affected first by economic slowdowns, the Professional Products Division once again increased its global leadership, thanks to its unrivalled technological expertise and its optimum brand portfolio, tailored to meet the needs of each kind of hair salon.

The Active Cosmetics Division continued to grow globally, but its channel was less dynamic than in previous years.

The Body Shop, a brand positioned on highly contemporary trends—natural products, respect for the environment, and an ethical approach—proved resilient despite its high exposure to British and American markets, where the retail sector was hit hard, particularly in the final quarter.

Lastly, Galderma, the world leader in dermatology, had an outstanding year with high sales growth and increased profitability, while successfully integrating its acquisition of Collagenex.

High growth in the Rest of the World zone

In North America, where the crisis had a severe impact on consumers and distributors, the group held its positions, maintained its advertising and promotional investments, and ended the year in the best possible conditions so as to prepare for 2009. North America will bounce back, as it always has done, and return to growth. We will be there to reap the benefits.

In Western Europe we held on firmly to our market share. While held back by the slowdown in France and Spain, where our positions have always been very strong, we made good advances on the other hand in the Anglo-Saxon countries and in Northern Europe.

We continued to record strong growth in the Rest of the World zone, with spectacular breakthroughs in Eastern Europe and Asia, where L'Oréal this year became number one in skincare in China, all channels combined. Our growth in Latin America was hampered by temporary problems in Brazil, which have been gradually solved. Lastly, we placed our businesses in the Africa, Orient, Pacific zone under a single command structure, to speed up growth and move into new markets.

(1) Excluding soap, toothpaste and razors. 2008 provisional estimates with YSL Beauté over a full year. Source: L'Oréal estimates.

Operating profit proves resilient

In a year of maximum adversity—negative currency effects, rise in price of raw materials, market slowdowns and major difficulties in North America—our operating profit held up well and we strengthened our business drivers.

Thanks to spectacular advances in purchasing and productivity, gross profit proved resilient despite the sharp rise in the price of raw materials.

Our expenditure on Research and Development, more than ever a strategic priority for the group, rose as did sales. In 2008, the group filed an all-time record of 628 patents.

We strengthened our investments in advertising and promotion, especially during the second half of the year, to support our brands despite the deteriorating economic climate. In 2007 L'Oréal became the third largest advertiser in the world, and its share of voice increased further in 2008.

Finally, on a comparable structure and exchange rate basis, selling, general and administrative expenses were practically stable as a percentage of sales.

Overall, net profit excluding non-recurrent items after minority interests grew by +1.2%, and net earnings per share, by +3.8% based on published figures and by +6.8% at constant exchange rates.

Progress in every area

In 2008, L'Oréal continued to make advances in all the areas that constitute the pillars of success of a modern company.

In Human Resources, the launch of the "L'Oréal & Me" programme, whose aim is to build a clear, transparent and unified policy on hiring, induction, training, remuneration and career development across the world, once again demonstrated our ambition to be a great place to work.

We continued to develop and extend our initiatives in all aspects of Sustainable Development, such as environmental protection and the promotion of business ethics and diversity, so that L'Oréal is acknowledged as a genuinely "Corporate citizen" company. Indeed, the group was ranked by an independent jury as one of the world's 100 most sustainable companies.

Finally, the L'Oréal Corporate Foundation developed its initiatives in its three priority areas—education, science and solidarity—in particular by organising the tenth anniversary of the "For Women in Science" programme in partnership with UNESCO, which has already granted 52 laureate awards and 619 fellowships to women from 85 countries and 5 continents.

2009: realism, confidence, resolve

We are tackling 2009 with realism, confidence and resolve.

Realism because the economic environment will still be very difficult. We are prepared for this.

Also confidence; firstly, because cosmetics markets have always demonstrated a certain resilience at times of crisis, although it will probably vary considerably between different categories and channels. Confidence also because the group has a quite exceptional portfolio of diversified and complementary brands, which is fully equipped to weather the crisis, with substantial potential for increasing market share, moving into new categories, and expanding into new geographical areas. Confidence finally, because L'Oréal's fundamentals are healthy and sound, and our financial situation is robust.

And also resolve, to ensure that the L'Oréal engine is firing on all cylinders, while pragmatically seeking every way of adapting the group's strategy and business model to this crisis, to seize all opportunities.

"L'Oréal is highly diversified, in terms of brands, channels and countries. We will make the most of this to seize all opportunities."

Innovation, our best anti-crisis weapon

L'Oréal research laboratories are mobilised to create the most spectacular innovations which will truly make a difference.

By launching product lines at more accessible prices in several of our brands, we will not only cover all distribution channels but also all price segments. This will enable us to target all consumers, attracting customer groups we had not reached before now.

Similarly, we will intensify the presence of our brands in categories such as styling, bodycare and men's products, where there is still considerable market share to be conquered.

We will optimise our business drivers by refocusing them on the advertising and promotional investments that have proven to be the most efficient and productive.

Accelerating our geographical expansion

We are also determined to accelerate our geographical expansion. Firstly, by making faster inroads into new markets in which we already operate, and where positive consumption growth should continue. Secondly, by accelerating our moves into markets where we have little or no activity today but which offer a very high potential for our brands, such as countries in the Middle East and Africa, together with Pakistan.

Lastly, we are adapting to the crisis by making every effort to optimise operations and costs. We are very aggressively reducing the cost of sales by optimising our industrial facilities, maximising savings on purchases, and continuing productivity efforts. We have also taken major steps to reduce selling, general and administrative expenses. As part of our "permanent restructuring" policy, which we are accelerating, we are striving in all departments of the company to make our organisational structures more efficient and responsive, to pool services and optimise procedures.

We are fortunate in that L'Oréal is highly diversified, in terms of brands, channels and countries. We will be able to make the most of this to seize all opportunities. This is what gives us confidence in the group's ability not only to weather the adverse economic climate successfully, but even to emerge stronger than before.

All L'Oréal's teams, whom I would like to congratulate for their tremendous commitment, are determined to make sure that whatever the economic conditions, L'Oréal will continue to grow and strengthen its leadership of the global cosmetics market.

In this centenary year for L'Oréal, we believe more than ever in L'Oréal's spirit of adventure, and in our mission: to offer consumers all over the world the highest possible quality in each product category, each distribution channel, and each price level, to meet beauty needs and aspirations in their infinite diversity.

Jean-Paul Agon
Chief Executive Officer

Board of Directors

COMPOSITION AT DECEMBER 31st, 2008.

Sir Lindsay Owen-Jones(1)

Age: 62. British. Joined the L'Oréal group in 1969. During his international career, he was Chief Executive Officer of L'Oréal in Italy from 1978 to 1981 and President (CEO) of L'Oréal USA from 1981 to 1984. He was appointed Deputy Chairman and Chief Executive Officer in 1984, Chairman and Chief Executive Officer in 1988, and has been **Chairman of the Board of Directors since April 25th, 2006**. L'Oréal Board member since 1984 (term of office renewed in 2006). Director and Chairman of the L'Oréal Corporate Foundation. Board member of Sanofi-Aventis and Ferrari (Italy). Vice-Chairman of the Board of Directors of Air Liquide.

Jean-Paul Agon

Age: 52. Joined the L'Oréal group in 1978. During his international career, he was General Manager of Consumer Products in Greece, and of L'Oréal Paris in France, International Managing Director of Biotherm, Managing Director of L'Oréal in Germany, Managing Director of the Asia zone, and President and CEO of L'Oréal USA. Appointed Deputy Chief Executive Officer of L'Oréal in 2005 and then **Chief Executive Officer** in April 2006. L'Oréal Board member since 2006. Board member of the L'Oréal Corporate Foundation.

Jean-Pierre Meyers(2) (4) (6)

Age: 60. L'Oréal Board member since 1987 (term of office renewed in 2005), **Vice-Chairman of the Board**. Nestlé SA (Switzerland) Board member.

Peter Brabeck-Letmathe(2) (4)

Age: 64. Austrian. With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Office of Nestlé SA (Switzerland) in 1997, Vice-Chairman of the Board in 2001 and Chairman in 2005. L'Oréal Board member since 1997 (term of office renewed in 2005), **Vice-Chairman of the Board**. Vice-Chairman of the Board of Crédit Suisse Group (Switzerland). Board member of Roche Holding (Switzerland) and Delta Topco Limited (Jersey).

Liliane Bettencourt(2)

Daughter of Eugène Schueller, who founded L'Oréal a century ago. L'Oréal Board member since 1995 (term of office renewed in 2007).

Françoise Bettencourt Meyers

Age: 55. Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2005).

Werner Bauer

Age: 58. German. With the Nestlé group since 1990, appointed General Manager in 2002. L'Oréal Board member since 2005. Board member of Alcon (Switzerland).

Francisco Castañer Basco(2) (6)

Age: 64. Spanish. With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board member since 1998 (term of office renewed in 2006). Board member and Vice-Chairman of Alcon (Switzerland).

Charles-Henri Filippi(5)

Age: 56. French civil service from 1979 to 1987. Joined CCF (which became HSBC France in 2000) in 1987. Chief Executive Officer in 1995, Group Executive Committee member from 2001 to 2004, Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board from September 2007 to December 2008. Chairman of Alfina. L'Oréal Board member since 2007(7). France Telecom Board member, Supervisory Board member of Euris and Censor of Nexity.

Xavier Fontanet

Age: 60. Appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995, Chairman and Chief Executive Officer since 1996. L'Oréal Board member since 2002 (term of office renewed in 2006). Board member of Crédit Agricole SA.

Bernard Kasriel(2) (3)

Age: 62. With the Institut du développement industriel from 1970 to 1975. Chief Executive Officer of Braud from 1972 to 1974. Executive Vice-President of the Société phocéenne de métallurgie from 1975 to 1977. Joined Lafarge in 1977, Deputy General Manager in 1982. Assigned to the United States from 1987 to 1989, appointed Executive Vice-President from 1989 to 2003, and then Chief Executive Officer from 2003 to 2005. L'Oréal Board member since 2004 (term of office renewed in 2008). Board member of Lafarge, Arkema and Nucor (United States). Partner, member of the Management Board of LBO France.

Marc Ladreit de Lacharrière

Age: 68. Member of the Institut. With L'Oréal from 1976 to 1991, former Executive Vice-President in charge of Administration and Finance, Group Executive Vice-President from 1984 to 1991. Chairman and Chief Executive Officer of Fimalac. Chairman of Fitch (United States). L'Oréal Board member since 1984 (term of office renewed in 2006). Board member of the L'Oréal Corporate Foundation. Board member of Renault and Casino.

Annette Roux

Age: 66. Joined Bénéteau in 1964, Chairman and Chief Executive Officer from 1976 to 2005, Vice-Chairman of the Supervisory Board thereafter. L'Oréal Board member since 2007. President of the Bénéteau Corporate Foundation. President of the Fédération des industries nautiques.

Louis Schweitzer

Age: 66. Joined Renault in 1986, Chairman and Chief Executive Officer from 1992 to 2005, Chairman of the Board thereafter (renewal of term of office as Board member not requested in 2009). Chairman of the Board of AstraZeneca (United Kingdom). Chairman of the Supervisory Board of Le Monde group. L'Oréal Board member since 2005. Board member of BNP Paribas, Veolia Environnement and AB Volvo (Sweden). Member of the Consultative Board of Allianz AG (Germany).

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(1) Chairman of the Strategy and Implementation Committee.
(2) Member of the Strategy and Implementation Committee.
(3) Chairman of the Appointments Committee and the Remuneration Committee.
(4) Member of the Appointments Committee and the Remuneration Committee.
(5) Chairman of the Audit Committee.
(6) Member of the Audit Committee.
(7) Mr Filippi was co-opted as a member in November 2007 and appointed in 2008 for the remainder of the term of office of his predecessor, i.e. until 2010.

The statutory length of tenure of a L'Oréal director is four years, and is renewable. Each director holds a minimum of 1,000 L'Oréal shares. The full list of directors' offices and directorships, in accordance with legal requirements, is included in the Report of the Chairman of the Board of Directors (Vol. 2 of the Reference Document).

Executive Committee

1 Jean-Paul Agon
Chief Executive Officer

2 Jean-François Grollier
Executive Vice-President
Research and Development

3 Laurent Attal
Managing Director
North America Zone

4 Joseph Bitton
Managing Director
Latin America Zone

5 Brigitte Liberman
Managing Director
Active Cosmetics Division

6 Jean-Jacques Lebel
President
Consumer Products Division

7 Jochen Zaumseil
Managing Director Asia Zone

8 **Jean-Philippe Blanpain**
Managing Director Operations

9 **Béatrice Dautresme**
Executive Vice-President
Corporate Communications and
External Affairs

10 **Geoff Skingsley**
Executive Vice-President
Human Resources

11 **Marc Menesguen**
President
Luxury Products Division

12 **Nicolas Hieronimus**
Managing Director
Professional Products Division

13 **Christian Mulliez**
Executive Vice-President
Administration and Finance

8 9 10 11 12 13

L'Oréal set off on its beauty adventure a century ago.
A quest for innovation supported by constant research efforts.
A quest for the world and its diverse cultures, to meet beauty aspirations the whole world over.
A quest for excellence through ever more effective and creative products.
A quest for a meaningful purpose, accommodating economic growth and ethical values and giving L'Oréal a mission: to help make the world more beautiful.

100 years the adventure

Pushing back the boundaries of knowledge

In 1909, Eugène Schueller, a chemist and entrepreneur, created the Société des Teintures Inoffensives pour Cheveux, which took the name of L'Oréal in 1939. He considered hair a case for scientific study, and invented the first colourants that were to revolutionise the beauty industry.
In 1960, his successor François Dalle expanded and structured the company's laboratories. With Charles Zviak—then Vice-President in charge of Research and later in 1984 the Chairman of L'Oréal—he set up a fundamental research unit that could manufacture its own molecules. This was the dawn of the life sciences. At the instigation of Sir Lindsay Owen-Jones and later Jean-Paul Agon, substantial investments in people and financial resources have given a decisive boost to the innovative potential of research. The spectacular development of biology and biotechnologies has led to major advances, such as reconstructed skin. Green cosmetics have appeared on the scene. Furthermore, research is taking on a global dimension. Formulation and evaluation laboratories across the planet have made it possible to gain unique expertise in skin and hair throughout the world.

Anticipating all needs

L'Oréal has always had a gift for creating strong brands, rooted in the group's history, which inspire the whole world. Targeted acquisitions have enabled it to enrich its portfolio throughout the century.
Today, the group possesses the priceless asset of some 20 global brands which cover all segments of cosmetics and encompass all distribution channels.
Their renown and success are based on a very powerful product culture, which is one of L'Oréal's particular strengths. The "decommoditisation" advocated by François Dalle, which was later renamed "value enhancement", plays a key role in this success. It is synonymous with greater originality, higher quality, more innovation and undisputed technical superiority.
The brand portfolio covers every territory of beauty. Each brand has a different origin, its own personality and approach. Their diversity can meet all consumers' aspirations and create resonance with all cultures. The brands are the expression of L'Oréal's determination to respect every kind of beauty throughout the world.

In 1907, Eugène Schueller created his first hair colourant formulas based on harmless chemical compounds, which he named "Oréal".

In 1951, Eugène Schueller came up with the idea of packaging small doses of shampoo in a transparent pack. Dop Sachets were a sensational success.

# of inspiration and creativity, of beauty continues

Conquering the world with respect

Present in 130 countries, L'Oréal is well established on all five continents. In the space of a century, the small French firm has gone from internationalisation to globalisation. After the epic pioneering years, François Dalle built the "Great L'Oréal" of its founder's dreams. Then came the start of the globalisation process, a spectacular development orchestrated by Sir Lindsay Owen-Jones and continued by Jean-Paul Agon.
The geographical conquest is based on a deep understanding of markets. The ability to "seize up-and-coming trends", and the sense of curiosity and appetite for knowledge of the group's employees, grew as new territories were conquered. L'Oréal is now able to deliver products that meet the needs of the whole world. Acquisitions of local brands make it easier to become established in a country. International expansion has profoundly enriched the group's expertise and L'Oréal continues to adopt best practices from all over the world in every field of endeavour.

Excelling and striving for perfection

The satisfaction of a job well done and a taste for hard work have been passed down from generation to generation. The culture of excellence and striving for perfection is part of L'Oréal's DNA.
L'Oréal has always been a company where people matter most. It reflects the resolve of its senior executives all of whom have focused on the richness of the company's human resources, and the constant search for new talent that this implies. The company hires the best candidates from around the world: men and women who stand out and have in common a spirit of enterprise. From the very beginning, it has always been L'Oréal's ambition and one of its missions to enhance the experience of its employees and ensure their training and career development.
Lastly, the diversity of its teams has profoundly impacted the company. It is a vector of powerful energy, open-mindedness, and cultural richness. Today, L'Oréal is a genuine melting pot with the aim of becoming the epitome of an ethical company and achieving prominence through its community projects and commitments towards society.

Opening of a new research centre at Pudong (China) in September 2005.

GARNIER marketing team (France).

1909
On July 30th,
Eugène Schueller created
the Société Française
de Teintures Inoffensives
pour les Cheveux,
which later became L'Oréal.

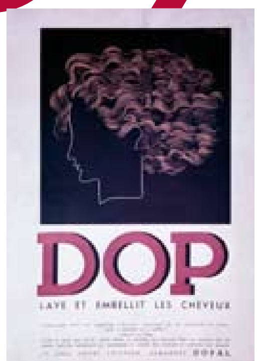
1925
L'Oréal d'Or,
an unprecedented
hair lightening product,
which added
golden highlights and
made blond hair
look more natural.

1909

1929
After filing a patent for paradiamines,
used in fast-penetrating hair colourants,
Eugène Schueller launched Imedia
in 1929 which was an instant and
resounding success.

1929
Hollywood stars launched
the fashion for blond hair.
In hair salons, L'Oréal Blanc
bleaching powder
was all the rage amongst
fashionable women.

1935
Creation of Ambre Solaire
sun protection oil,
just before 1936 and
the first paid holidays for
French workers.

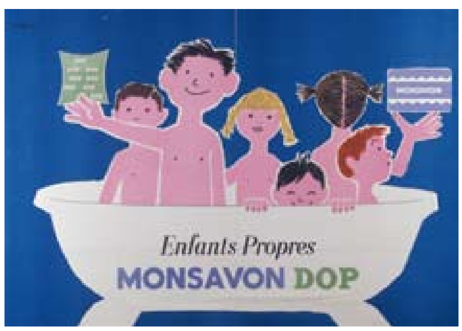


1934
Dop was the first "modern"
consumer shampoo: ready-
to-use, and a new symbol for
personal hygiene in French
families.

1942
Eugène Schueller
developed a mixing
tower for the continuous
manufacture of soap.
The special
saponification process
soon won over
the whole of the soap
making industry.

1947
Le Crochet Dop singing tour
travelled all around France until 1957,
attracting up to 50,000 people a day.
The crowd voted for the best singer
by shouting out: "Dop, Dop, Dop,
he's adopted by Dop!"

1954
L'Oréal made a move
into the pharmacy channel
by signing technical
agreements with Vichy,
a company that was finally
acquired in 1980.



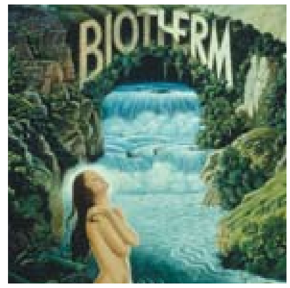
1954
Eugène Schueller's great crusade
was hygiene. He introduced
major awareness-raising
initiatives in primary schools,
known as "Clean Children Days".

1954
L'Oréal crossed the Atlantic,
as Cosmair became
the exclusive agent for
L'Oréal hair products in
the United States.

1960
The "golden goddess":
the birth of
Elnett lacquer,
at last a hairspray
that left hair supple and
gave it that silky touch!

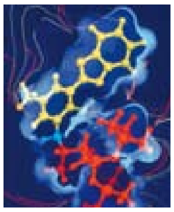
1963
In a crowning achievement reflecting its spectacular and solid growth, L'Oréal was listed on the Paris Stock Exchange.

1964
Acquisition of Lancôme, already a byword for French elegance and style all over the world.



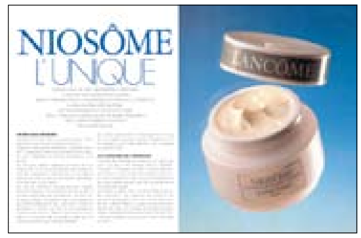
1970
Acquisition of Biotherm, which takes a biological approach to skincare by using the regenerative power of spa water.

1972
With Elsève, shampoo became a true beauty care product.



1982
Patented by L'Oréal Research, Mexoryl SX, an ultra-powerful anti-UVA product, revolutionised sun protection.

1978
Cacharel asked L'Oréal to develop its first fragrance. Anaïs Anaïs secured the position of top-selling perfume worldwide for many years.

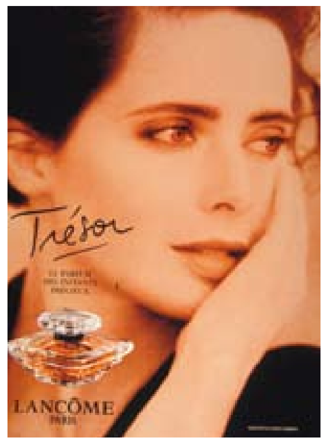


1986
As the first anti-ageing cream, Niosôme took Lancôme into the era of very high-technology skincare.

1982
L'Oréal created Plénitude, a new range of facial skincare products. Its vocation: to offer women the best in technology, unique active ingredients and original textures at an affordable price.

1996
In its fluorescent green bottle, Fructis from the Laboratoires Garnier took mass market distribution by storm. Its success turned Garnier into a global brand.

1990
Lancôme launched Trésor, which became the world's best-selling perfume and is still today one of the leading perfumes worldwide.

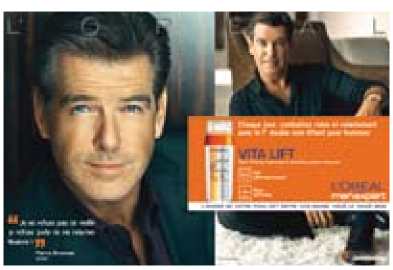


1996
Subtle and sophisticated, Acqua di Giò proved a dazzling success: today it is still the world's number 1 fragrance for men.

2000
The L'Oréal Institute for Ethnic Hair and Skin Research is the first centre of its type where research is specifically dedicated to the study of ethnic skin and hair.

2009

2004
For the first time in mass market distribution, Men Expert from L'Oréal Paris offered men a range of advanced products for every kind of skin problem.



2008
With the acquisition of YSL Beauté, L'Oréal consolidated its position as the world leader in beauty.

SUSTAINABLE DEVELOPMENT

TANGIBLE COMMITMENTS FOR RESPONSIBLE GROWTH

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

Eight commitments for sustainable growth

For L'Oréal, powerful convictions mean nothing without tangible commitments. The purpose of this section of the Annual Report is to set out again the key principles of the group's sustainable development approach. It provides an overview of L'Oréal's eight strong commitments for sustainable growth, followed by a presentation of the group's initiatives in corporate governance, ethics, philanthropy and protection of the environment.

Other chapters cover different aspects of L'Oréal's achievements in sustainable development. Information on diversity and solidarity is given in the Human Resources section (pages 94 to 97). Progress in sustainable and responsible innovation is described in the section devoted to Research and Development (pages 88 to 91), as well as in the Operations section (pages 92 and 93). And a special "Commitments" box offers an example of a concrete initiative in each operating division (Businesses section, pages 38 to 71).

Corporate Governance

L'Oréal's Board of Directors attaches great importance to the quality of corporate governance, closely monitors changes in best practices in this field, and strives to ensure constant progress is achieved.

Business Model

As an international group, L'Oréal is committed to achieving value-creating growth for the greatest number of stakeholders participating in its success. Despite the extremely difficult business environment caused by the economic crisis in 2008, the L'Oréal business model, based on innovation, quality and globalisation, demonstrated its resilience.

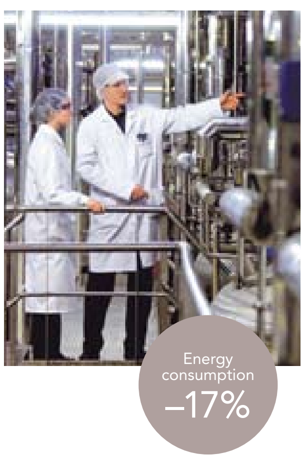
Safety, Health and Environment

L'Oréal aims for excellence in the realm of environmental performance. The group's policy is to reduce its environmental footprint through eco-efficiency and where possible achieve an absolute reduction in its impact. Between 2003 and 2008, L'Oréal reduced its energy consumption by 17%, direct CO_2 emissions by 23%, water consumption by 25% and waste generation[1] by 26% per finished product.

Research and Development

L'Oréal promotes sustainable innovation by incorporating the principles of sustainable development into its core Research and Development activities. For example, the group supports the development of green chemistry, systematically assesses the impact of raw materials on the environment and on biodiversity, and integrates raw materials from fair trade sources. In 2007, L'Oréal set up a Natural and Organic Centre of Excellence, one of whose key remits is to increase the use of more natural raw materials.

Environmental Policy—Results obtained between 2003 and 2008
Reduction in consumption and waste per finished product



(1) Excluding returnable packaging.

Product meeting: developing and sharing skills at L'Oréal in Paris (France).

Employee focus

The group wants to offer its employees the possibility of achieving personal fulfilment within a multicultural and stimulating community, rich in diversity and talents, to which everyone contributes with creativity and enthusiasm.

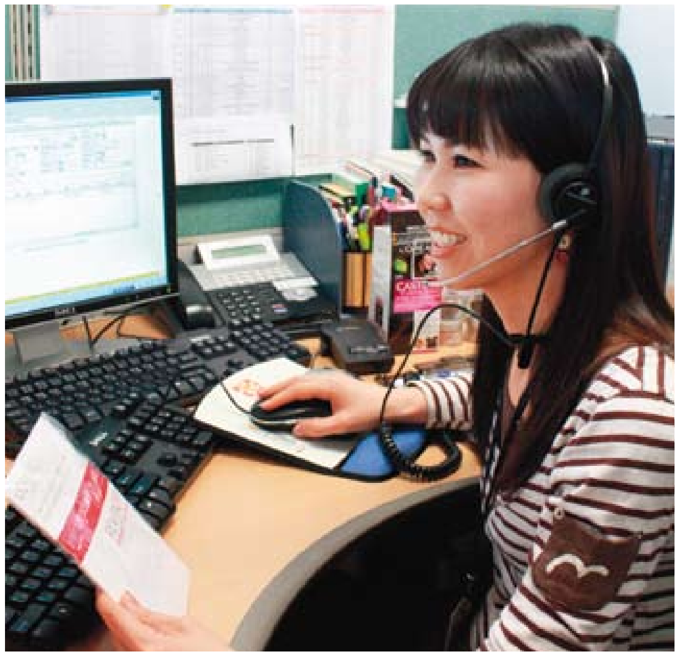
Relations with suppliers

The group is careful to ensure that working standards and human rights are strictly respected throughout the various stages of the supply chain. Every year, hundreds of audits are carried out by independent experts to verify that all our suppliers do indeed apply the terms of international conventions on employment rights.

A L'Oréal buyer with a supplier, specialised in manufacturing glass perfume bottles (France).

FIND OUT MORE

Each year in June, L'Oréal publishes a Sustainable Development Report, available at www.loreal.com, together with an abridged summary of this report.



Consumer Advice Centre (South Korea).

Relations with consumers

L'Oréal is committed to providing high-quality service and advice to its consumers through a network of 300 specialists in over 50 countries. The group has also committed to sustainable marketing by signing the Charter of the French Advertisers' Association (Union des annonceurs) for responsible advertising.

Corporate philanthropy

L'Oréal is determined to be an exemplary corporate citizen by promoting initiatives in favour of women and science, support for the most vulnerable, and education. Through the L'Oréal Corporate Foundation, the group is committed to two major international partnerships with UNESCO: "For Women in Science", and the preventive training programme "Hairdressers against AIDS". There are also a growing number of local support schemes in countries throughout the world.

Recognition for Commitment

L'Oréal's sustainability initiatives received widespread recognition in 2008:

- **In January, the group was selected by the *Corporate Knights* magazine as one of the 100 most sustainable enterprises in the world.**
- **Jean-Paul Agon received the *Stanley C. Pace Leadership in Ethics Award* from the Ethics Resource Centre in recognition of the company's exemplary ethical leadership.**
- **The world's major rating agencies for corporate social responsibility ranked L'Oréal as a leader in its industry.**
- **Merrill Lynch named L'Oréal as a *Carbon Leader*, and its performance was acclaimed by the Carbon Disclosure Project.**
- **The group is listed on most of the Sustainable Development indexes (FTSE4Good, ASPI Eurozone and Ethibel).**
- **The group was ranked first in its industry by American stakeholders (Ceres Report).**
- **L'Oréal was ranked second by the French magazine *Challenges*, which studied the sustainable development performance of companies listed on the French Cac 40 index, and received the highest score for environmental performance.**

An independent, available and vigilant Board of Directors

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

A harmonious allocation of roles

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

Responsible and experienced directors

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

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

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

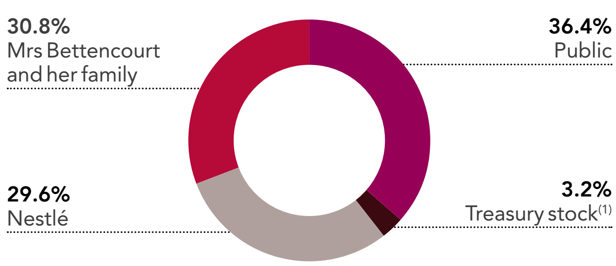
Actively involved Committees

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

The Strategy and Implementation Committee

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

BREAKDOWN OF SHAREHOLDING STRUCTURE AT DECEMBER 31st, 2008



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

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

The Audit Committee

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

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

The Remuneration Committee

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

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

REMUNERATION OF CORPORATE OFFICERS

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

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

The Appointments Committee

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

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

Systematic self-evaluation

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

Ensuring strict confidentiality

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

Ethics: integrity, respect, excellence

The Director of Ethics, who reports directly to the Chief Executive Officer, is responsible for implementing the L'Oréal ethics programme. This involves promoting and integrating ethical best practices across the group, providing help in ethical decision-making, training employees, and addressing any possible complaints. To ensure continuous progress, the Director of Ethics regularly measures and assesses results, and provides periodic reports to the Chief Executive Officer and the Executive Committee.

L'Oréal Ethics Open Talk

L'Oréal encourages dialogue, and employees are free to openly express their legitimate concerns. The normal path for raising such concerns is *via* their line management. Employees also have the possibility of contacting the Director of Ethics directly, and namely *via* the L'Oréal Ethics Open Talk website. This website is currently available in 11 languages and provides a secure mechanism for passing on information.

Annual reporting extended to all "Code of Business Ethics" subjects

Created in 2005, "Country Reporting Ethics" is a reporting tool on ethics set up in each country, enabling a global evaluation in this field. In 2008, this tool was extended to cover all *Code of Business Ethics* subjects including human rights, corruption, fair treatment of suppliers, and advertising and marketing rules.

Evaluating and analysing ethical risks

The Office of the Director of Ethics has developed a tool enabling each country to evaluate and analyse any possible ethical risks, and to devise a corrective action plan where necessary. The tool is already being used by human resources managers and is now being rolled out to country and plant managers.

Recognition of L'Oréal's commitment

Jean-Paul Agon received the *Stanley C. Pace Leadership in Ethics Award* from the Ethics Resource Center in recognition for the company's exemplary leadership in ethical matters. Nominations for this award come from companies, non-governmental organisations, the academic world and the public sector.

Ethics Training

Ethics has been incorporated into 11 training courses for managers, covering a variety of topics including managers as ethics role models, and ethical subjects linked to specific activities such as purchasing and recruitment. An ethics module is now included in the "Discovery" induction programme attended by all managers when they join L'Oréal.

L'Oréal sponsors the first European Master's programme in "Law and Business Ethics"

This degree course, organised by the University of Cergy-Pontoise (France) in association with ESSEC (France), the Institute of Business Ethics (United Kingdom) and the Ethics & Compliance Officers Association (United States), aims to demonstrate how companies must integrate ethics in both their strategic plans and daily business practices.

L'Oréal is also participating in the development of a Chair of "Law and Business Ethics" at the University of Cergy-Pontoise, which aims to help promote responsible corporate behaviour.

New ethics section on loreal.com

To address growing stakeholder interest in L'Oréal's ethics programmes, a new section on ethics has been included in the L'Oréal corporate website at www.loreal.com.

The section contains information on the L'Oréal *Code of Business Ethics*, which can namely be downloaded in any of 43 different languages.

FIND OUT MORE

On the group's institutional site: www.loreal.com, Our Company/Ethics section.

On the Open Talk site: www.lorealethics.com

L'ORÉAL Ethics

Etică • الأخلاقيات • етика • Etický • 倫理 • Ethiek • Maitshwaro • Etica • 道德行为则 • ETIIKKA
Éthique • Etika • Ethik • 道德 • Etikai • Etica • Etik • етика • אתיקה • Etikos • Ukulunga
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Etik • ΔΕΟΝΤΟΛΟΓΙΑ • Etica • नैतिकता • Etica • Etiky • Nguyên tắc ứng xử • Etik • Ethics

The L'Oréal Foundation: education, science, solidarity

In its first year of existence, the L'Oréal Corporate Foundation gave new impetus to the group's major emblematic philanthropic programmes. It has undertaken new projects in its three fields of intervention: encouraging education, promoting science and helping the vulnerable. In 2009, its objective is to roll out exemplary programmes adapted to specific situations across the globe, and to develop philanthropic initiatives firmly anchored in the local environment of its subsidiaries.

Extending the group's major philanthropic programmes

L'ORÉAL-UNESCO "For Women in Science" Awards

2008 marked a further step forward with the signing, on March 6th, 2008, of the **"For Women in Science" charter of commitment** aimed at promoting science, supporting the cause of women and changing the face of science. Since the programme began, 52 awards, 120 international fellowships and 499 national fellowships have rewarded the efforts of nearly 700 women around the globe. These talented women today form an exceptional community that represents all continents and cultures.

"Hairdressers against AIDS"

Launched in 2005 by L'Oréal in partnership with UNESCO, the international "Hairdressers against AIDS" education and prevention programme is taught in 163 L'Oréal training centres, as well as in hairdressing schools and salons. Three thousand instructors are involved on a daily basis. Today also distributed *via* the Internet, the programme is in constant expansion. Four new countries joined the programme in 2008, bringing the total to 27 countries to date. The Foundation is eager to strengthen this initiative, to raise awareness of the risks of the disease amongst greater numbers of women, the most influential educators in their families.

Helping vulnerable people

Self-esteem and self-confidence are at the heart of L'Oréal's business. The Foundation has chosen to develop programmes which help people regain confidence in their appearance and thus resume active involvement in society. The Foundation is committed to the international **"Look Good… Feel Better"** programme that organises skincare and make-up workshops to help women with cancer reduce the side effects of treatment and thus restore their self-image.

In another move, the Foundation is working with **Médecins du Monde** to support **"*Opération Sourire*"**. This programme restores through surgery faces disfigured by war, malnutrition or disease, helping adults and children to overcome their disadvantage and become part of society again. In 2008, over 200 people were able to benefit from operations in Cambodia, Madagascar, Mongolia and Niger. The Foundation will be stepping up its commitment in 2009.

The Foundation gave support to the **Samusocial** for the creation of the **"Maison des Femmes"**, a shelter where particularly vulnerable women can rebuild their lives. In 2008, it placed a social worker at the residents' disposal to help them regain a sense of their identity and enhance their self-image.

The Foundation also offers beauty care and hairdressing workshops with a social dimension at the **"Maison de Solenn"** to help young anorexic women regain their self-confidence.

Ceremony marking 10 years of the L'ORÉAL-UNESCO "For Women in Science" Awards.

A team of Médecins du Monde surgeons on a mission in Cambodia for "*Opération Sourire*".

Reducing our environmental impact and use of natural resources

When it comes to environmental performance, L'Oréal aims for excellence. More than 20 years ago, the group set the goal of reducing its environmental impact by encouraging eco-efficiency and by limiting the absolute level of its emissions wherever possible. L'Oréal is also committed to providing safe working conditions for all its employees.

Global warming

In 2008, L'Oréal signed the Bali agreement on global warming and conducted a series of studies on all its CO_2 emissions, enabling it to achieve significant reductions: emissions were cut by 3.3 %[(1)] per finished product, and overall by 6.6%[(1)] in 2008. Measures were also taken to limit travel by employees, encourage environmentally friendly modes of transport for essential journeys, and optimise logistics.

The Mexico City (Mexico) distribution centre has cut its electricity consumption per finished product by 30%, a reduction equivalent to 54 tonnes of CO_2 emissions, by installing 1,000sq.m of solar panels, which now enable the recharging of the batteries of all its forklift trucks.
By introducing solar panels and a biomass power station for the heating of the building, the Burgos plant (Spain) has also managed to reduce the quantity of CO_2 emitted by 332 tonnes, or 8% of the plant's emissions.

Energy

L'Oréal has introduced a proactive programme designed to boost the efficiency of its energy consumption, limit CO_2 emissions into the atmosphere, and make substantial savings in operating costs. The measures taken include: the use of alternative energy and non-polluting energy sources such as solar heating of water, the installation of high-performance lighting, the purchase of more efficient boilers, and the optimisation of compressor systems. Most of the group's office buildings around the world are now fitted with proximity sensors which switch off lights automatically when an office or conference room is empty. Between 2003 and 2008, these efforts led to energy savings of 17% per finished or handled product, with an overall reduction of 1.7% in energy consumption for 18.4% growth in production.

The Libramont plant (Belgium) has reduced its energy consumption ratio by 9.8% compared with 2007. The sharp reduction was achieved by a number of measures: improving insulation, changing bleed-taps, installing new lighting, recovering 80% of compressor power which is then used to heat the premises, and reducing compressed air consumption in the packaging equipment.

(1) Including both direct CO_2 emissions from on-site fossil fuel use (scope 1) and indirect CO_2 emissions from electricity use (scope 2).

Water

L'Oréal is striving to achieve greater eco-efficiency by evaluating its water consumption. With this goal in mind, industrial plants are implementing a range of measures: sterilising with steam rather than hot water, recycling some wash water from the manufacturing tanks, using rainwater for gardens and green areas, and constantly raising employee awareness. As a result of these efforts, water consumption was reduced by 3.8% per finished manufactured product in 2008.

The Rambouillet plant (France) has reduced water consumption by 10% per finished product. This achievement reflects an approach that was initiated several years ago. In 2006, the plant set up a water consumption mapping system: eight meters enable the monitoring and analysis of the plant's water consumption. Twenty-nine of the 48 projects planned to cut water consumption have already been carried out.

Waste

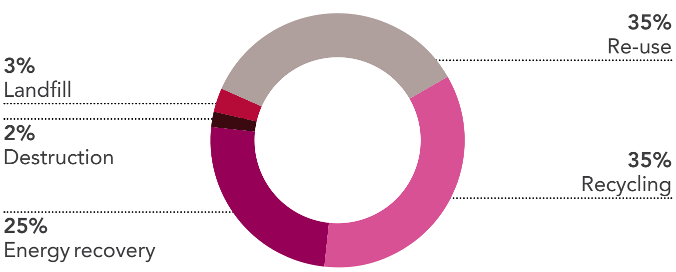
The programmes introduced by L'Oréal to cut waste cover not only packaging used by the group's suppliers but also packaging which ends up with its retailers and customers. Nearly half the production and distribution sites have achieved the zero landfill target, and aggregate recycling, energy recovery and re-use rates have now reached around 95% worldwide. In 2008, total transportable waste (apart from returnable packaging) was lowered by 0.5% per finished product.

The plant in São Paulo (Brazil) reduced its transportable waste by 19% per finished product compared to 2007. This was achieved by systematically using long-life returnable containers with packaging item suppliers.

Safety, Health and Environment indicators

WASTE BY DISPOSAL METHOD IN 2008

(group factories and distribution centres)



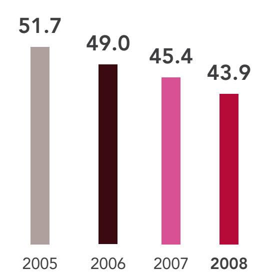
CHANGE IN ENVIRONMENTAL INDICATORS

(group factories and distribution centres)

	2007	2008	Change
(In thousands of cubic metres) Water consumption	3,145	2,915	–7.3%
(In millions of kWh) Energy consumption	814.6	785.5	–3.6%
(In %) Waste recovery index	95%	95%	–

TOTAL CO_2 EMISSIONS IN GRAMS PER FINISHED PRODUCT

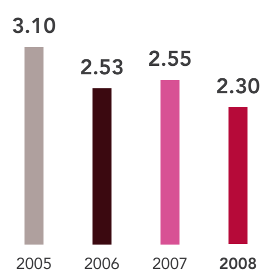
(group factories and distribution centres)



NUMBER OF ACCIDENTS RESULTING IN SICK LEAVE

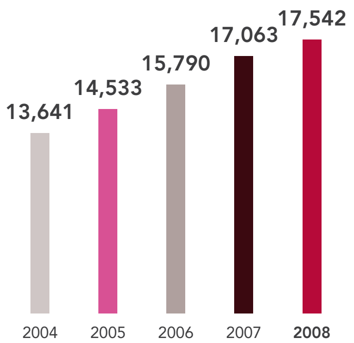
per million hours worked for L'Oréal personnel

(group factories and distribution centres)

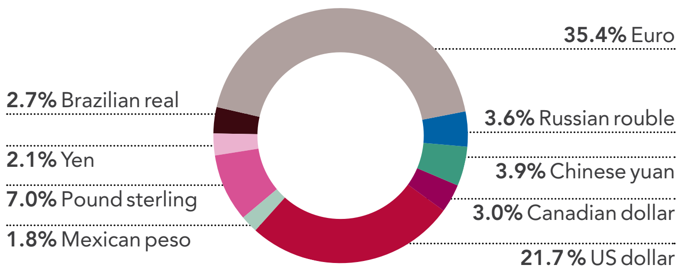


Group results over one, five and ten years

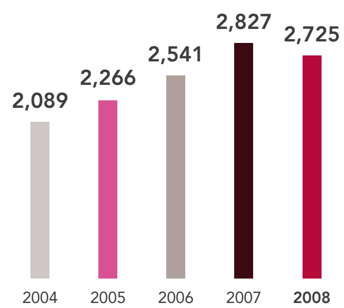
CONSOLIDATED SALES
(€ millions)



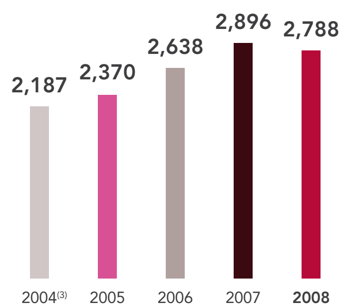
2008 CONSOLIDATED SALES BY CURRENCY[1]
(as %)



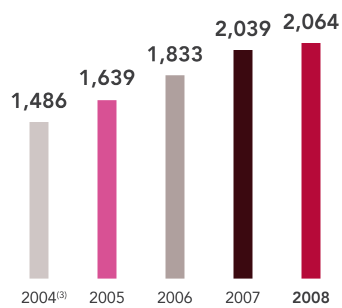
OPERATING PROFIT
(€ millions)



PRE-TAX PROFIT EXCLUDING NON-RECURRENT ITEMS[2]
(€ millions)



NET PROFIT EXCLUDING NON-RECURRENT ITEMS AFTER MINORITY INTERESTS[2]
(€ millions)



Breakdown by branch[4] in 2008

CONSOLIDATED SALES

	€ millions	Growth Like-for-like	Growth Published figures
Cosmetics	16,359	+2.7%	+2.8%
The Body Shop	756	+4.6%	–3.9%
Dermatology[5]	427	+17.1%	+16.2%

OPERATING PROFIT

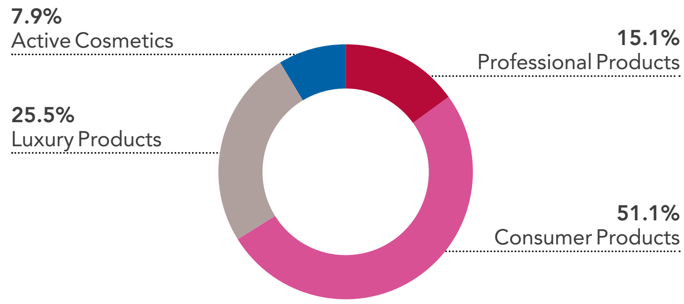
	€ millions	Weight	Growth based on published sales	% of sales
Cosmetics	2,608	95.7%	–3.4%	15.9%
The Body Shop	36	1.3%	–43.2%	4.8%
Dermatology[5]	80	3.0%	+29.0%	18.7%

(1) Consolidated sales in the main currencies in 2008.
(2) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs.
See note 10 of the Notes to the Consolidated Financial Statements in Volume 2 of the 2008 Annual Report (pages 25 and 26).
(3) For comparison purpose, 2004 pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
– by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million,
– and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.
(4) The group business is composed of the cosmetics and the dermatology branches and of The Body Shop.
(5) Group share, i.e. 50%.

2008 **Consolidated sales** of the cosmetics branch

BY DIVISION

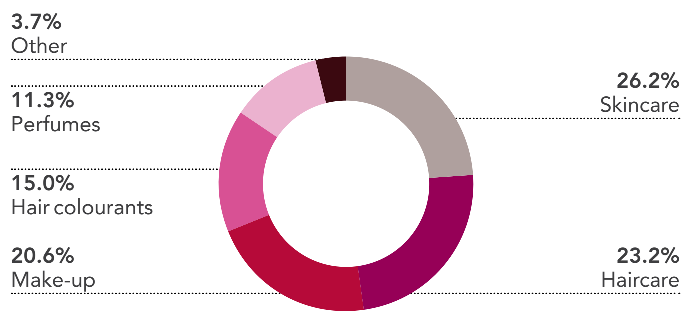
	€ millions	Growth	
		Like-for-like	Published figures
Professional Products	2,472	+1.3%	+3.3%
Consumer Products	8,355	+4.1%	+0.9%
Luxury Products	4,170	+0.7%	+6.2%
Active Cosmetics	1,289	+4.2%	+3.3%
Total cosmetics sales(1)	**16,359**	**+2.7%**	**+2.8%**



DIVISIONS WEIGHT(1)

BY BUSINESS SEGMENT

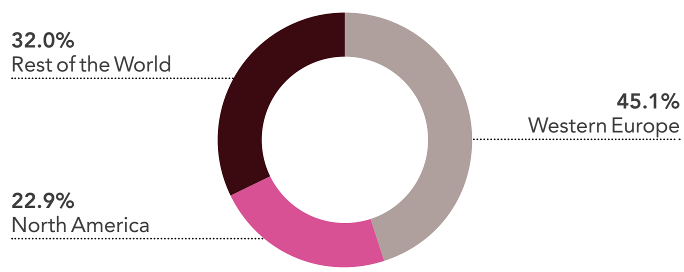
	€ millions	Growth	
		Like-for-like	Published figures
Skincare	4,296	+5.5%	+3.2%
Haircare	3,790	+1.5%	+0.0%
Make-up	3,375	+4.3%	+4.2%
Hair colourants	2,451	+1.7%	–1.7%
Perfumes	1,848	–2.4%	+7.8%
Other(2)	599	+2.3%	+17.8%
Total cosmetics sales(1)	**16,359**	**+2.7%**	**+2.8%**



BUSINESS SEGMENTS WEIGHT

BY GEOGRAPHIC ZONE

	€ millions	Growth	
		Like-for-like	Published figures
Western Europe	7,382	–0.3%	+1.8%
North America	3,739	–4.8%	–6.6%
Rest of the World, of which:	5,238	+13.8%	+12.5%
Asia	1,844	+16.3%	+16.7%
Eastern Europe	1,380	+21.1%	+20.8%
Latin America	1,151	+6.7%	+2.4%
Africa, Orient, Pacific	862	+8.1%	+6.7%
Total cosmetics sales(1)	**16,359**	**+2.7%**	**+2.8%**



GEOGRAPHIC ZONES WEIGHT

(1) The balance between the total of the cosmetics branch and the four divisions (€73 million, or 0.4% of the cosmetics sales) is for the most part due to direct selling of cosmetic products.
(2) "Other" includes sales made by American distributors with brands outside of the group.

2008 Operating profit of the cosmetics branch

BY DIVISION

	2007 € millions	2007 % of sales	2008 € millions	2008 % of sales
Professional Products	502	21.0%	519	21.0%
Consumer Products	1,582	19.1%	1,578	18.9%
Luxury Products	844	21.5%	767	18.4%
Active Cosmetics	256	20.5%	259	20.1%
Cosmetics divisions total(1)	**3,180**	**20.0%**	**3,110**	**19.0%**
Non-allocated(2)	–479	–3.0%	–502	–3.1%
Cosmetics branch total	**2,701**	**17.0%**	**2,608**	**15.9%**

BY GEOGRAPHIC ZONE

	2007 € millions	2007 % of sales	2008 € millions	2008 % of sales
Western Europe	1,633	22.5%	1,634	22.1%
North America	773	19.3%	593	15.9%
Rest of the World	774	16.6%	884	16.9%
Total for geographic zones	**3,180**	**20.0%**	**3,110**	**19.0%**
Non-allocated(2)	–479	–3.0%	–502	–3.1%
Cosmetics branch total	**2,701**	**17.0%**	**2,608**	**15.9%**

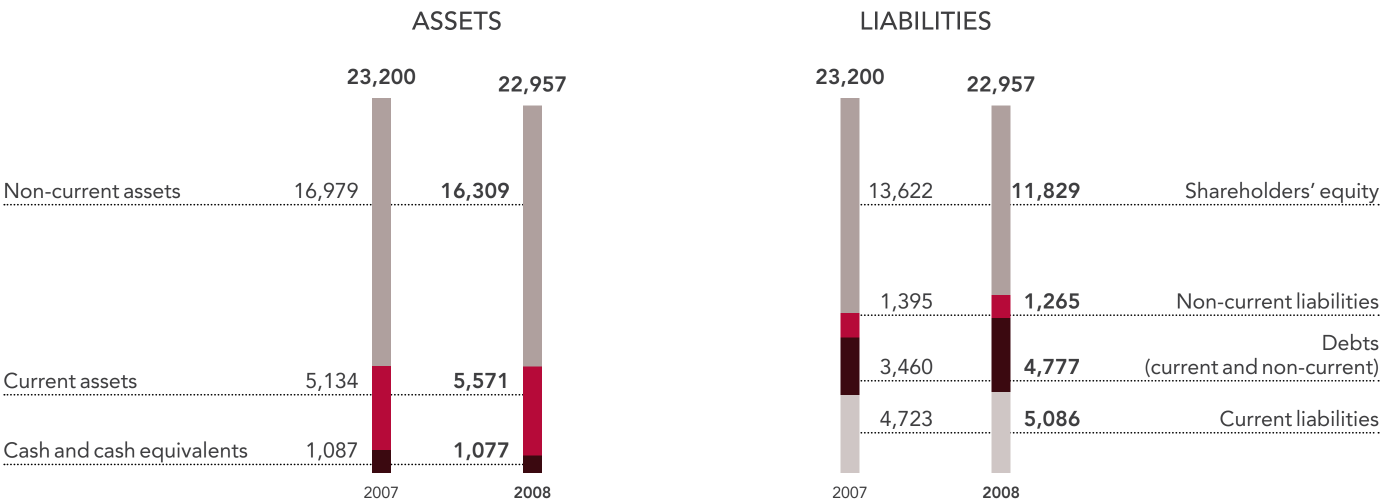
2008 Financial ratios

		2007	2008
(% of sales) Operating profit/Sales	=	16.6%	15.5%
(% of shareholders' equity) Net profit excluding non-recurrent items after minority interests/Opening shareholders' equity	=	13.9%	15.2%
(% of shareholders' equity) Net gearing(3)	=	17.4%	31.3%
Cash flow/Investments	=	3.5×	3.7×

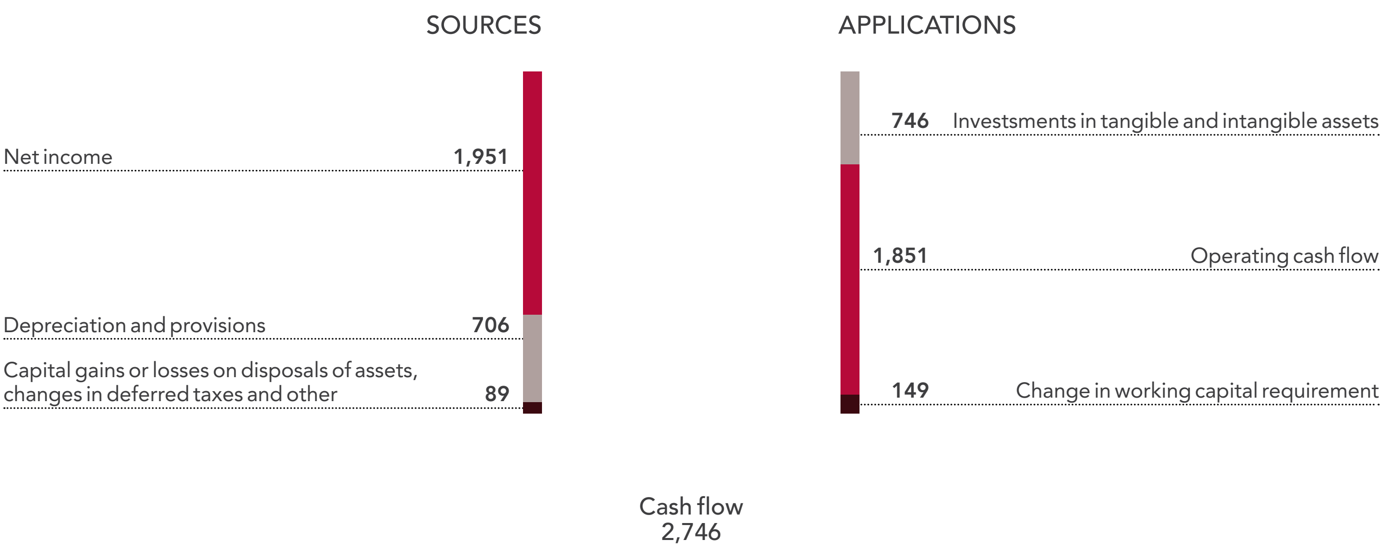
(1) Includes the operating profit of the "cosmetics miscellaneous" activity which consists mainly of mail order sales.
(2) "Non-allocated" items consist of the expenses of functional divisions and of fundamental research, and of stock option costs, which are not allocated to the cosmetics divisions. This item also includes activities not forming part of the group's core businesses, such as insurance, reinsurance and banking.
(3) Net gearing = $\frac{\text{Current and non-current debt – Cash and cash equivalents}}{\text{Shareholders' equity after minority interests}}$

2008 Balance sheet and cash flows

BALANCE SHEET
(€ millions)



SOURCES AND APPLICATIONS OF FUNDS
(€ millions)



L'Oréal over 10 years

FRENCH ACCOUNTING STANDARDS (€ millions)	1998	1998(1)	1999(1)(2)	2000(2)	2001	2002
Results of operations						
Consolidated sales	11,498	9,588	10,751	12,671	13,740	14,288
Pre-tax profit of consolidated companies	1,339	979	1,125	1,322	1,502	1,698
As a percentage of consolidated sales	**11.6**	**10.2**	**10.5**	**10.4**	**10.9**	**11.9**
Income tax	488	375	429	488	536	580
Net operational profit	807	722	833	1,033	1,236	1,464
As a percentage of consolidated sales	**7.0**	**7.5**	**7.7**	**8.2**	**9.0**	**10.2**
Net operational profit after minority interests	719	719	827	1,028	1,229	1,456
Net profit attributable to the group	680	680	787	969	1,291	1,277
Total dividend	191	191	230	297	365	433
Balance sheet						
Fixed assets	5,590	5,299	5,918	7,605	8,140	8,130
Current assets	4,937	4,229	5,139	6,256	6,724	6,843
Of which cash and marketable securities	903	762	1,080	1,588	1,954	2,216
Shareholders' equity(3)	5,428	5,123	5,470	6,179	7,210	7,434
Borrowing and debts	1,748	1,718	1,914	3,424	2,939	2,646
Per share data (€) – notes 4 to 6						
Net operational profit after minority interests per share(7)	1.06	1.06	1.22	1.52	1.82	2.15
Net dividend(8)(9)	0.28	0.28	0.34	0.44	0.54	0.64
Tax credit	0.14	0.14	0.17	0.22	0.27	0.32
Share price at December 31st(8)	61.59	61.59	79.65	91.30	80.90	72.55
Weighted average number of shares outstanding	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	675,990,516

FRENCH ACCOUNTING STANDARDS

(1) For purposes of comparability, the figures include:
– in 1998, the pro forma impact of the change in the consolidation method for Synthélabo, following its merger with Sanofi in May 1999,
– the impact in 1998 and 1999 of the application of CRC Regulation no.99-02 from January 1st, 2000 onwards. This involves the inclusion of all deferred tax liabilities, evaluated using the balance sheet approach and the extended concept, the activation of financial leasing contracts considered to be material, and the reclassification of profit sharing under "Personal costs".
(2) The figures for 1999 and 2000 also include the impact on the balance sheet of adopting the preferential method for the recording of employee retirement obligation and related benefits from January 1st, 2001 onwards. However, the new method had no material impact on the profit and loss account of the years concerned.
(3) Plus minority interests.
(4) Including investment certificates issued in 1986 and bonus share issues. Public Exchange Offers were made for investment certificates and voting right certificates on the date of the Annual General Meeting on May 25th, 1993 (see Commission des Opérations de Bourse information note of June 3rd, 1993). The certificates were reconstituted as shares following the Special General Meeting on March 29th, 1999 and the Extraordinary General Meeting on June 1st, 1999.
(5) Figures restated to reflect the one-for-ten bonus share allocation decided by the Board of Directors as of May 23rd, 1996.
(6) Ten-for-one share split (Annual General Meeting of May 30th, 2000).
(7) Net earnings per share are based on the weighted average number of shares outstanding in accordance with the accounting standards in force. In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net operational profit after minority interests, before allowing for the provision for depreciation of treasury stock, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill. At December 31st, 2004, 8.5 million subscription options have been allocated to group executives, and could lead to the issue of the same number of shares.
(8) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was listed in 1963.
(9) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.

2003	2004
14,029	14,534
1,870	2,063
13.3	**14.2**
629	696
1,661	1,659
11.8	**11.4**
1,653	1,656
1,492	3,626
494	554
8,136	11,534
6,876	6,645
2,303	1,981
8,136	10,564
1,941	2,175
2.45	2.46
0.73	0.82
0.37	–
65.00	55.85
676,021,722	673,547,541

IFRS (€ millions)	2004	2004(1) pro forma	2005	2006	2007	2008
Results of operations						
Consolidated sales	13,641	13,641	14,533	15,790	17,063	17,542
Operating profit	2,089	2,089	2,266	2,541	2,827	2,725
As a percentage of consolidated sales	15.3	15.3	15.6	16.1	16.6	15.5
Pre-tax profit excluding non-recurrent items	2,334	2,187	2,370	2,638	2,896	2,788
Net profit excluding non-recurrent items after minority interests	–	1,486	1,639	1,833	2,039	2,064
Net profit attributable to the group	3,970	1,439	1,972	2,061	2,656	1,948
Total dividend	554	554	659	739	843	862
Balance sheet						
Non-current assets	15,734	15,734	18,686	19,155	16,979	16,309
Current assets	4,075	4,075	4,537	4,847	5,134	5,571
Cash and cash equivalent	576	576	663	781	1,087	1,077
Shareholders' equity(2)	11,825	11,825	14,657	14,624	13,622	11,829
Net current and non-current debt	1,568	1,568	2,217	3,329	2,373	3,700
Cash flow	1,923	1,923	2,130	2,410	2,720	2,746
Per share data (€)						
Diluted net profit excluding non-recurrent items after minority interests	–	2.29	2.60	2.98	3.36	3.49
Net dividend(3)(4)	0.82	0.82	1.00	1.18	1.38	1.44(5)
Share price at December 31st(3)	55.85	55.85	62.80	75.90	97.98	62.30
Diluted weighted average number of share outstanding	649,598,404	649,598,404	630,892,470	615,723,220	606,012,471	590,920,078

IFRS
(1) For comparison purpose, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
– by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €149.5 million,
– and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.
(2) Plus minority interests.
(3) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was listed in 1963.
The share capital is fixed at €120,483,162 at December 31st, 2008: the par value of one share is now €0.2.
(4) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.
(5) Dividend proposed to the Annual General Meeting of April 16th, 2009.

Individual shareholders: a stronger relationship

In 2008, L'Oréal increased the number of events with individual shareholders, with meetings in many major cities, factory and laboratory visits, and the group's participation in the Actionaria fair. At the same time, the content of the "Letter to Shareholders" and the "Shareholder Digest" has been supplemented, and their circulation has been considerably widened. The Board of Directors has also decided to offer shareholders a loyalty bonus by proposing to the Annual General Meeting of April 16th, 2009 a preferential dividend of +10%[1] to be paid to shareholders having held registered shares—whether directly or managed[2]—for at least two years.

Loyalty bonus for registered shareholders

Fully aware of the importance of shareholder confidence and loyalty, the Board of Directors decided to propose to the Annual General Meeting of April 16th, 2009 a resolution enabling the payment of a preferential dividend. Shareholders having held registered shares—whether directly or managed[2]—for at least two years will thus receive, from 2012 and for the fiscal year 2011, a preferential dividend of +10% (not exceeding 0.5% of the share capital).

Shareholder panel: your opinion counts

At least twice a year, L'Oréal holds a meeting with a rolling panel of around twenty individual shareholders, chosen from the several hundred volunteers who put their names forward. The panel's composition is partly renewed for each meeting, in order to get the biggest number of participants and a high diversity of points of views. The panel meetings have enabled in particular, the selection of topics to be raised at the Annual General Meeting, and the reflection about the content and evolution of the Annual Report and the website.

BECOMING A L'ORÉAL SHAREHOLDER: SIX GOOD REASONS FOR CHOOSING REGISTERED SHARES

1. Preferential dividend of +10% for shareholders holding registered shares for at least two years[1].
2. Full and personalised information (*Shareholder Digest* and *Letters to Shareholders*) sent directly to the shareholder.
3. Easier access to the Annual General Meeting: notice to attend sent directly to the shareholder, with the possibility of online voting.
4. No custody fees (directly registered shares).
5. Dividend sent by cheque or credited to the shareholder's account, with no delay and no charge.
6. Transfer fees met by L'Oréal[3] (directly registered shares).
To find out more about the different ways of holding shares, please consult: http://www.loreal-finance.com/eng/become-shareholder

Direct contact with our shareholders throughout the year

Actionaria fair

A record number of visits were made to the L'Oréal stand at the Actionaria fair in 2008. Some 3,000 shareholders met representatives of the group, and were thus able to gather information about the L'Oréal share, and the group's strategy and businesses.

Shareholder meetings

In 2008, L'Oréal met its shareholders in many major cities, such as Bordeaux, Brussels, Dijon, Lille, Nantes, Nice, Strasbourg and Toulouse.

The 2009 programme of shareholder meetings can be found on page 100, or consulted on the www.loreal-finance.com website, in the Shareholders' Corner/Key dates section.

Financial communications awards

- 1st prize for the Annual Report, Cac 40 category, awarded by *La Vie Financière* and *Les Echos*.
- 1st prize for quality and transparency of information and communications, awarded by L'Agefi.
- Grand Prix Boursoscan for the best financial website, awarded by Boursorama.

Some **6,000** individual shareholders met the company face-to-face

10 shareholder meetings across France

Paris, November 21st–22nd, 2008. For the fifth year running, L'Oréal took part in the Actionaria fair.

(1) Not exceeding 0.5% of the share capital per shareholder. From 2012, subject to approval by the Annual General Meeting of April 16th, 2009.
(2) A registered account managed by a financial intermediary.
(3) Not exceeding €50 and upon presentation of proof of payment.

The L'Oréal share key figures

(at December 31st, 2008)

Net earnings(1) per share
€3.49

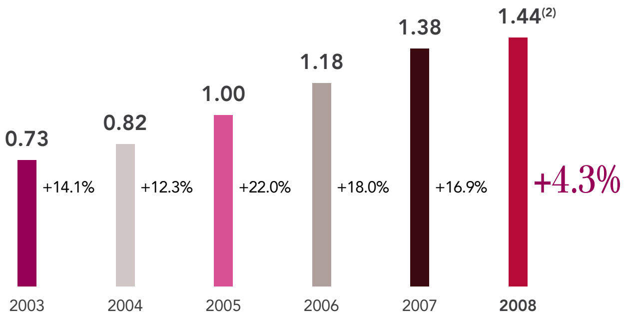
Dividend(2) per share
€1.44

Share price
€62.30

Market capitalisation(3)
€37.5 billion

DIVIDEND PER SHARE

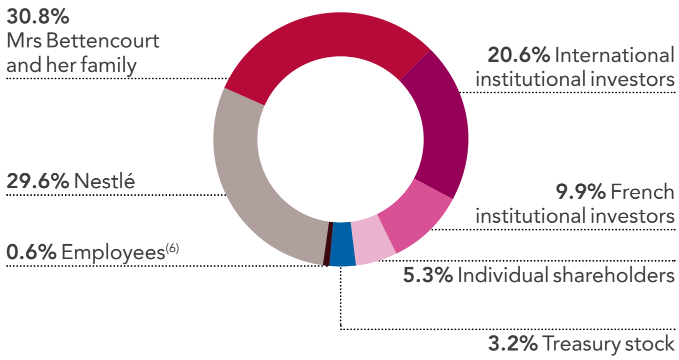
(in euro)



Dividend distribution rate in 2003: 36.6%(4)
Dividend distribution rate in 2008: 41.3%(5)

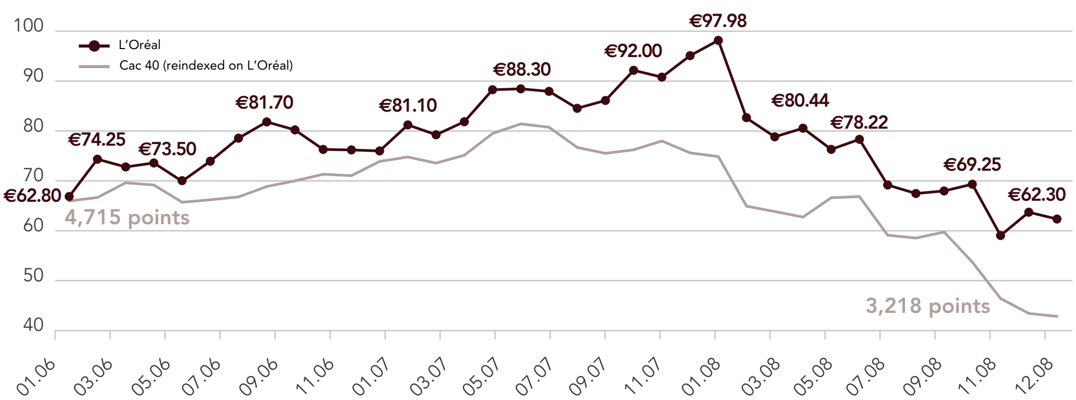
BREAKDOWN OF SHARE OWNERSHIP

(as at December 31st, 2008)



L'ORÉAL SHARE PRICE SINCE 2006

(in euro)



–0.80%
Change in L'Oréal share price since 01.01.2006

–31.75%
Change in Cac 40 index since 01.01.2006

INVESTMENT IN L'ORÉAL SHARE

OVER 3 YEARS

Initial capital multiplied by 1.05 in 3 years
Total shareholder return: 1.14%
During the same period, the Cac 40 fell by –9.07% per year(7)

Purchase of 238 shares at €62.80(8) on December 31st, 2005: 14,946.40 euros

Valuation at December 31st, 2008 including reinvestment of dividends (251 shares at €62.30): 15,637.30 euros

OVER 10 YEARS

Initial capital multiplied by 1.22 in 10 years
Total shareholder return: 1.04%
During the same period, the Cac 40 increased by +0.70% per year(7)

Purchase of 24 shares et €615.89(8) on December 31st, 1998: 14,781.36 euros

Valuation at December 31st, 2008 including reinvestment of dividends (289 shares at €62.30): 18,004.70 euros

OVER 20 YEARS

Initial capital multiplied by 13.52 in 20 years
Total shareholder return: 13.28%
During the same period, the Cac 40 increased by +6.63% per year(7)

Purchase of 22 shares at €670.62(8) on December 31st, 1988: 14,753.64 euros

Valuation at December 31st, 2008 including reinvestment of dividends (3,202 shares at €62.30): 199,484.60 euros

(1) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interests.
(2) Dividend proposed to the Annual General Meeting of April 16th, 2009.
(3) On the numbers of shares at December 31st, 2008, i.e. 602,415,810 shares.
(4) Taking into account Sanofi-Synthélabo at the dividend level.
(5) Based on the dividend proposed to the Annual General Meeting of April 16th, 2009.
(6) In L'Oréal's company mutual funds.
(7) Reinvested dividends; source: Datastream.
(8) Non-adjusted share price.

A resilient cosmetics market

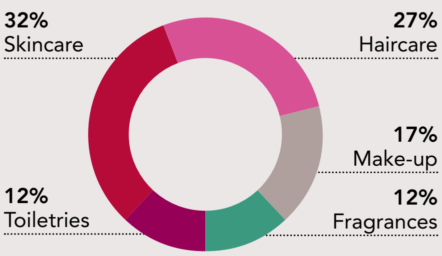
Over the last 15 years, the cosmetics market has grown on average by +4.5% a year excluding currency fluctuations, with annual growth rates ranging from around +3% to +5.5%. It is a market which has demonstrated both its ability to achieve sustainable growth and its capacity for resilience in unfavourable economic conditions.

€110bn(1)

In 2008, the worldwide cosmetics market totalled €110.3 billion(1)

Balance between the five main business segments

WEIGHT OF MARKET BY PRODUCT CATEGORY(1)



The cosmetics market is divided into five main business segments: skincare, haircare, make-up, fragrances and toiletries.

These segments are complementary and thus able to meet consumers' needs in all their diversity.

In the different categories, a good many of the products are intended for everyday hygiene, comfort and beauty purposes.

Shampoos, cleansing lotions and moisturising creams are products which meet everyday needs: 92% of French people, for example, use a shampoo three times a week on average.

Other products, such as hair colourants, anti-dandruff shampoos, sun protection products and anti-ageing skincare lines are also features of everyday life.

At the meeting point between body and mind, cosmetic products furthermore play a part in the fundamental need for beauty, enabling all individuals to express their personalities to the full, gain self-confidence, open up to others and achieve self-fulfilment.

€31(3)

Average monthly cosmetics spending of a French household

(1) Excluding soap, toothpaste and razors, 2008 provisional estimates. Source: L'Oreal estimates, manufacturer selling prices.
(2) Source: Mass-market retailer panel, Nielsen/IRI Europe 12.
(3) Source: Euromonitor International.

Make-up: when innovation teams up with seduction

+8%(2)

Growth in mass-market make-up sales (Western Europe, 2008)

As the number three business segment in value terms, make-up is advancing strongly, particularly in Western Europe where the mass-market grew by +7.9%(2) in 2008. Around a quarter of European women use at least two make-up products every day. The European market is driven by constant innovations. Foundation make-up is recording the highest growth in the category, particularly thanks to the success of mineral make-up, which originated in North America and is proving extremely successful with Chinese women who prefer fine and aerated texture.

Skincare: number 1 category in the market

Skincare is the number 1 category in the market, and also the fastest-growing.

Four main factors are underpinning this growth:

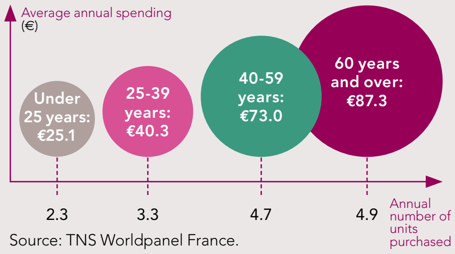
The ageing of the population in developed countries
In these countries, the ageing of the population is accelerating as the baby boom generation reaches maturity. Attaching importance to quality and advice, seniors are an extremely demanding customer group, who favour skincare products with high technological added value.

European women over 60 represent alone 34% of the facial skincare market. On average they buy twice as many products as women under 25.

Problems linked to sun exposure
The dangers of sun exposure are taken increasingly seriously, driving demand for photo-protection products. Furthermore, anti-blemish products, used for skin disorders, which are frequent in Asia and Latin America, are also growing.

Young adults' skin problems
Problems of this type affect young adults in general across all markets: 60% of young men in Thailand say they are concerned about acne or oily skin. More than 70% of young men in Thailand aged between 15 and 24 years use a cleansing lotion. In Europe, 90% of young women use a cleanser each morning.

FACIAL SKINCARE: AVERAGE SPENDING BY AGE BRACKET

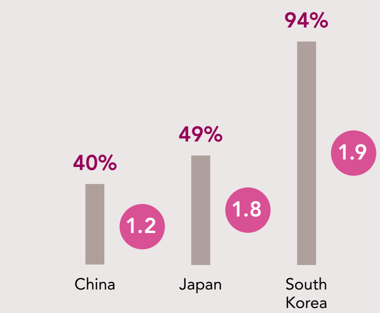


Source: TNS Worldpanel France.

Beauty routine diversification
The globalisation of the cosmetics market is bringing to light specific and sometimes highly elaborate beauty routines which can enrich the global market. Women in South Korea for example attach particular importance to skin purity, and use more than six products on average in the evening and morning. Brazilian women apply around five products to wash, style and embellish their hair.

Of products and men

FACIAL SKINCARE FOR MEN: DIVERSITY IN PURCHASING BEHAVIOUR



■ Men's skincare penetration rate
■ Number of products used in skincare routine by men who are facial skincare users
Source: 2005 Asia Study by L'Oréal, on a group of middle and upper class men aged 15 to 49.

The men's cosmetics market remains one of the most dynamic.

Behind this trend lies a great diversity in purchasing behaviour.

In Europe, men are gradually starting to consume facial skincare products.

Large numbers of young urban Asian men have already been won over. Their consumption should continue to increase over the coming years.

Innovation: continually improving performance

Where beauty is concerned, innovation is essential. Step by step, major technological breakthroughs are pushing back the limits of what is possible, and are in turn inspiring new desires for beauty. In colourants, technologies ensure increasing respect for the hair fibre. They also offer colours of unequalled intensity, with application times reduced to new record levels. Anti-ageing skincare products are increasingly and measurably effective in reducing wrinkles and enhancing facial firmness. In make-up, innovation is teaming up with seduction for lipsticks which combine comfort and shine while remaining impeccable for hours. Mineral foundations are innovating too, offering a perfection which is increasingly natural.

A market of the future

In 2020, the frontiers of the cosmetics market will be very substantially redrawn as a result of the natural increase in population, international migration and rising levels of income in a very large number of countries. The market will be vaster and more global. Its centre of gravity will have shifted towards the south and east of the planet, profoundly changing consumer profiles and leading to an extension and diversification of beauty needs.

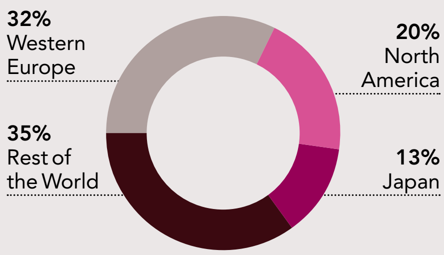
The new markets become the world's number 1 consumption zone

Consumption growth supported by rising income…

Consumption of cosmetics products in the new markets remains on average 13 times lower than in markets in the developed countries. Nevertheless, it is constantly growing, mainly as a result of rising levels of income, particularly in the middle classes.

COSMETICS CONSUMPTION[1]
(€ per capita)

BREAKDOWN OF THE WORLDWIDE COSMETICS MARKET BY GEOGRAPHIC ZONE IN 2008[1]

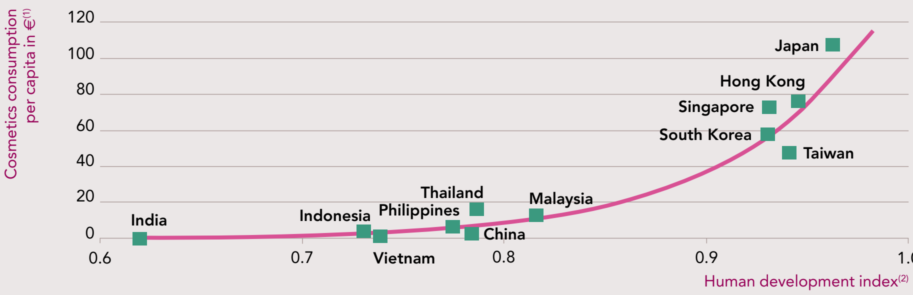


(1) Excluding soap, toothpaste and razors. 2008. Provisional estimates. Source: 2008 L'Oréal estimates, manufacturer selling prices.

… and the gradual improvement of living conditions

Comparative trends in cosmetics consumption per capita in Asian markets and in the human development index (HDI) in these countries suggest that certain factors linked to living conditions, such as life expectancy, access to education, urbanisation or even mobility also contribute to cosmetics market growth.

HDI INDEX AND PER CAPITA COSMETICS MARKET IN ASIA



(1) Excluding soap, toothpaste and razors. 2007. Source: 2007 L'Oréal estimates.
(2) Source: UNDP—*Human Development Report* (2007).

Brazil and China become the 3rd and 4th largest cosmetics markets in the world

In the space of 10 years, the worldwide cosmetics market Top 10 has been substantially changed by the growth of the emerging markets, and particularly the BRIMC[1] countries. China, eighth in 1998, became the fourth largest market in 2008. Brazil is now in third place. Lastly, Russia is now one of the world's top ten markets.

(1) Brazil, Russia, India, Mexico, China.

WORLDWIDE COSMETICS MARKET TOP TEN (2008)

1 UNITED STATES	6 FRANCE
2 JAPAN	7 UNITED KINGDOM
3 BRAZIL	8 RUSSIA
4 CHINA	9 ITALY
5 GERMANY	10 SPAIN

Source: Euromonitor International.

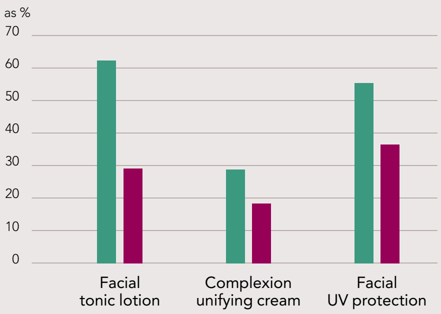
In 2020…

… 1 billion young seniors

Today, there are large numbers of seniors in the developed countries. But ageing is also affecting the emerging markets: in 20 years' time, the median age of the Chinese population will have reached 40. A new generation of uninhibited and individualistic "young seniors", aged between 45 and 59, is appearing. Cosmetics are amongst the first consumer products that the new middle classes usually want to buy themselves.

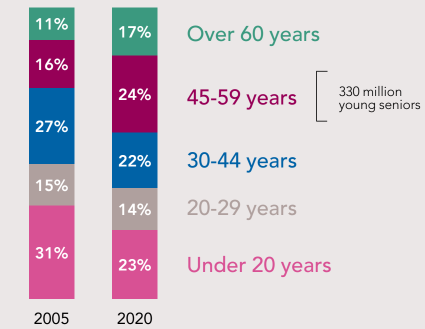
Young Chinese women today use more products on average than older women. These young women, who will be 40 in 2020, will very probably have kept their consumption habits.

USE OF COSMETICS PRODUCTS BY CHINESE WOMEN



■ Chinese women of 20-24
■ Chinese women of 45-50
Source: 2008 L'Oréal study of skincare and skin cleansing use by urban women aged 15-50.

AGE PYRAMID TREND IN CHINA (2005-2020)



Source: *Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects.*

… 60% of city-dwellers

Accelerated urbanisation, particularly in the emerging countries, is generating growing pollution. An increase in skin problems is foreseeable over future years, particularly in the major urban centres in the south of the planet. Today, 36% of Brazilians and 27% of Indians are already affected by oily skin problems, but only 9% of Europeans.

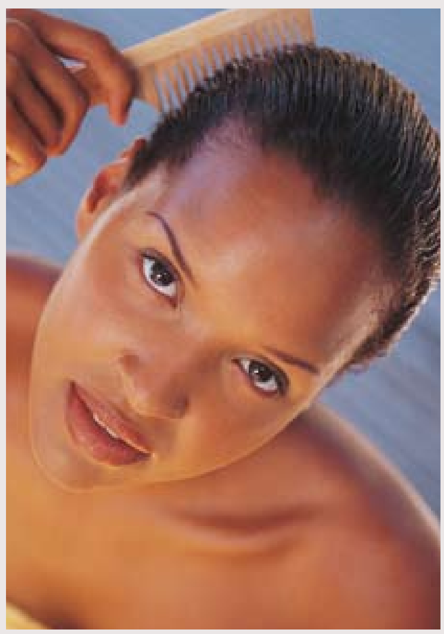
… about 50% of consumers in hot climates

By 2020, the centre of gravity of the worldwide cosmetics market will very probably have shifted towards the south and east of the planet. Market trends will develop in hot climates which generate specific needs.

In Brazil, the humidity of the tropical climate increases the frequency of shampoos—to as much as twice a day—compared with three times a week in Europe. More than 90% of the population use shampoos. 61% of women use a no-rinse conditioner for hair which is made unruly by the humidity.

The continuous process of perfecting haircare is one of the keys to success in these markets.

UV radiation is considerably stronger in Asia than in Europe. Solar radiation levels in Singapore are five times higher than in Paris. Once again, devising new solutions for UV protection and controlling pigmentation, and particularly the appearance of blemishes, are major challenges.

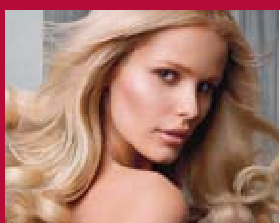


A wealth of brands for all kinds of beauty in the world

Professional Products

L'ORÉAL PROFESSIONNEL

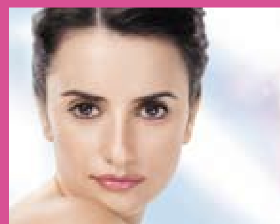
KÉRASTASE PARIS



REDKEN 5TH AVENUE NYC

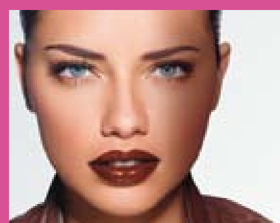
MATRIX

Consumer Products



L'ORÉAL PARIS

Take care. GARNIER



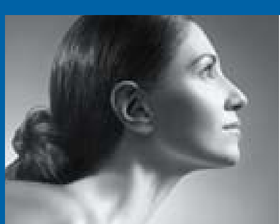
MAYBELLINE NEW YORK

SOFTSHEEN·CARSON™

Active Cosmetics

VICHY LABORATOIRES

LA ROCHE-POSAY LABORATOIRE PHARMACEUTIQUE

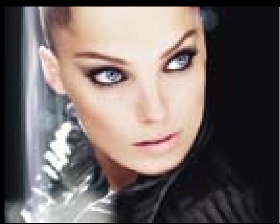


innéov

SKINCEUTICALS

The vocation of the group's brands—very different and perfectly complementary in their positioning, cultural origins and price level—is to cover all beauty desires in each distribution channel and each region of the world. All have powerful growth potential, allowing L'Oréal the flexibility to adapt to the major markets and conquer new territories. L'Oréal draws on this unique brand portfolio to make the different facets of beauty accessible to everyone.

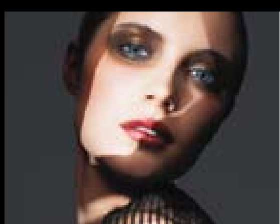
Luxury Products



LANCÔME PARIS

YVES SAINT LAURENT

BIOTHERM



shu uemura

DIESEL

GIORGIO ARMANI PARFUMS

RALPH LAUREN

HR HELENA RUBINSTEIN

Kiehl's SINCE 1851

cacharel

The Body Shop

THE BODY SHOP®

Professional Products

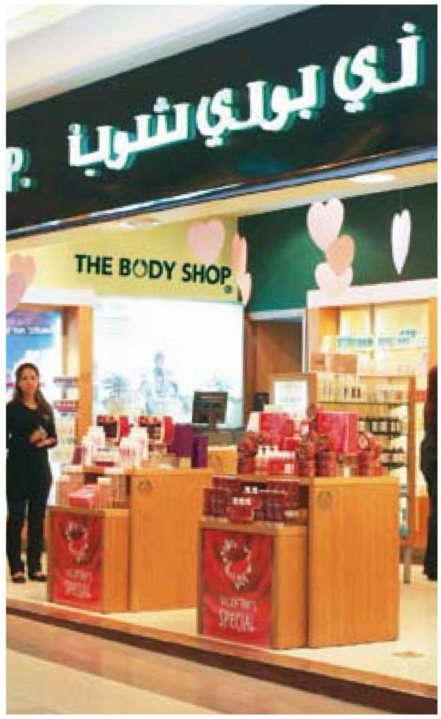
The Professional Products Division distributes its products in **hair salons** all over the world. Its high value added products and its support for salons in every facet of their development make the division the ideal partner for beauty professionals. A portfolio of differentiated brands to meet the needs of all kinds of salons, a constant flow of innovations and high-level education are forging the division's worldwide leadership.

Consumer Products

The Consumer Products Division distributes its products in all **mass-market channels** (hypermarkets, supermarkets, drugstores) across the world. Thanks to its diversified portfolio of brands—L'Oréal Paris, Garnier, Maybelline New York, SoftSheen·Carson—it offers consumers products that combine advanced technology with accessible prices.

BUSINESSES

OFFERING THE BEST OF OUR BRANDS IN ALL OUR DISTRIBUTION CHANNELS



Luxury Products

The Luxury Products Division develops and markets across the world a unique brand portfolio covering the three major luxury cosmetics businesses: skincare, make-up and fragrances. A key player in **selective distribution**, it now has the opportunity to become the world's number 1 luxury cosmetics group, thanks to its strong positions, particularly in the new and dynamic markets of Asia, Eastern Europe and Latin America, and the integration of the YSL Beauté brands, the key event for the division in 2008.

Active Cosmetics

World number 1 in pharmacy sales of dermocosmetic products, the Active Cosmetics Division has a portfolio of five unique and complementary brands to meet consumers' growing health and skincare needs. All over the world, the division offers effective and safe products, specifically suited to pharmacists' advice and **dermatologists'** recommendations, primarily sold in **pharmacies**.

The Body Shop

Founded in 1976 in the United Kingdom by Dame Anita Roddick, the brand is well known for its strong ethical commitment and its products based on natural ingredients. 65% of them contain community trade ingredients, sourced primarily from suppliers in disadvantaged communities, a unique approach in the cosmetics industry. The Body Shop has a network of more than 2,550 stores in 62 countries.

The mission of L'Oréal's divisions, to which they devote their expertise, is to offer the widest choice to every customer. Each one operates in a specific channel, in close partnership with distributors, and cultivates a particular aspect of beauty: the creativity of hairdressers, luxury in selective distribution, accessibility in the mass-market, and health in pharmacies. Each division has built up a close relationship with its customers, by being ever-attentive to their needs and offering them the ideal innovation, the best of beauty.

L'ORÉAL PROFESSIONNEL
KÉRASTASE
REDKEN
MATRIX
PUREOLOGY
SHU UEMURA ART OF HAIR
MIZANI
KÉRASKIN ESTHETICS

Professional
PRODUCTS

Creativity and services for each salon

"Supporting the development of increasingly professional hair salons in the "growth-relay" countries and providing new leverage for the development of salons in the mature countries are the major challenges for the Professional Products Division. It draws on a portfolio of brands, highly complementary both in technical and artistic inspiration and price positioning, to meet the needs of all salons, whatever their stages of development. Education, the driving force for professionalisation, is adapted to suit each region of the world. A thorough knowledge of specific consumer needs, and collaboration with top hairdressers, enable the division to deliver powerful innovations each year in products, services and businesses. The launch of KÉRASKIN ESTHETICS, an exclusively professional skincare line, has thus opened up a new market for hair salons."

Nicolas Hieronimus
Managing Director
Professional Products

2008 REVIEW

The Professional Products Division strengthened its number 1 position in a market whose growth slowed substantially over the year. In Western Europe, growth (+0.6%) was driven by Northern Europe (Germany, the United Kingdom, the Netherlands, Scandinavia) where the division has been gaining significant market share. The luxury brands (SHU UEMURA ART OF HAIR, KÉRASTASE, MIZANI), MATRIX with its accessible positioning, and the alternative brand REDKEN are the major growth drivers. In North America (–6.3%), the severe recession and the intense anti-diversion efforts should not overshadow the success in hair colourants (+6.0% in salon sales), rewarding the distributor strategy which is particularly effective in conquering new salons. The Rest of the World zone is continuing its rapid expansion (+14.7%) thanks to the success of L'ORÉAL PROFESSIONNEL, KÉRASTASE and MATRIX. Russia (+36.2%), Brazil (+16.4%) and China (+32.9%) are the three major contributors to this growth rate. Japan (+5.0%) is confirming its dynamism, while India (+28.8%) is accelerating.

2009 OUTLOOK

2009 should be marked by a slowdown in the world hairdressing market, even though it is traditionally one of the first to return to growth when the economy rebounds. Salons will be looking to accentuate their differentiation and appeal. In this setting, the diversity of the brand portfolio will come into its own. The luxury brands will continue to serve all the needs of upmarket salons. The accessible positioning of MATRIX will appeal to large numbers of salons eager to combine quality with competitive prices, while REDKEN and L'ORÉAL PROFESSIONNEL will cultivate their flair for artistic and technical innovation.
The international roll-out of the PUREOLOGY brand acquired in 2007, Série Nature and the L'ORÉAL PROFESSIONNEL men's line will tap into two strong consumption trends: natural products and men's beauty. 2009 will be a year of innovation for all the brands, and a year for conquering new territories, particularly in South-East Asia, North Africa and the Near and Middle East.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Western Europe	1,017.8	1,002.6	40.6%	+0.6%	–1.5%
North America	802.0	830.3	33.6%	–6.3%	+3.5%
Rest of the World	572.1	638.8	25.8%	+14.7%	+11.7%
TOTAL	**2,391.9**	**2,471.7**	**100%**	**+1.3%**	**+3.3%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Hair colourants	887.6	876.5	35.5%	+0.5%	–1.2%
Styling and textures	360.3	350.5	14.2%	–2.5%	–2.7%
Shampoos and haircare	1,144.0	1,244.7	50.4%	+3.0%	+8.8%
TOTAL	**2,391.9**	**2,471.7**	**100%**	**+1.3%**	**+3.3%**

08 highlights

Acquisition of a third distributor in the United States, Columbia Beauty Supply, completing the division's territorial coverage, following the acquisition of Maly's West and Beauty Alliance in 2007. This strategic initiative enables the division to build closer technical and commercial relationships with hairdressers, control distribution, raise its standards of service, and increase its market share.

Major innovations in hair colourants with the launches of Rubilane®, a hair colourant which produces intense and lasting copper red colours, and Platinium Plus lightening paste, which combines safety with comfort.

L'Oréal strongly reinforces its leadership in Eastern Europe thanks to the success of Kérastase and L'Oréal Professionnel in the luxury segment, and Matrix in the affordable segment.

Strong worldwide growth in the luxury brands Shu Uemura Art of Hair, Kérastase and Mizani, which combine superior quality with the benefits of a unique experience.

Rapid growth in the emerging countries thanks to hairdresser education, the success of Matrix and local breakthroughs for L'Oréal Professionnel, with Hair Spa in Asia and Force Relax in Brazil.

Success for men's haircare with the new lines L'Oréal Professionnel Homme and its Cover 5' product for grey hair, and the Mint line by Redken for Men.

Launch of Kéraskin esthetics, the ultra-selective skincare line, in hair salons with skincare booths and luxury aesthetic institutes.

—KÉRASTASE
Russia.

L'ORÉAL PROFESSIONNEL

A premium brand featuring the most advanced technologies, L'Oréal Professionnel is the privileged partner and the source of inspiration of top hairdressers all over the world.
In 2008, the growth of L'Oréal Professionnel outpaced the market. In hair colourants, the brand strengthened its leadership thanks to solid performances from the star products Majirel and Luo Color, combined with the success of Color Suprême anti-ageing hair colourant, Platinium Plus lightening paste and the launch of Rubilane®, a patented hair colourant, which for the first time ever offers intense and lasting copper red colours.
In haircare, Série Expert is confirming its dynamism around the world, thanks to the launches of Liss Ultime, a range dedicated to unruly hair, and Volume Expand, the first range to benefit from mineral technology. The launch of the Série Nature range, entirely designed around natural ingredients, is another growth vector.
In styling, the growth of L'Oréal Professionnel has been driven by the extremely successful Play Ball, a young, alternative styling range, while the premium styling brand Texture Expert is continuing its conquest of the United States and is moving into Asia.
The brand is entering the men's market for the first time with the launch of L'Oréal Professionnel Homme. This extremely comprehensive haircare range includes the new product Cover 5', a major technological innovation which very naturally covers grey hair in just five minutes. For salons this is a new add-on service which has been enthusiastically welcomed by hairdressers.

KÉRASTASE

The Kérastase brand again reinforced its position as the world leader in professional haircare. In 2008, its strong growth was driven by markets outside Europe, primarily by Japan and the United States. Throughout the year, the brand's positioning has been modernised with a new communication format and the introduction of luxury codes. Breakthrough technologies have been deployed, with the launches of Biotic, the first range to strengthen the scalp's natural defences, and Chroma Riche, a new panoply of haircare products for damaged colour-treated hair. Distribution selectivity, which guarantees the quality of service offered around Kérastase products, has again been strengthened.

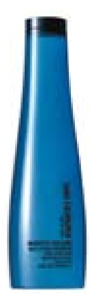
REDKEN

Redken 5th Avenue delivered a very strong performance, boosting its global reach. Its revolutionary products, its link-up with Fashion Week in New York and its commitment to hairdresser education are driving its growth. The major initiatives of 2008 are the successful launch of Real Control haircare, the 20th anniversary of Shades EQ hair colourants, and the partnership with world-famous hair stylist Guido Palau.

MATRIX

For Matrix, the number 1 brand in North America, the acceleration of its global conquest, particularly in the BRIC countries(1) has counterbalanced the difficulties faced in North America with the economic context and its anti-diversion efforts. Hair colourants enjoyed strong growth thanks to the international restage of core range Socolor.beauty and the successful launch of Color Sync Sheer Pastels. In the brown segment, Wonderbrown again proved dynamic in Asia and was also successful in India. In haircare, Biolage extended its reach in Europe, and grew with the launch of Forte thérapie and new services. The accessible haircare range Matrix Essentials was boosted by the worldwide success of Sleek.look. With 280,000 salons, Matrix is now present in 53 countries.

—L'ORÉAL PROFESSIONNEL
Launched in Brazil, the Force Relax haircare range offers precise hair relaxation with the injection of active nutri-lipidic ingredients.

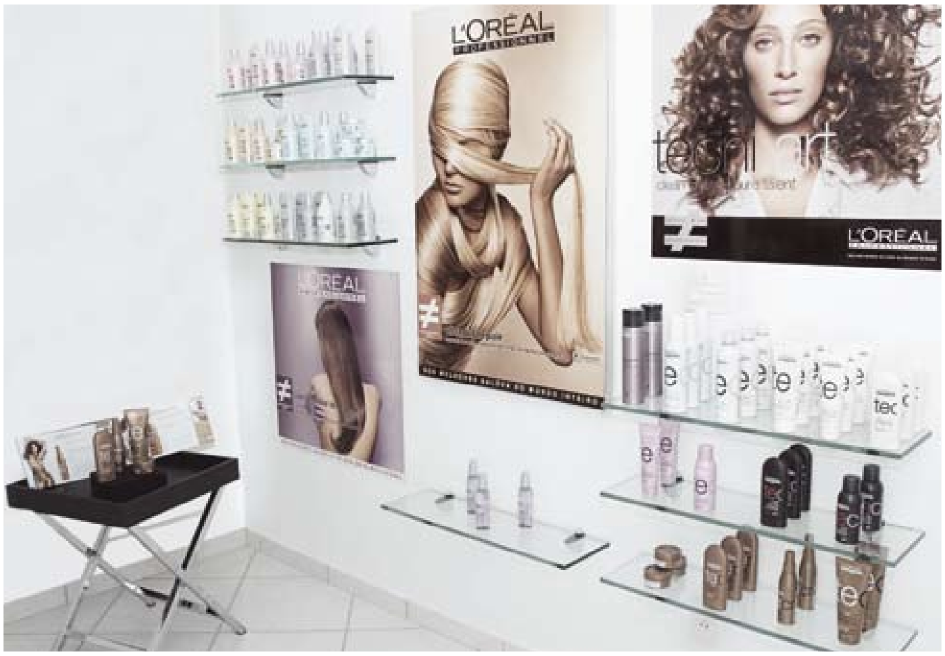


—SHU UEMURA ART OF HAIR
Enriched with Depsea Water, Muroto Volume haircare is formulated to meet the needs of fine hair.

—KÉRASTASE
With Chroma Riche, the fibre is filled with active emollients and light refracting ingredients.

—MATRIX
Biolage Forte thérapie increases the strength of hair that is moderately fine to thick, damaged or colour-treated, weakened or brittle.

(1) Brazil, Russia, India, China.



—L'ORÉAL PROFESSIONNEL
Brazil.

Commitments

The science of natural ingredients

In its new Série Nature range, L'Oréal Professionnel is committed to replacing chemical compounds by ingredients of natural origin whenever possible, without compromising efficacy and cosmetic performance. Driven forward by the group's Advanced Research, Série Nature offers formulas which embellish and protect the hair while respecting its fiber. Furthermore, all Série Nature products are developed at our factory in Burgos, which is equipped with solar panels and a rainwater and waste recycling system.

—MATRIX
China.

Partnership

L'ORÉAL PROFESSIONNEL ADVANCED TRAINING WINS OVER HAIRDRESSERS ACROSS THE GLOBE

The new "H3" cutting and styling education programme focuses on the three facets of the hairdressing business: "Heart" for artistic inspiration, "Hand" for technical expertise, and "Head" for salon development. A team of six top international hairdressers, which is changed each year, creates a collection of hair styles using L'Oréal Professionnel styling products. Information on the techniques is distributed to the training teams in each country, and they are then passed on to hairdressers in L'Oréal Professionnel salons. This unique approach has met with unprecedented success in the profession. It has enabled the training of more than 15,000 hairdressers in the latest styling techniques, the most modern trends and the use of the products.

PUREOLOGY

As the number 1 colour care brand in the United States, the brand offers ZeroSulfate haircare products based on 100% vegan ingredients. In 2008, Pureology launched the first anti-dandruff system for coloured hair, and received the prize for the best professional shampoo in the North American Stylist Choice Awards for the 5th consecutive year. The brand is also participating in the national "Break the silence about ovarian cancer" campaign.

SHU UEMURA ART OF HAIR

One year after its launch, Shu Uemura Art of Hair has confirmed its outstanding success in the world's most prestigious salons. Based on the ancestral values of Japanese haircare, the brand offers the ultimate in haircare and service in an exceptional environment, as well as products based on rare natural ingredients. In 2008, the brand launched the Muroto Volume range, based on Depsea Water, taken from the depths of the ocean off the coast of Japan, which is rich in volume-enhancing minerals.

MIZANI

In 2008, Mizani achieved double-digit growth, strengthening its original positioning as a salon-exclusive expert brand for Afro and multi-textured hair. Mizani means "balance" in Swahili. All its products are formulated to balance hydration and protein, such as haircare products Scalp Care and Renew Strength, and the Butter Blend Sensitive Scalp Relaxer system, launched in 2008.

KÉRASKIN ESTHETICS

The new professional skincare brand made a high-profile entrance into luxury aesthetics. In this extremely dynamic market, Kéraskin esthetics is aiming to support the development of upmarket salons and aesthetics centres. In 2008, the brand was launched in eight countries in Western Europe, Russia and Asia.
The original combination of L'Oréal's advanced research with the expertise of the top aesthetics professionals has given rise to a new professional approach to beauty. Kéraskin esthetics offers a range consisting of seven rituals, 30 professional products and tools, and professional excellence training programmes.

Consumer
PRODUCTS

L'ORÉAL PARIS
GARNIER
MAYBELLINE NEW YORK
SOFTSHEEN·CARSON
CLUB DES CRÉATEURS DE BEAUTÉ

Making the best of beauty accessible to everyone

"To strengthen its global positions, the Consumer Products Division is pursuing its four-point strategy. Creating blockbusters based on high added-value innovations to enhance the value of the range. Implementing a powerful launch programme to drive its major global franchises (including Revitalift, Elsève, Excellence and UltraLift), which help secure customer loyalty. Accelerating the geographic roll-out of its brands in new high-growth markets by tailoring product performance and price to local needs. Continuing to win market share in its traditional categories (hair colourants, haircare and styling, make-up and skincare), while expanding its presence in markets where positions are still limited, such as bodycare and sun protection."

Jean-Jacques Lebel
President
Consumer Products

2008 REVIEW

Sales grew by +4.1% like-for-like. In Western Europe, the Consumer Products Division reinforced its position as number one in facial skincare. In North America, despite a highly competitive environment, the division strengthened its number one ranking in make-up and hair colourants, while gaining market share in facial skincare. The Rest of the World zone remained extremely dynamic with growth of +14.5%, driven by China in particular (+34%). Overall, the division reinforced its leadership in key segments (hair colourants, haircare and make-up) and continued to win market share in the skincare segment.

2009 OUTLOOK

The Consumer Products Division is determined to boost its global positions in a market that should continue to grow. It aims to win new market share in Western Europe and North America, and accelerate its growth in rapidly developing regions. The division has plenty of assets to draw on. The diversity of its brand portfolio gives it great flexibility to penetrate all markets. The added value of its innovations enables it to highlight its excellent value for money. Its range of products, adapted for consumers all over the world and offered at affordable prices, is a guarantee of success with consumers.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Western Europe	3,729.5	3,686.4	44.1%	+0.9%	–1.2%
North America	2,043.2	1,851.6	22.2%	–3.2%	–9.4%
Rest of the World	2,507.5	2,816.9	33.7%	+14.5%	+12.3%
TOTAL	**8,280.2**	**8,354.9**	**100%**	**+4.1%**	**+0.9%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Hair colourants	1,604.8	1,574.0	18.8%	+2.4%	–1.9%
Haircare and styling	2,314.3	2,273.4	27.2%	+0.4%	–1.8%
Make-up	2,252.7	2,294.4	27.5%	+5.5%	+1.9%
Skincare	1,823.0	1,926.3	23.1%	+9.1%	+5.7%
Other	285.5	286.8	3.4%	+1.6%	+0.5%
TOTAL	**8,280.2**	**8,354.9**	**100%**	**+4.1%**	**+0.9%**

08 highlights

Skincare records the highest growth (+9.1% like-for-like), fuelled by major innovations. L'ORÉAL PARIS enriches the Derma Genesis range with the Derma Genesis Pore Minimising Smoother and launches Revitalift Deep-Set Wrinkles. Caffeine Eye Roll-On from GARNIER proves highly successful, alongside the anti-ageing cream UltraLift Pro-X with Pro-Xylane™.

In hair colourants, the division strengthens its world number 1 position with the highly innovative Excell 10' from L'ORÉAL PARIS, adding to its core products (Casting Crème Gloss, Excellence Crème and Préférence-Récital) and enabling it to provide hair colourants for all age groups.

A very good year for make-up, where the division is number 1, with the success of L'ORÉAL PARIS with Double Extension Beauty Tubes and Extra Volume Collagen mascaras, Infallible lipsticks and powders, and of MAYBELLINE NEW YORK with Superstay PowerGloss lipsticks. In the highly dynamic mineral make-up market, into which the division moved at a very early stage, the division is strengthening its lead with the success of the True Match Minerals range from L'ORÉAL PARIS and the global launch of Maybelline Mineral Power.

Several countries are continuing to act as growth relays, in Eastern Europe (especially Russia and Ukraine), in Latin America (Argentina and Chile) and in Asia (China and several South-East Asian countries such as Thailand, the Philippines and Indonesia).

—L'ORÉAL PARIS
Italy.

Affordable products combining advanced technology with high added value

In hair colourants, the year's major launch was Excell 10', a permanent colourant that works in just 10 minutes and strengthens hair fibre. The European roll-out of Excell 10' is already proving extremely successful.
In the haircare segment, L'Oréal Paris launched the innovative Elsève Re-Nutrition with royal jelly, a concentrate of essential nutrients that is enabling Elsève to win market share in Europe and Mexico.

L'ORÉAL PARIS

The division's premium brand, the world's number one mass-market beauty product brand, had a good year, with +5.1% like-for-like sales growth. It strengthened its positions in many countries, particularly in Asia, and made progress in all categories.
In skincare, L'Oréal Paris confirmed its top position in Western Europe, thanks to the launch of Derma Genesis at the end of 2007. Following on from this success, the franchise very successfully enlarged its geographical reach, particularly in China, and extended its range with the addition of Derma Genesis Pore Minimising Smoother. In the anti-ageing segment, Revitalift Deep-Set Wrinkles strengthened this line's world number one position in the anti-wrinkle segment. The Men Expert franchise, the largest contributor to skincare growth, continued its advance (+41%), bolstered by the launch of Hydra Energetic Turbo Booster.
In make-up, L'Oréal Paris recorded very good results, with some high-profile launches. Double Extension Beauty Tubes, a revolutionary technology which offers beauty salon-style "lash extension" in a mascara. Extra Volume Collagen, the first collagen-enriched mascara, with 12 times more impact for lashes than standard mascara. In the lipstick segment, Infallible—the result of seven years of research—set new market share records in Europe and became the brand's second largest franchise in the United States. Using patented technology, colour is applied, followed by a conditioning balm for shine; offering the unrivalled convenience of 16 hours' wear.

GARNIER

With excellent performances in most regions, Garnier recorded +4.0% like-for-like sales growth. The mass-market positioning of the brand, in tune with consumers with its affordable products combining efficacy with natural active ingredients, is ensuring its prominence both in developed markets and growth relay countries. In skincare, Garnier had a very good year (+14.8%). The brand is continuing to grow in Western Europe, while strengthening its positions in North America and in Eastern Europe, where it has captured the top ranking slot in its category in Russia. In Asia, Garnier is setting new growth records. On the innovation front, the UltraLift anti-wrinkle range grew by +18% in Western Europe, thanks to the launch of the Pro-Xylane™-based Pro-X module. A second major innovation—Caffeine Eye Roll-On—took the top position in the eyecare market in most of the countries in which it was launched. Ambre Solaire also recorded good growth, thanks in particular to the success of Rapido spray for children.
In hair colourants, Nutrisse Coloration cream (and Color Naturals, the version for emerging countries) confirmed its position as world number one, with good growth across the globe.
In haircare, Fructis—the division's leading haircare and styling range—is continuing to win markets around the world.

—L'ORÉAL PARIS
Extra Volume Collagen features a brush whose size has been doubled to ensure the exact amount of product for optimum application.

—GARNIER
Fruit-oil enriched Nutrisse hair colourant—Color Naturals, the version for emerging countries—has strengthened its world number one position.

—GARNIER
The Light skincare range, marketed in Asia, features lemon essence, a powerful natural ingredient.

—**GARNIER**
England.

—**L'ORÉAL PARIS**
Russia.

L'ORÉAL PARIS SPOKESPERSONS EMBODY THE DIVERSITY OF THE WORLD'S BEAUTY

To build closer relationships with women and men the world over, L'Oréal Paris has chosen personalities of every age group and ethnic origin as its spokespersons. In Asia, for example, the actor Daniel Wu showcases the L'Oréal Paris Men Expert range, while Zhang Zilin, the first-ever Chinese Miss World, became an ambassador in 2008.

Zhang Zilin.

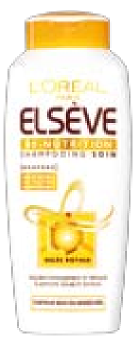
Rachida Brakni and Alef Jninen.

Daniel Wu.

Commitments

Garnier reduces packaging

The brand has joined forces with Eco-Emballages to lower the environmental impact of its products. The first initiative was to cut down on the packaging for Fructis, Ultra Doux and body lotions. On average, packs now weigh 18.5 grams each, compared with 24 grams in 1996. The average reduction of 5.5 grams per bottle represents a saving of 1,300 tonnes of CO_2 equivalent emissions each year. Garnier has also adopted cardboard certified by the FSC (Forest Stewardship Council) for its hair colourant and skincare product boxes.



—**L'ORÉAL PARIS**
Elsève Re-Nutrition, enriched with the regenerative powers of royal jelly, nourishes dry hair and leaves it smooth and shiny.

—**GARNIER**
Extra-fast multi-angle Rapido Spray has been specially designed for children and tested under paediatric control.

—**L'ORÉAL PARIS**
Infallible Lip, the first longwear lip duo compact with non-transfer colour and conditioning balm lasting 16 hours.

—**MAYBELLINE NEW YORK**
Russia.

A range tailored for consumers all over the world

—**MAYBELLINE NEW YORK**
United States.

MAYBELLINE NEW YORK

The American brand Maybelline New York, world number one in make-up, recorded a like-for-like increase of +4.3%. Growth was particularly strong in Western Europe (especially Germany and the United Kingdom), Eastern Europe and Japan.

In 2008, a number of powerful initiatives strengthened the market share of Maybelline New York, particularly in foundations and lipsticks. The Pure Mineral line launched in the United States at the end of 2007 proved extremely successful as it was rolled out worldwide, with the addition of a liquid foundation, a blusher and a concealer. Sales of lipsticks increased in North America, Latin America and Europe, thanks to Superstay Powergloss, the first patented gloss that lasts 12 hours. In Asia, Maybelline New York strengthened its number one position in this segment by adapting the Water Shine Collagen formula to suit local needs.

In the eye make-up segment, Colossal mascara was the most innovative highlight of the year. With the largest brush ever manufactured, producing a superb lash effect in just one brush stroke, Colossal was very favourably received in the United States and Europe. The new Eye Studio line of eye shadows and pencils also made a promising start in Japan and Europe.

—**MAYBELLINE NEW YORK**
Colossal is the latest addition to the Volum'Express family. The name refers to its extra-large patented brush.

—**MAYBELLINE NEW YORK**
Pure Mineral, a foundation that blends effortlessly with the skin for perfect coverage.

—**MAYBELLINE NEW YORK**
Superstay Powergloss is the first patented gloss with 12 hours of colour wear.

GERMANY: DM AND L'ORÉAL, A WINNING DUO

For many years, L'Oréal has had a close working relationship with dm-drogerie markt, a major German drugstore chain with over a thousand outlets. Their common objective: improving customer satisfaction. Each year, teams from dm and the Consumer Products Division work together to rethink their in-store innovation strategy.
Following polls of its customers, the retailer decided in 2008 to modernise its make-up areas by doubling the space reserved for the market leader brands Maybelline New York and L'Oréal Paris. A wider range of colours is thus offered, with better showcasing for new products. As in perfumeries, advisors have also received training in make-up products. This collaboration has given new impetus to make-up counter sales.

SOFTSHEEN·CARSON

SoftSheen·Carson is maintaining its ranking in the American market. Its flagship franchise Dark and Lovely performed extremely well, boosted by the success of Reviving Colors, the permanent and semi-permanent hair colourant. The men's range is also continuing to grow rapidly.
In the Africa, Orient, Pacific zone, an outstanding performance in South Africa and accelerated growth in Ghana delivered an overall rise in sales of 32.4%. The main successes: the launch of two Oil Moisturisers haircare products, boosting the flagship Dark and Lovely and Restore Plus franchises, and new versions of the Sadie and Blue Ice deodorants with a large roll-on ball for optimum protection.

CLUB DES CRÉATEURS DE BEAUTÉ

In 2008, L'Oréal acquired the 50% stake in Club des Créateurs de Beauté previously held by 3 Suisses International. Its sales trend became positive at the end of the year, driven by two main growth sources. The first was the success of the innovations: the agnès b. rose-based manicure line and tinted lip balms, with 98% natural ingredient content, Professeur Christine Poelman lip-plumping balm, and the Cosmence stick for reducing under-eye bags developed with Professor Baulieu. The second was the growth of Internet sales, whose share of total sales increased in 2008.

—SOFTSHEEN·CARSON
South Africa.

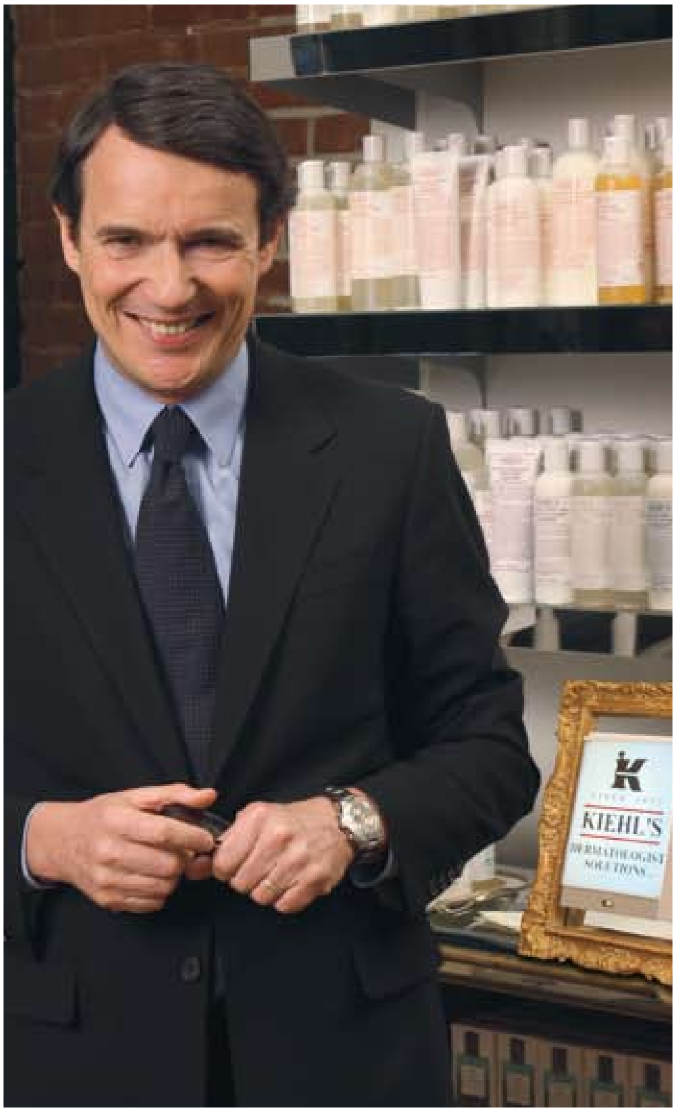
—SOFTSHEEN·CARSON
The brand's core styling range Let's Jam has a new addition with Mega Hold vitamin E-enriched gel. This gel holds naturally brittle African hair without drying it out.

—SOFTSHEEN·CARSON
The new Oil Moisturisers haircare product strengthens the brand's Dark and Lovely flagship range.

—CLUB DES CRÉATEURS DE BEAUTÉ
A new agnès b. nail product range. The varnish, available in pink and white, and the nourishing balm, are enriched with rose oil for added softness and repair effectiveness.

Luxury
PRODUCTS

LANCÔME
GIORGIO ARMANI
YVES SAINT LAURENT
BIOTHERM
RALPH LAUREN
CACHAREL
HELENA RUBINSTEIN
KIEHL'S
SHU UEMURA
DIESEL
ROGER & GALLET
VIKTOR & ROLF
BOUCHERON
YUE SAI
OSCAR DE LA RENTA
STELLA MC CARTNEY
ERMENEGILDO ZEGNA



An unrivalled range of luxury cosmetics

“The Luxury Products Division today has a unique portfolio of highly complementary global brands, enabling it to expand in the three major luxury cosmetics businesses: skincare, make-up and fragrances. Each brand has its own business model, but all benefit from an image of excellence based on technological expertise, substantial marketing and commercial resources, and a close relationship with distribution. Thanks to its strong positions in dynamic new markets such as Asia and Latin America, and the integration in 2008 of the YSL Beauté brands, the division now has the opportunity to become the world's number 1 group in luxury cosmetics.”

Marc Menesguen
President
Luxury Products

2008 REVIEW

The Luxury Products Division's worldwide sales grew by +0.7% like-for-like in 2008. In Western Europe, the division held on to its number 1 market share thanks to initiatives with a strong innovative focus, particularly in fragrances and make-up. In North America, sales contracted against a background of declining footfall in department stores and stock reductions, despite successes for major perfume launches and for Ôscillation mascara by LANCÔME. Growth in 2008 was driven by the Rest of the World zone, particularly by Eastern Europe, and once again by excellent growth rates in Asia, the Middle East and Latin America. The most dynamic category was skincare (+3.4% like-for-like), especially in the anti-ageing and men's segments. Make-up continued to register increased growth, with unchallenged leadership in mascara.

2009 OUTLOOK

In 2009, the Luxury Products Division should take advantage of its outstanding capacity for innovation, and strong momentum from the 2008 launches, to resist the market slowdown. The operational integration of the YSL Beauté brands, set to benefit in distribution from the strong positions and support of the division across the globe, will be a source of growth. LANCÔME, world number 1 in selective beauty, and the division's three major designer brands—GIORGIO ARMANI, YVES SAINT LAURENT and RALPH LAUREN—will continue to reinforce their development. The division will continue to support its "growth-relay" brands with their strong potential for expansion, such as KIEHL'S, BIOTHERM, SHU UEMURA and DIESEL. Lastly, it will deliver revolutionary innovations, particularly in skincare and make-up, confirming its role as a trailblazer in the selective market.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

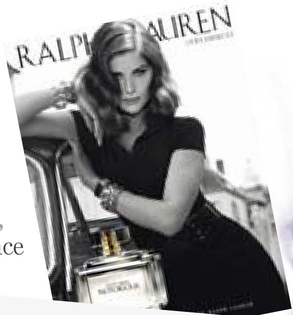
€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Western Europe	1,734.7	1,929.6	46.3%	–1.9%	+11.2%
North America	1,053.2	954.2	22.9%	–7.3%	–9.4%
Rest of the World	1,140.0	1,285.9	30.8%	+12.4%	+12.8%
TOTAL	**3,927.9**	**4,169.6**	**100%**	**+0.7%**	**+6.2%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Skincare	1,423.0	1,443.5	34.6%	+3.4%	+1.4%
Fragrances	1,641.6	1,781.9	42.7%	–2.1%	+8.5%
Make-up	863.3	944.2	22.6%	+2.3%	+9.4%
TOTAL	**3,927.9**	**4,169.6**	**100%**	**+0.7%**	**+6.2%**

08 highlights

CACHAREL with Amor Amor Tentation enters the top 10 in France and Spain.



RALPH LAUREN launches Notorious, a new prestige fragrance for women.

LANCÔME launches the Magnifique fragrance and hits the headlines with Ôscillation, the first-ever vibrating powermascara by LANCÔME, with no less than four patents to its name.

The division continues its global expansion: GIORGIO ARMANI moves into Beijing Civic and Hangzhou in China, and opens 120 perfumeries in Italy. KIEHL's starts up in Japan and Latin America.

A MILESTONE YEAR WITH THE ACQUISITION OF YVES SAINT LAURENT BEAUTÉ

The Luxury Products Division significantly enhanced its portfolio in 2008 with the acquisition of YSL Beauté, consolidated since June 30th, 2008. Reinforcing its leadership in fragrances, where it is number 1, not only in the men's but now also in the women's market, it is consolidating its strategic positions in make-up with the Yves Saint Laurent brand. Through this acquisition, the group now has the opportunity of becoming world number 1 in the luxury cosmetics market, with an extensive array of complementary brands with strong identities. Backed up by the group's research and a considerable international presence, the division is opening up attractive future growth prospects for the YSL brands.

THE SIX YSL BEAUTÉ BRANDS

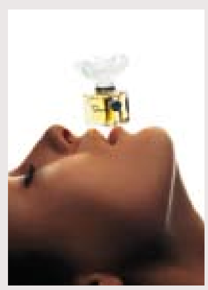
YVES SAINT LAURENT
The eponymous iconic brand.

BOUCHERON
The jeweller perfumer.

STELLA MCCARTNEY
The designer brand strongly committed to sustainable development.

ERMENEGILDO ZEGNA
The Italian ready-to-wear designer brand.

ROGER & GALLET
The art of refined fragrances since 1862.



OSCAR DE LA RENTA
The unique charm of the Spanish-American designer.

—LANCÔME
China.

A unique brand portfolio

LANCÔME

World number 1 in the selective beauty market, Lancôme is continuing its development, driven by technological innovation, the creativity of its make-up, and French-style elegance. The brand hit the headlines with the launch of Ôscillation, the first-ever vibrating powermascara, which proved an unprecedented success. The arrival of the visionary artist Aaron de Mey as artistic director for make-up marked a new era of creativity, with the first Pink Irreverence collection. The new women's fragrance Magnifique, with its ambassadress Anne Hathaway, made its mark in every country across the globe as the number 1 women's fragrance launch of the year. The Rénergie line reinforced Lancôme's position as an anti-ageing skincare specialist with strong growth, particularly in Asia.

GIORGIO ARMANI

The symbol of Italian-style elegance, Giorgio Armani maintained growth, particularly in Europe, travel retail and Asia. The brand confirmed its position as world leader in men's fragrances with Acqua di Gio, number 1 for the eighth year in a row, and Armani Code for men, which is in third position. 2008 saw the high-profile launch of Emporio Armani Diamonds for Men fragrance, embodied by actor Josh Hartnett. Its success is promising, as in less than a month it reached the top 5 in the United States and the top 10 in Germany, Italy and Spain.

YVES SAINT LAURENT

2008 marked the 30th anniversary of Yves Saint Laurent make-up, which recorded very strong growth for the seventh year in a row, driven by the uninterrupted rise of its cult products Touche Eclat and Mascara Volume Effet Faux Cils, and the success of new products such as Rouge Volupté, represented by Kate Moss. Fragrance sales continued to grow thanks to good performances from L'Homme, the roll-out of the fragrance *elle*, reinforced by the launch of *elle* Intense, and the brand's other maintstays which held up well. In skincare, the brand launched the Top Secrets line, blending high performance with gestures perfected by make-up artists.

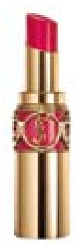
Yves Saint Laurent is the legendary symbol of French elegance and luxury, not only in *haute couture* design but also in fragrances and cosmetics. He revolutionised women's fashion and beauty, and succeeded in passing on his inspiration, passion and aesthetic vision to the whole world. He will always be the ultimate symbol of daring, creativity and timelessness.

BIOTHERM

Launched in countries including Vietnam and Romania in 2008, Biotherm maintained its growth momentum and its international roll-out. The flagship Aquasource facial skincare line performed extremely well in Asia, supported by a new TV advertising campaign. In the anti-ageing segment, Biotherm's launch of Rides Repair produced very good results, especially in Germany and Spain. In bodycare, Celluli Laser boosted the brand's position in the slimming segment, and is the number 1 slimming product in both Italy and Canada. Another success was Eau Pure, which topped fragrance sales in Germany when it was launched. Lastly, the Biotherm Homme range, world leader in men's skincare in selective channels, maintained its positions in existing markets. The brand asserted its

—LANCÔME
The cutting-edge formula of Absolue Premium ßx with Pro-Xylane™ targets the extra-cellular matrix to rejuvenate the skin at every level, restoring both firmness and volume.

—GIORGIO ARMANI
Face Fabric, an unprecedented cosmetic textile, is an invisible make-up that transforms the complexion.



—YVES SAINT LAURENT
Rouge Volupté: 18 colours to illuminate the lips with a glamourous touch.

—BIOTHERM
Rides Repair is the first-ever pure silicium, dermobiotic wrinkle repair treatment.

ÔSCILLATION WORLDWIDE PREVIEW IN LONDON

For the launch of Ôscillation, the revolutionary vibrating power mascara, Lancôme staged a worldwide preview in London where the product went on sale exclusively to customers of London's Selfridges department store. This unprecedented initiative with a distributor was showcased with a high-profile coverage of the brand in the British press. Selfridges also gave tremendous visibility to the event by setting up special podiums in London and around the country, together with a month-long Oxford Street window display. As a result, more than 100 mascaras were sold per day. A perfect opportunity to strengthen the exclusive links between brand and department store.

—**GIORGIO ARMANI**
Poland.

anti-ageing expertise across Europe with Force Suprême, and extended its territory with the creation of Regenetic, its first anti-hair loss serum.

RALPH LAUREN

Ralph Lauren consolidated its major classics especially the Polo men's fragrances range—including Polo Blue and Polo Classic, which celebrated its 30th anniversary with an updated version, Polo Modern Reserve—and Romance in its women's fragrances. Ralph Lauren strengthened its position in women's fragrances with the global launch of Notorious. With Laetitia Casta as its ambassadress, Notorious draws inspiration from the classic American "film noir", and the glamour of Hollywood stars.

CACHAREL

Embodied by tender-hearted but audacious and seductive strangely unsettling heroines, Cacharel has always been an integral part of special moments in women's lives. In 2008, the launch of Amor Amor Tentation further confirmed the success of the Amor range and boosted the brand's positions with young people especially in France and Spain. For its thirtieth anniversary, Anaïs Anaïs was treated to a special make-over by designer duo Eley Kishimoto.

—**HELENA RUBINSTEIN**
Italy.

HELENA RUBINSTEIN

Benchmark anti-ageing brand, Helena Rubinstein offers products that combine boldness, high technology and glamour to achieve enduring assertive beauty, embodied by Demi Moore and summed up in the vibrant slogan "Live brilliantly". In 2008, the brand recorded dynamic growth with Lash Queen Feline Blacks, now a cult mascara, successfully relaunched its Collagenist skincare line, and launched Prodigy Re-Plasty, inspired by the Mesolift concept clinical research developed in partnership with Laclinic-Montreux. The new brand identity generated double-digit growth in sales outlets where it was introduced.

—**RALPH LAUREN**
To celebrate its 30th anniversary, the emblematic men's fragrance Polo was given a make-over with Polo Modern Reserve.

—**HELENA RUBINSTEIN**
Lash Queen Feline Blacks went waterproof in 2008, giving the eyes a magnificent feline look that is irresistibly fascinating at all times.

—SHU UEMURA
Australia.

—KIEHL'S
Mexico.

Continuing to globalise "growth-relay" brands

KIEHL'S

Kiehl's since 1851, the cult New York brand, continued across the globe to roll out its unique values and expand on its rich heritage as a former pharmacy by offering skincare products based on mild, natural ingredients for the whole family. Service, quality, generosity and respect for the environment are the key to lie at the core of the brand's success. In 2008, the brand was launched in six new countries, which contributed to its very strong double-digit sales growth. For the launch of its new 100%-biodegradable Liquid Body Cleanser, Kiehl's teamed up with the JPF Eco Systems charity foundation, created with Brad Pitt, to support an environmental initiative drawing on an exclusive technological breakthrough (see details on next page).

SHU UEMURA

Created over 25 years ago by Mr Shu Uemura, a legendary make-up artist and cosmetics specialist, Shu Uemura draws inspiration from the art of beauty. In 2008, Kakuyasu Uchiide, trained by the master for two decades and his spiritual heir, became the brand's international artistic director. Cleansing oils proved extremely successful, with the launch of the first skin clarifying treatment in the brightening skincare category and the relaunch of its original, classic, flagship product. The brand also launched a new fluid foundation, Face Architect, based on Shu Uemura's own unique architectural approach to the face. The brand has set up many artistic partnerships, for example with Viktor & Rolf and the famous Japanese photographer Mika Ninagawa. Extremely dynamic in all its categories, the Shu Uemura brand recorded strong growth.

—KIEHL'S
Eco-efficient 100%-biodegradable Liquid Body Cleanser is launched in conjunction with the JPF Eco Systems foundation, created with Brad Pitt.

—SHU UEMURA
Face Architect produces a second-skin effect, thanks to a unique formula including 40% of Depsea water.

Commitments

Kiehl's supports ecological initiatives

In 2008, Kiehl's joined forces with Brad Pitt to launch a 100%-biodegradable and eco-efficient bodycare product. All profits from this cleansing product with aloe vera, certified Cradle to Cradle$^{CM(1)}$, will be passed on to JPF Eco Systems, a charitable foundation set up with Brad Pitt to support global ecological initiatives. The first project initiated by JPF Eco Systems supports the efforts of Make it Right, a charity which helps finance ecologically sustainable and financially affordable housing for the victims of hurricane Katrina.

DIESEL

Diesel epitomises the alternative to classic luxury products. When it launched Fuel for Life in 2007, the brand shook up market codes with its offbeat creativity that appeals to young people. In 2008, Diesel created an unprecedented offer whereby the bottle can be customised and each customer has the chance of personalising the fragrance by choosing a "pouch" from a range available on the web or in the sales outlet. The brand also created a new women's fragrance, Fuel for Life Unlimited, a perfect illustration of the sensual codes of femininity. One year after its first launch, Diesel is still growing, and Fuel for Life for Him features in the top fifteen men's fragrances in many markets.

VIKTOR & ROLF

In barely fifteen years, the Viktor & Rolf brand has become a byword in the world of luxury and designer creativity. In 2008, the two designers took centre stage in a show at London's Barbican Centre, and celebrated their first fragrances with limited, numbered editions of Flowerbomb and Antidote. Since their launch, the success of Viktor & Rolf fragrances has been particularly boosted by the continuing growth of Flowerbomb across all markets. In the United States, it features among the 20 best-sellers in fragrance bars, even though it is only available in fewer than 500 sales outlets.

YUE SAI

An expression of the Chinese approach to beauty, Yue Sai has consolidated its positions through the success of its Vital Essential Water skincare line. The launch of Empower Active Regenerating Cream, blending Tibetan ginseng with the renowned anti-ageing molecule Pro-Xylane™, has enabled Yue Sai to win rightful recognition as a Chinese skincare specialist. Meanwhile, with Silky Moist Magnificent Ruby lipstick, the brand has successfully entered the lipstick segment. With these flagship products, Yue Sai succeeded in posting double digit-growth in department stores and is now the number 1 Chinese brand in the selective distribution channel.

—YUE SAI
China.

(1) Cradle to Cradle^{CM} is an MBDC LLC (McDonough Braungart Design Chemistry) brand which certifies formulations that minimise environmental impact and optimise recycling, creating an eco-efficient product.

—DIESEL
In a new take on the Roaring Twenties, Fuel for Life Unlimited is designed for women seeking pleasure, power and unlimited experience.

—VIKTOR & ROLF
The Flowerbomb fragrance reflects the world of its designers: an explosive bouquet of flowers delicately radiating a million new sensations.

—YUE SAI
Empower is a truly global anti-ageing product containing Pro-Xylane™ blended with Tibetan ginseng, royal jelly, and jasmine and cedar extracts.

ACTIVE

Cosmetics

VICHY
LA ROCHE-POSAY
INNÉOV
SKINCEUTICALS
SANOFLORE

Anticipating health expectations in beauty

"As number 1 in the market for dermocosmetics sold in pharmacies, the Active Cosmetics Division's first challenge is to be the key partner of pharmacists and dermatologists, through a portfolio of unique and complementary brands, backed up by training initiatives to support their development. The second challenge is to roll out the major brands in geographic zones where the potential of the division has not yet been fully realised, in Eastern Europe, Asia and Latin America, and also in the United States. And the third is to continue innovating in the core skincare business, to sustain the major franchises in the catalogue."

Brigitte Liberman
Managing Director
Active Cosmetics

2008 REVIEW

In a slowing dermocosmetics market, the Active Cosmetics Division recorded +4.2% like-for-like growth, with contrasting results across the geographic zones. Western Europe was down slightly, held back by a weaker pharmacy market and the fall in sales of seasonal products for Vichy. North America continued to grow, with a +4.7% rise in a very troubled market. The Rest of the World zone confirmed its dynamism with double-digit growth of +14%, driven particularly by Latin America and Asia, and today accounts for 36.4% of the division's sales. Thanks to increased advertising and promotional investments, the division's global position is being strengthened in its core skincare business.

2009 OUTLOOK

The market for dermocosmetics sold in pharmacies should be supported by the intrinsic values of the channel: health, ethics, advice, proximity and good value for money. As the market leader, the Active Cosmetics Division should benefit from several favourable factors: a unique portfolio of complementary brands covering all consumption trends which combine beauty and health; the richness of its product innovation in the key dermocosmetics segments such as acne, anti-ageing, sun protection and bodycare; the focusing of resources and investments on major initiatives; and continuing efforts to boost productivity in organisation and purchasing.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Western Europe	727.5	716.7	55.6%	–1.5%	–1.5%
North America	105.1	103.3	8.0%	+4.7%	–1.8%
Rest of the World	415.4	469.4	36.4%	+14.0%	+13.0%
TOTAL	**1,248.1**	**1,289.3**	**100%**	**+4.2%**	**+3.3%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Skincare	978.4	993.5	77.1%	+2.6%	+1.5%
Haircare	98.8	109.9	8.5%	+11.9%	+11.3%
Make-up	93.7	94.2	7.3%	+1.2%	+0.5%
Other	77.2	91.6	7.1%	+16.4%	+18.7%
TOTAL	**1,248.1**	**1,289.3**	**100%**	**+4.2%**	**+3.3%**

08
highlights

Another year of double-digit growth for La Roche-Posay with accelerated growth in Latin America, Asia and Eastern Europe.

Vichy consolidates its world number 1 position in the anti-ageing segment with the successful Liftactiv CxP range of anti-wrinkle and firming products.

Relay brands SkinCeuticals and Sanoflore continue their gradual roll-out in Europe in response to new consumption trends.

Innéov continues to conquer world markets with a successful move into Brazil. The nutricosmetics brand is strengthening its position as number 1 in the European market.

—VICHY
Ukraine.

Innovating in skincare, our core business

VICHY

Laboratoires Vichy develop everyday skincare products dedicated to skin health and beauty. After a slow start to the year, reflecting an underachievement in seasonal products, VICHY enjoyed a more dynamic second half thanks to major innovations in facial skincare. Liftactiv CxP is an anti-wrinkle firming care product that uses biological action for a lifting effect; Normaderm, an anti-imperfections moisturiser with an improved formula; Aqualia, which is continuing to grow, boosted by the arrival of Aqualia Thermal Mineral Balm. In haircare, the launch of Aminexil Energy to treat premature hair loss is confirming VICHY as the leader in this segment. Number 1 in pharmacy sales in Europe, Asia and Latin America, VICHY continued its roll-out in the United States in 2008.

LA ROCHE-POSAY

LA ROCHE-POSAY offers a line of everyday dermocosmetics products, and a make-up line that combines maximum tolerance and effectiveness in daily care for all skin types, including the most sensitive. In 2008, the brand's sales grew by 11.4% thanks to the support of over 25,000 dermatologists who prescribe LA ROCHE-POSAY in over 60 countries, and the back-up of active advisory services in pharmacies. The year's highlights included three major launches: the new paraben-free, alcohol-free Physiologique make-up remover, Hydréane moisturiser for sensitive skin with LA ROCHE-POSAY thermal spring water, and Kérium Anti-Hairloss, an intensive treatment containing madecassoside.

INNÉOV

In 2008, five years after its creation, INNÉOV confirmed its position as number 1 in Europe in the nutricosmetics segment. The brand is renowned for its rigorous scientific approach, the result of collaboration between L'Oréal and Nestlé research teams.
INNÉOV's sales and market share grew rapidly, and have been boosted by two major initiatives in particular: Innéov Homme Anti-Chute, the first nutritional concentrate to tackle the four biological causes of hair loss in men, and the brand's launch in Brazil, where INNÉOV received an enthusiastic welcome from dermatologists and consumers.

Partnership

2,000 "PHARMACY-MANAGERS" TRAINED IN 10 COUNTRIES

As the number 1 in dermocosmetics, the division is keen to train and assist its pharmacist partners in their development. In 2008, it celebrated its 2000th "Pharmacy Manager". All participants completed the high-level marketing and management course devised by the division. The objective is to respond more effectively to consumer expectations by boosting the attractiveness of the sales outlet and the key values—beauty and health advice and services—of the channel. The "Pharmacy Manager" programme is now operating in over 10 countries and has had very positive results in terms of growth in the dermocosmetics sector.

—VICHY
Aqualia Thermal mineral balm with its "Bandage" effect rehydrates and repairs the skin.

—LA ROCHE-POSAY
Kérium Anti-Hairloss: an intensive treatment with madecassoside, for both men and women.

—INNÉOV
Innéov Homme Anti-Chute strengthens and thickens hair thanks to pine phytosterols.

—LA ROCHE-POSAY
China.

Commitments

Strict dermatological and environmental standards

The first active ingredient of the personal care products, La Roche-Posay thermal spring water is a rare and fragile natural resource. The brand is committed to closely monitoring activities around the spring on a daily basis, checking the quality of the water and more generally protecting the environment. La Roche-Posay now also offers its consumers a broad range of paraben-free products.

—SKINCEUTICALS
Italy.

SKINCEUTICALS

SkinCeuticals has consolidated its position as number 1 in medical and professional skincare in medical, aesthetic and medi-spa channels in the United States. The brand's successful entry into the major European markets is the first step in its globalisation. The launch of Phloretin CF serum, the winner of numerous awards in the United States, is bolstering the technological leadership of SkinCeuticals in antioxidants.

SANOFLORE

Experts in organic products, Laboratoires Sanoflore became part of L'Oréal in October 2006. Sanoflore is positioned as an effective organic brand, offering a full range of organic essential oil-based cosmetics, aromatherapy and phytotherapy products. In 2008, Sanoflore began its international expansion in the pharmacy channel and through a number of distributors specialising in organic cosmetics. It aims to become a major player in the fast-growing market for natural cosmetics.

—SANOFLORE
Germany.

—SKINCEUTICALS
A.G.E. Interrupter addresses the complex phenomenon of intrinsic ageing and the glycation process in particular.

—SANOFLORE
The aroma draining sap helps combat water retention and drain off toxins for a more slender figure.

The Body Shop

08 highlights

In partnership with MTV Networks International, £1 million raised for the Staying Alive Foundation, to educate and prevent the spread of HIV and AIDS.

Opening of the first The Body Shop stores in Egypt and Slovakia, and strategic acquisition of franchisees in Spain.

Introduction of 100% recycled PET bottles.

Development of three new Community Trade supplier relationships in Kenya, Samoa and Ecuador.

Launch of Nature's Minerals™, a make-up range with 100% minerals, fragrance and preservative free, offering the highest sun protection factor in its category.

NUMBER OF STORES

	At December 31st, 2007	At December 31st, 2008	Variation in 2008
Company owned stores	1,008	1,069	+61
Franchisees	1,418	1,481	+63
TOTAL	**2,426**	**2,550**	**+124**

SALES

€ millions	2008	Like-for-like growth
Retail sales(1)	1,234.0	+1.9%
Retail sales with a comparable store base(2)	1,038.5	–2.3%
Consolidated sales	756.0	+4.6%

RETAIL SALES BY GEOGRAPHIC ZONE

€ millions	2008	% of 2008 sales	Like-for-like growth
Western Europe	549.1	44.5%	+1.4%
North America	196.9	16.0%	–11.3%
Rest of the World	488.0	39.5%	+9.1%
TOTAL	**1,234.0**	**100%**	**+1.9%**

2008 REVIEW

The like-for-like sales of The Body Shop increased by +4.6%. Total retail sales(1) grew by +1.9% with strong performances from Sweden, Switzerland, the Middle East, Hong Kong, Singapore, South Korea, Indonesia and India. However, due to lower footfall in its stores because of the difficult economic climate during the fourth quarter, sales were disappointing in the United Kingdom, Spain and North America. A total of 124 new stores were opened in 2008, taking the total to 2,550 by the end of the year.

2009 OUTLOOK

In 2009, The Body Shop will continue to introduce innovative, nature-inspired and ethically sourced skincare, body care, fragrance and make-up products. The brand will also continue to roll out initiatives in the ethical and societal spheres. It will strengthen the privileged relationship it maintains with its customers, while extending its reach to new markets in collaboration with its strong franchisee network.

(1) Total sales to consumers through all channels.
(2) Total sales to consumers by stores which operated continuously from January 1st to December 31st, 2008 and over the same period in 2007.

—MORINGA
This line offers the benefits of oil from the seeds of the moringa, a "miracle tree" in Ayurvedic medicine.

—DEEP SLEEP
This new body care range with jujube date nourishes and promotes untroubled sleep.

—JAPANESE CHERRY BLOSSOM
This range with cherry extracts and Community Trade ingredients is inspired by the beauty of Japanese cherry blossom.

With its new communications based on "Nature's way to beautiful" and new visual materials in sales outlets, The Body Shop is reasserting its position as the original natural and ethical beauty brand, while generating new impetus for its range.

In 2008, the brand's continued focus on product innovation was reflected in the launch of four "Wellbeing" ranges, containing evocative natural ingredients based on traditional herbal remedies, and the new Nature's Minerals™ make-up range. The brand also introduced the Moringa range of moisturising body care products, rich in Community Trade ingredients, and three new fragrances: Japanese Cherry Blossom, White Musk® Blush and Aqua Lily. A pioneer in the industry, The Body Shop introduced sustainable palm oil across its full range of bar soaps, equating to 7.5 million bars of soap per year.

AWARDS FOR THE BODY SHOP

Ever since its foundation by Dame Anita Roddick in 1976, The Body Shop has defended the principle that companies should adopt a truly responsible approach to society and to communities. Through its campaigns to defend human rights, and its Community Trade programme to support fair trade, the brand has always been a force for social and environmental change. Its achievements in this field have been recognised through a number of awards including best Ethical Reputation in the United Kingdom, Favourite Green Brand in the United States and best Corporate Social Responsibility in Asia. Since 2003, The Body Shop has raised nearly £1.2 million to help women who are victims of domestic violence, as part of the *Stop Violence in the Home* campaign. In addition, the RSPCA (Royal Society for the Prevention of Cruelty to Animals) awarded it a prize for its long-standing commitment to animal welfare. In 2009, The Body Shop will publish its biennial *Values Report*, developed in consultation with NGOs and other stakeholders, with validation by independent experts.

Commitments

Increasingly fair trade

21 years ago, with the launch of its Community Trade programme, The Body Shop was the first company to bring fair trade to the cosmetics industry. Its unique initiative today enables it to work directly with local suppliers in 20 countries, providing some 25,000 people with access to essential resources such as education. With the development of three new supplier relationships in 2008, three new ingredients will be introduced in the composition of its products: organic virgin coconut oil from Samoa, organic sunflower seed oil from Kenya and organic ethanol from Ecuador. This latter example of organic production will also contribute to safeguarding biodiversity in Ecuador and help provide income for around 200 farmers in the challenging local sugar cane industry.

GALDERMA

Science in the service of dermatologists

Dedicated exclusively to dermatology, Galderma's ambition is to be recognised as the most competent and innovative company in its field. With innovation and research at the heart of its strategy, Galderma is bringing scientific progress to patients and doctors and fostering advances in the field of dermatology throughout the world.

—DIFFERIN®
Reference product for acne, the first topical retinoid approved in Japan.

—ORACEA®
The first oral treatment for rosacea authorized in the United States.

2008 REVIEW

Galderma experienced an exceptional year with a like-for-like sales growth of +17.1%. The company continued to gain market share in its traditional markets particularly in North America, where sales have increased by +18.5%. The main growth drivers, Differin® and Epiduo™ (acne), Rozex®/Metro® and Oracea® (rosacea), Clobex® (psoriasis), Dysport® (frown lines) and Cetaphil® (therapeutic skin-care line), all contributed to the significant increase in Galderma's market share.

2009 OUTLOOK

Galderma will continue its worldwide roll-out of Epiduo™, a new acne treatment, in the United States in particular, where it was approved at the end of 2008. Vectical®, for the treatment of psoriasis, will enhance Galderma's American subsidiary's product range. Several strategic products will be launched in Europe: Oracea® to treat rosacea, Clobex® Shampoo, acknowledged as a reference treatment for psoriasis, and Azzalure® to reduce frown lines.

—EPIDUO™
A unique combination treatment for acne discovered and developed by Galderma.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE[1]

€ millions	2007	2008	% of 2008 sales	Growth 2008/2007 Like-for-like	Growth 2008/2007 Published figures
Western Europe	187.2	196.6	23.0%	+7.3%	+5.0%
North America	409.8	492.0	57.6%	+18.5%	+20.1%
Rest of the World	138.0	165.2	19.4%	+26.3%	+19.7%
TOTAL	**735.0**	**853.8**	**100%**	**+17.1%**	**+16.2%**

(1) 100% of Galderma's sales.

Through the acquisition of CollaGenex in the United States, Galderma has enhanced its product portfolio with Oracea®, the first oral treatment for rosacea authorized by the FDA (Food and Drug Administration), as well as two topical products which are under development.

In Japan, the second largest dermatology market in the world, the launch of Differin® represents an important landmark in Galderma's history. This reference product for acne, the result of Galderma's own research, is the first topical retinoid approved in Japan.

Epiduo™, a unique combination treatment for acne, which was also discovered and developed by Galderma, is highly-recognised for its therapeutic innovation and is successfully gaining ground in Latin America and Europe.

In order to meet the evolving needs of doctors and patients, Galderma is entering the corrective and aesthetic dermatology segment with the marketing of Dysport® in Latin America, a botulinum toxin type A, for the treatment of frown lines. The European launch is planned for 2009.

The company continues to develop partnerships with health professionals and the scientific community. Intense R&D activity has resulted in significant progress on several major projects, some fifty patent filings to protect innovation and numerous product registrations.

Product launches and the increase in production of strategic brands internally mean that the plants have reached unprecedented activity levels. In addition, the French, Canadian and Brazilian sites all received or renewed certification in 2008. Galderma is thus stepping up its initiatives to improve safety and protect the environment.

Galderma continues to pursue its commitment: to develop ever more innovative, diverse and complementary medical solutions to foster advances in the field of dermatology throughout the world.

North America

€3,739 million of consolidated sales[(1)]

18.2% market share[(2)]

22.9% of group cosmetics sales

Latin America

€1,151 million of consolidated sales[(1)]

12.1% market share[(2)]

7.0% of group cosmetics sales

(1) Consolidated cosmetics sales.
(2) Excluding soaps, toothpaste and razors. Provisional 2008 estimates with YSL Beauté over a full year. Source: L'Oréal estimates.

INTERNATIONAL

SEIZING THE POTENTIAL IN ALL MARKETS

Western Europe

€7,382 million of consolidated sales(1)

22.7% market share(2)

45.1% of group cosmetics sales

Eastern Europe

€1,380 million of consolidated sales(1)

16.6% market share(2)

8.4% of group cosmetics sales

Africa, Orient, Pacific

€862 million of consolidated sales(1)

14.3% market share(2)

5.3% of group cosmetics sales

Asia

€1,844 million of consolidated sales(1)

2.7% market share(2) in Japan

10.9% market share(2) outside Japan

11.3% of group cosmetics sales

Year by year, L'Oréal is patiently building up its positions on all continents, channel by channel and category by category. With its rich and varied brand portfolio, the group is ideally placed to tap into all beauty aspirations and meet the needs of all consumers, whatever their income or expectations. By internationalising each of its brands, and moving into new territories each year, the group is opening up vast prospects for growth.

Western Europe p.74
Eastern Europe p.76
North America p.78
Latin America p.80
Asia p.82
Africa, Orient, Pacific p.84

Western Europe

Sales in the Western Europe zone amounted to –0.3% like-for-like. The market continued to grow but at a much slower pace. It weakened quarter by quarter in France and several southern European countries, especially in luxury distribution channels. Extremely tight inventory management by distributors affected invoicing across all divisions. However, the group's sales trend was favourable in the United Kingdom and Germany, and grew sharply in Northern Europe (the Netherlands, Norway and Sweden). Overall, L'Oréal strengthened its positions in Western Europe with market share gains in its Professional Products and Consumer Products Divisions. The group's strategic advances in the zone included the Consumer Products Division's breakthrough in skincare in Germany.

FAST GROWTH IN GERMANY

All of L'Oréal's major international brands are available in this country. In 2007, the group became market leader ahead of established national brands, and 2008 was once again a year of rapid growth for L'Oréal. The Professional Products Division won over 3,000 new hair salons. Its success in the high-end market was driven by the demand for Kérastase and Shu Uemura Art of Hair. L'Oréal is the leader in Luxury Products, and recorded very substantial growth thanks to Giorgio Armani, and Biotherm, the brand with the fastest growth in the market. The Consumer Products Division achieved the highest growth, boosted by its breakthrough in skincare. The Active Cosmetics Division is ranked first in pharmacies, and rolled out the SkinCeuticals and Sanoflore brands.

Germany: a strategic breakthrough in skincare

Already the leader in mass-market make-up, the Consumer Products Division continued its strategic breakthrough in skincare, positioning its two brands—L'Oréal Paris and Garnier—among the top three of the market. This achievement—the result of many years of innovations and of systematically renewing major franchises—strengthens the division in its ambition to capture top place in the German skincare market.

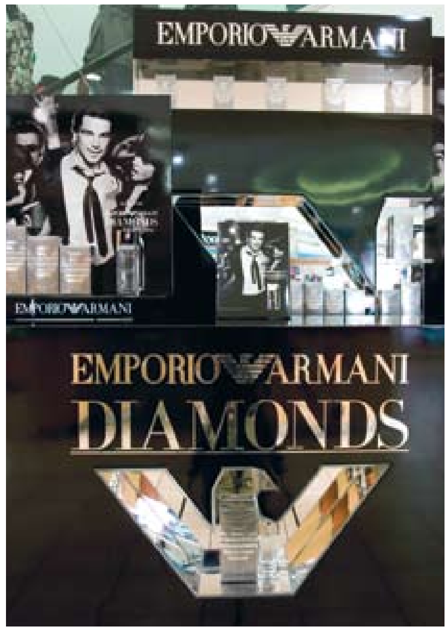
The first competitive edge of the Consumer Products Division is its portfolio of differentiated yet complementary brands. The combination of the premium L'Oréal Paris range with Garnier, the accessible, natural brand, enables the division to reach out to different customer profiles and cover all segments and price levels. Through this multi-brand policy, the division is now ranked number 2 in this market.

CARE PRODUCTS FOR EACH AGE GROUP

L'Oréal Paris is perpetuating consumers' trust by developing sustainable franchises such as Revitalift, Age Perfect and Collagen filler, each focused on a specific age group. A recent success, the Derma Genesis range launched at the end of 2007 is already the brand's third largest franchise. UltraLift from Garnier reached second position in the anti-wrinkle skincare segment, doubling its sales in three years.

Innovations are another decisive asset. They are extremely popular with customers, as was demonstrated by the success of

Advice is vital in mass-market distribution. L'ORÉAL PARIS provides consumers with tools to self-diagnose their skin and choose the most appropriate product. As a result, sales have leapt by +20% in shops where these facilities are available.



Emporio Armani Diamonds for Men entered the top 10 best selling of men's fragrances in two of Britain's most iconic department stores.

Caffeine Eye Roll-on care which became the leading eye care product on the market in just a few weeks. And at L'ORÉAL PARIS, a serum was launched in the Derma Genesis line, a product which had never before been available in mass-market distribution. Consumers rapidly adopted this new beauty routine—300,000 serums were sold in one year.

TARGETING MATURE SKIN

In a country where 20% of the population is over 65, seniors represent a major opportunity. Age Perfect and Re-Perfect franchises from L'ORÉAL PARIS grew by +14% in 2008 and the brand took the lead in the mature skin segment. Men represent another promising target, and sales of the Men Expert range rose +26% in 2008, hard on the heels of the market's leading brand after just three years.

The Matrix recipe works in France

Launched in France only four years ago, the MATRIX brand is now sold in 6,000 hair salons around the country, where sales grew by a record +24% in 2008. In Paris, Joffo hair salons, a symbol of Parisian hairdressing are now working with MATRIX.

Positioned as the most affordable, professional brand, MATRIX is seen as an effective anti-economic crisis response for a large number of salons. Today, MATRIX is available in 50,000 salons in Western Europe. One hundred and sixty educators provide local training sessions on using MATRIX products and developing services in salons, and thereby helping to convey the image of an affordable, high-quality, professional channel.

United Kingdom: 3 men's fragrances in the top 10

In 2008, Armani Diamonds for Men strengthened the position of the Luxury Products Division in the fragrance market in the United Kingdom. An instant success at its launch in October, the brand went on to benefit from high visibility in key sales outlets and extensive advertising support during the end-of-year holiday season. Three years ago the brand was outside the "top 10" in men's fragrances, but today three of its fragrances are featured in the list. Armani Diamonds for Men joined Armani Code and Diesel Fuel for Life in the top 10 best-selling fragrances at Debenhams and House of Fraser, two iconic British department stores. GIORGIO ARMANI's success is equally dazzling in women's fragrances, with two perfumes ranked in the top 10 at the same department stores.

Eastern Europe

L'Oréal's strong trend of dynamic growth continued with like-for-like sales recording a +21.1% increase. However, there was a change in pace in the final quarter due to difficulties experienced by some distributors in Russia and Ukraine. Like-for-like growth remained strong in both of these countries, at +20.7% in Russia and +70.0%[1] in Ukraine. Poland also recorded steady growth. Lastly, the other countries in the region, such as Romania, Croatia and Slovenia, made significant contributions to growth. Among the major successes of the year, the Professional Products Division strengthened its leadership position throughout the zone, particularly in Russia, while Lancôme achieved a market breakthrough in all countries.

L'ORÉAL IN RUSSIA

As soon as the market opened up in the early 1990s, L'Oréal rolled out its major brands. Since 2007, L'Oréal has been number 1 in cosmetics in Russia. Garnier is the skincare market leader, all retail channels combined, and L'Oréal Paris is the leading make-up brand. The Active Cosmetics Division, number 1 in its market, has been boosted by La Roche-Posay and Innéov, which have doubled their sales in two years. Lastly, in a booming selective market, the Luxury Products Division recorded extremely rapid growth.

Winning over and modernising Russian hair salons

Fully playing a true leadership role in the Russian market, the Professional Products Division provides the right solution for all salons from the most accessible to the most luxurious end of the market. By focusing on hairdresser training, the division is playing an active part in the emergence of modern, dynamic hair salons. In three years, its sales have more than doubled.

L'Oréal Professionnel was the first brand introduced in Russia in 1996, and is today present in 3,600 salons. Ranked number 1 for image both by hairdressers and consumers[2], the technological leadership of its products, and its Paris fashion-based inspiration are widely recognised. In this premium salon segment, the division strengthened its line-up in 2007 with the launch of the American brand Redken 5th Avenue.

AFFORDABILITY WITH MATRIX

To meet the needs of more affordable salons keen to provide the best value for money, the division launched Matrix in 2003. The brand, whose sales grew by +53% in 2008, has already won over 5,600 salons, and is aiming to extend its network much further.

LUXURY PROVES HIGHLY DYNAMIC

The luxury salon segment has also been particularly dynamic over the last few years. Present in more than 400 of the most prestigious salons, Kérastase increased its sales by +33% in 2008. Russian women appreciate highly advanced beauty services and rituals,

(1) Excluding exports.
(2) Source: Image study, hairdressers and consumers, MASMI, 2008.

L'ORÉAL PROFESSIONNEL is ranked number 1 for image both by hairdressers and consumers.

KÉRASTASE is highly selective in extending its distribution.

as reflected in the success of the hair beauty institute opened in one of Moscow's most luxurious salons, Sakura. In 2008, the newly created brand KÉRASKIN ESTHETICS made its first appearance in a dozen high-end salons in Moscow and Saint Petersburg. In a country in which over 50% of luxury salons are equipped with beauty care booths, growth prospects for KÉRASKIN ESTHETICS are highly promising.

40,000 HAIRDRESSERS TRAINED IN 2008

A key factor in rolling out the brands, education is crucial in enhancing hairdressers' technical skills and artistry. The Professional Products Division is investing hugely in education *via* its academy in Moscow, 17 technical centres in provincial Russia, and a large number of demonstrations and artistic shows, including Colour Trophy, which every year brings together the country's top hair colourant specialists. In all, these events and seminars generated more than 40,000 training contacts in 2008.

Lancôme wins over Russian women

In Russia, 9 out of 10 women know the LANCÔME brand. Thousands of them have adopted its Hypnôse mascara, and joined waiting lists to buy Ôscillation vibrating powermascara, launched exclusively in the celebrated department stores GUM and TSUM.

Its success propelled LANCÔME to the top position in mascara sales in 2008. The fragrances were just as well received, with Magnifique topping the sales chart at GUM in the month it was launched. The embodiment of French charm and elegance, LANCÔME inspires the dreams of Russian women, and young women in particular. To get closer to its customers, the brand has almost tripled its sales outlets in three years, while maintaining its highly selective approach. Its sales grew by +21% in 2008.

Maybelline New York is a hit in Ukraine

MAYBELLINE NEW YORK is continued to win over Ukraine. The brand's like-for-like sales increased by +84%(1) in 2008, boosted by the star mascaras Define-A-Lash and Volum'Express, and by Affinitone foundation. Specially adapted to suit the complexion of East European women, Affinitone is a tremendous success in all countries in the zone. By recruiting the top make-up artists in Ukraine, MAYBELLINE NEW YORK reasserts itself as a fashionable brand. It also goes to meet its customers in universities, and is strengthening its advisory role with beauty counsellors in the most dynamic sales outlets. The brand is thus positioning itself at the heart of Ukrainian women's everyday beauty concerns.

(1) Excluding exports.

North America

North America, which posted a –4.8% contraction in like-for-like sales, had a very difficult year, marked by a gradual market decline together with a significant reduction in distributors' inventories. In the fourth quarter there was a clear deterioration in sales, particularly in department stores. Despite the substantial drop in salon visits, the Professional Products Division consolidated its number 1 position, thanks to growth in colourants and a strong performance from its upmarket brands Kérastase and Shu Uemura Art of Hair. In a flat market, the Consumer Products Division increased its global market share, thanks to Garnier's excellent performance in all its businesses and strategic advances in facial skincare. There was a slight erosion in the positions of the Luxury Products Division, while the Active Cosmetics Division continued its roll-out.

DOUBLE TRIUMPH IN MINERAL MAKE-UP

In a market which is highly sensitive to innovations, mineral make-up enjoyed the strongest growth rates in the market. It reflects women's growing enthusiasm for natural make-up. With its Bare Naturale line, L'Oréal Paris further strengthened its positions in 2008 with the launch of new mineral foundations and mascaras. Meanwhile, Maybelline New York also made a breakthrough in this market with its Mineral Power foundation, which, in less than one year, became the brand's number 1 foundation. Other new lines also produced outstanding performances in 2008, such as Infallible Lipgloss by L'Oréal Paris and Colossal Volum'Express Mascara by Maybelline. L'Oréal was thus leading the way in each of the major make-up categories in the United States.

Garnier: 10 years of step-by-step conquest

The Garnier saga in the United States mass market began in 1999. Ten years later, the brand posted solid growth with sales of close to 500 million dollars in 2008. Its positioning based on natural technology and well-being, and its strategy of systematic innovation have won over American consumers. Flashback to Garnier's breakthrough, category by category, to show how it became a must-have brand on one of the planet's most challenging and competitive markets.

Garnier's discovery of America came with Nutrisse colourants. Ten years later, Nutrisse recorded +8% growth in 2008, climbing to fifth place with 8.5%[1] dollar share. This success makes it the category's fastest growing brand and Garnier is now the number 3 colourants manufacturer in the mass market.

FRUCTIS, THE BRAND'S SPEARHEAD

In 2003, the brand got off to a very good start with the launch of Fructis, Garnier's haircare and styling range. Indeed, within a few years, the Fructis range became number 2 in its category. In 2008, its sales grew, strengthening its market share, which has now reached 6.9%[1].

Fructis built on its young and dynamic image by sponsoring *American Idol*, the TV show which generates over 600 million viewers each year and has the highest audience ratings in the United States.

(1) Sources: Nielsen/IRI retail panels, market share-value, 2008 total.

GARNIER Nutritioniste Anti-puff Eye Roller was one of the top launches in mass market skincare in 2008.


Ôscillation, the vibrating powermascara, was preview launched in 12 carefully selected American sales outlets.

NUTRITIONISTE DOUBLES SALES

In 2007 GARNIER tapped into the facial skincare market with Nutritioniste. In two years, the brand has climbed to fifth position with 5.4%[1] market share in 2008, compared with 2.8%[1] in 2007.

The launch of Nutritioniste Anti-puff Eye Roller, alongside Skin Renew Anti-Sun Damage and UltraLift Deep Wrinkle Treatment, with high visibility in the sales outlets, enabled Nutritioniste to double its sales and record the strongest growth in the facial skincare category in 2008.

(1) Sources: Nielsen/IRI retail panels, market share-value, 2008 total.
(2) Source: The NPD Group/NPD Beauty Trends.

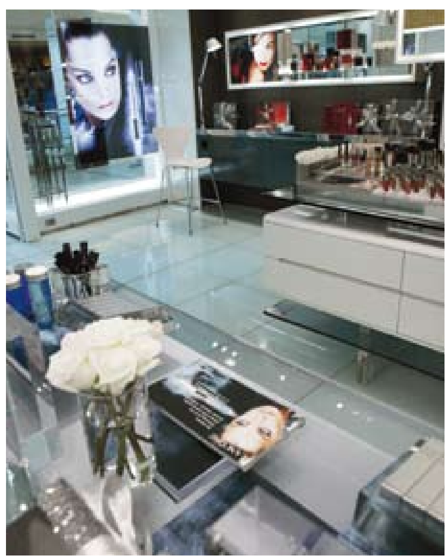
SkinCeuticals a hit with the American press

The new SKINCEUTICALS antioxidant Phloretin CF™ was voted the best technological breakthrough and the best skin serum by *Allure* magazine. It achieved joint top ranking with CE Ferulic, the brand's flagship product, which the American edition of *Elle* magazine ranked as one of the world's top five anti-ageing skincare products.

A major player in the American professional skincare market, the brand was acquired by L'Oréal in 2005. It is sold exclusively through dermatologists, aesthetic doctors and medi-spas.

Ôscillation by Lancôme sets the make-up world abuzz

At the end of July, a limited edition of this revolutionary vibrating powermascara featured in a preview launch at 12 carefully selected outlets and LANCÔME boutiques, in addition to the Lancôme USA and Sephora websites. The 5,000 units available sold out in just one day. By the time the national launch took place in October, 32,000 women were already on the waiting list. Since its introduction, Ôscillation has been the number 1 mascara launch. It shares top position in this market with Définicils by LANCÔME and was the number 1 shaded make-up product on the American make-up market in the final quarter. The Ôscillation launch enabled LANCÔME to take a 34%[2] share of the American prestige mascara market during the fourth quarter.



Latin America

In Latin America, sales rose by +6.7% like-for-like, improving quarter by quarter, although there were sharp contrasts in trends. Argentina, Venezuela, Chile and Uruguay achieved strong growth. Brazil returned to growth in the second half, driven by successes in hair colourants and the launch of the Elsève Reparação Total 5 haircare line from L'Oréal Paris. Innéov, a newcomer to Brazil, rapidly established itself in this market. The situation remains difficult in Mexico. The development of dermocosmetics is one of the major breakthroughs in the zone, and L'Oréal is actively contributing to creating this channel.

ARGENTINA: SALES DOUBLE IN THREE YEARS

Posting growth of +39% in 2008, L'Oréal is continuing to advance in Argentina, where sales have doubled in three years. The group is number 1 in the luxury market with Lancôme. Two of its brands, Giorgio Armani and Ralph Lauren, are ranked in the top ten for fragrances. The division has opened its first Kiehl's store right in the heart of Buenos Aires. In the mass-market segment, Maybelline New York is number 1 in make-up. The Garnier brand, which was only present in hair colourants with Nutrisse, is strengthening its presence by launching a bodycare line in 2008. L'Oréal Paris has also expanded its range with Derma Genesis and is launching its Men Expert line. In hair salons, L'Oréal is number 1, covering both luxury salons with Kérastase and more affordable salons with Matrix. Lastly, the Active Cosmetics Division is continuing to grow and is the leader of the Argentinean dermocosmetics market, after contributing to its emergence.

Dermocosmetics makes it mark on the South American continent

Over the last ten years, the Active Cosmetics Division has been building up the dermocosmetics channel in Latin America, and steadily rolling out its brands in all the countries. It is already number 1 in Brazil, Mexico, Argentina, Chile and Venezuela. In 2008 its sales grew by almost +19%; it has immense potential.

The Active Cosmetics Division is developing a very close partnership with Latin America's 10,000 dermatologists, who are increasingly being asked by their patients to provide aesthetic treatments. Medical visits are playing a key role in prescription. With 100,000 visits in 2008, La Roche-Posay is the number 1 prescribed brand in Brazil. In addition, the brands are taking many other initiatives to strengthen their ties with the profession.

DRIVING THE CHANNEL'S DYNAMISM

The division's success is based on the development of the dermocosmetics channel by creating dermocosmetic areas where dermo advisors can provide qualified advice and personalised skin diagnoses.

Another advantage is the quality of the products, and their perfect match with the specific needs of consumers and dermatologists in Latin America. In 2008, La Roche-Posay launched Iso-Urea loção and Vichy created Normaderm SPF 15 anti-shine, especially for Brazilian and Mexican skin.

In Brazil, its second largest market worldwide, La Roche-Posay is the preferred brand for dermatologists.

Instant success for Innéov Firmness in Brazilian pharmacies, with almost 100,000 packs sold in four months.

Lastly, the final pillar is consumer education. Vichy has been running large-scale prevention and education campaigns, such as "Skin Health Centres", where dermatologists and pharmacists carry out free, personalised skin diagnoses in partnership with the brand. La Roche-Posay also organises a Melanoma Day screening operation in conjunction with dermatologists.

OUTSTANDING GROWTH POTENTIAL

Today, Vichy and La Roche-Posay are the only brands with a presence in most of the countries. Rolling out the portfolio will provide a tremendous reservoir of growth for the division.

"Dermocosmetic Advice Centres" raise the brand's visibility and help attract new consumers who appreciate the quality of the advice they are offered.

Redken magic at work in Latin America

In 2008, the American premium brand was launched in Uruguay and Colombia. Now present in 13 Latin American countries, Redken 5th Avenue has become one of the major brands with sales growth of +20% or more in the last three years. Its dynamic education drive has won over the top hairdressers, as proven by the irresistible attraction of its annual symposiums.

Another of the brand's success drivers is its complete range of haircare products attuned to the specific needs of Latin Americans, whose conquest has been spearheaded by its Shades EQ hair colourant. In just a few years, more than 4,000 luxury salons have adopted Redken in Latin America.

Customised care for Brazilian hair

In July 2008, L'Oréal Paris launched Elsève Reparação Total 5, the first line of haircare products to repair the five signs of damaged hair—breakage, split ends, lacklustre appearance, dryness and stiffness. The product's bio-ceramide formula has been adapted to the specific requirements of Brazilian hair by the L'Oréal laboratories in Rio de Janeiro, replicating the hair's natural ceramides for a deep repair treatment. The range is represented by two Brazilian spokeswomen—Grazi Massafera and Debora Nascimento—who symbolise the country's ethnic diversity. In just six months, more than seven million units of Reparação Total 5 were sold, and the line rose to second position in the haircare market, boosting the sales of Elsève, which has been one of the favourite haircare brands of Brazilian women for many years. Building on this success, Elsève Total Repair 5 will be marketed in other Latin American countries in 2009.

Asia

L'Oréal is growing four times faster than the market in Asia as a whole, with a +16.3% rise in sales like-for-like. The group made progress in Northern Asia and China as well as in South-East Asia, particularly in Thailand, Indonesia and the Philippines. This achievement is largely due to successful initiatives in skincare across all divisions. In Japan, a solid performance by the hairdressing brands, and the success of Maybelline New York and Shu Uemura have enabled the group to win market share. South Korea experienced rapid growth thanks to breakthroughs by Luxury Products Division brands. In China, the group is advancing rapidly, driven in particular by the success of L'Oréal Paris. The "growth-relay" brands such as Shu Uemura and Kiehl's, are gradually being rolled out across the zone.

L'ORÉAL CHINA: 11 YEARS OF CONQUEST

L'Oréal China was founded in 1997 and is the country's second largest cosmetics company. In the space of 11 years, L'Oréal has introduced most of its major international brands. The group is number 1 in the hair salon channel and in luxury products, where Lancôme is the market leader. The group has built up the dermocosmetics category in drugstores through its Vichy and La Roche-Posay brands. In Consumer Products, L'Oréal Paris is number 1 in its distribution universe, in addition to the successes of Garnier and Maybelline New York, the leader in make-up. In 2008, the group continued to grow very rapidly in China, with an increase in like-for-like sales of +27.7%, especially in skincare where it is now the outright leader, all channels combined.

L'Oréal Paris embracing Chinese beauty

Building on strong double-digit growth in China, L'Oréal Paris has become the leading beauty brand in its distribution universe. China is now the brand's largest market in the world in the skincare category. Available in only 6,800 sales outlets in 450 cities, the brand can tap into a vast reservoir of growth potential in the years ahead.

The success of L'Oréal Paris stems from three strategic choices made when it was first launched in China. Firstly, a targeted roll-out in three segments with high added technological value: skincare, make-up and colourants. Secondly, the determination to introduce its major global franchises, particularly Revitalift and Derma Genesis. Lastly, product ranges specifically adapted to the needs of Chinese skin, exemplified by UV Perfect, giving protection against UV and pollution, and the moisturiser HydraFresh.

LOCAL ADAPTATION

To better understand consumer expectations, L'Oréal Paris conducted thousands of tests in 2008, while drawing on the work of researchers at the L'Oréal laboratories in Pudong. As a result, the brand is now recognised as an expert in Chinese skin properties. A second strategic choice was the distribution of products through department stores, counting on the appeal of an affordable luxury brand for the fast-rising middle classes.

With its full brand portfolio, L'Oréal has risen to the number 1 spot in the Chinese skincare market, all channels combined.

Shu Uemura generates more than 70% of its sales outside its original market and is now the Japanese brand with the greatest international reach in its universe.

PRESTIGE AND PROXIMITY

The Mandarin for L'Oréal Paris is *Bali Oulayia*, or "Elegance from Europe". It is perceived as a prestigious, modern and innovative brand, representing the quintessence of quality and refinement at an affordable price. Today, it is recognised across the globe, and is appreciated for its proximity to Chinese women. A proximity which the spokespersons of L'Oréal Paris—actresses Gong Li, Li Bing Bing and Zhang Zilin—help to generate.

FOR MEN TOO

Launched two years ago, the Men Expert range has been hugely successful, thanks primarily to Hydra Energetic Turbo Booster, launched in 2008, and its spokesman, Chinese actor Daniel Wu.
Initially sold exclusively through department stores, where it became the top-selling men's skincare line in 2008, the Men Expert range is now being rolled out in mass-market outlets to reach a broader range of customers.

Kiehl's moves to Tokyo

After Malaysia, the Philippines and Thailand, the cult New York brand opened its first sales outlet in Japan in November 2008 in the Isetan Shinjuku department store in Tokyo.

High quality advice, customer proximity and the widely acknowledged skincare expertise of Kiehl's is driving its success throughout Asia, with spectacular growth in South Korea, Singapore and Hong Kong. In 2008, Kiehl's opened 24 new sales outlets.

In 2009, the brand will accelerate its roll-out in Japan and the other Asian countries.

Shu Uemura makes its mark in Asia

In June 2008, Shu Uemura celebrated the 25th anniversary of its first store in Tokyo. An opportunity for the brand to get back to the roots of the Japanese art of beauty, by organising an exhibition. Also in 2008, it recorded its highest growth rate in Japan since it was acquired by L'Oréal in 2001. Initially almost exclusively focused on Japan, Shu Uemura then moved into almost all Asian countries. Today it generates over 70% of its sales outside its original market, with strong positions in South Korea, Taiwan and Hong Kong. Its successes in skincare with cleansing oils and the Phytoblack anti-ageing skincare line are strengthening its positions in this key category across the region.

Africa, Orient, Pacific

The year's milestone event was the creation of a multidivisional geographic zone. This major strategic advance enables L'Oréal to step up its penetration of new markets in the Orient, such as Egypt, where the group established a subsidiary at the end of 2008. The zone's sales grew by +8.1% like-for-like, spurred on by countries in North Africa and the Middle East, especially Dubai, Lebanon and Morocco. Australia made satisfactory progress. In India, there were contrasting trends: the Professional Products Division was very dynamic, while Consumer Products experienced a year of consolidation. Growth was strong in South Africa, mainly due to the success of SoftSheen·Carson, the leader in ethnic haircare products, and Garnier which boosted its positions in skincare.

LAUNCH PAD FOR SUB-SAHARAN AFRICA

L'Oréal has had a South African subsidiary since 1963, and most of the major international brands are marketed there. This powerful presence, notably with SoftSheen·Carson, offers the group a portal to the whole of Sub-Saharan Africa.

South Africa: L'Oréal number 1 in ethnic beauty

SoftSheen·Carson is the leading brand in the South African haircare market for products dedicated to African hair. In 2008, it further strengthened its position and grew by +28%, confirming its central role in the group's overall success in the country.

When L'Oréal acquired Carson in 2000, the brand was leader in the South African market for products dedicated to African hair. Further to its merger with the American brand Soft Sheen, the range now covers all market requirements from haircare products (relaxers, styling and haircare, and hair colourants) to personal care (deodorants, etc.), the largest segment in this market.

DARK AND LOVELY, THE PREFERRED FRANCHISE FOR SOUTH AFRICANS

SoftSheen·Carson meets all market expectations in terms of sophistication and price level. The flagship franchise, Dark and Lovely, is leader in relaxers with a 41%[1] share of the market. It has just been voted Preferred Haircare brand by a sample of 1,200 South Africans and enjoys a 96% brand awareness.

In addition to Dark and Lovely, the brand also features Restore Plus, a line of highly affordable relaxers and haircare products, as well as Optimum Care, a premium offering of high-tech relaxers and haircare products for breaking hair.

STRENGTHENING SENSITISED HAIR

Eighty-five percent of South African women relax their hair on average once every two months. Women with sensitised hair need products that nourish and strengthen it to prevent breakage. They want smooth, shiny

(1) Sources: Nielsen/IRI retail panels, market share-value, 2008 total.

As nine out of ten South African women relax their hair, they need the appropriate daily haircare products. SoftSheen·Carson offers Optimum Care, an upmarket high-tech range of relaxers and haircare products for breaking hair.

Launched in September 2008, Even & Matte is a strong contributor to Garnier's skincare sales.

hair that is easy to style and soft to the touch. The laboratories have a key role to play in this respect.

SoftSheen·Carson products are designed through a unique collaboration between the evaluation centre in Johannesburg, the L'Oréal laboratories in Paris and the Research Center for Ethnic Hair and Skin in Chicago.

TRAINING FOR HAIRDRESSERS

A further key to its success is SoftSheen·Carson's excellent brand image among professionals, due to locally available training programmes that have been running for several years. Nearly 50,000 hairdressers are trained each year in the brand's Academies or by a travelling team.

SoftSheen·Carson's position is set to be strengthened in 2009 thanks to local production and a robust launch plan.

L'Oréal arrives in Egypt

In November 2008, L'Oréal made a strategic advance by opening a multidivisional subsidiary in Egypt. In this country with a population of 80 million, the group's brands can build on ancient traditions of beauty, a growing middle class, an increasing appetite for international brands, and newly-forming distribution channels.

The group aims to introduce L'Oréal Professionel and Kérastase brands in the leading hair salons and launch L'Oréal Paris and Garnier for the mass market. As the ambassador for its Color Naturals colourant line, Garnier has chosen the famous Egyptian actress Hend Sabry to boost the brand's success.

Garnier: Quick take-up of Even & Matte by South African women

In September, South Africa's women consumers discovered Even & Matte—the new Garnier range of facial care products. Specially developed for black skin, it helps to obtain a more even complexion and reduce shine. With its original formula and highly affordable price, Even & Matte was an instant success. And to communicate about the product, Garnier chose as its ambassadress Connie Ferguson, a very famous actress in South Africa. Backed by high-profile exposure in sales outlets and sampling campaigns, Even & Matte was a strong contributor to sales of Garnier skincare, which enabled the brand to grow nearly twice as fast as the market in 2008.

EXPERTISE

MAKING TODAY'S RESOURCES A STRENGTH FOR TOMORROW

L'Oréal's success is based on the shared passion of its employees for a single business, beauty, and on a commitment to the same adventure, which began a century ago. Today, the group is improving its service and its performance by reinventing its Operations structure. It is also preparing for tomorrow by inventing the beauty of the future in its laboratories, and by developing its major talents. At L'Oréal, business expertise and the constant quest for excellence are pushing back the limits of efficiency and creativity every day.

Enhancing beauty through science

"Ever since its creation by a researcher 100 years ago, the group has never stopped investing in research. For L'Oréal, there can be no innovative product without an advance in knowledge. Driven by this conviction, the group's laboratories have constructed the largest scientific data base, drawing on the observation of beauty routines and the evaluation of product performances across the globe. L'Oréal Research is constantly anticipating regulations and consumption trends to turn them into competitive advantages. For many years, our researchers have been helping to eliminate animal testing by the use of reconstructed skin, supporting demand for natural products by analysing plant-based ingredients, and exploring the potential of the life sciences to imagine the beauty of the future: a beauty that will be active, personalised, and respectful of the planet."

Jean-François Grollier
Executive Vice-President
Research and Development

100 YEARS ON, THE HAIR COLOURANT REVOLUTION

The L'Oréal adventure began in 1909 with the Société des teintures inoffensives pour cheveux. Hair colourants were the core business, and have remained so ever since. The century has been marked by L'Oréal's hair colourant innovations, one every 10 years: new colours, respect for hair fibre, long-lasting colour, odour-free colourants... Over the last three years, the pace has accelerated. Replacing ammonia by a non-aromatic base, L'Oréal invented odour-free colourants with Casting Crème Gloss. By diversifying its technology, L'Oréal created a twin-tone colourant, with application time cut from 40 to 10 minutes, marketed as Excell 10'. Constantly listening to consumers and professionals is always a source of innovation. L'Oréal thus developed Rubilane®, an unprecedented 3D molecular structure which opens up a previously inaccessible spectrum of colour: deep copper reds, longer lasting with remarkably high performances. The genius of a dozen

Rubilane®: a passion for colour

80% of the world's population has dark hair, making grey hairs immediately visible. To cover grey hair or change its colour, women and men want a colourant with warm, deep tones which is also long-lasting. For them, L'Oréal laboratories have developed Rubilane®, the result of five years of research and a thousand head tests in Europe, the United States, Latin America and Asia. Its 3D structure, the only one of its type in oxidation hair colourants, provides three essential qualities. Intense, very deep and highly luminous tones, particularly in the reds, and perfectly uniform colour from root to tip from the first application, which is shampoo-resistant over time and maintains its original tone. Ten tones are available in 2008 from L'Oréal Professionnel in the copper, copper-red, red-copper and red tints, in cream or gel-cream formulas.

08 highlights

Japan: creation of a high technology department.

China: creation of a biology and reconstructed skin unit.

Brazil: creation of a research and development unit in Rio de Janeiro.

France: creation of two laboratories, specialising in ecotoxicity and high-throughput performance evaluation of new active ingredients.

Europe: at the end of 2008, L'Oréal pre-registered all its chemical substances covered by European REACh regulations (Registration, Evaluation, Authorisation and Restriction of Chemicals).

researchers, and thousands of head tests on several continents, make this new generation of colourants a sure winner when it comes to haircare innovation.

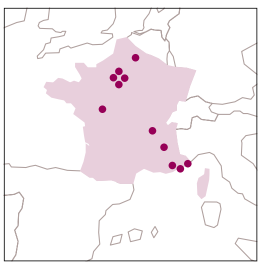
THE ODYSSEY OF NATURAL COSMETICS

In 2007, L'Oréal created a natural and organic cosmetics expertise unit. With cosmetics expertise, its powerful analysis and evaluation methods, and the know-how of its formulators, L'Oréal has everything it requires to demonstrate the efficacy of natural cosmetics and develop concepts that would be inaccessible today using conventional chemistry.
A natural substance can include around a hundred ingredients which no conventional formula could contain. Even at a very low dose, these substances are highly effective, enabling minimalist formulation for maximum efficacy. Some sustainably developed essential oils turn out to be more effective than certain standard conventional ingredients, and thus enable self-protecting formulas.

These initial advances, which will be introduced into the Sanoflore, The Body Shop and Garnier brands, are just the first signs of a new kind of cosmetics which will reveal the full extent of its performances and its ability to meet aspirations for naturalness and efficacy.

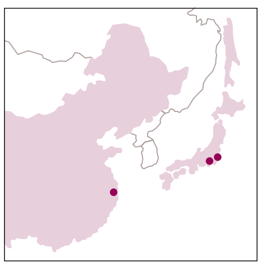
Demonstrating the efficacy of natural and organic cosmetics ingredients is a key objective.

COSMETICS AND DERMATOLOGICAL RESEARCH CENTRES WORLDWIDE



11 IN FRANCE
Chevilly-Larue, Clichy (2 centres), Tours, Aulnay, Lyon, Sophia Antipolis, Monaco, Nice, Gigors-et-Lozeron, Lassigny

3 IN THE UNITED STATES
Clark, Chicago, Princeton



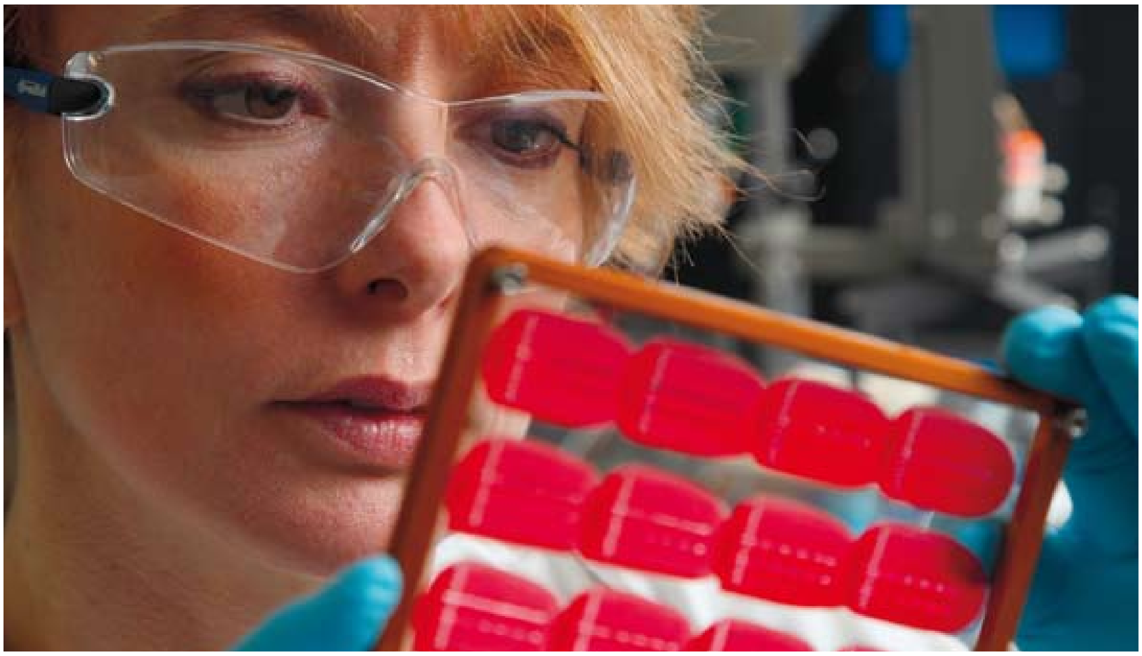
3 IN ASIA
Kawasaki, Tokyo (Japan) Pudong (China)

1 IN LATIN AMERICA
Rio de Janeiro (Brazil)

Gloss reflects researchers' perseverance

Designing a lipstick means meeting three key requirements which at first sight seem incompatible: a lipstick must be glossy, long-lasting and comfortable. How can a film be applied to the lips which is strong enough to be long-lasting, supple enough to be comfortable without vanishing the moment one eats something, and smooth enough to be glossy? The answer: a family of polymers, invented by L'Oréal's teams in collaboration with university researchers and suppliers, the culmination of research which began in 2001, protected by more than 20 patents. The polymers' pendant-necklace structure means that the pendants adhere to the lip, making the lipstick long-lasting, while preserving elasticity, suppleness and comfort on the lips. The result: intense colour, extreme gloss, and a supple, highly resistant film which lasts for 12 hours. A gloss with intense colours whose formulation had been impossible up to now without the risk of the lipstick bleeding.

Screening raw materials for efficacy by means of physical (shown opposite) and biological criteria.



COSMETICS INSTRUMENTS— THE PROMISE OF EFFICACY

Going beyond conventional applicators, L'Oréal is exploring types of packaging and applicators which will add to the potential of formulas, for example by the use of energy. A massage, a temperature difference or a vibration can stimulate skin cells, smooth out circles around the eyes, or help apply the product exactly where it is needed. The initial results are conclusive. Garnier Eye Roll-on uses both mechanical energy (roller massage) and thermal energy (cold metal roller). The brand new Ôscillation mascara from Lancôme uses micro-oscillation to spread the product evenly and separate the lashes. These two innovations came as a great surprise, and were a runaway success. Today, L'Oréal is inventing cosmetics instruments while continuing its research into instrumental cosmetics, which is closer to medical processes such as laser peeling, wrinkle fillers or injections.

THE "BEAUTYOMICS" AND ETHICAL BEAUTY OF TOMORROW

Cellular and then molecular biology has enabled researchers to study the skin and hair as living organs, made up of cells whose functions change under the effect of ageing, stress and the environment. The advent of "omic" tools, such as transcriptomics and proteomics, has thrown a new and expert light on to ageing, hair loss and skin repair or regeneration. The work of L'Oréal researchers on the skin genes involved in ageing has already paid off. It has enabled the decoding of a family of proteins which have a discriminating signature for skin youthfulness, and the selection of active ingredients which can re-express youthful characteristics. Another team has succeeded in enriching or impoverishing *in vitro* an epidermis of stem cells to correct the damage caused by the effects of sun or age. The first new generation anti-ageing skincare products are being launched at the start of 2009.

Work of this type requires a strict ethical approach: the aim here is absolutely not to modify the genetic code or play with variations in the expression of genes, but instead to understand the result of the activity of our genes on beauty.

These ethical considerations are also reflected in the group's commitment not to use laboratory animals to evaluate the harmlessness of products, and not to affect the well-being of future generations, by adopting an eco-design approach.

In the evaluation of raw materials, the absence of environmental impact is a priority.

Anti-ageing: a new approach to research

The beauty of the skin, its youthfulness, how it ages, and its ability to protect itself against stress and aggressions are largely linked to the genetic heritage of each individual. In collaboration with internationally renowned teams in France and Canada, L'Oréal's researchers have made use of the tools of modern biology to throw light on to the molecular targets of skin ageing. In the process, they have discovered that youthful skin and aged skin have specific protein signatures, and that these signatures change with age and when subjected to stress. These results have enabled them to select active ingredients which are conducive to the expression of youthfulness in skin by acting on the proteins at the surface of the epidermis, which are produced by the activity of the genes. L'Oréal researchers were then able to select active ingredients which have an action on this family of proteins. The power of these "omic" tools has made it possible to prove their efficacy conclusively without using biopsies or other invasive techniques. Several active compounds have already been evaluated using these techniques, and will be included in the formulation of a new generation of anti-ageing skincare products.

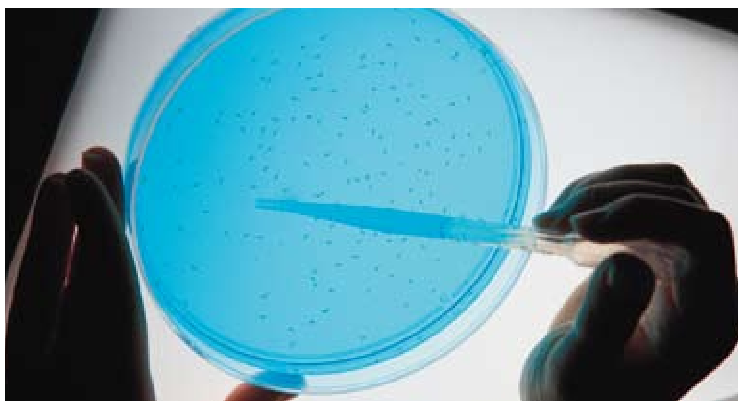
Modern biological tools can conclusively demonstrate the efficacy of cosmetics.

Innovating by controlling the impact products have on the planet

INVENTING A CENTURY OF BEAUTY

From March 2009, the European Cosmetics Directive prohibits the sale in Europe of cosmetics products whose ingredients have been subjected to certain types of animal testing. This prohibition will apply to all tests in 2013. To guarantee its ability to innovate without making any safety concessions, L'Oréal Research anticipated this trend 30 years ago, by developing a safety evaluation strategy based on predictive approaches. They are based on data heritage built up over the past 100 years: a thorough knowledge of ingredients, the results of tests conducted up to now, the development of *in vitro* tools (based on cell culture) and *in silico* tools (statistical models used to predict a toxological profile from a chemical structure), the correlations established between all these results and clinical studies or "Post-Marketing Surveillance", the sharing of data with the group's suppliers and players from all other industries as part of European partnerships, and above all scientific advances.
These approaches are predictive of safety, but also of efficacy, and this is their strength when it comes to guaranteeing innovation. For the 2013 deadline, the cosmetics industry is working with great determination alongside the whole range of industrial sectors, and the European Commission, which plans to take stock in 2011 of the progress made by research in this area.
To control the impact of products on the planet, the L'Oréal laboratories have put in place an eco-design approach which incorporates—from the ingredient selection stage—indicators about the traceability of ingredients, what happens to them in water and air, and their impact on biodiversity. Suppliers of raw materials are involved in this process, and are required to comply with naturalness criteria from the ingredient design stage. More than 15 years ago, L'Oréal's researchers carried out the first ecotoxicity studies with scientific experts across the globe. In 2008, the group created a laboratory specialising in ecotoxicity at Aulnay-sous-Bois (France), which also uses predictive methods to evaluate impact on ecosystems.

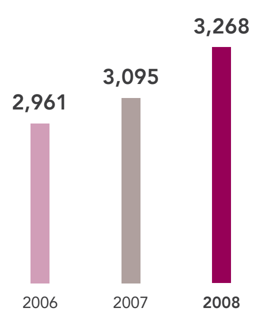
In a changing world, thanks to advances in knowledge, beauty is being invented in the laboratories of L'Oréal, as it listens to consumers all over the world.



Medaka fish eggs are a model for evaluating environmental harmlessness.

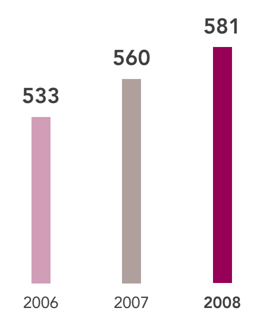
COSMETICS AND DERMATOLOGICAL RESEARCH EMPLOYEES

(including 50% of Galderma research employees)



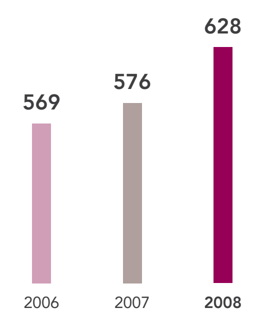
RESEARCH AND DEVELOPMENT BUDGET

(€ millions, including 50% of Galderma research expenses)



NUMBER OF PATENTS

(cosmetics and dermatological research)



Targeting excellence in Operations to achieve sustainable performance

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

Jean-Philippe Blanpain
Managing Director Operations

CONTINUOUS STREAMLINING OF PRODUCTION

L'Oréal has launched a multi-year programme to significantly improve the efficiency of its industrial facilities. For example, unproductive time in packaging was reduced by –6.4% in 2008. By optimising industrial processes, it has been possible to raise processing equipment capacity by around +22%. The group is continuing to roll out its Enterprise Resource Planning (ERP) system, which now covers 44% of global production. In Europe, the specialisation of plants according to technology has led to the streamlining of production facilities. Lastly, the acquisition of the Yves Saint Laurent Beauté industrial site has brought the group new expertise in the fields of make-up powder and lipstick.

ROLLING OUT THE NEW SUPPLY CHAIN

By continuing with the integration and centralisation of the supply chain, which began in 2007, the group has gained greater control over its logistical processes, enabling it to react quickly and effectively to market fluctuations. This fundamental change in organisational and human terms has led to improved service rates and better inventory control. Logistic-related costs and inventories have been kept under control in an adverse environment thanks to a policy of concentrating logistical centres and hubs in Europe, and redesigning transport plans in North and Latin America.

CENTRALISED PURCHASING

In an extremely challenging economic context, centralising all L'Oréal purchasing under a single authority in four purchasing centres across the globe helps offset the rise in raw materials prices, boosts efficiency and speeds up innovation projects. The group is continuing to build sustainable partnerships with its suppliers, who can now take advantage of a special section on the corporate website www.loreal.com. In China, 200 suppliers and subcontractors were invited to a convention aimed at improving their performance in Safety, Health, the Environment and Human Resources, following audits of our suppliers on labour standards arranged by the group.

	2006	2007	2008
(Millions of units) Cosmetic plants output	4,484	4,720	4,620
(€ millions) Cosmetics investments (production and physical distribution commitments)	270	248	243
Index (base 100 in 2006) Comparable product purchasing price index	100	97.5	96.5

	Cosmetics output	Cosmetics sales
Western Europe	51%	45%
North America	22%	23%
Rest of the World	27%	32%
TOTAL	**100%**	**100%**

08 highlights

Roll-out of the new supply chain organisation in four geographic poles (Europe, Asia, Latin America, and North America).

L'Oréal bolsters its industrial presence at the gateway to the Middle East with the acquisition of the company Canan, which has a plant near Istanbul (Turkey).

Centralisation of all group purchasing in four geographic poles.

The Libramont (Belgium) site chooses green energy, by installing a biomethanisation facility on the plant site. The facility, which will be started up in 2009, will enable an eightfold reduction in CO_2 emissions at full load.

COMBINING PACKAGING INNOVATION WITH ENVIRONMENTAL PROTECTION

In 2008, the packaging innovation policy led to the filing of 71 patents and the launch of major new products such as Ôscillation by Lancôme, the first powermascara by micro-oscillation. Combining innovation with sustainable development is the goal of L'Oréal's Packaging Research. In accordance with its certification by the FSC (Forest Stewardship Council), the group is committed to using only paper and cardboard packaging made from pulp originating from sustainably managed forests.

MINIMISING IMPACT ON THE PLANET

In 2008, the main environmental performance indicators once again improved significantly, thanks to the strong commitment of the different sites, and the ongoing policy of sustainable building construction (see page 22, Environment section). Safety results also improved, with an enlarged frequency rate[1] reduced by –15.6%, following the worldwide launch of two major training programmes.

(1) Enlarged frequency rate: number of L'Oréal employees or temporary staff who have had a lost time accident and injured L'Oréal personnel in light duty per million hours worked.

Certification of a lipstick mechanism (Tokyo, Japan).

Commitments

Towards new forms of sustainable packaging

In October 2008, L'Oréal signed a convention with Ecole MINES Paris-Tech, one of France's most prestigious engineering schools, to create a Chair in Bioplastics. The group is committed to funding research into alternative solutions to plastic resins derived from petrochemicals over a period of five years. Bioplastics use renewable natural resources, are biodegradable in most cases, and minimise carbon dioxide emissions into the atmosphere. L'Oréal is thus adopting a sustainable development approach while encouraging advanced research in a field of interest for its industry.

INDUSTRIAL FACTORIES IN THE WORLD

EUROPE
22 factories (including 14 in France)

NORTH AMERICA
8 factories

LATIN AMERICA
3 factories

AFRICA – ORIENT – PACIFIC
4 factories

ASIA
5 factories

- Consumer Products: 24 factories
- Active Cosmetics: 2 factories
- Luxury Products: 7 factories
- Dermatology: 2 factories
- Professional Products: 3 factories
- Raw materials: 4 factories

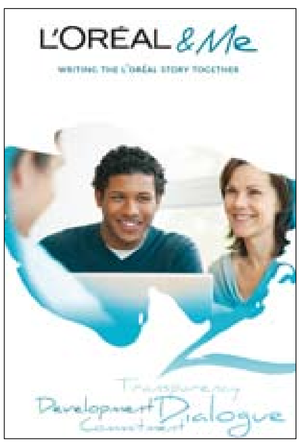
Developing and engaging our people

"It is our ambition to make L'Oréal the employer of choice in every market where the group is present. We therefore strive to attract the best talent and create a strong relationship with each and every one of our employees, based on a long term career vision. While the employment market is becoming increasingly competitive through changing demographics, it is more than ever the mission of our Human Resources teams to support sustainable growth by developing our expertise, realising individual potential, promoting and retaining the talents of the future. It is also the mission of our teams to accompany the divisions in their organisational and business development projects, respecting L'Oréal's social values, and with the best interests of each individual employee constantly at heart."

Geoff Skingsley
Executive Vice-President
Human Resources

"L'ORÉAL & ME"(1): OUR MUTUAL COMMITMENT

2008 marked a new stage in L'Oréal's Human Resources policy with the launch of "L'Oréal & Me"(1). This new programme, signalling a genuine mutual commitment between the group and each of its employees, will be rolled out progressively in all countries between now and 2010.



"L'Oréal & Me"(1) builds on the strengths and traditional values of L'Oréal and provides concrete answers to the employee expectations that were highlighted by the internal opinion surveys in 2006. "L'Oréal & Me"(1) encompasses all the L'Oréal's Human Resources policies and practices on career development, appraisal, remuneration and training applicable to all its employees worldwide. It evokes the core principles of L'Oréal's human resources policy which is focused on the individual and on the group's ambition as a responsible employer.

"L'Oréal & Me"(1) supports managers in developing their teams, fostering engagement and rewarding contribution through policies which include a worldwide appraisal system and a dynamic and individualised career management process. It reinforces L'Oréal's culture of providing continuous feedback on performance, competencies and employee aspirations. With "L'Oréal & Me"(1), L'Oréal is underlining its ambition to forge a sustainable relationship of mutual confidence with each of its employees.

(1) "L'Oréal & moi" in France.

08 highlights

49,000 students from all over the world took part in one of L'Oréal's four business games, each of which covers a particular discipline.

Creation of "L'Oréal & Me"(1), a new policy of mutual commitment between the group and its employees.

Launch of "EurOpportunity" to provide international internships within a L'Oréal business in Europe to the best students from our key partner universities.

Inauguration of L'Oréal's fifth learning centre in Dubai, following on from Shanghai, Rio, New York and Paris.

L'Oréal's first "Disability Initiatives Trophies", awarding several of the group's business units for their concrete initiatives on disability issues.

L'Oréal won a "sustainable engagement" award for its employee retirement savings scheme (PERCO) set up in France in 2003.

BUSINESS GAMES—A UNIQUE EXPERIENCE FOR STUDENTS

The 4th edition of **"L'Oréal Ingenius"** took place in 11 countries. Engineering students had the chance to express their creativity in putting sustainable development at the heart of the company's industrial process.

"L'Oréal Estrat 8", a strategic game, simulating a company in a virtual environment, attracted 44,000 students from 110 countries.

The first prize of the 16th edition of the **"L'Oréal Brandstorm"** business game was awarded to a team from Utah in the United States who imagined the marketing strategy for a range of sunscreen products.

RECRUITMENT: SHARING THE PASSION

In order to reach its development targets, L'Oréal's Human Resources teams must have the ability to detect, attract and convince the best talents who will drive future business activities. This requirement is a reality on all continents, as much in fast-growing countries where the group recruits and trains a considerable number of managers, as in those markets where the group has traditionally always been present. Coupled with this is the belief in diversity, and all that it offers as a source of progress, cultural richness and performance for building our teams all over the world.

To fulfil this mission, L'Oréal has set up an original recruitment policy, based on a key concept—"sharing the passion"—of the L'Oréal adventure.

In 2008, the Universum Survey ranked L'Oréal as the ideal employer in Europe for Marketing students. And at the same time, L'Oréal came out top in the Trendence Survey as the favourite company for European business students.

DEVELOPMENT— A CORE GROUP CONCERN

L'Oréal's sustainable growth is based in part on the ability to anticipate training needs in all areas of activity and develop individual talents. In order to pass on expertise and ensure that all employees have access to training programmes, L'Oréal has set up regional learning centres in the United States, China, France, Brazil, and now in Dubai.

TRAINING PROGRAMMES FOR THE MARKETING AND RESEARCH TEAMS

Innovation and creativity are vital for L'Oréal and a comprehensive development programme has been implemented for its marketing and research people.

Osmose

This seminar is part of the "Must Have" series of training programmes, designed to provide each manager with the core essential requirements for the job. Offered to both the marketing and research teams, it opens up the world of marketing to L'Oréal's laboratory staff, provides training in scientific expertise for its marketing people, and helps accelerate and ease this essential link in the innovation process.

Creativity 360°

Stimulating the creativity of L'Oréal's marketing teams is the aim of this course. Based on the principle of "action learning", the courses are tailored to the operational needs of a specific team. After Brazil and Europe in 2007, China and the United States launched the course in 2008, which is now deployed in 11 countries.

"L'Oréal Innovation Lab"—creating the cosmetics of tomorrow

"L'Oréal Innovation Lab" is a unique business game which offers science and research students (chemistry, physics, biology and agronomy…) the opportunity to imagine the cosmetic products of tomorrow in the group's laboratories.
In 2008, for its 2nd edition, 40 finalists spent time in Paris with L'Oréal research teams learning about the science behind the products in workshops on sensorial analysis, instrumental or cosmetoclinical evaluation. In teams of four, they then took on the role of researchers and presented their vision of the men's skincare products of tomorrow to a jury composed of L'Oréal experts in science and marketing.
This innovative game reflects the importance of research to L'Oréal business, and enables the group's recruitment teams to strengthen their partnerships with the best universities and science schools in order to detect the researchers of the future.
In 2009, "L'Oréal Innovation Lab" will be extended to the United States and China.

—CREATIVITY 360°
Training in Shanghai (China).

ENCOURAGING DIALOGUE

Social relations are based on confidence and mutual respect, and rely on open, participatory and permanent dialogue between the employees, their representatives and Management. To this effect, more than 24,500 employees are represented by the IEDS (European Council for Social Dialogue) at L'Oréal.

REWARDING COMMITMENT AND PERFORMANCE

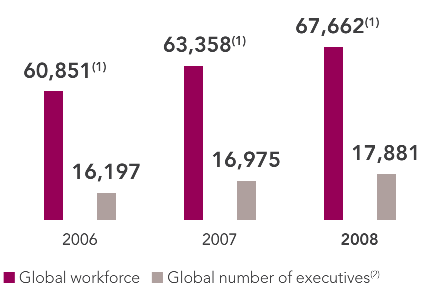
L'Oréal's aim is to offer individual and collective remuneration packages to attract and retain talented individuals. Each individual's contribution is assessed on the basis of his or her performance and recognised through a competitive salary. Collective remuneration schemes are a further means of developing employee loyalty and contributing to global targets.

In 2008, the group was awarded the Trophée de l'Engagement durable (Trophy for sustainable engagement) for its employee retirement savings scheme ("PERCO") which was implemented in France in 2003. This award highlights the innovative and ground-breaking nature of the scheme which enables staff to save part or all of their profit sharing for retirement.

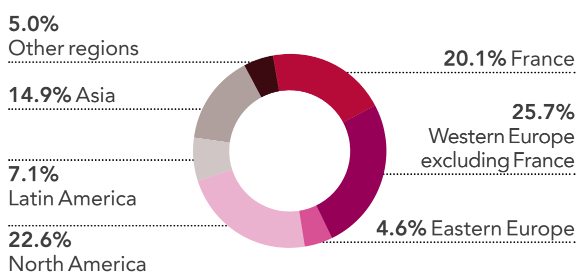
SUPPORTING PROFESSIONAL DEVELOPMENT

In 2008, L'Oréal undertook in France a review of job classifications in the production and logistics sector in order to establish the key competencies of each position. This project aims to support the professional development of L'Oréal's employees working in the factories and distribution centres in order to ensure that each person has an outlook on career development opportunities within, and between, specific areas of expertise. The project was carried out in association with trade union representatives in Europe and will continue in 2009.

CHANGE IN WORKFORCE



BREAKDOWN OF EMPLOYEES BY GEOGRAPHIC ZONE(1) AT DECEMBER 31ST, 2008



(1) Including The Body Shop since 2006, American distributors since 2007, and the whole of the Club des Créateurs de Beauté and YSL Beauté since 2008.
(2) Global number of executives in the cosmetics branch, excluding YSL Beauté.

Taking actions for diversity and equal opportunities

The group illustrates its commitment to diversity and equal opportunities through a number of concrete initiatives.

Diversity: 7,500 managers already trained

The Diversity training programme for managers, launched at the end of 2006, is a pillar of the group's diversity policy. Its objective is to help managers identify and overcome their own personal barriers and formalise action plans. The roll-out of this seminar was considerably stepped up in 2008: 4,660 managers—including 2,900 in France and 360 in Spain—received training, meaning that 7,500 managers in 32 European countries have been trained over the last two years. Pilot sessions have now been launched in four new countries: Russia, Austria, Greece and Switzerland.

L'Oréal's first "Disability Initiatives" Trophies

Convinced that a policy promoting diversity cannot be complete without a policy on disability, L'Oréal considers that welcoming, integrating and ensuring the professional development of disabled persons is an essential commitment towards its employees and all parties concerned. In line with this very determined approach, L'Oréal organised the first L'Oréal "Disability Initiatives" Trophies, awarding group businesses for their specific actions on disability issues around the following themes: recruitment and employment sustainability for disabled persons, partnerships with companies in the protected sector, awareness-raising initiatives on disability issues, and accessibility to premises and information.

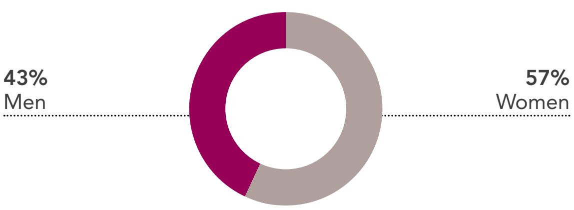
Promoting the employment of older individuals

In April 2008, L'Oréal hosted the first forum on Employment & Diversity, on the theme of "Making the most of the second stage of a career", aimed at the over-45s. Its objective was to promote the experience of older individuals and break down age-linked stereotypes. Under the patronage of the French Ministry of Economy, Industry and Employment, and initiated by the group in partnership with other organisations, this forum facilitated meetings between around a dozen companies and two hundred experienced mature profiles.

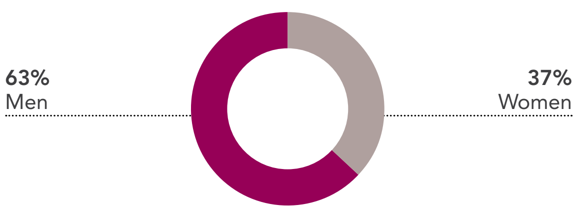
Equal opportunities agreement

L'Oréal has been engaged for many years in an active social policy promoting equal opportunities between men and women and developed, very early on, parental assistance schemes providing favourable conditions in which to reconcile career and family life. In 2008, an agreement was signed between L'Oréal and the trade union organisations in France, formalising the group's commitment in favour of equal opportunities. This agreement sets out the principles that L'Oréal means to guarantee in the way of equal opportunities for men and women.

BREAKDOWN OF FEMALE AND MALE EXECUTIVES IN 2008[2]



BREAKDOWN OF FEMALE AND MALE MANAGEMENT COMMITTEE MEMBERS IN 2008[2]



Ensuring financial stability and the efficiency of organisations

"The Administration and Finance Division of L'Oréal continued to apply a balanced financial policy in 2008. The policy was supported by initiatives to improve the productivity of both operational structures and systems made available to the operational teams. The administration, management, and finance teams played an active part in the operational performance of the businesses. Their contribution was particularly focused on tightening up internal control, monitoring cash flows and ensuring rigorous control of performance, which is communicated upon extensively to the financial community and individual shareholders. The group actively continued its policy of enhancing the security of financing, while strengthening its already robust balance sheet."

Christian Mulliez
Executive Vice-President
Administration and Finance

FINANCIAL COMMUNICATIONS

The financial communications team ensures that comprehensive and transparent information is provided to institutional investors and individual shareholders, and to financial analysts and the financial press. In 2008 communications efforts were stepped up both for institutional investors, particularly outside France, and individual shareholders in the major French regions.

INFORMATION SYSTEMS TO DRIVE OPERATIONAL EXCELLENCE

At the end of 2008, the implementation of the group's Enterprise Resource Planning system covered some 85% of group sales. It was extended in particular in the Americas—United States, Peru and Venezuela—and in Asia—India and the ASEAN countries. Moves to facilitate the convergence of technical platforms continued, particularly in Spain and Northern Europe. The integration of the information systems of the YSL Beauté businesses was also started up rapidly across all the operational zones. Finally, efforts continued to ensure that employees are equipped with effective communication and mobility tools.

MANAGEMENT/CONSOLIDATION

The organisation of the group's management/consolidation is based on a solid and seamless decision support information system used to anticipate and precisely manage economic performance. The development of information systems continued in 2008 to improve responsiveness in updating financial data, giving managers greater flexibility in running the company and adapting decisions in view of the economic environment. The management teams are constantly vigilant in their cost control, and make sure that the guidelines set out by the General Management are implemented.

The merging of teams in single sites continued, as in Spain where a new headquarters was opened.

08 highlights

Strategic acquisition of YSL Beauté, Columbia Beauty Supply in the United States, and 50% of Club des Créateurs de Beauté.

L'Oréal receives the Annual Report 1st Prize awarded by "La Vie Financière" in partnership with "Les Echos".

Finalisation in Europe and roll-out in Asia of pooling programmes to strengthen the operational efficiency of support structures—information systems, human resources, finance and purchasing.

L'Oréal Annual General Meeting of shareholders, Paris, April 22nd, 2008, Carrousel du Louvre.

TAX

The mission of the Tax department is to secure and optimise the group's tax obligations and verify compliance with the laws and regulations of the countries concerned.

INTERNAL AUDIT CARRIES OUT CONTROL

The internal audit team carried out 47 missions in 2008. The audits related to 32 commercial businesses representing some 30% of group sales, and 11 plants or supply chains; the plants audited represented some 14% of total worldwide production in unit terms. In addition, four other missions were carried out on more specific or cross-functional topics. Audit missions result in the drawing up of a report setting out the findings and the associated risks, and making recommendations under an action plan to be implemented by the entity audited.

SOLID BALANCE SHEET AND SECURING DEBT

L'Oréal's balance sheet is solid. Financial debt is reasonable: net financial debt totals €3,700 million, or 31.3% of equity. The net financial debt consists partly of medium-term bank loans, most of which mature in 2011-2012; the rest consists of commercial paper secured by confirmed credit lines. The group has for many years negotiated agreements with its main banks in order to obtain favourable conditions for the financing of its debt. Furthermore, the group has a financial stake of 9% in Sanofi-Aventis.

LEGAL AND INSURANCE

The legal department provides advice and exerts control within the divisions to ensure the protection of the roll-out of our businesses, in compliance with laws and regulations. Its missions include creating, managing and defending the group's brand assets, ensuring the legal security of the businesses' operations, and devising risk prevention, defence and litigation strategies relating to any legal disputes. In the insurance field, the group continued in 2008 to set up global programmes, particularly in third party liability, material damage and operating loss, and transport insurance.

Commitments

Improving management standards and internal control procedures

As part of its ongoing internal control effort, the group has taken an initiative to improve management standards and internal control procedures. The issues covered are those most frequently encountered by the internal audit teams, concerning in particular subsidiaries' procedures for transactions with customers, supplier relations, and the protection and management of inventory and tangible assets.
The initiative is based on "best practices" in the divisions and zones, and on the recommendations made by the internal audit teams. The goal is to set out more formally the instructions necessary for better operational implementation of the key principles stated in the group's reference document, *Les Fondamentaux du Contrôle Interne*.

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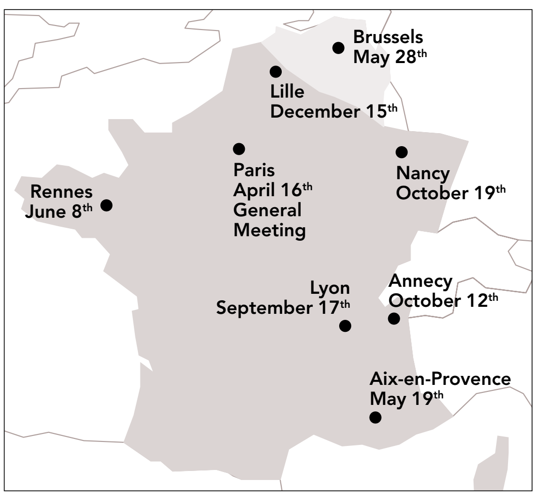
Key dates for 2009

Shareholder meetings



Register for shareholder meetings
on www.loreal-finance.com

Financial news releases

- February 16th, 2009
2008 annual sales and results

- April 24th, 2009
Payable date of the dividend(1)

- May 6th, 2009
First quarter 2009 sales

- August 28th, 2009
Half-year results

(1) Subject to approval by the Annual General Meeting of April 16th, 2009.

KEEP INFORMED ON www.loreal-finance.com
Subscribe to e-mail alerts and be informed of the publication of news releases, *Letters to Shareholders*, the *Shareholder Digest* and all other group brochures.

Published by the Administration and Finance Division and by the Corporate Communications and External Affairs Division of L'Oréal group.

Competitive positions and market shares held by the group's divisions and brands mentioned in this report are based on studies, panels and polls obtained from specialised organisations and companies, or, in the absence of comprehensive studies, are the result of estimates made by L'Oréal based on the available statistical data.

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L'ORÉAL

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2008 FINANCIAL STATEMENTS

Management Report of the Board of Directors
Additional information for the Annual Report

L'ORÉAL

Key figures

Consolidated sales	**17,542** € millions
Operating profit	**2,725** € millions
Net earnings per share*	**3.49** euros
Dividend**	**1.44** euros

** Diluted EPS, calculated on net profit excluding non-recurrent items attributable to the Group*
*** Proposed at the Annual General Meeting of Shareholders of April 16th, 2009*

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

In application of Article 212-13 of the General Regulation of the Autorité des Marchés Financiers, this Reference Document was filed with the Autorité des Marchés Financiers on March 20th, 2009.

This Reference Document may be used in connection with a financial transaction if it is accompanied by an Information Memorandum approved by the Autorité des Marchés Financiers.

The L'Oréal Reference Document comprises two separate volumes:

- a general brochure "2008 Annual Report",
- the 2008 financial statements, plus additional information as required by law, available prior to the Annual General Meeting convened for Thursday, April 16th, 2009.

This is a free translation into English of the L'Oréal 2008 Annual Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

This document was printed in France on chlorine-free and PEFC certified paper produced from sustainably managed forests.
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1 2008 Consolidated financial statements*

** 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.*

1.1. Compared consolidated profit and loss accounts

€ millions	Notes	2008	2007	2006
Net sales	3	**17,541.8**	**17,062.6**	**15,790.1**
Cost of sales		-5,240.1	-4,941.0	-4,569.1
Gross profit		**12,301.7**	**12,121.6**	**11,221.0**
Research and development		-581.3	-559.9	-532.5
Advertising and promotion		-5,274.6	-5,126.7	-4,783.0
Selling, general and administrative expenses		-3,779.4	-3,618.2	-3,309.4
Operating profit before foreign exchange gains and losses		**2,666.4**	**2,816.8**	**2,596.1**
Foreign exchange gains and losses	6	58.2	10.4	-55.2
Operating profit		**2,724.6**	**2,827.2**	**2,540.9**
Other income and expenses	7	-156.3	621.6	-60.8
Operational profit		**2,568.3**	**3,448.8**	**2,480.1**
Finance costs	8	-174.2	-174.5	-115.9
Other financial income (expense)		-7.2	-7.6	-3.6
Sanofi-Aventis dividends		244.7	250.3	217.4
Share in net profit (loss) of equity affiliates		-	0.1	-1.2
Profit before tax and minority interests		**2,631.6**	**3,517.2**	**2,576.8**
Income tax	9	-680.7	-859.7	-514.7
Net profit		**1,950.9**	**2,657.5**	**2,062.1**
Attributable to:				
- group share		1,948.3	2,656.0	2,061.0
- minority interests		2.6	1.5	1.1
Net profit attributable to the Group per share (euros)	10	3.31	4.42	3.36
Diluted net profit attributable to the Group per share (euros)	10	3.30	4.38	3.35
Net profit excluding non-recurrent items attributable to the Group per share (euros)	10	3.50	3.39	2.99
Diluted net profit excluding non-recurrent items attributable to the Group per share	**10**	**3.49**	**3.36**	**2.98**

1.2. Compared consolidated balance sheets

Assets

€ millions	Notes	12.31.2008	12.31.2007	12.31.2006
Non-current assets		**16,308.7**	**16,979.6**	19,155.4
Goodwill	11	5,532.5	4,344.4	4,053.9
Other intangible assets	12	2,038.2	1,959.2	1,792.8
Tangible assets	14	2,753.3	2,651.1	2,628.4
Non-current financial assets	15	5,557.4	7,608.9	10,168.5
Investments in equity affiliates		-	-	82.0
Deferred tax assets	9	427.3	416.0	429.8
Current assets		**6,648.2**	**6,220.7**	**5,627.6**
Inventories	16	1,635.5	1,547.6	1,404.4
Trade accounts receivable	17	2,694.6	2,617.5	2,558.5
Other current assets	18	1,107.4	926.4	851.8
Current tax assets		133.6	42.5	31.7
Cash and cash equivalents	19	1,077.1	1,086.7	781.2
Total		**22,956.9**	**23,200.3**	**24,783.0**

Liabilities & Equity

€ millions	Notes	12.31.2008	12.31.2007	12.31.2006
Shareholders' equity	20	**11,828.7**	**13,621.8**	**14,624.2**
Capital stock		120.5	123.6	127.9
Additional paid-in capital		965.5	963.2	958.5
Other reserves		9,331.5	8,695.8	8,974.4
Items directly recognised in equity		1,433.6	3,408.9	5,066.9
Cumulative translation adjustments		-563.1	-441.1	-70.3
Treasury stock		-1,410.6	-1,787.2	-2,496.3
Net profit attributable to the Group		1,948.3	2,656.0	2,061.0
Shareholders' equity excluding minority interests		**11,825.7**	**13,619.2**	**14,622.1**
Minority interests		2.9	2.5	2.1
Non-current liabilities		**3,771.8**	**3,978.5**	**3,396.9**
Provisions for employee retirement obligation and related benefits	21	694.4	755.3	837.9
Provisions for liabilities and charges	22	111.4	148.5	154.1
Deferred tax liabilities	9	459.4	491.6	512.5
Non-current borrowings and debts	23	2,506.6	2,583.0	1,892.4
Current liabilities		**7,356.4**	**5,600.1**	**6,761.9**
Trade accounts payable		2,656.6	2,528.7	2,485.0
Provisions for liabilities and charges	22	431.1	285.7	272.0
Other current liabilities	25	1,838.4	1,732.5	1,613.9
Current tax liabilities		159.7	176.5	173.0
Current borrowings and debts	23	2,270.6	876.8	2,218.0
Total		**22,956.9**	**23,200.3**	**24,783.0**

1.3. Consolidated statement of changes in shareholders' equity

€ millions	Common shares outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjust-ments	Share-holders' equity excluding minority interests	Minority interests	Shareholders' equity
At 12.31.2005	**619,973,610**	**131.7**	**953.9**	**10,797.1**	**5,197.2**	**-2,638.2**	**214.0**	**14,655.7**	**1.5**	**14,657.2**
Capital increase	76,000	-	4.6					4.6		4.6
Cancellation of treasury stock		-3.8		-1,255.6		1,259.4		-		-
Dividends paid (not paid on treasury stock)				-616.1				-616.1	-0.9	-617.0
Cumulative translation adjustments							*-284.3*	*-284.3*	*0.2*	*-284.1*
Financial assets available for sale					*-194.5*			*-194.5*		*-194.5*
Cash flows hedging					*64.2*			*64.2*		*64.2*
Items directly recognised in equity					-130.3		-284.3	-414.6	0.2	-414.4
Consolidated net profit of the period				2,061.0				2,061.0	1.1	2,062.1
Total income and expenses				**2,061.0**	**-130.3**		**-284.3**	**1,646.4**	**1.3**	**1,647.7**
Share-based payment				49.4				49.4		49.4
Net changes in treasury stock	-14,327,500			-1.5		-1,117.5		-1,119.0		-1,119.0
Other movements				1.1				1.1	0.2	1.3
At 12.31.2006	**605,722,110**	**127.9**	**958.5**	**11,035.4**	**5,066.9**	**-2,496.3**	**-70.3**	**14,622.1**	**2.1**	**14,624.2**
Capital increase	75,050	-	4.7					4.7		4.7
Cancellation of treasury stock		-4.3		-1,704.8		1,709.1		-		-
Dividends paid (not paid on treasury stock)				-711.6				-711.6	-0.9	-712.5
Cumulative translation adjustments							*-370.8*	*-370.8*		*-370.8*
Financial assets available for sale					*-1,685.9*			*-1,685.9*		*-1,685.9*
Cash flows hedging					*27.9*			*27.9*		*27.9*
Items directly recognised in equity		-			-1,658.0	-	-370.8	-2,028.8	-	-2,028.8
Consolidated net profit of the period				2,656.0				2,656.0	1.5	2,657.5
Total income and expenses	**-**	**-**	**-**	**2,656.0**	**-1,658.0**	**-**	**-370.8**	**627.2**	**1.5**	**628.7**
Share-based payment				69.1				69.1		69.1
Net changes in treasury stock	-10,486,487			-1.6		-1,000.0		-1,001.6		-1,001.6
Other movements				9.3				9.3	-0.1	9.2
At 12.31.2007	**595,310,673**	**123.6**	**963.2**	**11,351.8**	**3,408.9**	**-1,787.2**	**-441.1**	**13,619.2**	**2.5**	**13,621.8**
Capital increase	37,600	-	2.3					2.3		2.3
Cancellation of treasury stock		-3.1		-1,285.8		1,288.9		-		-
Dividends paid (not paid on treasury stock)				-817.1				-817.1	-1.1	-818.2
Cumulative translation adjustments							*-122.0*	*-122.0*		*-122.0*
Financial assets available for sale					*-2,046.2*			*-2,046.2*		*-2,046.2*
Cash flows hedging					*70.9*			*70.9*		*70.9*
Items directly recognised in equity		-			-1,975.3	-	-122.0	-2,097.3	-	-2,097.3
Consolidated net profit of the period				1,948.3				1,948.3	2.6	1,950.9
Total income and expenses	**-**	**-**	**-**	**1,948.3**	**-1,975.3**	**-**	**-122.0**	**-149.0**	**2.6**	**-146.4**
Share-based payment				85.9				85.9		85.9
Net changes in treasury stock	-12,207,805			-0.2		-912.3		-912.5		-912.5
Other movements				-3.1				-3.1	-1.1	-4.2
At 12.31.2008	**583,140,468**	**120.5**	**965.5**	**11,279.8**	**1,433.6**	**-1,410.6**	**-563.1**	**11,825.7**	**2.9**	**11,828.7**

1.4. Compared consolidated statements of cash flows

€ millions	Notes	2008	2007	2006
Cash flows from operating activities				
Net profit attributable to the Group		1,948.3	2,656.0	2,061.0
Minority interests		2.6	1.5	1.1
Elimination of expenses and income with no impact on cash flows:				
• depreciation, amortisation and provisions		706.1	598.5	579.4
• changes in deferred taxes		6.6	38.3	-273.3
• share-based payment	20.3	85.9	69.1	49.4
• capital gains and losses on sale of assets	10	-3.6	-11.7	-8.5
• capital gain on Sanofi-Aventis sale, net of tax		-	-631.9	
• share in net income of equity affiliates net of dividend received		-	0.5	1.2
Gross cash flow		**2,745.9**	**2,720.4**	**2,410.3**
Changes in working capital	27	-148.8	-76.3	65.6
Net cash provided by operating activities (A)		**2,597.1**	**2,644.0**	**2,475.9**
Cash flows from investing activities				
Investments in tangible and intangible assets		-745.9	-776.0	-745.2
Disposals of tangible and intangible assets		9.2	30.1	28.9
Disposal of Sanofi-Aventis, net of tax		-	1,465.3	
Changes in other financial assets (including investments in non-consolidated companies)		-9.4	-10.2	-3.9
Effect of changes in the scope of consolidation	28	-1,299.1	-604.4	-1,065.7
Net cash (used in) from investing activities (B)		**-2,045.2**	**104.8**	**-1,785.9**
Cash flows from financing activities				
• Dividends paid		-849.2	-725.7	-633.8
• Capital increase of the parent company		2.3	4.7	4.6
• Disposal (acquisition) of treasury stock		-912.6	-1,001.6	-1,119.0
• Issuance (repayment) of short-term loans		1,262.5	-1,439.1	209.3
• Issuance of long-term borrowings		1.1	753.2	1,563.5
• Repayment of long-term borrowings		-62.8	-10.1	-577.0
Net cash (used in) from financing activities (C)		**-558.7**	**-2,418.7**	**-552.4**
Net effect of exchange rate changes and fair value changes (D)		-2.8	-24.6	-19.6
Change in cash and cash equivalents (A+B+C+D)		**-9.6**	**305.5**	**118.0**
Cash and cash equivalents at beginning of the year (E)		**1,086.7**	**781.2**	**663.2**
Cash and cash equivalents at end of the year (A+B+C+D+E)	**19**	**1,077.1**	**1,086.7**	**781.2**

Income taxes paid amount to €823.6 million, €820.9 million and €725.6 million respectively for the years 2008, 2007 and 2006.

Interest paid amounts to €209.4 million, €201.1 million and €133.9 million respectively for the years 2008, 2007 and 2006.

Dividends received amount to €244.7 million, €250.3 million and €217.4 million respectively for the years 2008, 2007 and 2006. They are included within the gross cash flow.

1.5. Notes to consolidated financial statements

Detailed list of notes

Note 1. Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union on December 31st, 2008.

On February 16th, 2009 the Board of Directors closed the consolidated financial statements at December 31st, 2008. The financial statements will not become definitive until they have been approved by the Annual General Meeting of Shareholders to be held on April 16th, 2009.

The Group has not applied any standards or interpretations whose application is not yet compulsory in 2008.

The Group is analysing the application in its accounts of the standard IFRS 8 "operating segments", applicable as from January 1st, 2009, but does not anticipate any major impacts.

Furthermore, the Group is affected by the provisions of the "Improvements to IFRS" standard relating to the treatment of advertising and promotional costs and clarifying the provision of IAS 38. The Group is studying the implications of this standard particularly as regards accounting for samples, non amortizable POS and mail-order sales catalogues, which are currently recorded in the P&L only when they are delivered to the final customers.

The Group is studying the effect of IFRIC 13 "Customer loyalty programs" in its accounts but does not anticipate any major impact. IFRIC 14 relating to IAS 19 and pertaining to the limit of a defined benefit asset is applicable as from January 1st, 2008 but does not have impact on the Groups accounts.

The other interpretations do not affect the Group.

IFRS standards have been applied retroactively at January 1st, 2004, except for certain exemptions stipulated in IFRS 1 for first-time application of IFRS standards:

- no restatement of business combinations prior to January 1st, 2004;
- actuarial gains and losses on pension obligations fully recognised against opening equity at January 1st, 2004;
- cumulative translation adjustments at January 1st, 2004 merged with consolidated reserves;
- no revaluation of tangible assets at January 1st, 2004;
- no recognition of share purchase or subscription options plans prior to November 7th, 2002.

Furthermore, IAS 32 and 39 relating to financial instruments have been applied from January 1st, 2004 onwards for purposes of comparison. The amendment to IAS 39 "Cash flow hedge accounting of forecast intra-Group transactions", which is compulsory from January 1st, 2006 onwards, has been applied.

1.1. Use of estimates

The preparation of the consolidated financial statements in accordance with international accounting standards requires that the Group make a certain number of estimates and assumptions that may affect the value of the Group's assets, liabilities, shareholders' equity and net profit (loss).

These estimates and assumptions mainly concern the valuation of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payments measurement. Estimates used by the Group in relation to these different areas are made on the basis of information available at the date the accounts are closed and described in detail in each specific associated note.

1.2. Scope and methods of consolidation

All companies included in the scope of consolidation have a fiscal year ending December 31st or close their accounts on that date.

All companies directly or indirectly controlled by the parent company L'Oréal have been consolidated by the full consolidation method.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been consolidated by the proportional consolidation method.

Equity affiliates over which the Group has a significant influence have been accounted for by the equity method.

1.3. Foreign currency translation

1.3.1. Accounting for foreign currency transactions in consolidated companies

Foreign currency transactions are translated at the rate effective at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at the closing date. Unrealised exchange gains and losses impact the profit and loss account.

In the area of foreign exchange, forward contracts and options are put in place in order to hedge items recorded in the balance sheet (fair value hedges) and cash flows on highly probable future commercial transactions (cash flow hedges).

All foreign exchange hedging instruments are recorded on the balance sheet at their market value, including those which relate to purchases and sales in the next accounting period. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, the variation in the fair value of these hedging instruments is recorded as follows:

- the variation of the market value linked to variations in the time value (forward points and premiums paid for options) is recorded in the profit and loss account;
- the variation of market value linked to variations in the spot rate between the inception of the hedge and the closing date is charged to shareholders' equity, and the amount accumulated in equity impacts the profit and loss account at the date on which the transactions hedged are completed. Any remaining ineffectiveness is recognised directly to the profit and loss account.

In application of the hedging accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the balance sheet. In the same way, if fixed assets purchased with foreign exchange are covered by a hedge, they are valued in the balance sheet on the basis of the hedging rate.

The Group may decide to cover certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated shareholders' equity, under the item *Cumulative translation adjustments*.

1.3.2. Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Profit and loss accounts are translated at average exchange rates for the year.

The resulting translation difference is entered directly under shareholders' equity under the item *Cumulative translation adjustments*, for the Group's share, and under the *Minority interests* item, for the minority interests. This difference does not impact the profit and loss account other than at the time of the disposal of the company.

1.3.3. Valuation of goodwill in foreign currencies

Goodwill generated on foreign companies is considered to form part of assets and liabilities of the foreign company, and is therefore expressed in the entity's functional currency, and is translated using exchange rates effective at the closing date. Goodwill recorded before January 1st, 2004 has been kept in euros, at the historic exchange rate.

1.4. Net sales

Net sales are recognised when the risks and rewards inherent in ownership of the assets have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers, resulting in a cash out flow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales, if they can be estimated in a reasonably reliable manner, based on statistics compiled from past experience and contractual conditions.

1.5. Cost of sales

The cost of goods sold consists mainly of the industrial production cost of the products sold, the cost of distributing products to customers including the freight and delivery costs, either directly or indirectly through depots, inventory impairment costs, and royalties paid to third parties.

1.6. Research and development expenditure

Expenditure during the research phase is charged to the profit and loss account of the financial year during which it is incurred.

The expenses incurred during the development phase are recognised as *Intangible assets* only if they meet all the following criteria, in accordance with standard IAS 38:

- the project is clearly defined and the related costs are separately identified and reliably measured;
- the technical feasibility of the project has been demonstrated;
- the intention and ability to complete the project and to use or sell the products resulting from the project have been demonstrated;
- the resources necessary to complete the project and to use or sell it are available;
- the Group can demonstrate that the project will generate probable future economic benefits, as the existence of a potential market for the production resulting from the project, or its internal usefulness has been demonstrated.

In view of the very large number of development projects and the uncertainties concerning the decision to launch the products relating to the project, L'Oréal considers that some of these capitalisation criteria are not met.

The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades giving rise to additional functions are also capitalised.

The capitalised development costs are amortised from the date on which the software is made available in the entity concerned, over the probable useful life span, which is in most cases between 5 and 7 years.

1.7. Advertising and promotion expenses

These expenses consist mainly of expenses relating to the advertisement and promotion of products to customers and consumers.

They are charged to the profit and loss account of the financial year when they are incurred.

1.8. Selling, general and administrative expenses

These expenses relate mainly to sales forces and their management, marketing teams, administrative services, as well as general expenses and stock option charges.

1.9. Exchange gains and losses

The exchange gains and losses included in this item correspond to gains and losses recorded on operating expenses and income in foreign currency valued at the rate effective on the day of the transaction and the rate applied for the settlement, after allowing for hedging derivatives. Furthermore, the variation in the time value of hedging derivatives is systematically charged to the profit and loss account, and this also applies to option premiums (Note 1.3).

1.10. Operating profit

Operating profit consists of gross profit, after deducting research and development expenses, advertising and promoting expenses, selling, general and administrative expenses, and exchange gains and losses on commercial transactions.

1.11. Other income and expenses

The *Other income and expenses* item includes capital gains and losses on disposals of tangible and intangible assets, impairment of assets and restructuring costs.

The cost of restructuring operations is fully provisioned if it results from a Group obligation towards a third party originating from the decision taken by the competent body and giving rise before the closing date to the announcement of this decision to the third parties concerned. This cost consists mainly of severance payments, early retirement payments, the cost of notice periods not worked, and the costs of training terminated employees and other costs relating to the site closures. The write-offs of fixed assets, depreciation of inventories and other assets, linked directly to the restructuring measures, are also recorded as restructuring costs.

1.12. Operational profit

Operational profit is calculated from operating profit, and includes other income and expenses, such as capital gains and losses on disposals of tangible and intangible assets, impairment of assets, and restructuring costs.

1.13. Finance costs

Net financial debt consists of all current and non-current financial borrowings and debts, after deducting cash and cash equivalents.

The cost of the net financial debt consists of the expenses and income generated by the items constituting the net financial debt during the accounting period, including the related results of interest rate and exchange rate hedging.

1.14. Income tax

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever temporary differences occur between the tax base and the consolidated base of assets and liabilities, using a balance sheet approach and the liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is valued using the enacted tax rate at the closing date and which will also be in force when the temporary differences reverse.

Deferred tax assets generated by tax loss are only recognised to the extent that a taxable profit is expected during the validity period of these tax loss carry forwards.

Under the French system of tax consolidation, the taxable profits of some French companies are offset when determining the overall tax charge, which only the parent company L'Oréal remains liable to pay.

Tax consolidation systems also exist outside France.

1.15. Intangible assets

1.15.1. Goodwill

Business combinations are accounted for by the purchase method. The assets and liabilities of the company acquired are valued on the fair value basis at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition over the share of the Group in the fair value of the identified assets and liabilities is recorded as *Goodwill*.

Goodwill generated at the acquisition of an equity affiliate is presented in the *Investments in equity affiliates* line.

Goodwill is no longer amortised, in accordance with the standard IFRS 3 "Business combinations". It is subjected to an impairment test if an unfavourable event occurs, and at least once a year, during the fourth quarter. Unfavourable events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

Impairment tests consist of comparing net asset values including goodwill and the recoverable value of each Cash Generating Unit.

A Cash Generating Unit corresponds to one or more worldwide brands. Recoverable values are determined on the basis of discounted operating cash flows over a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. The cash flows are determined in the currencies of the countries in question and are translated, as are the net asset values to which they are compared, at the estimated exchange rate for the following year. The discount rate used for these calculations is the Groups weighted average cost of capital (WACC), which amounts to 8.5% for 2008, 8.6% for 2007 and 8.0% for 2006, adjusted by applying a country risk premium if necessary. The discount rates are rates after tax applied to cash flows after tax. Their use leads to the determination of recoverable values identical to those obtained by using rates before tax with untaxed cash flows.

The assumptions adopted in terms of growth of sales and terminal values are reasonable and consistent with the available market data (generally around 3% for terminal values except in specific cases).

The use of discounted cash flows is preferred in order to determine recoverable value, unless details of similar recent transactions are easily available.

The depreciation of goodwill is not reversible.

1.15.2. Other intangible assets

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition are also included in this item. They mainly consist of trademarks, product ranges, formulas and patents.

With regard to trademarks, the use of the discounted cash flow method is preferred in order to make it easier to follow up the value in use after acquisition.

Two approaches have been adopted to date:

- premium-based approach: this method involves estimating the part of future flows that could be generated by the trademark, compared with the future flows that the activity could generate without the trademark;
- royalty-based approach: this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks, based on sales forecasts drawn up by the Group.

These approaches are based on a qualitative analysis of the trademark in order to ensure that the assumptions selected are relevant. The discount rate retained refers to the weighted average cost of capital (WACC) for the target acquired.

Terminal growth rates are consistent with available market data (generally around 3%, except in specific cases).

A trademark may have a finite or an indefinite life span.

Local trademarks, which are to be gradually replaced by an international trademark already existing inside the Group are trademarks with a finite life span. They are amortised over a life span, which is estimated at the date of acquisition.

International trademarks are trademarks with an indefinite life span. They are subjected to impairment tests if an unfavourable event occurs, and at least once a year, during the fourth quarter. Unfavourable events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable value of the trademark based on the model adopted when the acquisition takes place.

As for product ranges, this concept covers all items which constitute a franchise: product concept, complementary name in addition to the trademark, formulas and patents used, packaging, logos, advertising trademark, etc.

The life span of a product range is limited: a range reaches the end of its life span when the main underlying elements, such as packaging, name, formulas and patents, are no longer used. For this reason, product ranges are depreciated over their remaining life span, estimated at the date of acquisition.

The Group may decide to identify and value patents and formulas that it wishes to develop.

The value of a patent or a formula is evaluated on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The depreciation period of patents corresponds to the period of legal protection. Formulas, which are not protected by legal means, are depreciated over a maximum period of 5 years.

Market shares and business value accounted for in the consolidated financial statements prepared in accordance with French accounting methods do not correspond to the definition of a separable intangible asset and have been reclassified under *Goodwill* for the application of IFRS standards on January 1st, 2004.

1.16. Tangible assets

Tangible assets are recorded on the balance sheet at purchase price. They are not revalued.

Significant capital assets financed through capital leases, which essentially transfer to the Group the risks and rewards inherent in their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded as Borrowings and debts on the balance sheet.

Investment subsidies are recorded as liabilities under *Other current liabilities*.

The components of a tangible asset are recorded separately if their estimated useful life spans, and therefore their depreciation periods, are materially different.

Tangible assets are depreciated using the straight-line method, over the following economic life spans:

Buildings	10-40 years
Industrial machinery and equipment	5-15 years
Point-of-sales advertising, stands and displays	3-5 years
Other tangible assets	3-10 years

Depreciation and impairment losses are recorded in the profit and loss account according to the use of the tangible asset.

In view of their nature, tangible assets are considered to have zero value at the end of the economic life spans indicated above.

1.17. Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and other debtors maturing after more than twelve months.

Investments in non-consolidated companies are considered to be financial assets available for sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line *Items directly recognised in equity*.

Their fair value is determined on the basis of the share price at the closing date for listed securities. For unlisted securities, if the fair value cannot be reliably established, they are valued at cost.

If the unrealised loss accounted for through equity is representative of a lasting impairment, this loss is recorded in the profit and loss account.

Long-term loans and other debtors are considered to be assets generated by the activity. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

1.18. Inventories

Inventories are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost or the "first in, first out" formula.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and provisional data.

1.19. Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value.

A provision is made for any uncertain debts based on an assessment of the risk of non-recovery.

The Group policy is to recommend credit insurance coverage as far as the local conditions allow it.

1.20. Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with no risk of change in value, and whose maturity date at the date of acquisition is less than three months away.

Investments in shares and cash, which are held in an account blocked for more than three months, cannot be recorded under cash, and are presented under *Other current assets*.

Bank overdrafts considered to be financing and are presented in *Current borrowings and debts*.

Units of unit trusts are considered to be assets available for sale. As such, they are valued in the balance sheet at their market value at the closing date. The unrealised gains thus generated are accounted for directly through equity on the line *Items directly recognised in equity*.

The book value of bank deposits is a reasonable approximation of their fair value.

1.21. Treasury stock

Treasury stock is recorded at acquisition cost and deducted from shareholders' equity. Capital gains/losses on disposal of this stock net of tax are charged directly to shareholders' equity and do not contribute to the profit for the financial year.

1.22. Stock options

Stock options are intended to motivate and strengthen the loyalty of employees who make the largest contribution to the Group's performance through their skills and commitment.

In accordance with the requirements of standard IFRS 2 "Share-based payment", the value of the options granted calculated at the grant date is charged to the profit and loss account over the vesting period, which is generally 5 years.

Stock options fair value is determined using the Black & Scholes model. This model allows for the characteristics of the plan such as exercise price and exercise period, market data at the acquisition date such as the risk-free rate, share price, volatility, expected dividends and behavioural factors of beneficiaries.

Only options issued after November 7th, 2002 and not fully vested at January 1st, 2005 are accounted for in accordance with standard IFRS 2.

The impact on the result of the period of application of standard IFRS 2 is booked on the *Selling, general and administrative expenses* line of the profit and loss account at Group level, and is not allocated to the Divisions or to geographic zones.

1.23. Provisions for employee retirement obligation and related benefits

The Group adheres to pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group charges to the profit and loss account the contributions to be paid when they are due and no provision has been set aside, as the Group's commitment does not exceed the amount of contributions paid. For defined benefit schemes, the characteristics of the schemes in force inside the Group are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. In addition, an early retirement plan and a defined benefit plan have been set up. In some Group companies there are also measures providing for the payment of certain healthcare costs for retired employees.

  These obligations, except for those relating to healthcare costs for retired employees, are partially funded;

- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefits, the excess of obligations over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of the vested rights of employees.

The charges recorded in the profit and loss account during the year include:

- service cost, i.e. additional rights acquired by employees during the accounting period;
- interest cost, i.e. change in the value of the discounted rights due to the fact that one year has gone;
- expected return on assets, i.e. income from external assets calculated on the basis of a standard return on long-term investments;
- the impact of any change to existing schemes on previous years or of any new schemes;
- amortisation of unrecognised gains and losses.

To determine the discounted value of the obligation for each scheme, the Group applies an actuarial valuation method based on the final salary (projected credit unit method). The obligations and the fair value of assets are assessed each year, using length-of-service, life expectancy, staff turnover by category and economic assumptions (such as inflation rate and discount rate).

The cumulative effects of unrecognised gains and losses are amortised over the average remaining working lives of active employees, unless such gains and losses do not exceed 10% of the greater of the discounted benefit obligation or the fair value of plan assets (corridor principle). This amortisation is included in the annual actuarial charge of the following financial year.

Gains and losses in relation to other benefits, such as jubilees and medals, are immediately charged to the profit and loss account without the application of the corridor principle.

The liability corresponding to the company's net personnel benefit obligation is entered on the balance sheet, on the *Provisions for employee retirement obligation and related benefits line*.

1.24. Provisions for liabilities and charges

Provisions for liabilities and charges are set up to cover probable outflows for the benefit of third parties without receipt of equivalent consideration by the Group. They relate mainly to tax risks and litigation, industrial and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

They are estimated on the basis of the most likely assumptions or by using statistical methods, depending on the type of provisions.

Provisions for liabilities and charges are recorded either as *Non-current liabilities* or as *Current liabilities*, depending on their nature. Provisions for liabilities or litigation, which must be settled within twelve months of the closing date, and those linked to the normal operating cycle (such as product returns) are recorded as *Current liabilities*. The other provisions for liabilities and charges are recorded as *Non-current liabilities*.

1.25. Borrowings and debts

Borrowings and debts are valued at amortised cost based on an effective interest rate.

In accordance with the principle of recording fair value hedges, fixed rate borrowings and debts swapped at a variable rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance cost and are offset by changes in the value of the related rate swaps. The fair value of fixed rate debts is determined by the discounted cash flow method at the closing date, allowing for the spread corresponding to the Group's risk class. The book value of the variable rate debts is a reasonable approximation of their fair value.

Medium and long-term borrowings and debts are recorded under *Non-current liabilities*. Short-term borrowings and debts, and the part of medium and long-term borrowings and debts, which is repayable in less than one year, are presented under *Current liabilities*.

1.26. Financial derivatives

In accordance with Group financial management policies, none of L'Oréal's consolidated companies conduct any financial market transactions for speculative reasons. As a result, all derivative instruments concluded by Group companies are only for hedging purposes, and are thus accounted for in accordance with the hedge accounting principles.

With regard to exchange rate risk, the applicable accounting principles are set out in detail in Note 1.3.

With regard to interest rate risk, the fixed-rate debts and financial loans covered by interest rate swaps are valued in the balance sheet at their market value. Changes in the fair value of these debts are recorded as finance cost, and are offset by the recording of adjustments in the fair value of the related hedging derivatives.

Variable interest rate debts and financial loans are valued at cost, which corresponds to their market value. The swaps or caps which hedge them are valued in the balance sheet at their market value, and changes in value are recorded directly through equity on the *Items directly recognised in equity* line.

The fair value of interest rate derivative instruments is their market value. The market value is calculated by the discounted cash flow method at the interest rate effective at the closing date.

1.27. Earnings per share

Net earnings per share are calculated in accordance with the rules set out in IAS 33.

Net earnings per share are obtained on the basis of the weighted average number of shares outstanding during the year, after deducting the number of treasury stock which are deducted from shareholders' equity.

Diluted net earnings per share allow where applicable for stock options with a dilutive effect in accordance with the "treasury stock method": the sums collected on the exercise or purchase are assumed to be allocated firstly to share buybacks at market price.

Note 2. Changes in the scope of consolidation

2.1. Year 2008

In November 2007, L'Oréal signed an agreement to acquire 100% of the Turkish haircare products company Canan.

Founded in 1981, Canan achieved sales of €28 million in 2007, mainly through its brand Ipek which is in 4th position in the mass-market haircare segment in Turkey.

The acquisition was finalised in January 2008 and Canan is fully consolidated from January 1st, 2008.

Early January 2008, L'Oréal USA acquired 100% of Columbia Beauty Supply. The acquisition of Columbia Beauty Supply follows that of Beauty Alliance and Maly's West by L'Oréal USA in April and July 2007.

Established in four states of the Southeastern part of the United States, Columbia Beauty Supply achieved sales of about $60 million in 2007.

Columbia Beauty Supply is fully consolidated from January 4th, 2008.

On January 23th, 2008, L'Oréal made a firm offer to PPR to:

- acquire the shares of YSL Beauté Holding including the Roger & Gallet brand, for €1,150 million in terms of enterprise value;
- obtain an exclusive and very long-term worldwide licence for the use of the Yves Saint Laurent and Boucheron brands in the area of perfumes and cosmetics, under conditions conforming to usual market practice;
- take over the licences for the Stella McCartney, Oscar de la Renta, and Ermenegildo Zegna brands, in the area of perfumes and cosmetics.

The acquisition was finalised on June 30th, 2008 and YSL Beauté is fully consolidated from that date.

YSL Beauté made sales of around €650 million in 2007 with its Yves Saint Laurent brand as well as with its Roger & Gallet, Boucheron, Stella McCartney, Oscar de la Renta and Ermenegildo Zegna brands.

The main items of the provisional acquisition balance sheet of YSL Beauté at June 30th, 2008 are as follows:

€ millions	
Non-current assets [1]	135.1
Current assets	319.5
Non-current liabilities	-84.3
Current liabilities	-277.3
Total net equity acquired	**93.0**

(1) of which €32.0 million of intangible assets resulting from the acquisition. The €1,017.6 million goodwill has been allocated for €582.7 million to the YSL Cash Generating Unit and the balance was allocated between the various Luxury Products Division CGUs affected on the basis of the synergies expected (Note 11).

On February 26th, 2008, Galderma Pharma S.A., and CollaGenex Pharmaceuticals, Inc. announced a definitive agreement pursuant to which Galderma's U.S. subsidiary, Galderma Laboratories, Inc., offered to acquire all of the outstanding shares of CollaGenex at a price of $16.60 per share in cash, representing approximately $420 million for the equity of CollaGenex.

The process of acquisition of CollaGenex by Galderma took place in two steps. The first step consisted of a cash tender offer for all outstanding shares of CollaGenex common stock at a price of $16.60 per share. In the second step, the tender offer was followed by a merger between CollaGenex and Galderma Acquisition Inc. wholly owned subsidiary of Galderma Laboratories, in which holders of the outstanding shares of CollaGenex common stock not tendered in the offer were offered the same per share price paid in the tender offer, in cash.

The tender offer expired on April 4th, 2008 and at that time, an aggregate of approximately 21 million shares of CollaGenex common stock were tendered, which represented approximately 97% of the outstanding shares of CollaGenex.

The second step ended on April 10th, 2008 and CollaGenex became a wholly owned subsidiary of Galderma Laboratories. Inc.

CollaGenex Pharmaceuticals, Inc. is a speciality pharmaceutical company currently focused on developing and marketing, innovative medical therapies to the dermatology market. CollaGenex's 2007 revenues were $63.6 million, an increase of 141% over 2006 sales of $26.4 million, largely driven by the increase of sales of Oracea®. In July 2006, CollaGenex launched Oracea®, the first FDA-approved orally ingested product for the treatment of rosacea.

This company is consolidated by the proportional method from April 10th, 2008.

In May 2008, The L'Oréal Group and 3 Suisses International finalised the agreement under whose terms L'Oréal has acquired the 50% stake in Le Club des Créateurs de Beauté held by 3 Suisses International.

Created in 1987 by L'Oréal and 3 Suisses International, Le Club des Créateurs de Beauté specialises in the direct selling of cosmetic products from designers. It markets its products through mail order and on the Internet.

The main brands of the Club des Créateurs de Beauté are *Agnès b.*, *Cosmence*, *Pr. Christine Poelman*.

The company is mainly established in France and Japan.

The company is henceforth fully consolidated from June 1st, 2008.

The cost of these new acquisitions apart from YSL Beauté amounts to approximately €238.0 million. The total amount of goodwill and other intangible assets resulting from these acquisitions except for YSL Beauté is after provisional allocation of the acquisition cost of CollaGenex respectively of €121.9 million and €116.1 million.

2.2. Year 2007

In mid-April, 2007, L'Oréal USA Inc. acquired 100% of Beauty Alliance, in which it had taken a 30% minority interest in July 2006. This company is fully consolidated from April 12th, 2007, having been accounted for under the equity method until this date. Assets and liabilities have been revalued at the date control was obtained.

The net sales of Beauty Alliance amounted to $372 million in 2006. L'Oréal USA Inc. recorded sales of $124 million in 2006 with Beauty Alliance.

In the beginning of May 2007, L'Oréal USA Inc. acquired 100% of PureOlogy Research LLC.

Based in California, the company is a luxury brand of high performance hair care products uniquely developed for hair colourists to use and recommend to their clients.

The net sales of PureOlogy of the last 12 months were $57 million. The company is fully consolidated as from May 8th, 2007.

In mid-July, 2007, L'Oréal USA Inc. acquired 100% of Maly's West.

Maly's West id the 3rd largest professional salon distributorship in the USA, with facilities in the western states, selling to 30,000 salons through 340 Distributor Sales Consultants and through more than 100 professional outlets.

Maly's West, which achieved sales of $187 million in 2006, is fully consolidated from August 1st, 2007.

The total cost of acquisitions amounts to approximately € 618.5 million. The total amount of goodwill and other intangible assets resulting from these acquisitions is respectively €406.4 million and €236.4 million.

2.3. Year 2006

At the end of February 2006, EpiSkin, a subsidiary of L'Oréal, acquired SkinEthic, a company listed on the Marché Libre of Euronext Paris. SkinEthic produces and markets reconstructed epidermis, skin and epithelial tissues which can be used to carry out in vitro tests on the safety and effectiveness of many products (cosmetics, pharmaceuticals, chemicals, etc.). In 2005 SkinEthic sales totalled €1.5 million.

On March 17th, 2006, L'Oréal announced a cash offer for The Body Shop International PLC.

Listed on the London Stock Exchange, The Body Shop is a successful cosmetics brand with strong growth potential. With 2,133 dedicated and franchise retail outlets in 54 countries, The Body Shop had total retail sales of £772 million (total sales including those made in franchised retail outlets) in the year ending February 25th, 2006. Consolidated sales were £486 million. The Body Shop has acquired a strong reputation as a naturally-oriented brand with expertise in retail and deeply-rooted values.

On June 9th, 2006, L'Oréal declared the offer wholly unconditional and had acquired or received at that date valid acceptances in respect of 208,098,583 The Body Shop shares in aggregate (representing approximately 95.5% of the existing issued share capital of The Body Shop). L'Oréal decided to compulsorily acquire the remaining The Body Shop shares. The Body Shop has been fully consolidated from June 30th, 2006 onwards and constitutes a separate branch (see Note 3).

The main items of the acquisition balance sheet of The Body Shop are as follows:

€ millions	
Non-current assets (1)	814.4
Current assets	268.3
Non-current liabilities	-228.2
Current liabilities	-222.9
Total net equity acquired	**631.6**

(1) of which intangible assets (except goodwill) resulting from the acquisition for €645.5 million.

At the end of July 2006, L'Oréal USA Inc. acquired a 30-percent stake in the distribution company Beauty Alliance International (BAI), which services 115,000 hair salons in the US. This investment is accounted for under the equity method from August 1st, 2006.

At the end of October 2006, L'Oréal acquired the French Laboratoire Sanoflore, a pioneer in the design, manufacture and marketing of certified organic cosmetics products.

Sanoflore manufactures and distributes through pharmacies and specialist shops its ranges of cosmetics and aromatherapy products. Sanoflore handles all the stages in the aromatic and medicinal plant chain, from cultivation with partner farmers to the finished product.

The sales of Sanoflore amounted to about €15 million in 2006, including 20% outside France.

The total cost of theses new acquisitions amounts to €1,150.4 million. The total amount of goodwill and other intangible assets resulting from these acquisitions amounted to €482.7 million and €704.4 million respectively out of which €108.4 million booked under the caption «investment in equity affiliates».

Note 3. Segment information

3.1. Segment information

The **Cosmetics** branch is organised into four sectors, each one operating with specific distribution channels:

- **Professional Products** Division: products used and sold in hair salons;
- **Consumer Products** Division: products sold in mass-market retail channels;
- **Luxury Products** Division: products sold in selective retail outlets, i.e. department stores, perfumeries, travel retail and the Group's own boutiques;
- **Active Cosmetics** Division: dermocosmetic skincare products sold in pharmacies and specialist sections of drugstores.

The "Other Cosmetics" heading consists mainly of remote sales of cosmetics products.

The "non-allocated" item contains the expenses of the functional Divisions, fundamental research and the costs of stock options not allocated to the cosmetics Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

The "**The Body Shop**» branch: The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 50 countries), at home, and on-line sales.

The **Dermatology** branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, meets the needs of dermatologists and their patients.

The data by branch and by Division are established using the same accounting principles as those used for the preparation of the consolidated financial statements, and which are described in Note 1.

The performance of each branch and Division is measured by the *operating profit*.

€ millions 2008	Sales	Operating profit	Operational assets (1)	Operational liabilities (2)	Investments in tangible and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,471.7	518.8	2,517.5	551.0	64.6	95.1
Consumer Products	8,354.9	1,578.1	5,496.4	2,093.4	357.0	353.8
Luxury Products	4,169.6	766.5	4,058.9	1,263.5	153.6	189.4
Active Cosmetics	1,289.3	259.1	817.1	321.7	32.7	47.8
Other Cosmetics	73.4	-12.1	69.7	27.2	12.1	0.6
Cosmetics Divisions total	**16,358.9**	**3,110.3**	**12,959.6**	**4,256.8**	**620.0**	**686.7**
Non-allocated		-501.9	380.6	500.7	79.2	78.8
Cosmetics branch	**16,358.9**	**2,608.4**	**13,340.2**	**4,757.5**	**699.2**	**765.4**
The Body Shop branch	**756.0**	**36.2**	**1,028.3**	**29.9**	**40.6**	**42.1**
Dermatology branch	**426.9**	**80.0**	**521.5**	**87.6**	**18.9**	**36.2**
Group	**17,541.8**	**2,724.5**	**14,890.0**	**4,875.0**	**758.7**	**843.8**

€ millions 2007	Sales	Operating profit	Operational assets (1)	Operational liabilities (2)	Investments in tangible and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,391.9	501.7	2,439.5	558.4	64.2	80.8
Consumer Products	8,280.2	1,582.4	5,360.5	2,106.3	373.3	365.5
Luxury Products	3,927.9	843.8	2,694.6	1,098.1	175.7	145.9
Active Cosmetics	1,248.1	255.8	818.1	314.9	32.1	40.8
Other Cosmetics	60.3	-3.4	18.5	19.6	2.1	3.2
Cosmetics Divisions total	**15,908.2**	**3,180.4**	**11,331.2**	**4,097.3**	**647.4**	**636.2**
Non-allocated		-478.9	363.5	504.6	51.8	67.0
Cosmetics branch	**15,908.2**	**2,701.5**	**11,694.7**	**4,601.9**	**699.2**	**703.2**
The Body Shop branch	**786.9**	**63.8**	**1,271.2**	**92.3**	**58.0**	**52.9**
Dermatology branch	**367.5**	**62.0**	**343.1**	**79.2**	**33.1**	**26.7**
Group	**17,062.6**	**2,827.2**	**13,309.0**	**4,773.4**	**790.3**	**782.8**

€ millions 2006	Sales	Operating profit	Operational assets (1)	Operational liabilities (2)	Investments in tangible and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,125.9	443.0	1,756.1	544.0	68.3	62.3
Consumer Products	7,903.5	1,421.3	5,394.4	2,162.0	379.9	341.8
Luxury Products	3,773.1	775.9	2,559.5	1,075.3	151.1	126.1
Active Cosmetics	1,127.9	220.8	785.2	281.8	30.4	33.4
Other Cosmetics	81.1	-0.8	22.4	29.2	0.7	2.9
Cosmetics Divisions total	**15,011.4**	**2,860.2**	**10,517.7**	**4,092.4**	**630.4**	**566.5**
Non-allocated		-437.0	333.1	506.6	59.7	46.6
Cosmetics branch	**15,011.4**	**2,423.2**	**10,850.8**	**4,599.0**	**690.0**	**613.0**
The Body Shop (3) branch	**435.0**	**58.3**	**1,371.0**	**65.2**	**47.3**	**28.5**
Dermatology branch	**343.7**	**59.4**	**342.5**	**74.5**	**19.7**	**24.5**
Group	**15,790.1**	**2,540.9**	**12,564.3**	**4,738.7**	**757.1**	**666.0**

(1) *Operational assets include goodwill, intangible and tangible assets, trade accounts receivable, inventories, samples, and prepared point-of-sales advertising.*
(2) *Operational liabilities include provisions for liabilities and charges (excluding provisions for tax and restructuring), provisions for employee retirement obligations, trade accounts payable, employees related payables and credit balances on customer accounts.*
(3) *2006 data for The Body Shop relate only to second half of the year 2006. Sales for full year 2006 would have amounted to €733.4 million.*

Operational assets and operational liabilities can be reconciled to the 2008, 2007 and 2006 balance sheets as follows:

€ millions	2008	2007	2006		2008	2007	2006
Operational assets	**14,890.0**	**13,309.0**	**12,564.3**	**Operational liabilities**	**4,875.0**	**4,773.4**	**4,738.7**
Non-current financial assets	5,557.4	7,608.9	10,250.5	Shareholders' equity	11,828.7	13,621.8	14,624.2
				Non-current borrowings and loans	2,506.6	2,583.0	1,892.4
Deferred tax assets	427.3	416.1	429.8	Provision for liabilities and charges	237.7	148.6	138.9
				Current borrowings and loans	2,270.6	876.8	2,218.0
Other current assets	1,005.2	779.8	757.2	Deferred tax liabilities	459.4	491.6	512.6
Cash and cash equivalent	1,077.1	1,086.7	781.2	Other current liabilities	779.0	705.2	658.4
Non-allocated assets	**8,067.0**	**9,891.4**	**12,218.7**	**Non-allocated liabilities**	**18,082.0**	**18,427.0**	**20,044.3**
Total Assets	**22,956.9**	**23,200.3**	**24,783.0**	**Total Liabilities**	**22,956.9**	**23,200.3**	**24,783.0**

3.2. Information by geographic zone - Group

All information is presented on the basis of geographic location of the subsidiaries, except for the breakdown of sales by destination, which is based on the geographic location of the customer.

3.2.1. Consolidated sales by geographic zone

	2008		Growth (%)		2007		2006	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,984.7	45.5%	1.7%	4.2%	7,851.8	46.0%	7,347.7	46.5%
North America	4,167.5	23.8%	-5.8%	0.6%	4,426.0	25.9%	4,288.0	27.2%
Rest of the World	5,389.6	30.7%	12.6%	16.0%	4,784.7	28.0%	4,154.4	26.3%
Group	**17,541.8**	**100.0%**	**2.8%**	**6.6%**	**17,062.6**	**100.0%**	**15,790.1**	**100.0%**

3.2.2. Consolidated sales by geographic zone by destination

The breakdown of sales for each geographic zone by destination for 2008, 2007 and 2006 is as follows:

- Western Europe: 44.4%, 44.6% and 44%;
- North America: 23.3%, 25.5% and 27.6%;
- Rest of the World: 32.3%, 29.9% and 28.4%.

3.2.3. Cosmetics sales by geographic zone

	2008		Growth (%)		2007		2006	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,381.5	45.1%	1.8%	3.6%	7,250.4	45.6%	6,992.3	46.6%
North America	3,739.3	22.9%	-6.6%	-0.2%	4,003.5	25.2%	3,953.7	26.3%
Rest of the World including:	5,238.1	32.0%	12.5%	15.8%	4,654.3	29.3%	4,065.4	27.1%
Asia	1,844.3	11.3%	16.7%	18.0%	1,580.3	9.9%	1,476.3	9.8%
Latin America	1,151.2	7.0%	2.4%	6.7%	1,123.8	7.1%	1,020.7	6.8%
Eastern Europe	1,380.3	8.4%	20.8%	21.5%	1,142.4	7.2%	850.2	5.7%
Other countries	862.2	5.3%	6.7%	15.6%	807.8	5.1%	718.3	4.8%
Cosmetics branch	**16,358.9**	**100.0%**	**2.8%**	**6.3%**	**15,908.2**	**100.0%**	**15,011.4**	**100.0%**

3.2.4. Breakdown of operating profit of cosmetics branch by geographic zone

€ millions	2008	2007	2006
Western Europe	1,633.6	1,633.1	1,527.3
North America	593.0	773.5	744.4
Rest of the World	883.7	773.9	588.5
Cosmetics Division total	**3,110.3**	**3,180.4**	**2,860.2**
Non-allocated	-501.9	-478.9	-437.0
Cosmetics branch	**2,608.4**	**2,701.5**	**2,423.2**

3.2.5. Breakdown of operational assets and consolidated investments by geographic zone

€ millions	2008		2007		2006	
	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets
Western Europe	8,013.7	312.7	7,003.1	342.0	6,989.0	315.7
North America	3,887.0	196.7	3,609.9	213.3	3,116.8	228.2
Rest of the World	2,608.8	170.1	2,332.5	183.2	2,125.3	169.1
Non-allocated	380.6	79.2	363.5	51.8	333.1	44.1
Group	**14,890.0**	**758.7**	**13,309.0**	**790.3**	**12,564.3**	**757.1**

Note 4. Personnel costs and number of employees

4.1 - Number of employees (1)

	12.31.2008	12.31.2007	12.31.2006
Western Europe	30,956	28,012	27,237
North America	15,305	15,107	14,576
Rest of the World	21,401	20,239	19,038
Total (2)	**67,662**	**63,358**	**60,851**

(1) Including companies consolidated by the proportional method and excluding employees of The Body Shop.
(2) Out of which 3,378 for YSL Beauté in 2008.

4.2. Personnel costs

€ millions	2008	2007	2006
Personnel costs (including welfare contributions)	**3,429.4**	**3,318.3**	**3,034.9**

Personnel costs include remuneration linked to stock options and taxes on remuneration.

4.3. Compensation of directors and management

The costs recorded in respect of compensation and similar benefits granted to the Management Committee and the Board of Directors may be analysed as follows:

€ millions	2008	2007	2006
Directors' fees	1.0	1.0	0.9
Salaries and benefits including employer welfare contributions	23.8	26.3	20.2
Employee retirement obligation charges	9.4	11.2	13.1
Stock option charges	32.5	29.0	19.7

The number of managers, members of Management Committee, was 9 at December 31st, 2006 and was 13 at December 31st, 2007 and December 31st, 2008.

Note 5. Depreciation and amortisation expense

Depreciation and amortisation of tangible and intangible assets included in operating expenses amount to €704.5, €657.8 and €589.5 million respectively for 2008, 2007 and 2006.

Note 6. Foreign exchange gains and losses

Foreign exchange gains and losses may be divided into the following:

€ millions	2008	2007	2006
Change in time value	-33.2	-29.4	-38.3
Other exchange gains and losses	91.4	39.8	-16.9
Total	**58.2**	**10.4**	**-55.2**

Foreign currency transactions are translated at the rate effective at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at closing date. Unrealised exchange gains and losses impact the profit and loss account under the line *Foreign exchange gains and losses*. The line *Foreign exchange gains and losses* also includes the following items relating to financial instruments:

- the variation of the market value linked to variations in the time value (forward points and premiums paid for options);
- the variation of market value linked to variations in the spot rate between the inception of the hedge and the date on which the transactions hedged are completed;
- the remaining ineffectiveness linked to overhedges is recognised directly to the profit and loss account under "other exchange gains and losses" for respectively €0.8, €0.6 and € 0.9 million for 2008, 2007 and 2006.

Note 7. Other income and expenses

This item may be divided into the following:

€ millions	2008	2007	2006
Capital gains or losses on disposals of tangible and intangible assets	3.6	11.8	8.5
Sanofi-Aventis sale capital gain (Note 15)	-	642.8	
Impairment of tangible and intangible assets (1)	-23.6	-1.4	-69.4
Restructuring costs (2)	-136.3	-31.6	0.1
Total	**-156.3**	**621.6**	**-60.8**

(1) These impairment charges relate:
- in 2008, to the Biomedic brand for €11.3 million as well as to Yue Sai goodwill for €10.9 million;
- in 2006 to Softsheen Carson goodwill for €53.7 million and to the Yue Sai brand for €15.7 million.
(2) Of which:
- in 2008, the industrial reorganization in Europe with the transfer in the process of being finalized of the factory of Llantrisant (United Kingdom) and the closure of the Biotherm factory in Monaco for €71 million, the rationalization of product distribution and the country structures of YSL beauty for €36.2 million, the reorganization of the L'Oréal USA subsidiary for €19.8 million as well as the rationalization of the structures of CollaGenex following its purchase by Galderma for €5 million;
- in 2007, €10.8 million relates to the discontinuation of the distribution of Biotherm in the United States which is henceforth exclusively focused on online product advertising and retail, €14 million relates to the restructuring of an important supplier of The Body Shop and €6.8 million concern the restructuring of the supply chain in Spain.

Note 8. Finance costs

This item may be divided into the following:

€ millions	2008	2007	2006
Finance costs on gross debt	-208.8	-207.5	-140.6
Finance income on cash and cash equivalents	34.6	33.0	24.7
Finance costs	**-174.2**	**-174.5**	**-115.9**

Note 9. Income tax

9.1. Detailed breakdown of income tax

€ millions	2008	2007	2006
Current tax	674.1	834.5	788.0
Deferred tax	6.6	25.2	-273.3
Income tax	**680.7**	**859.7**	**514.7**

9.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2008	2007	2006
Profit before tax and minority interests	**2,631.6**	**3,517.2**	**2,576.8**
Theoretical tax rate	29.81%	31.95%	31.74%
Expected tax charge	**784.5**	**1,123.6**	**817.9**
Impact of permanent differences	75.3	45.0	59.7
Impact of tax rate differences (1)	-100.4	-291.5	-361.6
Change in non-recorded deferred taxes	5.6	-2.0	-9.8
Other (2)	-84.3	-15.4	8.5
Group tax charge	**680.7**	**859.7**	**514.7**

(1) Includes in 2006 the impact of the decrease in long term tax rates on disposal of investments from 8% to 1.66% thereafter, applicable to the Sanofi-Aventis stake, as well as for 2007 the effect of the tax rate difference on the sale of Sanofi-Aventis shares on November 14th, 2007.
(2) Including tax credits, withholding taxes on distribution, tax reassessments and provisions for tax liabilities. The change between 2008 and 2007 is mainly due to the increase in tax research credits and the favourable resolution of tax audits in 2008.

The expected tax charge is the total for each country of the pre-tax profit multiplied by the normal taxation rate. The theoretical tax rate is the total expected tax charge as a percentage of the profit before tax and minority interests.

9.3. Deferred taxes in the balance sheet

The variation in deferred taxes (assets and liabilities) may be analysed as follows:

€ millions	
Balance of deferred tax asset at December 31st, 2005	**424.8**
Balance of deferred tax liabilities at December 31st, 2005	**-914.7**
Profit and loss effect	273.3
Translation differences	-1.5
Other effects	135.4
Balance of deferred tax asset at December 31st, 2006	**429.8**
Balance of deferred tax liabilities at December 31st, 2006	**-512.5**
Profit and loss effect	-25.2
Translation differences	21.4
Other effects	10.9
Balance of deferred tax asset at December 31st, 2007	**416.0**
Balance of deferred tax liabilities at December 31st, 2007	**-491.6**
Profit and loss effect	-6.6
Translation differences	25.7
Other effects	24.3
Balance of deferred tax asset at December 31st, 2008	**427.3**
Balance of deferred tax liabilities at December 31st, 2008	**-459.4**

Deferred tax assets and liabilites recorded in the balance sheet may be broken as follows:

€ millions	12.31.2008		12.31.2007		12.31.2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	398.6	374.3	408.3	370.7	421.2	349.1
Deferred tax liability on Sanofi-Aventis restatement		85.1		120.9	-	163.4
Tax credits and tax loss carry-forwards	28.7		7.7		8.6	-
Deferred tax total	**427.3**	**459.4**	**416.0**	**491.6**	**429.8**	**512.5**

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€190.2 million, €216.3 million, and €244.8 million at the end of 2008, 2007 and 2006 respectively), and provisions for liabilities and charges (€133.2 million, €112.4 million and €109.8 million at the end of 2008, 2007 and 2006 respectively).

Deferred tax liabilities on temporary differences mainly relate to intangible assets acquired in the context of business combinations other than non tax deductible goodwill.

The decrease in deferred tax liabilities at December 31st, 2007 on the Sanofi-Aventis restatement is due to the disposal of a stake of 1.8% in November 2007 (see Note 15).

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €111.6 million at December 31st, 2008 compared with €74.3 million at December 31st, 2007 and with €75.1 at December 31st, 2006.

Note 10. Net profit excluding non-recurrent items attributable to the Group – Net profit per share

10.1. Reconciliation with net profit

Net profit excluding non-recurrent items attributable to the Group is reconciled as follows with the net profit attributable to the Group:

€ millions	2008	2007	2006
Net profit attributable to the Group	**1,948.3**	**2,656.0**	**2,061.0**
Capital gains and losses on tangible and intangible asset disposals	-3.6	-11.8	-8.5
Sanofi-Aventis sale capital gain	-	-642.8	-
Tangible and intangible assets impairment	23.6	1.4	69.4
Restructuring cost	136.3	31.6	-0.1
Effect of change in tax rate on Sanofi-Aventis deferred tax liability	-	-	-285.6
Tax effect on Sanofi-Aventis sale capital gain	-	11.0	-
Tax effect on non-recurrent items	-40.8	-6.8	-2.8
Minority interests	-0.2	-	-
Net profit excluding non-recurrent items attributable to the Group	**2,063.6**	**2,038.6**	**1,833.4**

10.2. Net profit per share

The tables below set out the net profit attributable to the Group per share:

2008	Net profit attributable to the Group (€ millions)	Number of shares	Net profit attributable to the Group per share (€)
Net profit per share	1,948.3	588,812,611	3.31
Stock options	-	2,107,467	
Diluted net profit per share	**1,948.3**	**590,920,078**	**3.30**

2007	Net profit attributable to the Group (€ millions)	Number of shares	Net profit attributable to the Group per share (€)
Net profit per share	2,656.0	600,492,348	4.42
Stock options	-	5,520,123	
Diluted net profit per share	**2,656.0**	**606,012,471**	**4.38**

2006	Net profit attributable to the Group (€ millions)	Number of shares	Net profit attributable to the Group per share (€)
Net profit per share	2,061.0	613,281,887	3.36
Stock options		2,441,333	
Diluted net profit per share	**2,061.0**	**615,723,220**	**3.35**

10.3. Net profit excluding non-recurrent items per share

The tables below set out in detail the net earnings excluding non-recurrent items attributable to the Group per share:

2008	Net profit excluding non-recurrent items attributable to the Group (€ millions)	Number of shares	Net profit excluding non-recurrent items attributable to the Group per share (€)
Net profit excluding non-recurrent items per share	2,063.6	588,812,611	3.50
Stock options		2,107,467	
Diluted net profit excluding non-recurrent items per share	**2,063.6**	**590,920,078**	**3.49**

2007	Net profit excluding non-recurrent items attributable to the Group (€ millions)	Number of shares	Net profit excluding non-recurrent items attributable to the Group per share (€)
Net profit excluding non-recurrent items per share	2,038.6	600,492,348	3.39
Stock options plan	-	5,520,123	
Diluted net profit excluding non-recurrent items per share	**2,038.6**	**606,012,471**	**3.36**

2006	Net profit excluding non-recurrent items attributable to the Group (€ millions)	Number of shares	Net profit excluding non-recurrent items attributable to the Groups per share (€)
Net profit excluding non-recurrent items per share	1,833.4	613,281,887	2.99
Stock options		2,441,333	
Diluted net profit excluding non-recurrent items per share	**1,833.4**	**615,723,220**	**2.98**

Note 11. Goodwill

Goodwill is allocated by Cash Generating Unit or by Groups of Cash Generating Units. A Cash Generating Unit consists of one or more worldwide trademarks. The methodology of impairment tests is described in Note 1.

€ millions 2008	12.31.2007	Acquisitions/ Disposals	Other movements	12.31.2008
L'Oréal Professionnel/Kérastase	326.9		7.3	334.2
Matrix	263.1		9.1	272.2
Redken/PureOlogy	398.3	13.2	17.3	428.8
Professionnal Products Total	**988.2**	**13.2**	**33.7**	**1,035.2**
L'Oréal Paris	738.5	12.0	5.9	756.4
Maybelline/Garnier	959.8	11.1	32.6	1,003.5
SoftSheen Carson	68.4		4.3	72.6
Consumer Products Total	**1,766.6**	**23.2**	**42.8**	**1,832.5**
Lancôme	559.6	205.0	8.4	773.0
Shu Uemura	102.2		28.3	130.6
YSL Beauté		582.7	5.8	588.5
Other	190.8	230.0	-9.7	411.1
Luxury Products Total	**852.6**	**1,017.6**	**32.9**	**1,903.1**
Vichy/Dermablend	226.5		2.5	228.9
Other	139.6		3.2	142.8
Active Cosmetics Total	**366.1**		**5.7**	**371.8**
Other cosmetics	7.3	36.0	1.4	44.8
The Body Shop	**363.6**	**7.0**	**-78.5**	**292.1**
Dermatology		**46.5**	**6.6**	**53.1**
Group Total	**4,344.4**	**1,143.5**	**44.6**	**5,532.5**

2008 acquisitions mainly relate to YSL Beauté and CollaGenex for €1,064.2 million. No disposal took place during 2008. The other movements consist mainly of a positive impact of changes in exchange rates for €55.5 million, partly offset by €10.9 million of an impairment loss on Yue Sai. The accumulated impairment losses for Softsheen Carson and Yue Sai amount respectively to €64.8 and €11.8 million at December 31st, 2008.

€ millions 2007	12.31.2006	Acquisitions/ Disposals	Other movements	12.31.2007
L'Oréal Professionnel/Kérastase	304.3	29.3	-6.8	326.9
Matrix	180.6	80.8	1.7	263.1
Redken/PureOlogy	101.4	290.6	6.3	398.3
Professionnal Products Total	**586.3**	**400.7**	**1.1**	**988.2**
L'Oréal Paris	741.1		-2.6	738.5
Maybelline/Garnier	1,016.4	1.0	-57.7	959.8
SoftSheen Carson	76.5		-8.1	68.4
Consumer Products Total	**1,834.0**	**1.0**	**-68.5**	**1,766.6**
Lancôme	562.4		-2.8	559.6
Shu Uemura	109.4		-7.2	102.2
Other	193.0		-2.2	190.8
Luxury Products Total	**864.8**		**-12.1**	**852.6**
Vichy/Dermablend	203.2		23.3	226.5
Other	172.5		-32.9	139.6
Active Cosmetics Total	**375.7**		**-9.6**	**366.1**
Other cosmetics	7.3			7.3
The Body Shop	**385.8**	**8.2**	**-30.4**	**363.6**
Group Total	**4,053.9**	**409.9**	**-119.4**	**4,344.4**

2007 acquisitions relate to Maly's West, Beauty Alliance and PureOlogy for €402.6 million. No disposal took place during 2007. The other movements consist mainly of a negative impact of changes in exchange rates for €184.5 million, partly offset by €63.8 million due to the reclassification of the goodwill on the acquisition of the 30% stake in Beauty Alliance recorded in Investments in equity affiliates at the end of 2006. The accumulated impairment losses for SoftSheen Carson amount to €66.0 million at December 31st, 2007.

€ millions 2006	12.31.2005	Acquisitions/ Disposals	Other movements	12.31.2006
L'Oréal Professionnel/Kérastase	316.6		-12.3	304.3
Matrix	195.7		-15.0	180.6
Redken	101.4		0.0	101.4
Professionnal Products Total	**613.7**		**-27.4**	**586.3**
L'Oréal Paris	749.0		-7.9	741.1
Maybelline/Garnier	1,093.4		-77.0	1,016.4
SoftSheen Carson	144.3		-67.8	76.5
Consumer Products Total	**1,986.6**		**-152.6**	**1,834.0**
Lancôme	567.3		-4.9	562.4
Shu Uemura	124.0		-14.6	109.4
Other	195.7		-2.7	193.0
Luxury Products Total	**887.0**		**-22.2**	**864.8**
Vichy/Dermablend	204.8		-1.6	203.2
Other	142.9	38.7	-9.1	172.5
Active Cosmetics Total	**347.7**	**38.7**	**-10.7**	**375.7**
Other cosmetics	2.1	5.3	-0.1	7.3
The Body Shop		**379.0**	**6.9**	**385.8**
Group Total	**3,837.1**	**423.0**	**-206.2**	**4,053.9**

2006 acquisitions relate to The Body Shop, SkinEthic and the Laboratoire Sanoflore. No disposal took place during 2006. The other movements consist mainly of changes in exchange rates during the period, as well as an impairment loss of €53.7 million relating to Softsheen Carson. This impairment loss is generated by an increase in the interest rates for €29.1 million. The accumulated impairment losses for Softsheen Carson amount to €72.9 million at December 31st, 2006.

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Note 12. Other intangible assets

€ millions 2008	12.31.2007	Acquisitions/ Amortization	Disposals/ Reversals	Changes in the scope of consolidation [1]	Other movements	12.31.2008
Brands with an indefinite life span [2]	1,228.6			26.3	-81.0	1,174.0
Depreciable brands and product ranges	52.1	0.4		7.3	2.4	62.1
Licences and patents	478.7	6.3	-1.1	89.6	34.8	608.2
Other	627.1	71.1	-8.5	54.8	0.4	745.0
Gross value	**2,386.6**	**77.8**	**-9.6**	**178.0**	**-43.4**	**2,589.2**
Brands with an indefinite life span [3]	14.6	11.3			2.0	27.9
Depreciable brands and product ranges	22.8	4.5			2.4	29.6
Licences and patents	156.9	26.4	-1.1	0.3	6.3	188.8
Other	233.2	69.6	-8.5	17.0	-6.5	304.8
Amortisation and provisions	**427.4**	**111.7**	**-9.6**	**17.3**	**4.2**	**551.1**
Other intangible assets - net	**1,959.2**	**-34.0**	**-**	**160.7**	**-47.7**	**2,038.2**

(1) This item consists mainly of the following changes in the scope of consolidation: CollaGenex, Roger & Gallet (YSL) and Canan.
(2) At December 31st, 2008, brands with an indefinite life span consist mainly of the brands The Body Shop (€437.1 million), Matrix (€267.1 million), Kiehl's (€120.0 million) and Shu Uemura (€109.3 million).
(3) The Biomedic brand has been subject to an impairment loss of €11.3 million in the period.

The other movements mainly consisted of changes in exchange rates over the period.

€ millions 2007	12.31.2006	Acquisitions/ Amortization	Disposals/ Reversals	Changes in the scope of consolidation [1]	Other movements	12.31.2007
Brands with an indefinite life span [2]	1,268.8			60.6	-100.8	1,228.6
Depreciable brands and product ranges	49.6	1.5	-0.1	1.9	-0.8	52.1
Licences and patents	458.1	35.6	-5.0	1.1	-11.1	478.7
Other	381.0	57.2	-8.5	172.8	24.7	627.1
Gross value	**2,157.5**	**94.3**	**-13.6**	**236.4**	**-88.0**	**2,386.6**
Brands with an indefinite life span	15.3				-0.7	14.6
Depreciable brands and product ranges	18.8	6.0	-0.1		-1.9	22.8
Licences and patents	143.6	20.1	-3.0		-3.8	156.9
Other	187.1	57.5	-8.5		-3.0	233.2
Amortisation and provisions	**364.8**	**83.5**	**-11.5**		**-9.4**	**427.4**
Other intangible assets - net	**1,792.8**	**10.8**	**-2.1**	**236.4**	**-78.7**	**1,959.2**

(1) This item consists mainly of changes in the scope of consolidation (Maly's West, Beauty Alliance and PureOlogy).
(2) At December 31st, 2007, brands with an indefinite life span consist mainly of the brands The Body Shop (€565.8 million), Matrix (€255.3 million), Kiehl's (€115.3 million) and Shu Uemura (€90.5 million).

The other movements consisted mainly of changes in exchange rates over the period.

€ millions 2006	12.31.2005	Acquisitions/ Amortization	Disposals/ Reversals	Changes in the scope of consolidation [(1)]	Other movements	12.31.2006
Brands with an indefinite life span [(2)]	707.4	0.1		605.4	-44.1	1,268.8
Depreciable brands and product ranges	42.4	0.6		8.7	-2.2	49.6
Licences and patents	462.6	5.8	-1.9	3.1	-11.4	458.1
Other	276.6	49.6	-15.0	63.9	5.8	381.0
Gross value	**1,489.0**	**56.2**	**-17.0**	**681.2**	**-51.9**	**2,157.5**
Brands with an indefinite life span [(3)]		15.7			-0.4	15.3
Depreciable brands and product ranges	16.5	3.5			-1.1	18.8
Licences and patents	131.0	18.6	-1.9		-4.1	143.6
Other	140.6	42.6	-14.9	13.4	5.4	187.1
Amortisation and provisions	**288.0**	**80.4**	**-16.8**	**13.4**	**-0.3**	**364.8**
Other intangible assets - net	**1,201.0**	**-24.3**	**-0.2**	**667.8**	**-51.6**	**1,792.8**

(1) This item consists mainly of changes in the scope of consolidation (The Body Shop, SkinEthic and Sanoflore).
(2) At December 31st, 2006, brands with an indefinite life span consist mainly of the brands The Body Shop (€616.9 million), Matrix (€277.8 million), Kiehl's (€124.2 million) and Shu Uemura (€93.5 million).
(3) An impairment loss of €15.7 million has been recognised for the Yue Sai brand during 2006.

The other movements consisted mainly of changes in exchange rates over the period.

Note 13. Impairment tests on intangible assets

Impairment tests of cash generating units for which the carrying amount of goodwill and intangible assets with indefinite useful lives is significant, arecarried out based on the following data and assumptions:

€ millions	Goodwill and brands with indefinite useful lives net book value	Discount rate in %	
		International without USA	USA
2008 Test			
Lancôme	773.0	8.5	8.9
L'Oréal Paris	756.4	8.5	8.9
Maybelline/Garnier	1,003.5	8.5	8.9
The Body Shop	729.2	8.9	8.9
2007 Test			
Lancôme	559.6	8.6	9.1
L'Oréal Paris	738.5	8.6	9.1
Maybelline/Garnier	959.8	8.6	9.1
The Body Shop	929.4	9.4	9.4
2006 Test			
Lancôme	562.4	8.0	9.1
L'Oréal Paris	741.1	8.0	9.1
Maybelline/Garnier	1,016.4	8.0	9.1

The effect of 1 point increase in the discount rate for these cash generating units would be to generate an impairment loss of €125 million on The Body Shop.

The terminal growth rate is consistent in accordance with market data i.e. 3%.

The effect of 1 point decrease in the terminal growth rate in perpetuity would be to generate an impairment loss of €59 million on The Body Shop.

Note 14. Tangible assets

€ millions 2008	12.31.2007	Acquisitions/ Amortisation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2008
Land and buildings	1,536.9	31.2	-15.5	-31.8	87.7	1,608.5
Machinery and equipment	2,260.1	149.0	-131.5	-21.4	203.7	2,459.8
POS, stands and displays	883.5	261.8	-100.3	-32.8	69.3	1,081.5
Other tangible assets and assets-in-progress	1,165.0	239.1	-82.5	-3.2	-157.0	1,161.4
Gross value	**5,845.5**	**681.1**	**-329.8**	**-89.2**	**203.7**	**6,311.2**
Land and buildings	764.1	73.5	-14.0	-11.9	8.1	819.8
Machinery and equipment	1,366.9	218.6	-129.2	-8.0	77.3	1,525.5
POS, stands and displays	510.7	212.3	-100.1	-21.8	36.2	637.3
Other tangible assets and assets-in-progress	552.6	101.0	-81.5	-7.0	10.3	575.4
Depreciation and provisions	**3,194.3**	**605.4**	**-324.8**	**-48.8**	**131.8**	**3,557.9**
Tangible assets - net	**2,651.2**	**75.7**	**-5.1**	**-40.4**	**71.9**	**2,753.3**

(1) These mainly include the impact of changes in the scope of consolidation, and fixed assets in progress allocated to the other fixed assets items.

€ millions 2007	12.31.2006	Acquisitions/ Amortisation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2007
Land and buildings	1,533.4	36.8	-47.3	-31.4	45.4	1,536.9
Machinery and equipment	2,176.1	140.3	-69.6	-65.4	78.7	2,260.1
POS, stands and displays	839.1	239.9	-159.9	-41.9	6.2	883.5
Other tangible assets and assets-in-progress	1,106.7	280.7	-52.1	-54.3	-116.0	1,165.0
Gross value	**5,655.3**	**697.7**	**-328.9**	**-193.0**	**14.3**	**5,845.5**
Land and buildings	733.8	70.4	-37.0	-15.6	12.5	764.1
Machinery and equipment	1,271.5	209.0	-67.4	-37.5	-8.7	1,366.9
POS, stands and displays	492.7	201.1	-159.7	-22.2	-1.2	510.7
Other tangible assets and assets-in-progress	528.9	95.1	-49.5	-24.5	2.6	552.6
Depreciation and provisions	**3,026.9**	**575.6**	**-313.6**	**-99.8**	**5.2**	**3,194.3**
Tangible assets - net	**2,628.4**	**122.1**	**-15.3**	**-93.2**	**9.1**	**2,651.2**

(1) These mainly include the impact of changes in the scope of consolidation, and fixed assets in progress allocated to the other fixed assets items.

€ millions 2006	12.31.2005	Acquisitions/ Amortisation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2006
Land and buildings	1,379.0	41.1	-34.9	-37.0	185.2	1,533.4
Machinery and equipment	2,140.5	177.4	-98.6	-86.3	43.1	2,176.1
POS, stands and displays	722.9	199.3	-140.6	-39.4	96.9	839.1
Other tangible assets and assets-in-progress	1,056.4	269.5	-63.9	-59.9	-95.4	1,106.7
Gross value	**5,298.8**	**687.3**	**-338.0**	**-222.6**	**229.8**	**5,655.3**
Land and buildings	643.8	61.6	-23.2	-13.3	64.9	733.8
Machinery and equipment	1,231.1	197.4	-102.3	-47.6	-7.1	1,271.5
POS, stands and displays	446.8	178.7	-138.8	-21.9	27.9	492.7
Other tangible assets and assets-in-progress	511.1	87.1	-61.8	-25.4	17.9	528.9
Depreciation and provisions	**2,832.8**	**524.8**	**-326.1**	**-108.2**	**103.6**	**3,026.9**
Tangible assets - net	**2,466.0**	**162.5**	**-11.9**	**-114.4**	**126.2**	**2,628.4**

(1) These mainly include the result of the impact of changes in the scope of consolidation, and fixed assets in progress allocated to the other fixed assets items.

Tangible assets include capital lease contracts for the following amounts:

€ millions	12.31.2008	12.31.2007	12.31.2006
Land and buildings	111.1	109.2	100.9
Machinery and equipment	6.4	2.8	8.6
Other tangible assets and assets-in-progress	20.9	22.2	20.3
Gross value	**138.4**	**134.2**	**129.8**
Depreciation	56.7	54.8	43.1
Net value	**81.7**	**79.4**	**86.7**

Note 15. Non-current financial assets

€ millions	12.31.2008		12.31.2007		12.31.2006	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Financial assets available for sale						
• Sanofi-Aventis (1)	5,367.5	4,033.5	7,446.0	4,033.5	10,005.8	4,880.1
• Unlisted securities (2)	4.8	5.7	4.5	5.7	4.2	6.4
Financial assets at amortised cost						
Non-current loans and receivables	185.1	194.8	158.4	168.8	158.5	167.5
Total	**5,557.4**	**4,234.0**	**7,608.9**	**4,208.0**	**10,168.5**	**5,054.0**

(1) On November 14th, 2007, L'Oréal sold a stake of 1.8% in Sanofi-Aventis. This sale was made at the price of €60.5 per share and has generated a capital gain net of tax of €632 million (see Notes 7 and 10). Upon closing of the transaction, L'Oréal's stake in Sanofi-Aventis has been reduced to 8.7%. The balance sheet value at December 31st, 2006, December 31st, 2007 and December 31st, 2008 of €10,005.8 million, €7,446.0 million and €5, 367.5 million respectively, corresponds to the market value of the shares based on the closing price on December 31st, 2006, 2007 and 2008 respectively of €69.95, €62.98 and €45.40. The acquisition cost of €4,033.5 million corresponds to a €34.12 entry cost.

(2) As their fair value cannot be reliably determined, they are stated at cost net of any impairment losses.

Note 16. Inventories

€ millions	12.31.2008	12.31.2007	12.31.2006
Finished products and consumables	1,479.9	1,369.7	1,257.0
Raw materials, packaging end semi-finished products	372.7	323.3	307.7
Gross value	**1,852.6**	**1,693.0**	**1,564.7**
Valuation allowance	217.1	145.4	160.3
Inventories - net	**1,635.5**	**1,547.6**	**1,404.4**

Note 17. Trade accounts receivable

€ millions	12.31.2008	12.31.2007	12.31.2006
Gross value	2,739.9	2,658.3	2,599.0
Valuation allowance	45.3	40.8	40.5
Net value	**2,694.6**	**2,617.5**	**2,558.5**

Trade accounts receivable are due within one year. The Group policy is to recommend credit insurance coverage as far as the local conditions allow it. The accounts receivable non-collection risk is thus minimized leading to an accounts receivable allowance levelof less than 2% of gross receivables.

Note 18. Other current assets

€ millions	12.31.2008	12.31.2007	12.31.2006
Tax and Employee-related receivables (excluding income tax)	256.7	223.5	221.4
Prepaid expenses	139.6	148.5	167.0
Point of sales advertising, samples and promotional gifts	186.2	148.1	125.8
Derivatives	267.1	177.2	109.1
Other current assets	257.8	229.1	228.5
Total	**1,107.4**	**926.4**	**851.8**

Note 19. Cash and cash equivalents

€ millions	12.31.2008		12.31.2007		12.31.2006	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Marketable securities	82.8	82.7	135.5	130.0	132.3	123.5
Bank accounts and other cash and cash equivalents	994.3	994.3	951.2	951.2	648.9	648.9
Total	**1,077.1**	**1,077.0**	**1,086.7**	**1,081.2**	**781.2**	**772.4**

The marketable securities consist mainly of money-market SICAV investment funds and unit trusts (on which the return is based on EONIA) and short-term investments. They are considered as *Financial assets available for sale*. At December 31st, 2008, they are exclusively comprised of investments invested in government bonds of the Euro-zone through mutual funds.

Unrealised gains recorded at period end amount to €0.1 million compared with €5.5 million and € 8.8 million in 2007 and in 2006 and are recorded directly through shareholders' equity.

Note 20. Shareholders' equity

20.1. Share capital and additional paid-in capital

The share capital consists of 602,415,810 shares with a par value of €0.20 at December 31st, 2008 following the decision made by the Board of Directors on February 13th and August 28th, 2008 to cancel respectively 7,187,000 and 8,410,400 shares and the exercise of subscription options for 37,600 shares.

The share capital consisted of 617,975,610 shares with a par value of €0.20 at December 31st, 2007 following the decision made by the Board of Directors on February 14th and August 30th, 2007 to cancel respectively 13,490,750 and 8,225,100 shares and the exercise of subscription options for 75,050 shares.

The share capital consists of 639,616,410 shares with a par value of €0.20 at December 31st, 2006 following the decision made by the Board of Directors on April 25th, 2006 to cancel 19,229,250 shares and the exercise of subscription options for 76,000 shares.

20.2. Treasury stock

The shares bought under the L'Oréal share buyback programme authorised by the Annual General Meeting of Shareholders are deducted from consolidated shareholders' equity. Capital gains or losses relating to these shares net of tax are also recorded in shareholders' equity.

a) 2008

The change in the number of shares is as follows for the year 2008:

In shares	Capital stock	Treasury stock	Common shares outstanding
At 01.01.2008	**617,975,610**	**-22,664,937**	**595,310,673**
Cancelled shares	-15,597,400	15,597,400	
Exercised options	37,600	579,195	616,795
Treasury stock purchased		-12,787,000	-12,787,000
At 12.31.2008	**602,415,810**	**-19,275,342**	**583,140,468**

The change in the treasury stock is as follows for the year 2008:

In shares	Buyback programme	Allocated to the SO plan	Total	*€ millions*
At 01.01.2008	**6,281,000**	**16,383,937**	**22,664,937**	**1,787.2**
Cancelled shares	-15,260,000	-337,400	-15,597,400	-1,288.9
Exercised options		-579,195	-579,195	-32.1
Treasury stock purchased	12,787,000		12,787,000	944.4
At 12.31.2008	**3,808,000**	**15,467,342**	**19,275,342**	**1,410.6**
€ millions	**259.6**	**1,151.0**	**1,410.6**	

b) 2007

The change in the number of shares is as follows for the year 2007:

In shares	Capital stock	Treasury stock	Common shares outstanding
At 01.01.2007	**639,616,410**	**-33,894,300**	**605,722,110**
Cancelled shares	-21,715,850	21,715,850	
Exercised options	75,050	4,886,613	4,961,663
Treasury stock purchased		-15,373,100	-15,373,100
At 12.31.2007	**617,975,610**	**-22,664,937**	**595,310,673**

The change in the treasury stock is as follows for the year 2007:

In shares	Buyback Programme	Allocated to the SO plan	Total	*€ millions*
At 01.01.2007	**12,393,000**	**21,501,300**	**33,894,300**	**2,496.3**
Cancelled shares	-21,485,100	-230,750	-21,715,850	-1,709.1
Exercised options		-4,886,613	-4,886,613	-337.4
Treasury stock purchased	15,373,100		15,373,100	1,337.4
At 12.31.2007	**6,281,000**	**16,383,937**	**22,664,937**	**1,787.2**
€ millions	**578.7**	**1,208.5**	**1,787.2**	

c) 2006

The change in the number of shares is as follows for the year 2006:

In shares	Capital stock	Treasury stock	Common shares outstanding
At 01.01.2006	**658,769,660**	**-38,796,050**	**619,973,610**
Cancelled shares	-19,229,250	19,229,250	
Exercised options	76,000	2,485,500	2,561,500
Treasury stock purchased		-16,813,000	-16,813,000
At 12.31.2006	**639,616,410**	**-33,894,300**	**605,722,110**

The change in the treasury stock is as follows for the year 2006:

In shares	Buyback Programme	Allocated to the SO plan	Total	*€ millions*
At 01.01.2006	**13,240,000**	**25,556,050**	**38,796,050**	**2,638.2**
Cancelled shares	-17,660,000	-1,569,250	-19,229,250	-1,259.4
Exercised options		-2,485,500	-2,485,500	-124.3
Treasury stock purchased	16,813,000		16,813,000	1,241.8
At 12.31.2006	**12,393,000**	**21,501,300**	**33,894,300**	**2,496.3**
€ millions	**932.4**	**1,563.9**	**2,496.3**	

20.3. Share subscription or purchase options

The table below sets out the data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2008:

Grant date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			From	To	
12.03.2003	2,500,000	2,261,750	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	2,263,000	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	1,911,500	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	3,871,500	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	400,000	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	4,090,800	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,753,200	12.01.2010	11.30.2015	62.94
04.25.2006	2,000,000	2,000,000	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	5,426,250	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,953,500	12.01.2012	11.30.2017	91.66

All plans have a 5 year exercise period and no performance conditions.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

	Purchase options		Subscription options							
	December 2003	November 2005	December 2003	March 2004	December 2004	June 2005	November 2005	April 2006	December 2006	November 2007
Risk-free rate of return	4.22%	3.16%	3.92%	3.39%	3.17%	2.63%	3.16%	3.80%	3.62%	4.01%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years	6 years	7 years	7 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17%	21%	20.50%	22.52%	23%
Expected dividends	1%	1.35%	1%	1.20%	1.34%	1.38%	1.35%	1.35%	1.35%	1.24%
Share price	63.45	61.3	63.45	60.6	54.6	59.4	61.3	74.10	74.60	94.93
Exercise price	71.90	62.94	63.02	64.69	55.54	60.17	61.37	72.60	78.06	91.66
Fair value	15.24	12.3	15.66	14.67	10.15	9.45	12.88	17.48	17.19	25.88

Expected volatility is equal to the implicit volatility of the options listed on the MONEP at the grant dates. As from 2007, in order to mitigate the effects of the atypical phenomena, the retained volatility corresponds to the average between the implied volatility at the grant date and the historic volatility over the expected life span of the option. The expected life span has been adjusted to take account of behavioural assumptions relating to the beneficiaries.

Data concerning all share option plans during fiscal years 2006, 2007 and 2008 are set out below:

	12.31.2008		12.31.2007		12.31.2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Number of options not exercised at beginning of period	40,825,387	71.96	42,017,800	69.86	38,648,550	67.47
• Options granted	-		4,000,000	91.66	7,500,000	76.60
• Options exercised	-616,795	55.38	-4,961,663	68.47	-2,561,500	49.44
• Options expired	-1,042,500		230,750		-1,569,250	
Number of options not exercised at end of period	39,166,092	72.39	40,825,387	71.96	42,017,800	69.86
Of which:						
- number of exercisable options at end of period	15,759,342	74.88	12,208,837	77.30	12,581,550	72.74
- expired options at the end of period	1,215,250		1,999,750		1,699,750	

The average weighted price of the share amounted to €72.56, €86.20 and €73.84 respectively for 2008, 2007 and 2006.

The total charge recorded in 2008, 2007 and 2006 amounted to €85.9, €69.1, and €49.4 million respectively.

20.4. Items directly recognised in equity

The following tables indicate movements on the various types of item:

€ millions	12.31.2008	12.31.2007	12.31.2006
Financial assets available for sale			
Reserve at opening date	3,417.9	5,134.4	5,711.0
Changes in fair value over period	-2,074.2	-1,053.5	-571.1
Impairment loss recorded in profit and loss account	-	-	-
Changes in fair value recorded in profit and loss account on disposal	-9.7	-663.0	-5.5
Reserve at closing date	**1,334.0**	**3,417.9**	**5,134.4**

€ millions	12.31.2008	12.31.2007	12.31.2006
Cash flow hedge - foreign exchange			
Reserve at opening date	72.7	33.3	-47.6
Changes in fair value over period	178.6	100.8	93.2
Changes in fair value recorded in profit and loss account	-89.3	-61.4	-12.3
Reserve at closing date	**162.0**	**72.7**	**33.3**

A 10% increase (decrease) of the euro against all Group currencies would have had an effect of +€174.3 million (-€176.9 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2008.

A 10% increase (decrease) of the euro against the main Group currencies (USD, RUB, CHF, CAD, CNY, AUD, GBP, MXN) would have had an effect of +€176.1 million (-€45.9 million) on the reserve of foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2007 versus respectively +€143.0 million (-€64 million) at December 31st, 2006.

A 10% increase (decrease) of the USD against the main Group currencies (CHF, MXN) would have had an effect of -€15.1 million (+€22.3 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2008.

A 10% increase (decrease) of the USD against the main Group currencies (CHF, GBP) would have had an effect of -€5.5 million (+€28.2 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2007 versus respectively -€9.7 million (+€19.3 million) at December 31st, 2006.

€ millions	12.31.2008	12.31.2007	12.31.2006
Cash flow hedge - interest rates			
Reserve at opening date	-0.3	0.4	-
Changes in fair value over period	-1.0	0.5	2.0
Changes in fair value recorded in profit and loss account	-	-1.2	-1.6
Reserve at closing date	**-1.3**	**-0.3**	**0.4**

€ millions	12.31.2008	12.31.2007	12.31.2006
Total items directly recognised in equity			
Gross reserve	1,494.7	3,490.3	5,168.1
Associated tax effect	-61.1	-81.4	-101.2
Reserve net of tax	**1,433.6**	**3,408.9**	**5,066.9**

Note 21. Post-employment benefits, termination benefits and other long-term employee benefits

The Group adheres to pension, early retirement and other benefits schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group charges to profit and loss account the contributions to be paid when they are due and no provision has been set aside, with the Group's commitment not exceeding the amount of contributions paid. For defined benefit schemes, the characteristics of the schemes in force inside the Group are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. In addition, an early retirement plan and a defined benefit plan have been set up. In some Group companies there are also measures providing for the payment of certain healthcare costs for retired employees;

  These obligations, except for those relating to healthcare costs for retired employees, are partially funded.

- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefits, the excess of obligations over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of vested rights of employees.

Pension obligations are determined and recognised in accordance with the accounting principles presented in Note 1.23.

The actuarial assumptions used to calculate these obligations take into account the economic conditions in each country or in each Group company. The weighted average assumptions for the Group are as follows:

	12.31.2008	12.31.2007	12.31.2006
Discount rate	5.8%	5.3%	4.7%
Salary increase	4.8%	4.8%	4.8%
Expected long-term return on assets	6.2%	6.0%	5.6%

	12.31.2008			12.31.2007			12.31.2006		
	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate
Expected rate of health care inflation	7.0%	4.8%	2016	6.1%	5.0%	2013	6.7%	4.6%	2011

The discount rates are obtained by reference to market yields on high quality corporate bonds having maturity dates equivalent to those of the obligations.

The expected return on plan assets is determined on the basis of the asset allocation of the investment portfolio taking into account for each class of assets returns correspondiang to their risks and past performance.

The variations during 2008, 2007 and 2006 are set out below:

€ millions	Present value of benefit obligations	Plan assets	Actuarial gains and losses	Unrecognised plan amendments	Net provisions
Balance at December 31st, 2005	**2,542.6**	**1,302.0**	**298.4**	**-18.4**	**960.6**
Service cost	104.0				104.0
Interest cost	109.2				109.2
Expected return on assets		71.7			-71.7
Past service cost: new plans/plans amendments	-11.0			-0.8	-10.2
Curtailments	-71.0		-7.1		-63.9
Settlements	-4.5	-2.9	-1.5		-0.1
Benefits paid	-107.4	-70.8			-36.6
Contribution paid	6.7	155.8			-149.1
Actuarial gains and losses	21.6	32.0	-18.3		7.9
Translation differences	-66.7	-47.1	-7.6	0.2	-12.2
Balance at December 31st, 2006	**2,523.5**	**1,440.7**	**263.9**	**-18.9**	**837.9**
Service cost	102.5				102.5
Interest cost	114.9				114.9
Expected return on assets		83.5			-83.5
Past service cost: new plans/plans amendments	5.1			23.5	-18.4
Curtailments					
Settlements					
Benefits paid	-102.4	-76.9			-25.6
Contribution paid	6.1	174.7			-168.6
Actuarial gains and losses	-205.0	-50.9	-162.2		8.1
Translation differences	-81.0	-63.4	-6.0	0.6	-12.1
Other movements (scope changes)	0.6	0.5			0.1
Balance at December 31st, 2007	**2,364.3**	**1,508.2**	**95.7**	**5.1**	**755.3**
Service cost	90.7				90.7
Interest cost	121.0				121.0
Expected return on assets		94.5			-94.5
Past service cost: new plans/plans amendments	-18.2			0.2	-18.4
Curtailments	-4.7		-4.0		-0.7
Settlements	-6.2	-6.2	0.2		-0.2
Benefits paid	-100.7	-81.9			-18.8
Contribution paid	4.3	177.7			-173.4
Actuarial gains and losses	-209.9	-373.3	162.3		1.1
Translation differences	-31.6	-29.9	5.3	-0.3	-6.6
Other movements (scope changes)	71.3	32.6	-0.3		39.1
Balance at December 31st, 2008	**2,280.2**	**1,321.7**	**259.1**	**5.0**	**694.4**

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	12.31.2008	12.31.2007	12.31.2006
Present value of defined benefit obligations that are wholly or partly funded	2,021.0	2,111.4	2,253.9
Fair value of plan assets	1,321.7	1,508.2	1,440.8
Net position of defined benefit obligations that are wholly or partly funded	699.3	603.2	813.1
Present value of defined benefit obligations that are wholly unfunded	259.2	252.9	269.6

The retirement expense charged to the profit and loss account is recorded with personel expenses in operational profit and may be analysed as follows:

€ millions	2008	2007	2006
Service cost	90.7	102.5	104.0
Interest cost	121.0	114.9	109.2
Expected return on assets	-94.5	-83.5	-71.7
Amortisation of unrealised gains and losses	1.1	8.1	7.9
Reversal of provisions			
New plans/plans modifications	-18.4	-18.4	-10.2
Curtailments	-0.7		-23.3
Settlements	-0.2		-0.1
Total	**99.0**	**123.7**	**115.8**

The contributions to defined-contribution plans recognised as an expense in 2008, 2007 and 2006 amounted respectively to €295.8, €271.8 and €250.3 million.

In respect of the medical care plans, a change of one percentage point in medical cost inflation has the following impact:

€ millions	Increase of 1%	Decrease of 1%
Impact on the benefit obligation	23.84	18.25
Impact on the current service cost and interest costs	1.96	1.55

The plan assets of retirement plans are invested as follows:

In %	12.31.2008	12.31.2007	12.31.2006
Equity securities (1)	31.8	38.7	38.6
Bonds	50.7	48.7	47.6
Property assets (2)	6.3	6.2	7.2
Monetary instruments	5.3	1.0	1.6
Others	5.9	5.4	4.9
Total	**100%**	**100%**	**100%**

(1) of which L'Oréal shares: nil.
(2) of which property assets occupied by Group entities: 0.5%.

Allocation of investments in plan assets has to comply with determined proportions between the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The benefit obligation, the fair value of the plan assets and the actuarial gains (losses) generated for the current year and the three previous years are as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006	12.31.2005
Benefit obligation	2,280.2	2,364.3	2,523.5	2,542.6
Plan assets	-1,321.7	-1,508.2	-1,440.7	-1,302.0
(Surplus)/Deficit	**958.5**	**856.1**	**1,082.8**	**1,240.6**
Experience adjustments generated on the obligation	12.1	44.3	-43.3	-62.7
Experience adjustments generated on the plan assets	-373.3	-50.9	32.0	43.4

Note 22. Provisions for liabilities and charges

22.1.Balances at closing date

€ millions	12.31.2008	12.31.2007	12.31.2006
Other non-current provisions for liabilities and charges	**111.4**	**148.5**	**154.1**
Provisions for restructuring	0.8	1.0	1.4
Other non-current provisions (1)	110.6	147.5	152.7
Current provisions for liabilities and charges	**431.1**	**285.7**	**272.0**
Provisions for restructuring	124.3	9.6	18.9
Other current provisions (1)	306.8	276.1	253.1
Total	**542.5**	**434.2**	**426.1**

(1) This item includes provisions for tax risks and litigation, industrial and commercial risks relating to operations (breach of contract, product returns) and personnel costs.

22.2. Variations in provisions for restructuring and other provisions for liabilities and charges during the year

€ millions	12.31.2006	12.31.2007	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/Other (1)	12.31.2008
Other provisions for liabilities and charges	405.8	423.6	157.2	-127.6	-58.7	22.9	417.4
Provisions for restructuring	20.3	10.6	120.8	-6.6	-0.1	0.4	125.1
Total	**426.1**	**434.2**	**278.0**	**-134.2**	**-58.8**	**23.3**	**542.5**

(1) Mainly resulting from translation differences.
(2) These figures may be analysed as follows:

	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	120.8	-6.6	-0.1
• Operating profit	141.9	-114.2	-21.4
• Financial (income) /expense	0.3	-0.4	-
• Income tax	15.0	-13.0	-37.3

For 2007, the change was analysed as follows:

€ millions	12.31.2005	12.31.2006	Charges [2]	Reversals (used) [2]	Reversals (not used) [2]	Impact of change in scope/ Exchange rate/Other [1]	12.31.2007
Other provisions for liabilities and charges	411.3	405.8	183.7	-111.0	-44.1	-10.8	423.6
Provisions for restructuring	35.0	20.3	1.6	-10.2	-0.2	-0.9	10.6
Total	**446.3**	**426.1**	**185.3**	**-121.2**	**-44.3**	**-11.7**	**434.2**

(1) Mainly resulting from translation differences.
(2) These figures may be analysed as follows:

	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	1.6	-10.2	-0.2
• Operating profit	166.4	-110.6	-40.5
• Income tax	17.3	-0.4	-3.6

For 2006, the change was analysed as follows:

€ millions	12.31.2005	Charges [2]	Reversals (used) [2]	Reversals (not used) [2]	Impact of change in scope/ Exchange rate/Other [1]	12.31.2006
Other provisions for liabilities and charges	411.3	220.1	-138.9	-67.5	-19.2	405.8
Provisions for restructuring	35.0	0.5	-13.7	-0.1	-1.4	20.3
Total	**446.3**	**220.6**	**-152.6**	**-67.6**	**-20.6**	**426.1**

(1) Mainly resulting from translation differences.
(2) These figures may be analysed as follows:

	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	0.5	-13.7	-0.1
• Operating profit	166.5	-134.5	-61.7
• Income tax	53.6	-4.4	-5.8

Note 23. Borrowings and debts

The Group finances itself through medium-term bank loans, and by the issue of short-term paper in France and the issue of short-term commercial paper in the United States.

23.1. Debt by type

€ millions	12.31.2008		12.31.2007		12.31.2006	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	1,896.2	-	584.1	-	2,000.0
MLT bank loans	2,414.6	71.5	2,484.9	52.7	1,787.3	2.8
Perpetual loan	-	-	-	-	-	7.1
Debts on capital lease contracts	69.3	13.2	69.3	10.1	77.2	10.3
Overdrafts	-	63.6	-	103.1	-	73.6
Other borrowings and debts	22.7	226.1	28.8	126.8	27.9	124.2
Total	**2,506.6**	**2,270.6**	**2,583.0**	**876.8**	**1,892.4**	**2,218.0**

23.2. Debt by maturity date

€ millions	12.31.2008	12.31.2007	12.31.2006
Under 1 year	2,270.6	876.8	2,218.0
1 to 5 years	2,463.6	2,534.5	1,837.3
Over 5 years	43.0	48.5	55.1
Total	**4,777.2**	**3,459.8**	**4,110.4**

Interest payments anticipated as of the end of 2008 are about €113.6 million for 2009, €174.7 million for the period 2010-2013 and €0.9 million beyond 2013.

Interest payments anticipated as of the end of 2007 were about €125.4 million for 2008, €314.5 million for the period 2009-2012 and €0.1 million beyond 2012.

Interest payments anticipated as of the end of 2006 were about €70.4 million for 2007, €212.6 million for the period 2008-2011 and €0.8 million beyond.

These estimations are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and without renewal of debt on maturity.

23.3. Debt by currency (after allowing for currency hedging instruments)

€ millions	12.31.2008	12.31.2007	12.31.2006
Euro (EUR)	3,812.9	2,570.8	3,116.9
US dollar (USD)	552.5	606.7	731.6
Yen (JPY)	90.2	47.2	42.9
Yuan (CNY)	51.0	43.4	55.7
Canadian Dollar (CAD)	42.8	62.9	49.8
Others	227.9	128.8	113.5
Total	**4,777.2**	**3,459.8**	**4,110.4**

23.4. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	12.31.2008	12.31.2007	12.31.2006
Floating rate	4,677.4	3,373.1	3,824.3
Fixed rate	99.8	86.7	286.1
Total	**4,777.2**	**3,459.8**	**4,110.4**

23.5. Effective interest rates

The effective debt interest rates, after allowing for hedging instruments, were 4.05% in 2006, 4.32% in 2007 and 3.26% in 2008 for short-term paper, and 3.69% in 2006, 4.83% in 2007 and 4.48% in 2008 for bank loans.

23.6. Average debt interest rates

The average debt interest rates, after allowing for hedging instruments, were 3.07% in 2006, 4.35% in 2007 and 4.77% in 2008 for the euro, and 4.76% in 2006, 5.03% in 2007 and 2.91% in 2008 for the US dollar.

23.7. Fair value of borrowings and debts

The fair value of fixed rate debt is determined for each loan by the discounting of future cash flows, based on the debenture interest rate curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net book value of outstanding bank loans and other floating rate loans is a reasonable approximation of their fair value.

At December 31st, 2008, the fair value of the debt amounts to €4,777.8 million. At December 31st, 2007, the fair value of the debt amounted to €3,464.2 million. At December 31st, 2006, the fair value of the debt amounted to €4,113.2 million.

23.8. Debts covered by collateral

There were no significant debts covered by collateral as at December 31st, 2008, December 31st, 2007 and at December 31st, 2006.

23.9. Confirmed credit lines

At December 31st, 2008, L'Oréal and its subsidiaries have €2,461 million of credit lines confirmed but not used, compared with €2,625 million respectively at December 31st, 2007 and at December 31st, 2006.

Note 24. Derivatives and exposure to market risks

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the Group uses derivatives negotiated with organisations with the best credit ratings.

In accordance with the Group's rules, the currency and interest rate derivatives are set up exclusively for hedging purposes.

24.1. Hedging of currency risk

The Group is exposed to currency risk from commercial transactions recorded on the balance sheet and from future transactions considered to be highly probable.

The Group's policy on exposure to currency risk from its future commercial transactions is to hedge at the end of the year a very significant part of the currency risk of the next year using derivatives on the basis of operating budgets in each subsidiary.

All the Group's future foreign currency flows are analysed in detailed forecasts for the coming budgetary year. Currency risks that emerge are hedged by forward contracts or by options, to reduce as far as possible the currency position of each subsidiary. The duration of the derivatives is determined as appropriate for the Group's settlement flows. Exchange rate derivatives are negotiated by Régéfi (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when the currency is not convertible, with any such operations subject to control by Régéfi.

As the Group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by the management of their own cash and debt are almost non-existent.

Because of the Group policy of foreign exchange risk hedging a very significant part of the annual needs of the next year at the end of the year, the sensitivity of profit or loss to the changes in the foreign exchange rate on December 31st is marginal. The impact of a variation in the foreign exchange rate on the foreign exchange cash flow hedge reserve is given in Note 20.4.

The following derivatives, all of which originally have a maturity of less than 18 months, are held for currency risk hedging purposes:

€ millions	Nominal			Market value		
	12.31.2008	12.31.2007	12.31.2006	12.31.2008	12.31.2007	12.31.2006
Currency futures						
Purchase EURO/foreign currency	**1,320.0**	**1,661.3**	**1,278.3**	**89.1**	**34.3**	**19.4**
EUR/USD	233.5	595.5	205.5	3.6	12.6	12.8
EUR/RUB	162.6	135.6	125.0	29.9	1.8	-0.1
EUR/CHF	120.9	105.6	118.7	-6.4	0.5	1.7
EUR/CNY	87.9	87.7	83.0	-2.5	3.2	0.7
EUR/JPY	82.3	48.3	39.2	-0.6	1.3	2.1
EUR/CAD	67.8	101.6	104.7	7.5	-0.5	6.0
EUR/AUD	54.7	61.3	62.5	6.1	1.0	-0.5
EUR/GBP	44.9	52.7	93.8	10.8	7.0	-2.4
EUR/West European currencies	77.9	81.7	102.0	8.0	0.8	0.2
EUR/East European currencies	99.6	104.9	87.6	8.4	-0.8	-4.5
EUR/Asian currencies	113.3	117.1	132.0	3.1	7.4	3.0
EUR/Latin American currencies	84.8	96.8	83.3	16.2	1.6	1.0
EUR/Other currencies	89.8	72.5	41.0	5.0	-1.7	-0.6
Purchase USD/foreign currency	**217.2**	**115.2**	**119.1**	**23.3**	**-2.1**	**-1.3**
USD/Latin American currencies	89.0	83.4	55.0	12.4	0.1	-0.6
USD/Other Asian currencies	63.2	7.0	37.0	4.3	-0.6	-0.1
USD/Other currencies	65.0	24.8	27.1	6.6	-1.6	-0.6
Sale USD/CHF	**74.8**	**87.3**	**108.5**	**4.2**	**5.2**	**1.8**
Other currency pairs	267.2	176.4	121.4	-16.2	-2.4	
Currency futures total	1,879.2	2,040.2	1,627.3	100.4	35.0	20.0
Currency options						
EUR/USD	250.8	217.3	137.0	6.6	16.4	9.2
EUR/GBP	120.5	81.4	65.7	18.3	5.6	0.7
EUR/RUB	101.6	170.6	50.0	16.6	7.7	2.4
EUR/HKD	47.4	42.4	51.4	1.5	-2.5	3.2
EUR/Other currencies	202.0	300.5	179.4	24.1	19.2	5.4
USD/CHF	144.2	58.7	45.7	15.0	5.5	1.0
Other currency pairs	72.0	49.3	62.0	10.4	1.0	1.0
Currency options total	938.5	920.2	591.2	92.5	52.9	22.9
of which call options total	1,346.2	948.4	613.9	104.6	53.5	23.2
of which put options total	-407.7	-28.3	-22.7	-12.1	-0.6	-0.3
Total	**2,817.7**	**2,960.4**	**2,218.5**	**192.9**	**87.9**	**42.9**

The put options total corresponds exclusively to the sale of previously purchased options when it appeared opportune to replace them by other hedging instruments.

The market values by type of hedging are as follows:

€ millions	2008	2007	2006
Fair value hedges [1]	21.5	6.4	4.3
Cash flow hedges	171.4	81.5	38.6
Net foreign investment hedges	-	-	-
Total	**192.9**	**87.9**	**42.9**

(1) The fair value hedges relate to currency risks for operating receivables and payables as well as for financial debts. On December 31st, 2007, the needs for financing in US dollars are included in an amount of €442 million as currency swaps, on the EUR/USD currency futures line.

The fair value of the derivatives is their market value.

The Group has no significant foreign currency positions that are not hedged in the balance sheet.

24.2. Hedging of interest rate risk

The Group mainly refinances at floating rates and uses interest rate derivatives to reduce net exposure to interest rate risk. Such derivatives are never held for speculative reasons.

The derivatives are mainly swaps and interest rate options (purchase of caps) which are traded with specific counterparties.

The market values of the derivatives set out below should be compared with the market values of the debts that they hedge.

The interest rate derivatives are as follows:

€ millions	Notional			Market value		
Interest rate derivatives	12.31.2008	12.31.2007	12.31.2006	12.31.2008	12.31.2007	12.31.2006
Cash flow hedges						
Borrowing fixed interest-rate swaps						
EUR Euribor/fixed rate	18.6	19.5	20.2	-1.3	-0.3	-1.0
USD Libor/fixed rate	-	-	190.0		-	1.3
Purchase of caps						
USD Libor	288.5	271.6	-	-		
Fair value hedges						
Borrowing floating interest-rate swaps						
EUR Euribor/fixed rate	69.8	121.8	128.8	2.2	1.5	3.6
Non designated derivatives						
Floating/floating interest-rate swaps						
EUR Euribor/Euribor		-	7.1		-	-
Total	**376.9**	**412.9**	**346.1**	**0.9**	**1.2**	**3.9**

The fair value of the interest rate derivatives is their market value. The market value of the interest rate derivatives is calculated by the discounting of future flows at the interest rate prevailing at the balance sheet date.

The maturities of the interest rate derivatives broken down by type of hedge are as follows:

€ millions	Nominal by maturity											
	12.31.2008				12.31.2007				12.31.2006			
	< 1 year	1 to 5 years	> 5 years	Total	< 1 year	1 to 5 years	> 5 years	Total	< 1 year	1 to 5 years	> 5 years	Total
Cash flow hedges												
Borrowing fixed interest-rate swaps	3.4	4.1	11.2	18.6	0.8	6.4	12.3	19.5	190.8	6.1	13.3	210.2
Purchase of caps	288.5			288.5	271.6			271.6				
Fair value hedges												
Borrowing floating interest-rate swaps	69.8			69.8	52.0	69.8	-	121.8	7.0	121.8	-	128.8
Non-designated derivatives												
Floating/floating interest-rate swaps									7.1	-	-	7.1
Total	**361.7**	**4.1**	**11.2**	**376.9**	**324.4**	**76.2**	**12.3**	**412.9**	**204.9**	**127.9**	**13.3**	**346.1**

24.3. Sensitivity to changes in interest rates

An increase in interest rates of 100 basis points would have a direct impact on the Group's financial charge of €36.0 million at December 31st, 2008 compared with €22.6 million at December 31st, 2007 and €30.7 million at December 31st, 2006 after allowing for cash, cash equivalents and derivatives, and assuming that total net debt remains stable and that the fixed rate debts at maturity date are replaced by floating rate debt.

The impact of a 100 basis point rise in interest rates on the fair value of the Group's fixed rate financial assets and liabilities, after allowing for derivatives, can be estimated at €2.5 million at December 31st, 2008 compared with €2.7 million at December 31st, 2007 and €3.2 million at December 31st, 2006.

24.4. Counterparty risk

The Group has financial relations with international banks with the best credit ratings. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used in exchange rate and interest rate risk management are issued by leading international banking counterparties.

24.5. Liquidity risk

The liquidity risk of the Group can be evaluated on the basis of its short-term debt which includes maturities of medium-term bank loans of €70 million in 2009 and the outstanding amounts on its short-term paper program being €1,896.2 million. If these bank facilities were not to be renewed, the Group has confirmed credit lines of €2,461 million.

24.6. Shareholding risk

No cash has been invested in shares.

The available cash is invested, with top financial insitutions, in the form of non-speculative instruments which can be drawn in very short periods. At December 31st, 2008, it is exclusively invested in government bonds of the Euro-zone through mutual funds (Note 19).

At December 31st, 2008, the Group holds 118,227,307 Sanofi-Aventis shares for an amount of €5,367.5 million (Note 15). For these shares, a change in the market price of plus or minus 10% relative to the market price of €45.40 on December 31st, 2008 would have an impact on the Group shareholders' equity of plus or minus €536.8 million before tax.

A significant or prolonged passage of the share price below €34.12 being, the cost of the Sanofi-Aventis shares, would potentially expose L'Oréal an impairment loss on its asset to be recorde through the profit and loss account.

At December 31st, 2007, the Group held 118,227,307 Sanofi-Aventis shares for an amount of €7,446.0 million (Note 15). For these shares, a change in the market price of plus or minus 10% relative to the market price of €62.98 on December 31st, 2007 would have had an impact on the Group shareholders' equity of plus or minus €744.6 million before tax.

At December 31st, 2006, the Group held 143,041,202 Sanofi-Aventis shares for an amount of €10,005.7 million (Note 15). For these shares, a change in the market price of plus or minus 10% relative to the market price of €69.95 on December 31st, 2006 would have had an impact on the Group shareholders' equity of plus or minus €1,000.6 million before tax.

Note 25. Other current liabilities

€ millions	12.31.2008	12.31.2007	12.31.2006
Tax and employee-related payables	903.1	844.4	796.5
Credit balances on costumer accounts	543.1	558.4	512.9
Fixed asset payables	159.1	127.1	120.7
Derivatives	98.5	93.3	65.4
Other current liabilities	134.7	109.3	118.4
Total	**1,838.4**	**1,732.5**	**1,613.9**

Note 26. Off-balance sheet commitments

26.1 - Operating lease commitments

They amount to €1,914.9 million at December 31st, 2008, compared with €1,789.2 million at December 31st, 2007 and €1,823.2 million at December 31st, 2006, of which:

- €368.2 million is due in under one year at December 31st, 2008 compared with €329.0 million at December 31st, 2007 and €318.1 million at December 31st, 2006;
- €1,024.1 million is due in 1 to 5 years at December 31st, 2008 compared with €878.2 million at December 31st, 2007 and €922.2 million at December 31st, 2006;
- €522.6 million is due in over 5 years at December 31st, 2008 compared with €582.0 million at December 31st, 2007 and €582.9 million at December 31st, 2006.

26.2. Other off-balance sheet commitments

The confirmed credit lines are indicated in Note 23.

The other significant off-balance sheet commitments have been identified and measured and are as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Commitments given [1]	107.1	111.6	52.2
Documentary credits	0.3	5.2	7.2
Commitments received	36.5	28.6	32.3
Capital expenditure orders	243.7	251.0	233.0
Firm purchase commitments in the context of logistics supply contracts	406.2	404.6	437.1

(1) These consist mainly of commitments given to governmental bodies or commitments concerning loans granted to third parties who are partners of the Group and for 2007 and 2008, the net commitment toward the L'Oréal Foundation for its long-term action program.

26.3. Contingent liabilities

In its normal operations, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Group sets aside a provision wherever a risk is found to exist, and an estimate of its cost is possible.

At the present time, there is no exceptional event or dispute which could materially and with serious probability affect the results, financial situation, assets or operations of the L'Oréal Company and Group.

26.4. Environmental risks

The Group carefully follows regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial situation, results or assets of the Group.

Note 27. Change in working capital

This amounts to -€148.8 million, -€76.3 million and €65.6 million for 2008, 2007 and 2006, respectively, and can be analysed as follows:

€ millions	2008	2007	2006
Inventories	-22.3	-137.8	-119.1
Trade accounts receivable	-8.0	-102.3	-244.0
Trade accounts payable	-8.5	79.0	251.2
Other receivables and debts	-110.0	84.8	177.5
Total	**-148.8**	**-76.3**	**65.6**

Note 28. Impact of changes in the scope of consolidation

For 2008, this item mainly related to the Canan, CollaGenex; Columbia Beauty Supply, Le Club des Créateurs de Beauté and YSL Beauté acquisitions.

For 2007, this item mainly related to the Maly's West, Beauty Alliance and PureOlogy acquisitions.

For 2006, this item mainly related to the acquisitions of the The Body Shop, Beauty Alliance International and Sanoflore.

Note 29. Transactions with related parties

29.1. Joint ventures

Transactions with companies consolidated on a proportional basis are as follows:

€ millions	2008	2007	2006
Sales of goods and services	3.2	5.4	10.6
Cost of sales	-	-	-
Financial expenses and income	3.4	1.6	1.2

The following receivables and payables are recorded on the balance sheet for the related parties:

€ millions	12.31.2008	12.31.2007	12.31.2006
Operating debtors	5.6	3.1	6.6
Creditors	0.5	0.3	0.3
Financial debtors	68.9	34.7	42.3

29.2. Related parties with a significant influence on the Group

No significant transactions have been concluded with a member of the senior management or a shareholder with a significant influence on the Group.

29.3. Equity affiliates

During 2006 and from January 1st to April 12th, 2007, L'Oréal USA Inc. made sales of respectively €50.6 and €35.6 million sales to Beauty Alliance International, a company in which the Group had a 30% stake until April 2007 (Note 2).

No significant transactions have taken place with an equity affiliate during 2008.

Note 30. Subsequent events

No event occurred between the balance sheet date and the date when the Board of Directors authorized the consolidated financial statements for issue.

1.6. Consolidated companies at December 31st, 2008

1.6.1 Companies consolidated by the full consolidation method [1]

Companies	Head Office	% interest	% control [2]
Areca & Cie	France	100.00	
Avenamite S.a.	Spain	100.00	
Beauté Créateurs	France	100.00	
Beautycos International Co Limited	China	100.00	
Beautylux International Cosmetics (Shanghai) Co Ltd	China	100.00	
Beautytech International Cosmetics (Yichang) Co Ltd	China	100.00	
Belcos Ltd	Japan	100.00	
Biotherm	Monaco	100.00	
Biotherm Distribution & Cie	France	100.00	
Canan Kozmetik Sanayi Ve Ticaret A.S.	Turkey	100.00	
Canan Tuketim Urunleri Pazarlama A.S.	Turkey	100.00	
Centre Logistique d'Essigny	France	100.00	
Centrex	France	100.00	
Chimex	France	100.00	
Club Créateurs Beauté Japon K.K.	Japan	100.00	
Cobelsa Cosmeticos. S.a.	Spain	100.00	
Colainaf	Morocco	100.00	
Compagnie Thermale Hôtelière et Financière	France	99.98	
Consortium Général de Publicité	France	100.00	
Cosbel S.a. de C.v.	Mexico	100.00	
Cosimar Japon Ltd	Japan	100.00	
Cosmelor KK	Japan	100.00	
Cosmelor Ltd	Japan	100.00	
Cosmephil Holdings Corporation Philippines	Philippines	100.00	
Cosmetil	Morocco	49.80	100.00
Cosmétique Active Belgilux	Belgium	100.00	
Cosmétique Active France	France	100.00	
Cosmétique Active International	France	100.00	
Cosmétique Active Ireland Ltd	Ireland	100.00	
Cosmétique Active Nederland B.V.	Netherlands	100.00	
Cosmétique Active Production	France	100.00	
Cosmétique Active (Suisse) S.A.	Switzerland	100.00	
Egyptelor LLC	Egypt	100.00	
Elebelle (Pty) Ltd	South Africa	100.00	
Episkin	France	100.00	
Episkin Biomatériaux	France	100.00	
Erwiton S.A.	Uruguay	100.00	
Exclusive Signatures International	France	100.00	
Fapagau & Cie	France	100.00	
Faprogi	France	100.00	
Finval	France	100.00	
Frabel S.A. de C.V.	Mexico	100.00	
Garnier New Zealand Ltd	New Zealand	100.00	
Gemey Maybelline Garnier	France	100.00	

(1) In accordance with the provisions of Article D. 248-12 of French Trading law. some information provided above is incomplete.
(2) Equivalent to the percentage interest except if specified.

Companies	Head Office	% interest	% control (2)
Gemey Paris – Maybelline New York	France	100.00	
Goldys International	France	100.00	
Helena Rubinstein	France	100.00	
Helena Rubinstein Italia S.p.A	Italy	100.00	
Holdial	France	100.00	
Kosmepol Sp z.o.o	Poland	100.00	
L & J Ré	France	100.00	
La Roche-Posay Dermato-Cosmétique	France	99.98	
La Roche-Posay Laboratoire Pharmaceutique	France	99.98	
Laboratoire Bioexigence	France	100.00	
Laboratoire Garnier & Cie	France	100.00	
Laboratoire Sanoflore	France	99.94	
Lai Mei Cosmetics International Trading (Shanghai) Co Ltd	China	100.00	
Lancôme Parfums & Beauté & Cie	France	100.00	
Lancos Ltd	Japan	100.00	
LaScad	France	100.00	
Le Club des Créateurs Cosmetic Versand Verwaltungs GmbH	Germany	100.00	
Le Club des Créateurs Cosmeticversand Gmbh & Co	Germany	100.00	
Le Club des Créateurs de Beauté	Belgium	100.00	
Le Club des Créateurs de Beauté Taiwan Co Ltd	Taiwan	100.00	
Lehoux et Jacque	France	100.00	
L'Oréal Adria d.o.o.	Croatia	100.00	
L'Oréal Argentina S.A	Argentina	100.00	
L'Oréal Australia Pty Ltd	Australia	100.00	
L'Oréal Balkan d.o.o.	Serbia	100.00	
L'Oréal Baltic SIA	Latvia	100.00	
L'Oréal Belgilux S.A.	Belgium	100.00	
L'Oréal Brasil Comercial de Cosméticos Ltda	Brazil	100.00	
L'Oréal Bulgaria EOOD	Bulgaria	100.00	
L'Oréal Canada. Inc.	Canada	100.00	
L'Oréal Ceska Republika s.r.o	Czech Republic	100.00	
L'Oréal Chile S.A.	Chile	100.00	
L'Oréal (China) Co Ltd	China	100.00	
L'Oréal Colombia S.A.	Colombia	100.00	
L'Oréal Danmark A/S	Denmark	100.00	
L'Oréal Deutschland GmbH	Germany	100.00	
L'Oréal Egypt LLC	Egypt	100.00	
L'Oréal España S.A.	Spain	100.00	
L'Oréal Finland Oy	Finland	100.00	
L'Oréal Guatemala S.A.	Guatemala	100.00	
L'Oréal Hellas S.A.	Greece	100.00	
L'Oréal Hong Kong Ltd	Hong Kong	100.00	
L'Oréal India Pvt Ltd	India	100.00	
L'Oréal Investments B.V.	Netherlands	100.00	
L'Oréal Israel Ltd	Israel	92.97	
L'Oréal Italia S.p.A	Italy	100.00	
L'Oréal Japan Ltd	Japan	100.00	
L'Oréal Korea Ltd	Korea	100.00	
L'Oréal Liban SAL	Lebanon	99.88	
L'Oréal Libramont	Belgium	100.00	

(1) In accordance with the provisions of Article D. 248-12 of French Trading law. some information provided above is incomplete.
(2) Equivalent to the percentage interest except if specified.

Companies	Head Office	% interest	% control (2)
L'Oréal Luxe Producten Nederland B.V.	Netherlands	100.00	
L'Oréal Magyarorszag Kozmetikai Kft	Hungary	100.00	
L'Oréal Malaysia SDN BHD	Malaysia	94.34	
L'Oréal Manufacturing Midrand Pty Ltd	South Africa	100.00	
L'Oréal Maroc	Morocco	50.00	100.00
L'Oréal Mexico S.A. de C.V.	Mexico	100.00	
L'Oréal Mexico Servicios S.A. de C.V.	Mexico	100.00	
L'Oréal Middle East	United Arab Emirates	100.00	
L'Oréal Nederland B.V.	Netherlands	100.00	
L'Oréal New Zealand Ltd	New Zealand	100.00	
L'Oréal Norge A/S	Norway	100.00	
L'Oréal Österreich GmbH	Austria	100.00	
L'Oréal Panama S.A.	Panama	100.00	
L'Oréal Peru S.A.	Peru	100.00	
L'Oréal Philippines. Inc.	Philippines	100.00	
L'Oréal Polska Sp z.o.o	Poland	100.00	
L'Oréal Portugal. Lda	Portugal	100.00	
L'Oréal Produits de Luxe Belgilux	Belgium	100.00	
L'Oréal Produits de Luxe France	France	100.00	
L'Oréal Produits de Luxe International	France	100.00	
L'Oréal Produits de Luxe Suisse S.A.	Switzerland	100.00	
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany	100.00	
L'Oréal Produktion Deutschland GmbH & Co Kg	Germany	100.00	
L'Oréal Romania SRL	Romania	100.00	
L'Oréal Saipo Industriale S.p.A	Italy	100.00	
L'Oréal Singapore Pte Ltd	Singapore	100.00	
L'Oréal Slovenija Kozmetika d.o.o	Slovenia	100.00	
L'Oréal Slovensko s.r.o	Slovakia	100.00	
L'Oréal South Africa Holdings Pty Ltd	South Africa	100.00	
L'Oréal Suisse S.A.	Switzerland	100.00	
L'Oréal Sverige AB	Sweden	100.00	
L'Oréal Taiwan Co Ltd	Taiwan	100.00	
L'Oréal Thailand Ltd	Thailand	100.00	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	Turkey	100.00	
L'Oréal Uk Ltd	United Kingdom	100.00	
L'Oréal Ukraine	Ukraine	100.00	
L'Oréal Uruguay S.a.	Uruguay	100.00	
L'Oréal USA. Inc.	United States	100.00	
L'Oréal Venezuela. C.A.	Venezuela	100.00	
L'Oréal Vietnam Co. Ltd	Vietnam	100.00	
Marigny Manufacturing Australia Pty Ltd	Australia	100.00	
Masrelor LLC	Egypt	100.00	
Maybelline K.K.	Japan	100.00	
Maybelline (Suzhou) Cosmetics Ltd	China	100.00	
Nihon L'Oréal K.K.	Japan	100.00	
NLO K.K.	Japan	100.00	
P.T. L'Oréal Indonesia	Indonesia	100.00	
P.T. Yasulor Indonesia	Indonesia	100.00	
Par Bleue	France	100.00	
Parbel of Florida. Inc.	United States	100.00	

(1) In accordance with the provisions of Article D. 248-12 of French Trading law. some information provided above is incomplete.
(2) Equivalent to the percentage interest except if specified.

Companies	Head Office	% interest	% control [2]
Parfums Cacharel & Cie	France	100.00	
Parfums Guy Laroche	France	100.00	
Parfums Paloma Picasso & Cie	France	100.00	
Parfums Ralph Lauren	France	100.00	
Prestige et Collections International	France	100.00	
Procosa Productos de Beleza Ltda	Brazil	100.00	
Productora Albesa S.A.	Spain	100.00	
Productos Capilares L'Oréal S.A.	Spain	100.00	
Redken France	France	100.00	
Banque de Réalisations de Gestion et de Financement (Regefi)	France	100.00	
Scental Ltd	Hong Kong	100.00	
Seda Plastik Ve Boya San. Ith. Tic. Ltd. Sti	Turkey	100.00	
Shu Uemura Cosmetics Inc.	Japan	93.57	
Sicôs & Cie	France	100.00	
SkinEthic	France	99.52	
Socex de Expansao Mercantil em Cosmeticos Ltda	Brazil	99.00	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche Posay	France	99.98	
Sofamo	Monaco	100.00	
Softsheen Carson Products West Africa Ltd	Ghana	100.00	
Soprocos	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	
The Body Shop (as a Group)	United Kingdom	100.00	
Venprobel	Venezuela	100.00	
Viktor & Rolf Parfums	France	100.00	
Yichang Tianmei International Cosmetics Co Ltd	China	100.00	
YSL Beauté (sous-groupe)	France	100.00	
Zao L'Oréal	Russia	100.00	

(1) In accordance with the provisions of Article D. 248-12 of French Trading law. some information provided above is incomplete.
(2) Equivalent to the percentage interest except if specified.

1.6.2. Companies consolidated by the proportional method

Companies	Head office	% interest	% control [2]
Galderma Argentina S.A.	Argentina	50.00 [1]	
Galderma Australia Pty Ltd	Australia	50.00 [1]	
Galderma Belgilux N.V	Belgium	50.00 [1]	
Galderma Brasil Limitada	Brazil	50.00 [1]	
Galderma Canada Inc.	Canada	50.00 [1]	
Galderma Colombia S.a.	Colombia	50.00 [1]	
Galderma Hellas Trade of Pharmaceuticals Products S.A.	Greece	50.00 [1]	
Galderma Hong Kong	Hong Kong	50.00 [1]	
Galderma India Private Ltd	India	50.00 [1]	
Galderma International	France	50.00 [1]	
Galderma Italia S.p.A	Italy	50.00 [1]	
Galderma K.K.	Japan	50.00 [1]	

(1) Companies jointly owned with Nestlé
(2) Equivalent to the percentage interest except if specified.

Companies	Head office	% interest	% control (2)
Galderma Korea Ltd	Korea	50.00 (1)	
Galderma Laboratories Inc	United States	50.00 (1)	
Galderma Laboratories South Africa Pty Ltd	South Africa	50.00 (1)	
Galderma Laboratorium GmbH	Germany	50.00 (1)	
Galderma Mexico S.A. de C.V.	Mexico	50.00 (1)	
Galderma Nordic Ab	Sweden	50.00 (1)	
Galderma Peru Laboratorios S.A.	Peru	50.00 (1)	
Galderma Pharma S.a.	Switzerland	50.00 (1)	
Galderma Philippines Inc.	Philippines	50.00 (1)	
Galderma Polska Sp. z.o.o.	Poland	50.00 (1)	
Galderma Production Canada Inc.	Canada	50.00 (1)	
Galderma Research & Development	France	50.00 (1)	
Galderma Research and Development Inc.	United States	50.00 (1)	
Galderma S.A.	Switzerland	50.00 (1)	
Galderma Singapore Pvt Ltd	Singapore	50.00 (1)	
Galderma (Uk) Ltd	United Kingdom	50.00 (1)	
Galderma Uruguay	Uruguay	50.00 (1)	
Innéov Adria d.o.o. for trade and services	Croatia	50.00 (1)	
Innéov Argentina S.A.	Argentina	50.00 (1)	
Innéov Belgique	Belgium	50.00 (1)	
Innéov Brasil Nutricosmeticos Ltda	Brazil	50.00 (1)	
Innéov Canada. Inc	Canada	50.00 (1)	
Innéov Chile S.A.	Chile	50.00 (1)	
Innéov CZ s.r.o.	Czech Republic	50.00 (1)	
Innéov d.o.o.	Slovenia	50.00 (1)	
Innéov Deutschland GmbH	Germany	50.00 (1)	
Innéov España S.A.	Spain	50.00 (1)	
Innéov France	France	50.00 (1)	
Innéov Hellas A.E.	Greece	50.00 (1)	
Innéov Italia S.p.A.	Italy	50.00 (1)	
Innéov Mexico S.A. de C.V.	Mexico	50.00 (1)	
Innéov Nutrikozmetik Ticaret Ve Sanayi Ltd Sirketi	Turkey	50.00 (1)	
Innéov Österreich Handelsgesellschaft mbH	Austria	50.00 (1)	
Innéov Polska Sp. z.o.o.	Poland	50.00 (1)	
Innéov SK s.r.o.	Slovakia	50.00 (1)	
Innéov Suisse	Switzerland	50.00 (1)	
Laboratoires Galderma	France	50.00 (1)	
Laboratoires Innéov	France	50.00 (1)	
Laboratoires Innéov Portugal Unipessoal Lda	Portugal	50.00 (1)	
Laboratorios Galderma Chile Limitada	Chile	50.00 (1)	
Laboratorios Galderma S.A.	Spain	50.00 (1)	
Laboratorios Galderma Venezuela S.A.	Venezuela	50.00 (1)	
O.O.O Innéov	Russia	50.00 (1)	

(1) Companies jointly owned with Nestlé
(2) Equivalent to the percentage interest except if specified.

2 2008 Management Report of the Board of Directors *

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

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

2.1. The Group's Business Activities in 2008

2.1.1. Overview of the results for 2008

Increase in Sales to 17.542 billion euros

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

Rise in net earnings per share (1) to 3.49 euros

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

Strengthened worldwide market share**

- 15.8% (15.2% in 2007)

Growth in dividend*** to 1.44 euro

- +4.3%

2.1.2. Consolidated sales

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

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

Currency fluctuations had a negative impact of -3.8%.

Growth at constant exchange rates was +6.6%.

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

* *Based on constant translation rates: 2008 data at 2008 rates / 2007 data at 2008 rates.*
** *L'Oréal estimate. 2008 with YSL Beauté over a full year.*
*** *Proposed at the Annual General Meeting on April 16th, 2009.*
(1) *Diluted net earnings per share, based on net profit excluding non-recurrent items after minority interests.*

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

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

2.1.2.1. Cosmetics sales trends by Division

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

Professional Products

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

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

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

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

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

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

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

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

Consumer Products

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

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

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

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

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

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

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

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

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

Luxury Products

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

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

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

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

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

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

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

Active Cosmetics

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

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

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

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

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

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

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

Western Europe

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

North America

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

Rest of the World

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

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

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

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

2.1.2.2. The Body Shop sales trend

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

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

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

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

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

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

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

2.1.2.3. Galderma sales trend

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

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

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

2.1.3. 2008 Results

2.1.3.1. Operating profitability and Consolidated profit and loss account

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

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

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

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

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

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

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

2.1.3.2. Operating profit by branch and Division

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

(1) Non-allocated = Central Group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total sales.
(2) Group share, i.e. 50%.

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

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

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

Active Cosmetics profitability amounted to 20.1%.

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

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

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

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

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

- further improvement in profitability in Western Europe at 22.8%;
- significant deterioration in profitability in North America, which had a tough year, particularly in its Luxury Products and Professional Products businesses;
- another increase in the profitability of the Rest of the World zone to 17.1%.

2

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

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

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

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

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

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

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

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

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

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

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

The charge of 115 million euros mainly reflects the industrial reorganisation in Europe, with the transfer project for the factories at Llantrisant in the United Kingdom and the closure of the Monaco factory, but also the rationalisation of *YSL Beauté* product distribution contracts, the reorganisation of the L'Oréal USA subsidiary, the consolidation of the American company *CollaGenex* acquired by *Galderma*, and the accelerated depreciation of intangible assets relating to *Yue Saï* goodwill and the *Biomedic* brand.

2.1.3.6. Cash flow statement, Balance sheet and Debt

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

Working capital requirement amounted to €148 million.

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

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

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

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

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

2.1.4. Prospects

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

2.1.5. Research and Development

Ever since its creation by a researcher 100 years ago, the group has never stopped investing in research. For L'Oréal, there can be no innovative product without an advance in knowledge. Driven by this conviction, the group's laboratories have constructed the largest scientific data base, drawing on the observation of beauty routines and the evaluation of product performances across the globe. L'Oréal Research is constantly anticipating regulations and consumption trends to turn them into competitive advantages. For many years, our researchers have been helping to eliminate animal testing by the use of reconstructed skin, supporting demand for natural products by analysing plant-based ingredients, and exploring the potential of the life sciences to imagine the beauty of the future. That future will be active and personalised, and will respect the planet.

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

2.1.6. Production and Technology

The restructuring of Operations, which began in 2007, is continuing, in order to increase efficiency and creativity while lowering costs. The same organisational model has been applied in four geographic poles (Europe, Asia, Latin America and North America), and the setting up of mutualising processes has continued. Furthermore, the ongoing move to specialise plants by technology is modernising the industrial facilities and optimising the supply chain. Lastly, concrete initiatives are being taken to develop a sustainable partnership with our suppliers.
See also the chapter in Volume 1 of the Annual Report on Operations, pages 92 and 93.

2.1.7. Sustainable development

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

See also the chapter in Volume 1 of the Annual Report on Sustainable Development, pages 14 et seq. and the Group's Sustainable Development Report on the www.loreal.com website.

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

No significant event has occurred since the beginning of 2009.

2.2. Report on the parent company financial statements

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

2.2.1. Net sales

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

It is stipulated that the total amount of expenses and charges falling under Article 223 quater of the French Tax Code and the amount of tax applicable to such expenses and charges are as follows:

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

2.2.3. Subsidiaries and holdings

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

2.3. Risk factors

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

2.3.1. Business risks

Image and reputation

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

Product quality and safety

Consumer safety is an absolute priority for L'Oréal. The International Safety Assessment Department specifically evaluates the safety of raw materials and finished products. It establishes the toxicological profile of the ingredients which are used and the tolerance of the formulas before they are launched on the market.
L'Oréal goes one step further in the safety evaluation by monitoring the potential adverse effects that may arise when the product is marketed. This makes it possible to take the appropriate corrective measures, where necessary.
Faced with the questions that civil society may ask regarding certain substances and their effects on health and the environment, L'Oréal's position may be summed up in three points:

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

Seasonal nature of the business

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

Geographic presence and overall economic situation

L'Oréal is present in over 130 countries with 55% of its sales being generated outside Western Europe. Besides the currency risks mentioned on pages 46 to 48 and 72 of this document, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.
However, its global presence helps to maintain a balance in sales and enables results to be offset between countries and geographic regions. In periods of major economic slowdown, growth in the Group's sales may however be affected.

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

Distribution network

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

Competition

Due to its size and the positioning of its brands, L'Oréal is subject to constant pressure from local and international competitors in all countries.
This competition is healthy; it leads our teams, all over the world, to always do their best to serve the interests of consumers and our brands. In the context of a permanent struggle to obtain the best positions and launch the most attractive and most effective product ranges, with an optimal price/quality ratio, winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge.

Information systems

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

2.3.2. Legal risks

Intellectual property: trademarks and models

L'Oréal is the owner of the major intangible assets on behalf of the Group's companies, to which it grants licences in exchange for the payment of royalties. Thus, L'Oréal is the owner of most of its brands, which are a strategic asset for the Group, in particular the 23 major international brands described in its 2008 annual report, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used by the Luxury Products Division, primarily the Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor & Rolf and Diesel brands.
The trademark name, the products themselves and the models may be infringed or counterfeited by economic players wishing to illegally and illegitimately claim the benefits of their reputation. Special care is given to the protection of the trademarks and models belonging to L'Oréal, and is entrusted to a special section of the Group's Legal Department, which has responsibility for registering trademarks in all countries. This department also keeps a close watch on the market and launches the necessary action against infringers and counterfeiters.
The L'Oréal Group is also an active member of the organisations who have set themselves the task of combating counterfeiting and promoting good commercial practice. This is the case, in particular, of the French Manufacturers' association (namely " Union des Fabricants "), the International Chamber of Commerce and Business Europe.
Before any trademark and model registration, prior rights searches are conducted. In light of the large number of countries in which the products are sold and the multiple potential prior rights that may exist in each of these countries, we cannot rule out the possibility that third parties may claim prior rights with regard to certain L'Oréal trademarks and models.
This is a potential risk which has to be cited in order to be exhaustive even though the likelihood of its occurrence is low due to the care taken when conducting prior rights searches.

Industrial property: patents

Research and innovation are the historic pillars of L'Oréal's development. The dedication of L'Oréal's research teams has made it one of the leading industrial patent filers in its field for many years.
In order to protect the Group against the risk of another company claiming one of its molecules, a production process or packaging, L'Oréal has set up a specific structure, the International Industrial Property Department as part of the Research and Development Division; this department is responsible for filing the Group's patents, exploiting them and defending them on a worldwide basis.

Changes in the regulations

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

Other legal risks and litigation

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

2.3.3. Industrial and environmental risks

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 42 factories, each specialising in a specific type of technology.
Furthermore, products must be made available on the market on fixed dates to meet launch deadlines and customer demand, in order to enable new product ranges to be listed by distribution in a cosmetics market that requires companies to be more and more responsive. Therefore, a major production stoppage in an industrial facility could have an adverse effect on the achievement of commercial objectives. Furthermore, L'Oréal is dependent on its external suppliers for the delivery of materials that are essential for the manufacture of finished products, which may therefore suffer disruption as the result of a default by an important supplier.
In order to prevent these risks, L'Oréal has prepared business continuity plans for production which aim notably at looking for replacement solutions (for example: supplier back-up, availability of several moulds for strategic products).
To manufacture its products, L'Oréal uses chemical raw materials and the packaging of certain products requires them to be handled with special care. Like in the case of any industrial process, L'Oréal is exposed to safety and environmental issues (relating, for example, to the use of machines or electrical equipment for production or storage, handling operations liable to cause accidents involving bodily injury, to waste water treatment etc.).
To ensure that the Group complies with its commitments to protect the environment and improve occupational health and industrial safety conditions, and to achieve concrete targets, a rigorous Safety, Health and Environment (SH&E) policy has been implemented throughout the Group for several years.

The General Operations Division issues internal rules fixing the principles of the L'Oréal policy with regard to SH&E. A SH&E representative is appointed at each industrial site. The L'Oréal Group operates a total of 115 manufacturing sites, of which 3 have the "High Seveso" classification.
Within the scope of this SH&E policy, the SHAP (Safety Hazard Assessment Procedure) is a hazard prevention programme based on the assessment of risks by employees at grassroots level under the responsibility of the factory Manager. This programme contributes to identifying the dangers overall and for each workstation and assessing the corresponding risks. The SHAP method thus makes it possible to prepare a risk mapping for each factory. This method enables the level of risks to be evaluated and the necessary means of control to be put in place. Generally applied throughout all the Group's industrial sites, it is supported by dialogue between persons in charge, thus contributing to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly depending on changes at sites and experience on the ground. SH&E audits are conducted every three or four years in each factory and the site map is reviewed within the scope of this audit. In 2008, an SH&E audit was carried out at 20 factories and 43 distribution centres.

2.3.4. Liquidity risks

The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.
To this effect, the Group has confirmed credit lines from first-rate banks totalling €2,461 million for terms ranging from 1 to 4 years depending on the case.
These credit lines are not subject to any conditionality clause based on financial criteria. Furthermore, the Group uses the financial markets, on a very regular basis, to meet liquidity needs through the use of short term papers in France and short term commercial paper in the United States (see note 23, pages 44 *et seq.*).
The L'Oréal Group is rated by the credit rating agencies which respectively gave it, in October 2008 for the Standard & Poor's and in July 2008 for Moody's and Fitch, the following short-term credit ratings: A1+, Prime1 and F1+. See note 24.5 on page 49 of this document.

2.3.5. Financial and market risks

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

Currency risk

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

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

Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings. The Group mainly refinances at floating rates.
In order to limit the negative impact of interest rate variations, the Group has a non-speculative interest rate management policy using derivatives, as described in notes 24.2 and 24.3 on pages 48 and 49 of this document called *Derivatives and exposure to market risk*.

Share risk

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

Risks with regard to the assets hedging employee commitments

The assets hedging employee commitments consist of investments which are, by nature, exposed to financial market fluctuations. The allocation of these assets is governed by investment limits between the various categories aimed in particular at obtaining balanced financing between shares and bonds. However, a large, lasting fall in the financial markets may have an impact on the value of the portfolios set up (see note 21 on pages 39 to 41). The Group adopts a conservative policy for the choice of insurers and custodians for these assets.

Counterparty risk

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

Customer risk

The accounts receivable risk may result from non-collection of receivables due to cash problems encountered by customers or due to the disappearance of customers. Due to the large number and variety of distribution channels at worldwide level, the risk for L'Oréal is disseminated and the likelihood of occurrence of significant damage on the scale of the Group remains limited.
At the level of the subsidiaries, Group policy is to take out customer insurance cover in as much as this is permitted by local conditions. The amount considered as posing a risk of non-collection for which a provision for liability is therefore booked is set out in note 17 (on page 33 of this document). It represents less than 2% of gross accounts receivable.

2.3.6. Insurance

The Group's overall insurance policy

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

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

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

Integrated worldwide programmes

Third party liability

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

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

Property damage and interruption of operations

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

As the capacity of the insurance market is limited for certain types of events, this programme includes aggregate sublimits, particularly in the event of natural disasters. This programme includes the performance, by the insurer's engineers, of loss prevention audits for the Group's locations. These audits form part of the Group's general safety management system.

Transport

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

Customer credit risk

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

Self-insurance

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

2.4. Organisation of the Board of Directors

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

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

2.5. Remuneration of the corporate officers

2.5.1. Remuneration of the members of the Board of Directors

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

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

The attendance fees are divided between the directors as follows:

- *an equal share allocated to each director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings,*
- *an additional share for Review Committee members."*

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

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

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

2.5.2. Remuneration of the corporate officers

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

The remit of the Remuneration Committee also includes preparing for the Board of Directors, in respect of each corporate officer appointed by the Board, proposals of remuneration that include a fixed part and a variable part, and proposals to grant stock options. These proposals are reviewed in a completely independent manner by the whole of the Board of Directors which deliberates and votes on each of these proposals on a collegial basis.

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

To ensure that the corporate officers appointed by the Board are offered remuneration and stock options that will attract them, motivate them, and foster their loyalty, the Board is guided in its reflections by two clear principles:

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

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

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

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

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

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

The variable remuneration of the Chairman of the Board is based on achievement of specific objectives linked to his responsibilities as described in the Internal Rules of the Board of and particularly:

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

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

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

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

2.5.2.1. Remuneration of the Chief Executive Officer

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

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

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

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

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

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

(1) From 2008 onwards, the bonus for year n is paid in year n+1.
(2) Attendance fees for year n are paid in year n+1. These include USD3,000 in respect of L'Oréal USA.

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

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

2.5.2.2. Remuneration of the Chairman

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

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

It moreover allocated him a variable part of €975,000 for 2008 as compared to a target objective of €1,500,000, representing the same percentage of 65% of the target objective as that applied in respect of the Chief Executive Officer. The Board thus acceded to the wish expressed by Sir Lindsay Owen-Jones on the grounds of solidarity to be put on the same footing as the Chief Executive Officer with regard to the assessment of his performance.

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

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

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

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

(1) From 2008 onwards, the bonus for year n is paid in year n+1.
(2) Attendance fees for year n are paid in year n+1. These include USD3,000 in respect of L'Oréal USA.

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

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

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

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

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

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

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

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

The "balance of the shares resulting from the exercise of the stock options" should be understood to mean the total number of shares resulting from the exercise of stock options minus the number of shares that have to be sold to finance the exercise of the stock options in question and, where applicable, the payment of any immediate or deferred taxes, social levies and costs relating to the exercise of these stock options as applicable at the date of exercise of the options. If the number of shares thus determined that must be retained until the termination of Mr Jean-Paul Agon's duties as Chief Executive Officer is not a whole number of shares, this number of shares would be rounded down to the nearest lower whole number of shares.

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

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

2.5.5. Employment contract / corporate office

Undertakings made with regard to the Chairman

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

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

Undertakings made with regard to the Chief Executive Officer

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

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

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

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

- In the event of removal or non-renewal from his corporate office, except for gross misconduct or gross negligence and unless he resigns or retires, Mr Jean-Paul Agon will be entitled to an indemnity for termination of his corporate office capped at a maximum of 12 months of the last fixed remuneration received in respect of his corporate office, subject to fulfilment of performance conditions defined in accordance with the legal provisions.
  This indemnity will be combined, where applicable, with the severance payment to which he would be entitled pursuant to his reinstated employment contract, it being specified that the amount of the two indemnities combined would thus be considerably lower than the amount recommended by the AFEP-MEDEF of a maximum of two years' fixed + variable remuneration.
- In the event of retirement at the company's request or voluntary retirement which takes place at the time of termination of his corporate office or thereafter, Mr Jean-Paul Agon will be entitled to a departure or retirement indemnity determined in accordance with the same terms and conditions as those applicable to a senior manager of L'Oréal (4).
  This indemnity will be calculated on the basis of the fixed and variable remuneration received as a corporate officer and the total length of service accrued pursuant to his employment contract and his corporate office, subject to fulfilment of performance conditions defined in accordance with the legal provisions.
  This indemnity may not be lower than the departure or retirement indemnity to which he would be entitled pursuant to his resumed employment contract, and will not be received cumulatively with such indemnity.

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

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

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

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

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

(3) See Employee Benefit schemes, page 94.

(4) See Retirement indemnities on page 93.

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

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

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

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

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

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

2.6. Information concerning the share capital

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

None.

2.6.2. Issued share capital and authorised unissued share capital

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

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

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

At December 31st, 2008, 23,915,300 share subscription options were allocated (of which 19,961,800 were granted within the framework of authorisations prior to that voted by the Annual General Meeting of April 24th, 2007). All these options are exercisable on the basis of one new share per option, and are therefore liable to lead to the creation of the same number of shares. Accordingly, the potential share capital of the company amounts to €125,266,222.00 divided into 626,331,110 shares with a par value of €0.20 each.

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

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

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

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

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

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

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

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

(1) The Bettencourt family and Nestlé S.A. act in concert (see "Shareholders' agreements relating to shares in the company's share capital hereafter).
(2) Calculated in accordance with Article 223-16 of the General Regulation of the Autorité des marchés financiers.
(3) At Annual General Meetings: it should be noted that, pursuant to the Articles of Association, each share grants entitlement to one vote at Annual General Meetings and that, pursuant to French law, shares of treasury stock are deprived of voting rights.

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

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

The company is authorised to trade in its own shares on or off the Stock Exchange in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, within the limits and in accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting.
At December 31st, 2008, the company held, on this basis, 19,275,342 of its own shares, which, if they were to be valued at their purchase price, represented 1,410.4 million euros, of which:

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

2.6.6. Employee share ownership

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

2.6.7. Disclosures to the company of thresholds crossed

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

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

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

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

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

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

Clause limiting the shareholding

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

Lock-up clause

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

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

a) The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the company of its own shares, or the suspension or removal of the voting rights of a shareholder

b) The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision (*avis de recevabilité*) and up until the day after the publication of the notice of results (*avis de résultat*).

c) In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe for new shares, in order to maintain their holding at the percentage existing prior to the said operation.

d) The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital or voting rights.

Pre-emption clause

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

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

"No concert party" provision

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

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

2.6.8.2. Board of Directors

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

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

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

2.6.8.3. Term

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

2.6.8.4. Concerted action between the parties

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

2.6.9. Buyback by the company of its own shares

2.6.9.1 Information concerning share buybacks during the 2008 financial year

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

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

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

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

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

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

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

(*) After recording a provision.

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

(*) Exclusively the exercise of share purchase options granted to employees of Group companies.

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

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

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

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

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

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

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

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

2.7. Employee and Environmental Information

2.7.1. Human relations

Our ambition is to make L'Oréal the preferred employer in all the countries where the Group has locations. To do this, we endeavour to attract the best talents and create a strong link with all our employees, based on a long-term career vision. While the demographic trends are making the job market more competitive, the Human Resources teams at L'Oréal are more than ever tasked with enhancing expertise, developing potential, promoting and fostering loyalty among the talents of the future to contribute to sustainable growth. They also have the role of providing ongoing support to the Divisions in their projects for development and changes to their organisations, in accordance with L'Oréal's corporate values, with an ongoing concern for the interests of each and every employee.

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

2.7.2. L'Oréal parent company employee information

2.7.2.1. Number of employees and number of persons hired

Total number of employees at 12.31.2008

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

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

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

Difficulties in recruiting

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

Redundancies or dismissals

In 2008, there were no redundancies for economic reasons.

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

Overtime

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

Temporary workers

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

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

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

2.7.2.2. Work organisation

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

Working week

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

Working week for part-time employees

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

Reasons for absenteeism

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

% absenteeism

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

2.7.2.3. Remuneration: trends and professional equality

Average monthly remuneration

Average monthly remuneration of ongoing employees

These are employees (excluding senior managers) on permanent contracts, who have been present for two consecutive years.

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

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

Employer payroll contributions

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

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

Incentives

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

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

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

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

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

Employee profit-sharing

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

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

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

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

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

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

L'Oréal company savings plan and funds

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

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

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

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

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

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

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

Incentive schemes worldwide

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

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

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

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

Professional equality

Undertakings to promote professional equality between men and women

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

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

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

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

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

2.7.2.4. Professional relations and list of collective agreements

Professional relations

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

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

Composition of Central Works Council by category

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

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

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

List of collective agreements

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

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

Profit sharing and incentive schemes

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

Provident schemes

Signed on December 4th, 2008:

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

Pension schemes

Signed on December 4th, 2008:

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

2.7.2.5. Occupational health and safety

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

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

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

In 2008, there were 46 lost-time accidents.

Measures taken to improve safety

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

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

2.7.2.6. Training

Percentage of total salaries allocated to continuing education in 2007

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

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

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

Number of hours of training: 131,059 hours.

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

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

2.7.2.7. Employment and job opportunities for disabled workers

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

2.7.2.8. Welfare

Breakdown of the company's expenses:

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

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

2.7.2.9. Amount of subcontracting

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

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

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

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

L'Oréal refers to the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, which covers freedom of association, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation. Particular attention is paid to the eradication of child labour and forced labour. L'Oréal has chosen to set a minimum age of 16 for all its staff, a minimum age limit which is higher than that provided for in the ILO Declaration on Fundamental Principles and Rights at Work. L'Oréal respects the right of its employees to join the associations they choose and encourages a constructive dialogue. The struggle against discrimination is one of the priorities of L'Oréal's diversity policy.

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

L'Oréal's values are laid down in the Ethics Charter, which is available on the www.loreal.com website.

2.7.2.10. Territorial impact on employment and regional development

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

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

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

2.7.2.11. Relations with educational establishments and associations

Educational establishments

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

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

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

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

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

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

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

Environmental protection associations

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

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

2.7.2.12. Regional development and local populations

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

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

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

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

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

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

The Ordinary and Extraordinary General Meeting of April 24th, 2007 authorised the Board of Directors to grant to employees and some of the corporate officers of the company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code, stock options that give entitlement to the purchase of existing shares of the company or the subscription of new shares. This authorisation was granted for a period of twenty-six months.

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

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

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

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

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

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

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

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

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

2.7.4 Currently existing L'Oréal parent company share purchase or subscription options [1]

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

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

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

(1) There are no share purchase or subscription option plans at subsidiaries of L'Oréal.
(2) Management Committee members in office on the date of grant: 9 people in 2006; 13 people in 2007.
(3) The stock option plan of December 3rd, 2003 is divided into two halves: a share subscription option offer at a price of €63.02 (S) and a share purchase option offer at a price of €71.90 (A). Each beneficiary received an offer comprising share subscription and purchase options, in equal parts.
(4) The stock option plan of November 30th, 2005 is composed, for 70%, of a share subscription option offer at a price of €61.37 (S) and, for 30%, of a share purchase option offer at a price of €62.94 (A). Each beneficiary received an offer comprising share subscription and purchase options, in the above proportions. There were no fractional share rights.
N.B: The number of stock options and the acquisition prices indicated take into account the adjustments relating to the financial transactions carried out with regard to the share capital, such as the ten-for-one share split in 2000.
These grants of stock options do not have any impact in terms of dilution, inasmuch as the Board of Directors authorised the company to buy back its own shares to cancel them.

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

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

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

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

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

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

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

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

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

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

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

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

2.7.7. Employee retirement obligations and additional benefits

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

Employee pension schemes in France

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

Defined benefit scheme

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

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

This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, the payment to the beneficiary's spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the company at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday and less all salaries paid under an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 400 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having ended their career with the company.

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

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

Defined contribution scheme

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

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

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

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

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

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

(*) Estimated.

Early retirement benefit

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

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

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

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

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

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

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

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

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

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

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

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

Employees Benefit schemes in France

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

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

This Employee Benefit scheme provides guarantees in the event of:

- temporary disability: for all employees, 90% of their gross income limited to eight times the French Social Security ceiling, net of all deductions, after the first 90 days off work;
- permanent disability: for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to eight times the French Social Security ceiling, net of all deductions;
- death,

a) for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,

b) for executives and comparable categories of employees, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,

c) for executives, comparable categories of employees, and sales representatives, the payment of an Education Annuity to each dependent child, according to an age-based schedule. For the other employees, this guarantee is optional and, if chosen, replaces part of the Lump Sum Death Benefit.

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

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

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

(1) Estimated

Minimum guaranteed Lump Sum Death Benefits

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

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

Healthcare expenses

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

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

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

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

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

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

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

Pension and Employee Benefit schemes outside France

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

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

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

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

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

2.7.8 Environmental information

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

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

2008	Total
Transportable waste (tonnes)	2,409
Recycled waste (tonnes)	2,402
Recycling ratio (%)	99.71
Direct CO2 (tonnes)	6,223
SO2 (tonnes)	0.178
Discharges to soil	0
Water consumption (m^3)	149,074
Electricity (MWh)	53,821
Gas (MWh)	33,140
Fuel oil (MWh)	326
Energy consumption (MWh)	87,286

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

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

2008	Total
Transportable waste (tonnes)	137,515
Recycled waste (tonnes)	129,858
Recycling ratio (%)	95
Direct CO2 (tonnes)	80,800
SO2 (tonnes)	45.5
Discharges to soil	0
Water consumption (m^3)	2,915,000
Electricity (MWh)	362,436
Gas (MWh)	393,283
Fuel oil (MWh)	29,820
Energy consumption (MWh)	785, 539

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

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

The Board of Directors

2.8. Annexe: Subsidiaries and holdings

Main changes including shareholding threshold changes

€ thousands	Situation at 12.31.2007		Acquisitions		Subscriptions		Sales		Situation at 12.31.2008	
Headings	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
L'Oréal Hellas	1,625.9	77.41			16,602.9	6.08 (2)			18,228.8	83.49
L'Oréal Produits de Luxe Hellas A.E	2,135.0	99.89					2,135.0	99.89 (2)	0.0	0.00
Cosmétique Active Hellas	14,467.9	99.97					14,467.9	99.97 (2)	0.0	0.00
L'Oréal Italia SPA	161,803.8	100.00					161,803.8	100.00 (2)	0.0	0.00
L'Oréal Italia Spa (Formerly SAIPO)	0.0	0.00			161,803.8	100.00 (2)			161,803.8	100.00
Canan Kosmetiz			28,438.6	99.99					28,438.6	99.99
Canan Tuketim Urunleri			11,128.2	99.99					11,128.2	99.99
Seda Plastik			1,842.5	99.99					1,842.5	99.99
Sophie (formerly Alexandre de Paris)	2,278.6	100.00					2,278.6	100.00 (1)	0.0	0.00
Beauté Créateurs SAS	3,425.3	50.00	21,959.8	50.00					25,385.1	100.00
Club Créateurs Beauté Taiwan	328.4	50.00	0.0	50.00					328.4	100.00
Club Créateurs Beauté Belgique	250.9	50.00	0.0	50.00			0,00	0,01		99.99
Club Créateurs Beauté Japon	2,172.6	50.00	800.0	50.00					2,972.6	100.00
YSL Beauté Holding	0.0		99,610.0	0.00	1,000,410.0	100.00			1,100,020.0	100.00
Episkin	6,661.5	100.00			2,740.0	100.00			9,401.5	100.00
Laboratoire Innéov	12,050.0	50.00			4,750.0	100.00			16,800.0	50.00
Aofi	4,305.5	100.00					4,305.5	100,00 (2)	0.0	0.00
L'Oréal India	54,901.9	100.00			4,305.5	100.00			59,207.5	100,00
Masrelor					10.5	99.87			10.5	99.87
Egyptelor					7.0	99.80			7.0	99.80
Biotherm Monaco	3,541.8	99.80			3.5				3,545.3	99.80
L'Oréal Ukraine	1,390.0	100.00			1,600.0	100.00			2,990.0	100.00
L'Oréal China	37,482.1	100.00			177,012.1	100.00 (2)			214,494.2	100.00
Yue-Sai	168,403.4	100.00					168,403.4	100.00 (2)	0.0	0.00
Total	**477,224.6**		**163,779.2**		**1,369,245.4**		**353,394.3**		**1 656 603,9**	

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

2.9. Annexe: Five year financial summary

L'Oréal parent company (excluding subsidiaries)

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

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

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

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

* *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 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 Board[1].

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.

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(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'Oreal 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 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	2010

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 *(Amministratore)*	
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	
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
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	
Foreign company		
Nestlé S.A.	Director	
Other		
Fondation Bettencourt Schueller	Vice-Chairman of the Board	
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

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

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

Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Gesparal SA (merged into L'Oréal)	Director	April 2004
Gespral S.A.	Director	July 2007

Werner J. Bauer Director since 2005 Holds 1,975 L'Oréal shares		Expiry date of term of office 2009
Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	Executive Vice-President	
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 1st, 2008]	
Nutrition-Wellness Venture AG (Switzerland)	Director Vice-Chairman of the Board [since October 19th, 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

Francisco Castañer Basco Director since 1998 Member of the Audit Committee Member of the "Strategy and Implementation" Committee Holds 3,500 L'Oréal shares		Expiry date of term of office 2010
Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	Executive Vice-President	
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 23rd, 2008]	
Nestlé España	Director and Chairman of the Board [since June 30th, 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
Foreign company		
Galderma Pharma S.A. (Switzerland)	Chairman of the Board	May 2006

Charles-Henri Filippi Chairman of the Audit Committee [since April 22nd, 2008] Director since 2007 Holds 1,000 L'Oréal shares		Expiry date of term of office 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 15th, 2009]	
Other corporate offices and directorships held		
French companies		
Euris	Member of the Supervisory Board [since August 2nd, 2007]	
France Telecom	Director	
Nexity	Observer	
Piasa S.A.	Director [since May 27th, 2008]	
Foreign company		
CVC Capital Partners ("CVC")	Senior Advisor [since November 20th, 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 10th, 2007] Chairman [since March 7th, 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
Galeries 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 22nd, 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	
Other corporate offices and directorships held		
French companies		
Crédit Agricole S.A.	Director	
Fonds Stratégiques d'Investissement S.A.	Director [since December 19th, 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
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

Bernard Kasriel	**Expiry date of term of office**
Director since 2004 Member of the "Strategy and Implementation" Committee Chairman of the Appointments Committee and the Remuneration Committee Holds 1,290 L'Oréal shares	2012

Other corporate offices and directorships held		
LBO France Professional address: 148 rue de l'Université – 75007 Paris – France	Partner 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	
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'Egalité 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 11th, 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 delegatees 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 progress 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 (declarationdirigeants@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.

4 2008 Parent Company Financial Statements *

* *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.*

4.1. Compared profit and loss accounts

€ millions	Notes	12.31.2008	12.31.2007	12.31.2006
Revenue		**2,238.3**	**2,179.2**	**2,108.3**
Sales	2	2,115.2	2,073,8	2,003.4
Reversals of provisions and transfers of charges		20.9	20.9	25.5
Other revenue	3	102.2	84.5	79.4
Expenses		**-2,116.5**	**-2,040.1**	**-1,990.3**
Purchases and change in inventories		-218.3	-227.7	-255.0
Other purchases and external charges		-1,133.9	-1,070.3	-1,017.1
Taxes and similar payments		-75.7	-70.0	-71.2
Personnel costs	4	-540.4	-529.0	-487.7
Depreciation, amortisation and charges to provisions	5	-81.9	-77.7	-92.5
Other charges		-66.3	-65.4	-66.8
Operating profit		121.8	**139.1**	**118.0**
Net financial revenues	6	1,511.8	1,247.4	1,316.2
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	-225.5	10.8	217.7
Exchange gains and losses		9.2	-11.1	-15.9
Net financial income		1,295.5	**1,247.1**	**1,518.0**
Profit before tax and exceptional items		1,417.3	**1,386.2**	**1,636.0**
Exceptional items	7	13.0	**1,386.6**	**17.2**
Employee profit-sharing		-21.6	-19.1	-17.4
Income tax	8	143.4	68.7	54.5
Net profit		1,552.1	**2,822.4**	**1,690.3**

4.2. Compared balance sheets

Assets

€ millions	Notes	12.31.2008	12.31.2007	12.31.2006
(net amounts)				
Intangible assets	11	450.9	444.1	400.5
Tangible assets	12	242.3	231.9	237.5
Financial assets	14	9,197.3	8,437.8	8,424.1
Fixed assets		**9,890.5**	**9,113.8**	**9,062.1**
Inventories		32.3	33.8	39.4
Prepayments to suppliers		14.7	11.0	15.7
Trade accounts receivable	18	335.8	342.5	326.4
Other current assets	18	171.8	104.3	93.9
Marketable securities	16	983.0	1,117.9	1,418.4
Cash and cash equivalents		213.8	743.3	363.4
Current assets		**1,751.4**	**2,352.8**	**2,257.2**
Prepaid expenses		19.4	22.1	23.2
Unrealised exchange losses	22	8.0	9.3	6.0
Total assets		**11,669.3**	**11,498.0**	**11,348.5**

Liabilities and shareholders' equity

€ millions	Notes	12.31.2008	12.31.2007	12.31.2006
Capital stock		120.5	123.6	127.9
Additional paid-in capital		965.5	963.2	958.5
Reserves and retained earnings		4,261.2	3,537.9	4,263.7
Net profit		1,552.1	2,822.4	1,690.3
Regulated provisions		53.8	51.8	52.9
Shareholders' equity		**6,953.1**	**7,498.9**	**7,093.3**
Provisions for liabilities and charges	19	**130.9**	**149.3**	**123.1**
Borrowings and debts	20	3,966.2	3,267.3	3,581.8
Trade accounts payable	21	334.7	300.1	298.8
Other current liabilities	21	270.3	278.0	247.5
Other liabilities		**4,571.2**	**3,845.4**	**4,128.1**
Unrealised exchange gains	22	14.1	4.4	4.0
Total liabilities and shareholders' equity		**11,669.3**	**11,498.0**	**11,348.5**

4.3. Changes in shareholders' equity

The share capital of €120,483,162 comprises 602,415,810 shares with a par value of €0.2 following transactions carried out in 2008:

- cancellation of 15,597,400 treasury shares;
- subscription to 37,600 shares following the exercise of options.

The changes in shareholders' equity are as follows:

€ millions	Capital stock	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	Total
Balance at December 31st, 2005 before allocation of net profit	**131.8**	**953.9**	**46.0**	**4,491.5**	**1,589.6**	**50.3**	**7,263.1**
Changes in capital stock	-3.9	4.6		-1,247.3			-1,246.6
Allocation of 2005 net profit				973.5	-973.5		0.0
Dividends paid for 2005					-616.1		-616.1
2006 net profit					1,690.3		1,690.3
Other movements during period						2.6	2.6
Balance at December 31st, 2006 before allocation of net profit	**127.9**	**958.5**	**46.0**	**4,217.7**	**1,690.3**	**52.9**	**7,093.3**
Changes in capital stock	-4.3	4.7		-1,704.4			-1,704.4
Allocation of 2006 net profit				978.6	-978.6		
Dividends paid for 2006					-711.7		-711.7
2007 net profit					2,822.4		2,822.4
Other movements during period						-1.1	-1.1
Balance at December 31st, 2007 before allocation of net profit	**123.6**	**963.2**	**46.0**	**3,491.9**	**2,822.4**	**51.8**	**7,498.9**
Changes in capital stock	-3.1	2.3	-0.6	-1,281.4			-1,282.8
Allocation of 2007 net profit				2,005.3	-2,005.3		
Dividends paid for 2007					-817.1		-817.1
2008 net profit					1,552.1		1,552.1
Other movements during period						2.0	2.0
Balance at December 31st, 2008 before allocation of net profit	**120.5**	**965.5**	**45.4**	**4,215.8**	**1,552.1**	**53.8**	**6,953.1**

The reserves include an amount of €25.8 million in 2008 corresponding to dividends not paid, as a consequence of L'Oréal's retaining some of its own shares, compared with €27.2 million in 2007 and €25 million in 2006.

The regulated provisions consist mainly of the provision for investment that amounted to €13.7 million at December 31st, 2008, compared with €15.3 million at December 31st,2007 and €19.7 million at December 31st,2006. In 2008, a charge of €3.8 million was made to the provision for investment in respect of employee profit-sharing for 2008 (compared with €2.7 million in 2007 and €0.8 million in 2006). This provision includes the transfer to the company of some of the provisions set aside by our subsidiaries under a Group agreement. There was a reversal in 2008 of a provision of €5.4 million set aside in 2003 (compared with €7.1 million in 2007 and €8.1 million in 2006).

Accelerated tax-driven depreciation at December 31st,2008 amounted to €40.1 million, compared with €36.5 million at December 31st,2007 and €33.1 million at December 31st, 2006.

The details of share-subscription option plans are provided in note 17 and in the Management Report.

4.4. Operating activities

€ millions	Notes	12.31.2008	12.31.2007	12.31.2006
Operating activities				
Net profit		**1,552.1**	**2,822.4**	**1,690.3**
Depreciation and amortisation		60.4	59.6	58.4
Charges to provisions (net of reversals)		204.2	9.3	-215.6
Gains and losses on disposals of fixed assets			-6.4	-1.2
Capital gain on Sanofi Aventis sale, net of tax			-1,376.5	
Gross cash flow		**1,816.7**	**1,508.4**	**1,531.9**
Changes in working capital	25	-48.7	8.5	81.3
Net cash provided by operating activities		**1,768.0**	**1,516.9**	**1,613.2**
Investing activities				
Investments in fixed assets		-2,191.7	-1,934.0	-2,554.1
Changes in other financial assets	26	9.2	344.4	192.3
Disposals of fixed assets		0.4	11.8	9.2
Proceeds of Sanofi Aventis sale, net of tax			1,465.5	
Net cash used by investing activities		**-2,182.1**	**-112.3**	**-2,352.6**
Financing activities				
Capital increase		2.3	4.7	4.6
Dividends paid		-817.1	-711.6	-616.2
Changes in financial debt		710.7	-327.7	1,419.2
Net cash provided (used) by financing activities		**-104.1**	**-1,034.6**	**807.6**
Change in cash and cash equivalents		-518.2	370.0	68.2
Cash and cash equivalents at beginning of year		730.7	360.7	292.5
Cash and cash equivalents at end of year	27	**212.5**	**730.7**	**360.7**

4.5. Notes to the Parent company financial statements

The following notes form an integral part of the parent company financial statements.

The financial statements are presented in millions of euros; the figures in the tables of subsidiaries and holdings are expressed in thousands of euros.

Detailed list of notes

Note 1. Accounting principles

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

The items recorded in the financial statements are valued at historical cost, except for fixed assets revalued in accordance with legal requirements.

French National Accounting Board (*Conseil National de la Comptabilité*) recommendation N° 2008-17, issued on November 6th, 2008, relating to the accounting treatment of stock purchase and stock subscription option plans, was applied in the 2008 financial statements. Its application led to the treasury stock allocated to the November 30th, 2005 stock purchase option plan being reclassified from the "financial assets" caption to the "marketable securities" for its net book value at November 17th, 2008, being €99.8 million.

1.1. Sales

These are comprised of sales of goods (net of rebates and discounts) as well as services (including technological royalties).

1.2. Advertising and promotion expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses in the year during which the advertisement or promotion takes place.

1.3. Research and development costs

Research and development costs are recognised in expenses in the period in which they are incurred.

1.4. Income tax

The company has opted for the French tax Group regime. As from 2004, French companies included in the scope of tax consolidation recognise an income tax charge in their own accounts on the basis of their own taxable profits and losses.

L'Oréal, as the parent company of the tax Group, recognises as tax income the difference between the aggregate tax charges recognised by the subsidiaries and the tax due on the basis of consolidated taxable profit or loss of the tax Group.

1.5. Intangible assets

Intangible assets are recorded in the balance sheet at purchase cost.

The value of newly acquired trademarks is calculated based on a multi-criteria approach taking into consideration their reputation and their future contribution to profits.

Application of regulation 2004-06 on assets has made it necessary to identify a number of trademarks as depreciable in accordance with their forecast life cycle.

Non-depreciable brands are subject, at least once a year, to impairment tests on the basis of the valuation model used at the time of their acquisition; this can lead to recognition of a provision for impairment.

Initial trademark registration costs have been recorded as expenses since 2005.

Patents are amortised over five years.

Software of material value is amortised using the straight-line method over its probable useful life, generally between five and seven years. It is also subject to recognition of accelerated tax-driven amortisation using the declining balance method over a twelve month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

1.6. Tangible assets

Tangible assets are recognised at purchase cost.

The useful lives of tangible assets are as follows:

	Useful lives
Buildings	20 - 50 years
Fixtures and fittings	5 - 10 years
Industrial machinery and equipment	10 years
Other tangible assets	3 - 10 years

Depreciation, whether calculated using the straight-line or declining balance method, represents depreciation calculated over the period of actual use of the asset. Industrial machinery and equipment is however an exception as it is depreciated using the straight-line method over ten years, with all additional depreciation being considered to be of an accelerated tax-driven nature.

1.7. Financial assets

1.7.1. Investments and advances

These items are recognised in the balance sheet at purchase cost excluding incidental expenses. Their value is assessed annually, by reference to their value in use, which is based in particular on the current and forecast profitability of the subsidiary in question and the share of shareholders' equity owned. If the value in use falls below the purchase cost, a provision for impairment is recognised.

1.7.2. Other financial assets

Loans and other receivables are valued at their nominal amount. Loans and other receivables denominated in foreign currencies are translated at the exchange rate prevailing at the end of the financial year. If necessary, provisions are made against these items to reduce them to their value in use at the end of the financial year.

Treasury stock acquired in the context of buyback programmes is recognised in other fixed asset securities.

At the end of the financial year, other fixed asset securities are compared with their probable sale price, and a provision for impairment is recognised if necessary.

1.8. Inventories

Inventories are valued using the weighted average cost method.

A provision for impairment of obsolete and slow-moving inventories is recognised by reference to their probable net realisable value, which is measured on the basis of historical and forecast data.

1.9. Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recorded at their nominal value. Where appropriate, a provision is recognised based on an assessment of the risk of non-recovery.

1.10. Marketable securities

Marketable securities are recognised at purchase cost and are valued at the end of the financial year at their probable sale price.

Treasury stock held that is specifically allocated to employee stock option plans is recognised in marketable securities.

In the case of stock option plans prior to 2000, a provision for impairment has been made to cover the difference between the acquisition price of the shares and the price at which the options may be exercised by the beneficiaries. Since January 1st, 2000, no discount has been granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no provision for impairment is required. However, a provision for impairment is recognised in the event of a decline in the market price below the carrying amount of the treasury stock; the provision is calculated as the difference between the carrying amount of the treasury stock and the average share price over the month preceding the balance sheet date.

1.11. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised to cover probable outflows of resources to the benefit of third parties, without receipt of equivalent consideration by the company. They relate mainly to industrial and commercial contingencies and litigation (legal actions, product returns) and to tax and employee-related contingencies.

They are estimated on the basis of the most likely assumptions or by using statistical methods, depending on the type of provisions.

1.12. Accounting for foreign currency transactions and hedging of exchange rate risks

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are traded in order to cover commercial transactions recognised in the balance sheet or future transactions that are considered to be highly probable. The losses and gains generated by these instruments are recognised symmetrically with recognition of the hedged items.

Translation differences on operating assets and liabilities and related hedging instruments are recognised in the balance sheet as "Unrealised exchange losses" or "Unrealised exchange gains". A provision is recognised if the sum of these unrealised exchange gains and losses shows a potential exchange loss based on the overall exchange position of all currencies taken together.

Operating transactions forecasted for the next financial year are already covered by hedges whose impact will be recorded during the same accounting period as the transactions hedged.

1.13. Accounting for interest rate instruments

With regard to the interest rate risk, profit and loss on interest rate swaps and caps hedging financial liabilities are recorded symmetrically with profit and loss on the debts hedged, on a time-proportion basis.

1.14. Employee retirement obligations and related benefits

L'Oréal participates in and provides pensions, early retirement and other benefit schemes for employees and retired employees in accordance with local legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefit schemes.

Partial external hedging has been put in place in respect of these obligations, in order to gradually build up a fund through contributions paid. The contributions are included in the charges for the financial year under the "Other purchases and external charges" caption.

The related obligations are measured using an actuarial valuation method based on the final salary.

Net unfunded obligations are not recognised as a provision in the balance sheet. They remain as off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards in no longer recognised as an off-balance sheet commitment; instead, a provision, whose amount is based on an actuarial valuation, is recognised in the balance sheet.

Note 2. Sales

€ million	12.31.2008	12.31.2007	12.31.2006
Goods	878.6	880.0	908.4
Raw materials, packaging	23.2	27.2	18.4
Services (1)	1,026.2	995.4	928.4
Rental	37.7	36.6	36.7
Other revenues of ancillary activities	149.5	134.6	111.5
Total	**2,115.2**	**2,073.8**	**2,003.4**

(1) Mainly concerns invoicing of technological assistance.

The amount of sales in France was €1,300.5 million in 2008, compared with €1,299.2 million in 2007 and €1,224.3 million in 2006.

Note 3. Other revenue

This account caption mainly includes royalties from brands.

Note 4. Breakdown of the average headcount

Average headcount is broken down as follows:

	2008	2007	2006
Executives	2,744	2,664	2,537
Supervisors	2,114	2,145	2,146
Administrative staff	386	423	469
Workers	291	311	316
Sales representatives	313	319	325
Total	**5,848**	**5,862**	**5,793**
of which apprentices	152	145	144
of which external temporary workers	160	180	190

Note 5. Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions are broken down as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Depreciation and amortisation	60.4	59.4	57.9
Impairment of fixed assets	-	-	19.3
Impairment of current assets	3.3	3.1	3.0
Provisions for liabilities and charges	18.2	15.2	12.3
Total	**81.9**	**77.7**	**92.5**

Note 6. Net financial income

Net financial income amounts to €1,511.8 million at December 31st, 2008, compared with €1,247.4 million at December 31st, 2007 and €1,316.2 million at December 31st, 2006, and mainly includes the following items:

€ millions	12.31.2008	12.31.2007	12.31.2006
Dividends received	1,604.9	1,402.2	1,410.8
Revenues on other receivables and marketable securities	20.3	18.3	30.8
Interest expense on loans	-176.4	-168.1	-118.7
Losses paid to partnership entities (SNCs)	-3.0	-2.7	-2.6
Redemption of perpetual loan	71.8	-	-
Other items not broken down in detail	-5.8	-2.3	-4.1
Total	**1,511.8**	**1,247.4**	**1,316.2**

During 2008, L'Oréal redeemed the perpetual loan which had been subscribed in 1992 and which matured in 2007. This redemption generated financial income of €71.8 million (note 20).

The "Net (charges to)/reversals of provisions and transfers of charges" caption amounts to €-225.5 million at December 31st, 2008, compared with reversals of €10.8 million at December 31st, 2007 and €217.7 million at December31st, 2006 and mainly includes:

€ millions	12.31.2008	12.31.2007	12.31.2006
Net charges to (-)/reversals of (+) provisions for impairment of financial assets (excluding treasury stock)	-6.2	-32.8	-17.6
Net charges to (-)/reversals of (+) provisions for impairment of treasury stock	-205.3	48.8	230.1
Net charges to (-)/reversals of (+) provisions for liabilities and charges of a financial nature	-4.1	-5.7	1.8
Net charges to (-)/reversals of (+) provisions for impairment of other financial assets	-9.9	n/s	n/s
Other variations not broken down in detail	-	0.5	3.4
Total	**-225.5**	**10.8**	**217.7**

Note 7. Exceptional items

In 2007 exceptional items included the capital gain on the sale of Sanofi-Aventis shares for €1,400.7 million.

Exceptional items in 2008 notably include reversals of provisions for liabilities and charges.

Note 8. Income tax

The tax income for the year breaks down as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Tax on profit before tax and exceptional items	118.2	86.9	53.6
Tax on exceptional items and employee profit-sharing	6.7	6	12.6
Tax on the Sanofi-Aventis capital gain	-	-24.2	-
Net provisions for taxes	18.5	-	-11.7
Income tax	**143.4**	**68.7**	**54.5**

The tax income booked by L'Oréal SA takes account of savings of €136.6 million resulting from tax consolidation, compared with €102.4 million in 2007 and €98.4 million in 2006: these savings mainly result from the use of tax losses of member companies.

The application of tax legislation led to an increase in net profit for 2008 of €34.5 million, mainly because of the net charge to regulated provisions and research, sponsorship and family tax credits.

Note 9. Increases or reductions in future tax liabilities

€ millions	12.31.2006		12.31.2007		Changes		12.31.2008	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences								
Regulated provisions		11.7		13.5	4.3	5.9		15.1
Temporarily non-deductible charges	44.1		27.8		93.6	20.0	101.4	
Charges deducted (or revenue taxed) for tax purposes but not yet recognised in accounts		0.7		1.7	8.1	4.3	2.1	
Temporarily non-taxable revenue		0.4						
Items deductible								
Tax losses, etc.								
Items potentially taxable								
Special reserve for long-term capital gains		176.8		176.8				176.8

The figures have been calculated taking account of the social contribution of 3.3% which increases both the standard and reduced rates of tax.

Note 10. Research costs

Amounts invested in Research activities in 2008 totalled €515.8 million compared with €502.2 million in 2007 and €481.6 million in 2006.

Note 11. Intangible assets

€ millions	12.31.2006	12.31.2007	Acquisition	Disposal	Other movements	12.31.2008
Patents and trademarks	345.5	346.6	0.3	-	-	346.9
Business goodwill	3.0	47.7	-	-	-	47.7
Software	94.1	111.8	5.1	-1.7	18.0	133.2
Other intangible assets	78.9	78.9	-	-	-	78.9
Intangible assets in progress	10.8	9.5	20.8	n/s	-17.5	12.8
Gross value	**532.3**	**594.5**	**26.2**	**-1.7**	**0.5**	**619.5**
Patents and trademarks	30.5	32.9	2.2	-	-	35.1
Business goodwill	0.3	0.3	-	-	-	0.3
Software	57.0	70.6	15.1	-1.7	-	84.0
Other intangible assets	24.7	27.3	2.6	-	-	29.9
Amortisation	**112.5**	**131.1**	**19.9**	**-1.7**	**-**	**149.3**
Patents and trademarks	15.8	15.8	-	-	-	15.8
Other intangible assets	3.5	3.5	-	-	-	3.5
Provisions	**19.3**	**19.3**	**-**	**-**	**-**	**19.3**
Net book value	**400.5**	**444.1**	**6.3**	**0**	**0.5**	**450.9**

Note 12. Tangible assets

€ millions	12.31.2006	12.31.2007	Acquisition	Disposal	Other movements	12.31.2008
Land	44.7	44.9	17.6	-	-	62.5
Buildings	374.8	378.3	2.0	-1.6	9.2	387.9
Industrial machinery and equipment	151.5	163.2	7.5	-2.8	4.4	172.3
Other tangible assets	82.3	85.5	7.7	-9.6	1.6	85.2
Fixed assets in progress	7.5	9.7	19.0	-	-15.9	12.8
Advances and prepayments	2.4	2.8	-	-	-1.9	0.9
Gross value	**663.2**	**684.4**	**53.8**	**-14.0**	**-2.6**	**721.6**
Buildings	246.6	260.0	20.5	-1.6	-	278.9
Industrial machinery and equipment	120.5	129.0	11.2	-2.6	-	137.6
Other tangible assets	58.6	63.5	8.8	-9.5	-	62.8
Depreciation	**425.7**	**452.5**	**40.5**	**-13.7**	**-**	**479.3**
Net book value	**237.5**	**231.9**	**13.3**	**-0.3**	**-2.6**	**242.3**

Depreciation and amortisation recognised in 2008 on tangible and intangible assets included:

- a charge of €43.6 million on a straight-line basis;
- a charge of €16.6 million on a tax-driven declining balance basis; and
- €0.2 million of exceptional depreciation and amortisation.

Note 13. Fixed assets under finance leases

€ millions	Fixed assets under finance leases at 12.31.2008				Balance sheet total including fixed assets under finance leases		
		Depreciation [(2)]					
Balance sheet captions	Cost on initial recognition [(1)]	For year	Accumulated	Net book Value	Gross value	Depreciation	Net book Value
Land and buildings	34.2	-1.2	-16.3	17.9	484.6	-295.2	189.4
Industrial machinery and equipment	-	-	-	-	172.3	-137.6	34.7
Total at 12.31.2008	**34.2**	**-1.2**	**-16.3**	**17.9**	**656.9**	**-432.8**	**224.1**
Total at 12.31.2007	**41.7**	-1.4	-18.8	22.9	628.0	-407.7	220.3
Total at 12.31.2006	**95.7**	-3.6	-56.9	38.8	666.7	-424.0	242.7

(1) Value of the assets at the date of signature of the leases.
(2) Depreciation charge for year, and accumulated depreciation, that would have been recognised for these assets if they had been acquired - Depreciation method used: straight-line 5% to 2%.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year end				Residual purchase price under the lease
Balance sheet captions	In the year	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	
Land and buildings	4.0	58.6	3.9	16.6	11.4	31.9	1.4
Industrial machinery and equipment	-	-	-	-	-	-	-
Total at 12.31.2008	**4.0**	**58.6**	**3.9**	**16.6**	**11.4**	**31.9**	**1.4**
Total at 12.31.2007	3.9	54.6	3.9	16.4	15.2	35.5	1.4
Total at 12.31.2006	12.8	144.1	4.0	16.0	19.8	39.8	1.4

These tables do not take account of a contract providing for payment, as from 2009, of €11.3 million of additional lease payments corresponding to a building of a value of €9.1 million.

Note 14. Financial assets

€ millions	12.31.2006	12.31.2007	Acquisition/ Subscription	Disposal	Other movements	12.31.2008
Investments	7,516.1	7,927.0	1,168.9(1)	-	11.1	9,107.0
Loans and other receivables	101.6	92.7	48.3	-19.8	-13.4	107.8
Treasury stock	1,033.8	678.2	943.4	-0.3	-1,361.9	259.4
Other	8.5	8.6	0.6	-0.8	-	8.4
Gross value	**8,660.0**	**8,706.5**	**2,161.2**	**-20.9**	**-1,364.2**	**9,482.6**
Investments	230.4	263.2	17.3	-10.5	-	270.0
Loans and other receivables	0.6	0.6	10.0	-	-	10.6
Treasury stock	-	-	-	-	-	-
Other	4.9	4.9	-	-0.2	-	4.7
Provision for impairment	**235.9**	**268.7**	**27.3**	**-10.7**	**0**	**285.3**
Net book value	**8,424.1**	**8,437.8**	**2,133.9**	**-10.2**	**-1,364.2**	**9,197.3**

(1) This is mainly comprised of the acquisition of the shares in Yves Saint Laurent for €1,100 million.

In 2008, L'Oréal purchased 12,787,000 shares of treasury stock in the context of buyback programmes and cancelled 15,275,150 shares. A total of 4,950 options were exercised under purchase stock option plans.

At year end, L'Oréal owns 3,808,000 shares of treasury stock, compared with 8,067,350 shares at December 31st,2007.

The total market value of treasury stock amounted to €235.6 million at the average share price for December and to €237.2 million at the closing share price on December 31st.

A total of 1,766,250 shares of treasury stock which had previously been classified as financial assets were reclassified into marketable securities for a net book value of €99.8 million (in accordance with CNC recommendation N° 2008-17 as described in the accounting principles section).

The *table of subsidiaries and holdings* is presented at the end of the notes to the financial statements.

Note 15. Transactions and balances with related entities

€ millions	12.31.2008	12.31.2007	12.31.2006
Financial assets	8,924.2	7,742.7	7,371.4
Trade accounts receivable	199.6	207.5	180.4
Other accounts receivable	3.2	20.7	10.3
Cash and cash equivalents	190.8	735.6	347.0
Borrowings	9.5	11.9	75.2
Trade accounts payable	71.7	58.8	60.4
Other payables	19.7	0.1	0.1
Financial expenses	9.4	5.4	17.1
Financial revenues	1,605.3	1,402.8	1,411.7

Note 16. Marketable securities

This account is broken down as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
L'Oréal shares	1,151.0	1,107.5	1,462.5
Financial instruments	23.0	3.9	2.4
Premiums paid on options	15.3	9.7	5.8
Gross value	**1,189.3**	**1,121.1**	**1,470.7**
L'Oréal shares	-206.3	-3.2	-52.3
Financial instruments	-	-	-
Premiums paid on options	-	-	-
Provision for impairment	**-206.3**	**-3.2**	**-52.3**
Net book value	**983.0**	**1,117.9**	**1,418.4**

The 15,467,342 L'Oréal shares of treasury stock held for the employee stock purchase option plans have a net value of €944.7 million (after taking account of a net charge in the year of €205.3 million to the provision for impairment through profit and loss, and a reversal of €2.2 million through equity corresponding to shares cancelled), compared with €1,104.3 million at December 31st, 2007 and €1,410.2 million at December 31st, 2006.

During 2008, stock options were exercised in respect of 574,245 shares and 322,250 shares were cancelled.

For 2008, the total market value of treasury stock amounts to €956.8 million based on the average price in December and to €963.6 million at the closing share price on December 31st.

For 2007, the total market value of treasury stock amounted to €1,408.7 million based on the average price in December and to €1,430.3 million at the closing share price on December 31st.

For 2006, the total market value of treasury stock amounted to €1,504.3 million based on the average price in December and to €1,495.8 million at the closing price on December 31st.

A total of 1,766,250 shares of treasury stock previously recognised in "financial assets" were reclassified into "marketable securities" for a net book value of €99.8 million (in accordance with CNC recommendation N° 2008-17 as described in the accounting principles section).

Note 17. Stock purchase or subscription options

The table below summarises information relating to stock option plans in operation at December 31st, 2008:

Date of grant	Number of options	Number of options not exercised	Exercise period		Exercise price
			From	To	
10.14.1999	2,250,000	480,692	10.15.2004	10.14.2009	57.60
12.07.1999	1,500,000	586,400	12.08.2004	12.07.2009	61.00
04.05.2000	1,200,000	349,800	04.06.2005	04.05.2010	65.90
09.28.2000	3,800,000	2,414,800	09.29.2005	09.28.2010	83.00
12.07.2000	450,000	346,500	12.08.2005	12.07.2010	89.90
03.28.2001	2,500,000	1,605,600	03.29.2006	03.28.2011	79.60
09.18.2001	2,500,000	1,664,000	09.19.2006	09.18.2011	77.60
10.08.2001	225,000	151,250	10.09.2006	10.08.2011	76.50
03.26.2002	2,500,000	1,822,550	03.27.2007	03.26.2012	81.65
09.04.2002	2,500,000	1,813,000	09.05.2007	09.04.2012	76.88
12.03.2003	2,500,000	2,261,750	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	2,263,000	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	1,911,500	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	3,871,500	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	400,00	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	4,090,800	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,753,200	12.01.2010	11.30.2015	62.94
04.25.2006	2,000,000	2,000,000	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	5,426,250	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,953,500	12.01.2012	11.30.2017	91.66

All of these plans have an exercise period of 5 years and are not subject to any performance conditions.

The share price retained as the basis for calculating the 10% social contribution on the November 30th, 2007 plan was €93.83.

Note 18. Maturities of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
Loans and other receivables	17.3	90.5	107.8	-10.6	97.2
Other financial assets		8.4	8.4	-4.7	3.7
Trade accounts receivable	338.7	-	338.7	-2.9	335.8
Other current assets, of which	171.8	-	171.8	-	171.8
Tax and employee-related receivables	127.3	-	127.3	-	
Group and shareholders	3.0	-	3.0	-	
Other receivables	41.5	-	41.5	-	
Prepaid expenses	19.4	-	19.4	-	19.4

Accrual accounts included in receivables amounted to €16.6 million at December 31st, 2008, compared with €12.2 million at December 31st, 2007 and €11.9 million at December 31st, 2006.

Note 19. Provisions for liabilities and charges

€ millions	12.31.2006	12.31.2007	Charges	Reversals (provisions used)	Reversals (provisions not used)	12.31.2008
Provisions for litigation	40.8	40.9	0.1	-0.6	-24.3	16.1
Provision for exchange losses	2.0	4.9	-	-4.9	-	-
Provisions for charges	23.7	27.6	21.1	-18.5	-0.7	29.5
Other provisions for liabilities (1)	56.6	75.9	20.3	-2.6	-8.3	85.3
Total	**123.1**	**149.3**	**41.5**	**-26.6**	**-33.3**	**130.9**

(1) This caption notably includes provisions for tax risks, and for industrial and commercial risks relating to operations (contracts, product returns) and employee-related liabilities.

The changes in provisions for liabilities and charges impacted different levels of the 2008 profit and loss account as follows:

€ millions	Charges	Reversals (provisions used)	Reversals (provisions not used)
Operating profit	18.2	-12.5	-1.3
Net financial income	20.0	-11.6	-4.2
Exceptional items	3.3	-2.3	-9.5
Income tax	-	-0.2	-18.3
Total	**41.5**	**-26.6**	**-33.3**

Note 20. Borrowings and debts

L'Oréal obtains financing through medium-term bank loans, and by the issue of short-term commercial paper in France. The amount of the programme is €2,600 million.

Liquidity on the commercial paper issues is ensured by confirmed short-term credit facilities with banks for an amount of €2,425.0 million at December 31st, 2008, compared with €2,625.0 million at December 31st, 2007 and at December 31st, 2006. These short-term credit facilities, like the medium-term loans, are not subject to any financial ratio clauses or ratings clauses.

Total borrowings and debts are broken down as follows:

BREAKDOWN BY TYPE OF DEBT

€ million	12.31.2008	12.31.2007	12.31.2006
Bonds	n/s	n/s	n/s
Borrowings and debts due to financial institutions	2,498.0	2,550.8	1,794.8
Perpetual loan	-	71.8	77.4
Commercial paper	1,406.0	567.2	1,577.8
Other borrowings and debts	61.6	65.6	130.5
Overdrafts	0.6	11.9	1.3
Total	**3,966.2**	**3,267.3**	**3,581,8**

The perpetual loan, which matured in 2007, was redeemed in 2008 (note 6). In accordance with OEC recommendation no. 28, it was recorded under the Borrowings and Debts caption in 2007. A tax impact of €9.7 million was recognised on maturity in 2007.

BREAKDOWN BY MATURITY

€ millions	12.31.2008	12.31.2007	12.31.2006
Less than 1 year	1,510.8	738.3	1,749.6
1 to 5 years	2,454.1	2,527.8	1,831.1
More than 5 years	1.3	1.2	1.1
Total	**3,966.2**	**3,267.3**	**3,581.8**

During the 2008 financial year, the main changes recognised were as follows:

€ millions	
Borrowings taken out	1,431.5
Borrowings repaid	725.6

Note 21. Maturities of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**334.7**		**334.7**
Other current liabilities, of which	**270.3**		**270.3**
Tax and employee-related payables	185.9		185.9
Fixed asset related payables	15.9		15.9
Group and shareholders	19.1		19.1
Other payables	49.4		49.4

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Trade accounts payable	**164.5**	**151.8**	**146.2**
Fixed asset related payables	**4.1**	**5.8**	**7.3**
Tax and employee-related payables, of which	117.4	100.9	92.1
Provision for employee profit sharing	21.6	19.3	17.5
Provision for incentives	54.0	51.1	47.5
Other payables	35.5	50.1	51.3
Total	**321.5**	**308.6**	**296.9**

Note 22. Unrealised exchange gains and losses

The revaluation of receivables and payables denominated in foreign currencies at exchange rates prevailing at December 31st and taking account of the related financial instruments led to the recognition of the following unrealised exchange gains / unrealised exchange losses:

€ millions	Unrealised exchange gains			Unrealised exchange losses		
	12.31.2008	12.31.2007	12.31.2006	12.31.2008	12.31.2007	12.31.2006
Financial receivables	0.1	0.4	0.3	0.9	-	-
Trade accounts receivable	3.8	1.8	0.9	1.6	0.2	0.2
Borrowings and debts	0.4	-	-	-	0.1	0.8
Trade accounts payable	0.6	-	0.2	5.0	0.5	0.6
Other payables	-	-	-	0.6	0.1	-
Derivative financial instruments	3.1	7.1	4.6	6.0	3.5	2.4
Total	**8.0**	**9.3**	**6.0**	**14.1**	**4.4**	**4.0**

The overall foreign exchange position, determined in accordance with the accounting principles described earlier in the notes, is an unrealised gain, mainly on the US dollar and on the pound sterling, of €6.1 million at December 31st, 2008. At December 31st,2007 and at December 31st, 2006, the overall foreign exchange position was, respectively, an unrealised loss of €4.9 million and €2 million and was recognised through profit and loss.

Note 23. Derivative financial instruments

The derivative financial instruments held to hedge exchange rate risks are mainly related to future transactions, and are broken down as follows:

€ millions	Notional			Market value		
	12.31.2008	12.31.2007	12.31.2006	12.31.2008	12.31.2007	12.31.2006
Currency forwards, net						
Purchase of EUR/Sale of ARS	0.8	4.0	0.2	-	-	-
Purchase of EUR/Sale of AUD	8.7	9.6	8.8	1.3	0.2	-0.2
Purchase of EUR/Sale of BRL	32.8	37.3	14.0	7.4	-1.0	-0.1
Purchase of EUR/Sale of CAD	13.9	15.2	13.0	1.8	-0.1	0.6
Purchase of EUR/Sale of GBP	8.9	20.2	15.1	2.1	0.8	-0.4
Purchase of EUR/Sale of PLN	6.3	8.1	5.7	1.3	-0.4	-0.2
Purchase of EUR/Sale of MXN	3.9	8.0	8.8	0.8	0.5	0.1
Purchase of EUR/Sale of CHF	3.7	3.3	4.9	-0.3	-	-
Purchase of EUR/Sale of SEK	4.3	5.2	4.0	0.4	-	-0.1
Purchase of EUR/Sale of NOK	3.8	5.0	4.7	0.7	-	0.1
Purchase of EUR/Sale of CNY	87.9	87.7	83.0	-2.7	3.2	0.7
Purchase of EUR/Sale of UAH	4.5	-	-	2.4	-	-
Purchase of EUR/Sale of other currencies	21.6	22.7	19.9	1.2	0.3	-0.2
Sale of EUR/Purchase of USD	37.7	53.3	22.0	2.1	-6.2	-3.3
Sale of EUR/Purchase of JPY	11.1	13.0	15.5	1.9	-1,2	-1.4
Sale of EUR/Purchase of other currencies	2.7	2.5	1.8	0.1	-	0.1
Purchase of USD/Sale of BRL	25.8	21.6	7.4	5.4	-1,9	-0.3
Purchase of USD/Sale of ARS	20.2	42.8	26.5	3.6	-0.2	-0.9
Purchase of USD/Sale of UAH	2.6	4.6	3.6	1.5	0.1	-
Purchase of USD/Sale of CNY	-	-	4.0	-	-	-
Sale of USD/Purchase of CNY	24.3	27.5	-	-0.5	-	-
Sale of CNY/Purchase of JPY	6.8	5.5	6.2	0.8	0.1	-0.3
Purchase of CNY/Sale of HKD	0.4	-	-	-	-	-
Sale of ARS/Purchase of BRL	11.5	-	-	-0.1	-	-
Total currency forwards	**344.2**	**397.1**	**269.1**	**31.2**	**-5.8**	**-5.8**
Currency options						
USD/EUR	72.4	71.2	43.8	1.6	5.5	3.0
GBP/EUR	9.5	4.9	6.4	1.8	0.4	0.1
CAD/EUR	1.7	3.1	3.9	0.2	0.1	0.3
BRL/USD	3.5	-	7.0	0.7	-	0.3
EUR/BRL	24.9	34.8	33.4	5.6	1.2	1.5
EUR/CNY	35.6	59.2	22.4	0.5	1.8	0.4
Other currencies/EUR	3.8	3.9	6.1	0.9	0.2	0.1
Other currencies / Other currencies	-	-	2.5	-	-	0.1
Total currency options of which:	**151.4**	**177.1**	**125.5**	**11.3**	**9.2**	**5.8**
call options	218.9	186.5	135.0	15.3	9.4	5.9
put options	-67.5	-9.4	-9.5	-4.0	-0.2	-0.1
Total derivative financial instruments	**495.6**	**574.2**	**394.6**	**42.5**	**3.4**	**0.0**

Total put options correspond exclusively to the resale of previously purchased options when it appeared appropriate to replace them with other hedging instruments.

Derivative financial instruments held to hedge interest rate risks are as follows:

€ millions	Notional			Market value		
Interest rate derivatives	12.31.2008	12.31.2007	12.31.2006	12.31.2008	12.31.2007	12.31.2006
Interest rate swaps – borrower floating rate						
EUR Euribor / fixed rate	69.8	121.8	128.8	2.2	1.5	3.6
Interest rate swaps – borrower fixed rate						
EUR Euribor / fixed rate	2.5	2.5	2.5	n/s	n/s	n/s
Interest rate swaps floating /floating						
EUR Euribor / Euribor	-	-	7.1	-	-	n/s
Total	**72.3**	**124.3**	**138.4**	**2.2**	**1.5**	**3.6**

Note 24. Off-balance sheet commitments

24.1. Lease commitments

Operating lease commitments amount to €65.5 million within less than one year, €187.9 million between 1 and 5 years and €83.8 million after 5 years.

The breakdown of finance lease commitments is provided in note 13.

24.2. Other off-balance sheet commitments

Confirmed credit facilities are set out in note 20.

Other off-balance sheet commitments are broken down as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Commitments granted in the area of employee retirement obligations and related benefits (1)	395.6	461.1	571.0
Commitments to buyout minorities	83.0	64.2	67.4
Guarantees given (2)	674.6	627.0	656.7
Guarantees received	7.6	7.6	4.8
Capital expenditure orders	100.3	69.7	51.3
Documentary credits	5.0	5.1	6.9

(1) The discount rate used to measure these commitments in 2008 is 5.75% for plans providing a capital sum and 6.00% for plans providing an annuity, compared with 5.00% and 5.25% respectively in 2007 and 4.25% and 4.50% in 2006. An agreement for the mutualisation of employee-related liabilities was put in place in 2004. This agreement leads to the allocation of commitments among the different French companies in the Group and to organising their financing in proportion to the companies respective payroll costs (personalised by plan) so that the companies are severally responsible for meeting the aforementioned commitments within the limit of the collective funds constituted.

(2) This caption includes miscellaneous guarantees and warranties, including €665.8 million at December 31st, 2008 on behalf of direct and indirect subsidiaries, compared with €582.5 million at December 31st, 2007 and €649.7 million at December 31st, 2006. Warranties regarding liabilities are also included in this amount.

24.3. Contingent liabilities

In its normal course of business, L'Oréal is involved in legal actions and is subject to tax audits, customs controls and administrative audits. The company sets aside a provision wherever a risk is found to exist, and an estimate of its cost is possible.

At the present time, there is no exceptional event or dispute which could materially and with a serious level of probability affect the results, financial situation, assets or operations of the company.

Note 25. Changes in working capital

Changes in working capital were €-48.7 million at December 31st, 2008, compared with €8.5 million at December 31st, 2007 and €81.3 million at December 31st, 2006. They are broken down as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Inventories	1.4	5.7	7.8
Receivables	-53.7	-34.8	40.5
Payables	3.6	37.6	33.0
Total	**-48.7**	**8.5**	**81.3**

Note 26. Changes in other financial assets

This caption includes flows related to treasury stock in the year, classified in marketable securities.

Note 27. Cash and cash equivalents at end of year

Cash and cash equivalents at end of year amount to €212.5 million at December 31st, 2008 compared with €730.7 million at December 31st, 2007 and €360.7 million at December31st, 2006 and are broken down as follows:

€ millions	12.31.2008	12.31.2007	12.31.2006
Cash	213.8	743.3	363.4
Accrued interest asset	-0.9	-1.6	-1.4
Bank overdrafts (note 20)	-0.6	-11.9	-1.9
Accrued interest liability	0.2	0.9	0.6
Total	**212.5**	**730.7**	**360.7**

Note 28. Other disclosures

In 2008, L'Oréal recognised expenses of €2.9 million in respect of fees for audit and related engagements. The equivalent expense in 2007 was €2.7 million.

Note 29. Post-balance sheet events

No event occurred between the balance sheet date and the date on which the financial statements were approved by the Board of Directors.

4.6. Table of subsidiaries and holdings at December 31st, 2008

4.6.1. Detailed information

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends booked during the financial year
				Gross	Net		
A. Main french subsidiaries (holdings of over 50%)							
Areca & Cie	35	1	99.78	35	35	268	(1)
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	62,389	100	75,670	75,670	18,858	16,859
Beauté Créateurs	612	3,014	100	25,385	25,385	-6,182	
Biotherm Distribution & Cie	182	415	99.9	472	472	9,418	6,398
Centrex	1,800	29	100	3,532	3,532	292	(1)
Chimex	1,958	34,684	100	21,501	21,501	4,668	
Cosmétique Active France	21	6,863	69.91	130	130	13,674	9,781
Cosmétique Active International	17	4,000	87.94	15	15	6,965	9,778
Cosmétique Active Production	186	22,882	80.14	5,081	5,081	-58	2,948
Episkin	9,402	0	100	9,402	9,402	809	(1)
Exclusive Signatures International	10	0	99	10	10	129	(1)
Fapagau & Cie	15	5,567	79	12	12	5,844	(1)
Faprogi	15	4,632	59.9	9	9	1,659	(1)
Finval	2	0	99	2	2	3,308	(1)
Gemey Maybelline Garnier	50	719	66.61	34	34	41,654	31,294
Gemey Paris-Maybelline New York	35	6,920	99.96	46	46	17,429	18,042
Goldys International	15	0	99.9	15	15	-3	(1)
Héléna Rubinstein	30	1	99.95	46,661	46,661	6,525	4,513
Holdial	1	0	98	1	1	1,011	(1)
L & J Ré	1,500	10,749	100	1,500	1,500	-18	
La Roche Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	-5,209	6,436
Laboratoire Bioexigence	37	-531	100	37	37	522	48
Laboratoire Garnier & Cie	580	2	99.97	5,784	5,784	16,949	8,685
Laboratoires Innéov	300	3,064	50	16,800	3,364	-1,234	
Laboratoire Sanoflore	1,122	1,248	99.94	5,142	5,142	-1,655	
Lancôme Parfums et Beauté & Cie	1,192	0	100	3,235	3,235	22,669	50,273
LaScad	18	1	99.17	18	18	38,460	47,505
Lehoux et Jacque	39	56	100	263	263	318	167
L'Oréal Produits de Luxe France	63	4,080	74.33	46	46	20,913	18,139
L'Oréal Produits de Luxe International	76	1,839	99.2	76	76	59,537	58,331
Par-Bleue	2	0	99	2	2	-821	(1)
Parfums Cacharel & Cie	1	1	99	2	2	-710	(1)
Parfums Guy Laroche	332	5,417	100	1,656	1,656	151	165
Parfums Paloma Picasso & Cie	2	0	99	2	2	-60	(1)
Parfums Ralph Lauren	2	0	99	2	2	-406	(1)
Prestige & Collections International	32	3,952	56.67	18	18	12,687	12,382
Sicôs & Cie	375	7,808	80	999	999	4,518	(1)
Société de Développement Artistique	2	0	99	2	2	1,199	(1)

(1) *The SNCs (general partnership), GIEs (economic interest groupings) and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profits.*

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held Gross	Book value of shares held Net	Profit or loss in last financial year	Dividends booked during the financial year
Soprocos	8,250	10,032	100	11,904	11,904	1,441	1,447
Soproréal	15	8,208	99.9	15	15	2,343	(1)
Sparlys	750	1,498	100	3,826	3,826	1,297	1,050
Viktor & Rolf Parfums	2	0	99	1	1	-565	(1)
YSL Beauté Holding	1,003,260	2,329	100	1,100,020	1,100,020	-175	
B. Main french investments (holdings of less than 50%)							
Galderma International	932	57,598	26.67	2	2	2,966	
Innéov France	75	-607	n/s	n/s	n/s	-1,582	(1)
Sanofi-Aventis	2,631,051	(2)	8.99	423,887	423,887	(2)	244,731

(1) The SNCs (general partnership), GIEs (economic interest groupings) and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profits.
(2) Sanofi-Aventis : - this information is not available
- At the balance sheet date, L'Oréal owns 118,227,307 shares. Their total stock market value at the price prevailing at 12/31/2008 is 5,367,520 thousand euros.

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held Gross	Book value of shares held Net	Profit or loss in last financial year	Dividends booked during the financial year
A. Main foreign subsidiaries (holdings of over 50%)							
Avenamite S.A. (Spain)	242	48	100	6,216	6,216	78	122
Beautycos International Co. Ltd (China)	52,482	14,639	73.46	46,195	46,195	65	
Beautylux International Cosmetics (Shanghai) China	5,629	-4,039	100	16,871	16,871	1,604	
Beautytech International Cosmetics (Yi Chang) China	3,070	-4,675	100	131,239	131,239	1,204	
Biotherm (Monaco)	152	16	99.08	3,545	3,545	1,774	3,057
Canan Kozmetik Sanayi Ve Ticaret A.S.	6,173	3,087	100	28,439	28,439	1,911	
Canan Tuketim Urunleri Pazarlama A.S.	1,149	-705	100	11,128	11,128	-1,812	
Club Créateurs Beauté Japan K.K	8,619	-17,405	100	2,973	1,602	-3,345	
Cosmelor Ltd (Japan)	3,554	25,470	100	35,810	35,810	814	15
Cosmephil Holdings Corporation (Philippines)	171	-143	100	400	14	0	
Cosmétique Active Belgilux (Belgium)	3,240	1,326	86.71	3,423	3,423	1,404	2,038
Cosmétique Active Ireland Ltd (Ireland)	82	97	100	732	732	1,465	1,015
Cosmétique Active Suisse S.A.	32	215	100	4,645	4,645	3,020	3,494
Elebelle (Proprietary) Ltd (South Africa)	806	34,893	100	61,123	49,123	0	
Egyptelor LLC	7		99.8	7	7	0	
Erwiton S.A. (Uruguay)	739	699	100	17	17	5,123	3,342
Galderma Pharma S.A. (Switzerland)	15,694	274,680	50	10,124	10,124	41,645	41,299
Kosmepol Sp Z.O.O. (Poland)	38,844	22,076	99.73	48,965	48,965	-8,146	
Lai Mei Cosmetics Int. Trading Shanghai Co Ltd (China)	9,500	5,752	100	11,197	11,197	318	575
Le Club des Créateurs de Beauté (Belgium)	500	-3,945	100	251	0	-43	

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends booked during the financial year
				Gross	Net		
Le Club des Créateurs de Beauté Co Ltd (Taiwan)	467	-1,481	100	328	0	-250	
L'Oréal Adria d.o.o. (Croatia)	131	1,293	100	1,503	1,503	3,290	2,380
L'Oréal Argentina SA	13,081	6,085	100	81,068	35,154	9,220	5,080
L'Oréal Australia Pty Ltd	2,711	6,626	100	18,794	18,794	32,176	25,802
L'Oréal Balkan d.o.o. (Serbia)	1,241	300	100	1,285	1,285	-36	
L'Oréal Baltic SIA (Latvia)	387	4,371	100	529	529	1,564	2,447
L'Oréal Belgilux S.A. (Belgium)	10,000	15,996	99.99	35,583	35,583	23,262	26,123
L'Oréal Bulgaria EOOD	102	-402	100	102	102	1,803	
L'Oréal Canada Inc.	1,784	9,284	100	144,226	144,226	76,624	41,345
L'Oréal Ceska Republika s.r.o (Czech Republic)	5,939	3,397	100	8,678	8,678	6,754	5,669
L'Oréal Chile S.A. (Chile)	20,888	-2,410	100	43,784	43,784	14,227	8,544
L'Oréal China Co Ltd (China)	38,731	16,511	100	214,494	214,494	67,443	6,614
L'Oréal Colombia S.A. (Colombia)	1,931	2,054	94	6,395	5,136	338	1,700
L'Oréal Danmark A/S (Denmark)	270	5,372	100	8,336	8,336	11,528	13,448
L'Oréal Deutschland GmBh (Germany)	12,647	283,099	100	71,855	71,855	126,480	85,285
L'Oréal España S.A. (Spain)	59,911	68,784	63.86	228,809	228,809	87,270	55,748
L'Oréal Finland Oy (Finland)	673	14	100	1,280	1,280	9,533	8,622
L'Oréal Guatemala S.A.	1,044	902	100	2,162	2,162	-314	505
L'Oréal Hellas S.A. (Greece)	5,196	6,613	83.49	18,715	18,715	23,233	22,989
L'Oréal Hong-Kong Ltd	3	4,381	99.97	604	604	51,008	46,264
L'Oréal India Pvt Ltd	40,991	-19,091	100	59,207	18,394	-5,435	
L'Oréal Investments B.V. (Netherlands)	18	0	100	18	18	0	9
L'Oréal Israel Ltd	4,119	8,896	92.97	38,497	33,597	3,783	3,213
L'Oréal Italia Spa	1,589	79,821	100	161,804	161,804	101,431	67,473
L'Oréal Japan Ltd (Japan)	370	-796	100	275	0	-72	
L'Oréal Korea Ltd (South Korea)	1,991	-2,242	100	20,794	0	6,792	
L'Oréal Liban SAL	3,139	670	99.88	7,698	7,698	3,177	2,444
L'Oréal Luxe Producten Nederland B.V.	908	0	100	1,937	1,937	6,697	15,259
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,249	679	100	7,815	7,815	2,787	3,589
L'Oréal Malaysia SDN BHD (Malaysia)	4,749	2,379	94.34	6,456	6,456	5,072	6,632
L'Oréal Mexico S.A de C.V	2,349	22,129	100	8,443	8,443	42,478	42,419
L'Oréal Middle East (United Arab Emirates)	2,752	863	100	37,284	37,284	26,403	19,289
L'Oréal Nederland B.V. (Netherlands)	34	3	100	4,894	4,894	23,635	21,450
L'Oréal New Zealand Ltd	42	1,240	100	624	624	4,799	4,223
L'Oréal Norge A/S (Norway)	1,384	-344	100	4,050	4,050	14,760	12,879
L'Oréal Osterreich GmBh (Austria)	2,915	240	100	3,818	3,818	14,166	13,415
L'Oréal Panama S.A.	159	1,848	100	168	168	4,239	2,697
L'Oréal Peru S.A. (Peru)	2,096	482	100	3,739	3,739	753	1,073
L'Oréal Philippines Inc.	2,062	531	95.38	12,478	2,481	-402	
L'Oréal Polska Sp. Z.O.O. (Poland)	21,686	15,640	100	38,210	38,210	44,071	23,685
L'Oréal Portugal Lda	145	2,682	98.35	2,394	2,394	21,808	22,912
L'Oréal Produits de Luxe Belgilux	250	707	99.97	2,885	2,885	6,514	8,288
L'Oréal Produits de Luxe Suisse S.A.	257	457	100	556	556	4,765	4,096
L'Oréal Romania SRL (Romania)	2,187	324	100	5,883	5,883	6,381	4,642
L'Oréal Singapore Pte Ltd (Singapore)	1,165	575	100	18,991	18,991	4,800	6,967

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends booked during the financial year
				Gross	Net		
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	384	100	856	856	2,705	3,038
L'Oréal Slovensko s.r.o. (Slovakia)	1,598	963	100	1,673	1,673	6,084	3,939
L'Oréal Suisse S.A.	193	1,333	100	116,776	116,776	18,756	18,368
L'Oréal Sverige AB (Sweden)	2,038	3,084	100	2,247	2,247	14,018	14,435
L'Oréal Taiwan Co Ltd (Taiwan)	16,532	683	100	40,942	40,942	10,701	7,255
L'Oréal Thailand Ltd	3,992	473	100	5,238	5,238	7,142	1,639
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	16,235	7,656	100	22,207	22,207	-10,112	0
L'Oréal UK Ltd	24,740	15,051	100	47,372	47,372	61,183	81,621
L'Oréal Ukraine	3,802	-2,236	100	2,990	2,990	16,878	5,390
L'Oréal Uruguay S.A.	2,262	-1,312	100	5,435	677	110	
L'Oréal USA Inc. (4)	4,402	2,072,960	100	3,411,932	3,411,932	159,180	102,610
L'Oréal Venezuela C.A.	1,733	1,155	100	12,502	7,781	9,374	4,212
L'Oréal Vietnam Co Ltd	7	-209	100	75	75	-1,013	
Masrelor LLC (Egypt)	9		99.87	10	10	0	
Maybelline Suzhou Cosmetics Ltd (China)	53,652	-20,025	66.75	49,601	26,336	1,373	
Nihon L'Oréal KK (Japan)	138,845	51,094	100	377,752	323,752	5,016	7,431
Parbel of Florida Inc. (USA)	40	632	100	100,317	100,317	29,471	24,465
Procosa Productos de Beleza Ltda (Brazil)	102,462	27,240	100	170,243	170,243	31,744	24,297
P.T. L'Oréal Indonesia	1,510	553	99	2,305	2,305	1,078	
P.T. Yasulor Indonesia	4,769	7,543	99.98	40,854	14,268	-1,837	
Scental Limited (Hong Kong)	5	159	100	8	8	0	
Seda Plastik Ve Boya San. Ith. Tic. Ldt. Sti	1,206	303	99	1,843	1,843	429	
Sofamo (Monaco)	160	2,041	99.97	1,851	0	-29,200	1,223
The Body Shop International PLC (3)	11,950	739,760	100	992,445	992,445	29,163	12,508
Venprobel (Venezuela)	20	-212	100	2,722	0	0	
B. Main foreign investments (holdings of less than 50%)							
	n/s	n/s	n/s	n/s	n/s	n/s	n/s

(3) The Body Shop: Consolidated figures for the sub-group.
(4) Figures from the sub-consolidation of L'Oréal USA Inc., prepared in accordance with US Gaap.

For foreign subsidiaries and investments, the capital, reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchange rates, while profits and losses have been translated at the average rate for 2008.

It is specified that the list of companies set out above is not exhaustive.

4.6.2. Information relating to all subsidiaries and investments

€ thousands	Subsidiaries		Investments	
	French	Foreign	French	Foreign
Book value of shares held:				
• gross restated	1,367,807	7,315,255	423,889	1
• net	1,353,945	7,059,062	423,889	1
Amount of loans and advances granted	80,510	19,832		
Amount of guarantees and security granted	23,687	641,883		
Amount of dividends booked	304,241	1,044,127	244,731	1

5 Ordinary and Extraordinary Annual General Meeting 2009

5.1. Report of the Board of Directors on the draft resolutions

5.1.1. Ordinary part

5.1.1.1. Approval of the annual financial statements, allocation of the company's net income for 2008 and declaration of the dividend (first, second and third resolutions)

Having reviewed the Reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- the parent company financial statements, with a profit and loss account which shows net income of €1,552.1 million for 2008 compared with €2,822.4 million at December 31st, 2007;
- the 2008 consolidated financial statements.

The main details of which are set out in the 2008 Annual Report, together with the main information included in the file for calling the Annual General Meeting on April 16th, 2009.

The Board of Directors proposes to the Annual General Meeting a net dividend of €1.44 per share, representing an increase of 4.35% compared with the net dividend for 2007.

The dividend for the 2008 financial year will be detached from the share on Tuesday April 21st, 2009 and will be payable in cash as from Friday April 24th, 2009 on positions established as of the evening of Thursday April 23rd, 2009.

5.1.1.2. Regulated agreements and regulated commitments (fourth resolution)

No regulated agreement or commitment referred to in Articles L. 225.38 and L. 225-42-1 of the French Commercial Code was entered into in 2008.

A special report by the Statutory Auditors specifying the absence of any new regulated agreement or commitment for 2008 has been prepared in accordance with CNCC standard No. 5-103 § 25 and presented to the Annual General Meeting requested to decide with regard to this report pursuant to Article L. 225-40 of the French Commercial Code.

The performance of agreements and commitments approved by the Annual General Meeting for previous financial years continued:

- treatment of Mr Jean-Paul Agon as equivalent to a senior manager for all the elements linked to his remuneration, particularly with regard to pension or provident schemes (Board of Directors' meeting of April 25th, 2006 and Annual General Meeting of April 24th, 2007);
- agreement providing for the departure indemnities that will be due to the Chief Executive Officer (Board of Directors' meeting of February 13th, 2008 and Annual General Meeting of April 22nd, 2008), it being specified that the sum of the indemnities due pursuant to the employment contract, on the one hand, and his corporate office on the other, may not exceed the maximum limit of two years' remuneration (fixed and variable elements) provided for by the AFEP-MEDEF Code of Corporate Governance of December 2008.

5.1.1.3. Renewal of the tenure as director of Mr Werner Bauer (fifth resolution)

The Annual General Meeting is asked to renew the tenure as director of Mr Werner Bauer for a period of three years.

This tenure is shorter than the term of office of four years set by the company's Articles of Association.

The Board of Directors is thereby complying with the AFEP-MEDEF Code of Corporate Governance of December 2008:

"The staggering of the terms of office must be organised in order to avoid renewal all at once and favour the harmonious renewal of the directors."

This possibility to provide for tenures that are shorter than the term of office of four years provided for by the Articles of Association is conditional on amendment of the provisions of Article 8 paragraph 2 of the Articles of Association of the company provided for by the fifteenth resolution put to the vote of the Annual General Meeting.

This tenure will then expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the previous financial year.

5.1.1.4. Renewal of the tenure as director of Ms Françoise Bettencourt Meyers (sixth resolution)

The Annual General Meeting is asked to renew the tenure as director of Ms Françoise Bettencourt Meyers for a period of four years.

This tenure will expire at the end of the Annual General Meeting to be held in 2013 to review the financial statements for the previous financial year.

5.1.1.5. Renewal of the tenure as director of Mr Peter Brabeck-Letmathe (seventh resolution)

The Annual General Meeting is asked to renew the tenure as director of Mr Peter Brabeck-Letmathe for a period of four years.

This tenure will expire at the end of the Annual General Meeting to be held in 2013 to review the financial statements for the previous financial year.

5.1.1.6. Renewal of the tenure as director of Mr Jean-Pierre Meyers (eighth resolution)

The Annual General Meeting is asked to renew the tenure as director of Mr Jean-Pierre Meyers for a period of three years, on the condition precedent of approval of the fifteenth resolution with regard to amendment of the Articles of Association as mentioned above.

This renewal for a tenure that is shorter than the current term of office of four years set by the Articles of Association falls within the scope of the staggering of the directors' terms of offices (see above, regarding the renewal of the term of office of Mr Werner Bauer).

This tenure will then expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the previous financial year.

5.1.1.7. Renewal of the tenure as director of Mr Louis Schweitzer (ninth resolution)

The Annual General Meeting is asked to renew the tenure as director of Mr Louis Schweitzer for a period of four years.

This tenure will expire at the end of the Annual General Meeting to be held in 2013 to review the financial statements for the previous financial year.

5.1.1.8. Authorisation for the company to buy back its own shares (tenth resolution)

During 2008 and up until February 16th, 2009, the Board of Directors continued with the implementation of its policy of buying back then cancelling shares: 12.787 million shares were bought back, for a total amount of €943.4 million, while 19.568 million shares were cancelled. As the existing authorisation is due to expire in October 2009, a proposal is made to the Annual General Meeting that it should grant the Board a further authorisation enabling it to continue with its share buyback policy, depending on the opportunities that may arise, and except during periods of public offers with regard to the company's capital.

A detailed report on the transactions carried out and a description of the authorisation that is being put to your vote are included in the chapter of the Management Report entitled "Buyback by the Company of its own shares".

The authorisation would be granted for a period of 18 months at a purchase price per share that may not be greater than €130. The authorisation would concern no more than 10% of the capital for a maximum amount of €7,8 billion, it being stipulated that the company may at no time hold over 10% of its own capital.

It is specified that this authorisation would take effect on the date on which the Board of Directors decides on its implementation and will terminate eighteen months at the latest after the Annual General Meeting.

5.1.2. Extraordinary part

5.1.2.1. Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts (eleventh resolution)

It is proposed that the Annual General Meting should give an authorisation to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts.

The total amount of the capital increases that may thus be carried out immediately and/or in future may not lead to the share capital which currently amounts to €119,689,042 being increased to over €175,000,000, which corresponds to a maximum increase of €55,310,958 compared to the current capital, i.e. an increase of 46.21% of the current capital.

No overallocation option is provided for.

The delegation of authority would be valid for a period of 26 months, as from the date of the Annual General Meeting.

5.1.2.2. Authorisation given to the Board of Directors to grant stock options to purchase and/or subscribe for shares (twelfth resolution)

It is proposed that the Annual General Meeting should give an authorisation to the Board of Directors to grant stock options to purchase and/or subscribe for shares.

Stock-options bring the interests of their beneficiaries more closely into line with the interests of the shareholders themselves by having them share the same confidence in the strong and steady growth of the company.

The aim is to give the Board of Directors the means to involve, motivate and foster loyalty particularly among the employees and corporate officers who, through their abilities and their commitment, contribute the most to the Group's performance. Stock options also form part of L'Oréal's strategy of encouraging or attracting talented individuals.

The beneficiaries would be employees and certain corporate officers. The total number of stock options that could be granted within the scope of this authorisation may not give entitlement to subscribe for or purchase a total number of shares representing more than 2% of the share capital at the date of the decision made by the Board of Directors.

The exercise price would be calculated as follows:

- the purchase price for the shares paid by the beneficiaries will be set by the Board of Directors, without any discount, on the date when the options are granted; this price may not be less than either the average of the closing prices for the twenty trading days before the day on which the options are granted, or the average purchase price of the shares held by the company pursuant to Articles L. 225-208 and L. 225-209 of the French Commercial Code;
- the share subscription price paid by the beneficiaries will be set by the Board of Directors, without any discount, on the day the options are granted; this price may not be less than the average of the closing prices for the twenty trading days before the day on which the options are granted.

In accordance with the AFEP-MEDEF Code of Corporate Governance of December 2008:

- potential grants of stock options will be decided by the Board of Directors on the basis of proposals by the General Management reviewed by the Remuneration Committee after evaluation of the performance of the corporate officers;
- the exercise by the corporate officers of all the options will be linked to performance conditions to be met, which will take into account partly the rate of growth in L'Oréal's sales as compared to the market growth rate and partly the ratio between the contribution before advertising and promotion expenses (operating profit + advertising and promotion expenses) and cosmetics sales, all the above being assessed on the basis of the average for the last full financial years prior to the end of the lock-up period;
- the number of options granted to the corporate officers may not represent more than 10% of the total number of options granted by the Board for this 26-month period;
- the corporate officers will be obliged to retain a certain number of the shares resulting from the exercise of the stock options in registered form until the termination of their duties. This has been set by the Board of Directors at a number of shares corresponding to 50% of the *"balance of the shares resulting from the exercise of the stock options"*. The methods of calculation of this balance are described in the Management Report of the Board of Directors;
- the options will be granted, except in special circumstances, each year, after publication of the financial statements for the previous financial year and outside the periods specified by Article L. 225-177 of the French Commercial Code and by the Board of Directors;
- a corporate officer may not be granted stock options at the time of his departure.

The authorisation would be granted for a period limited to 26 months as from the date of the decisions made by the Annual General Meeting.

5.1.2.3. Authorisation given to the Board of Directors to make free grants of existing shares or shares to be issued (thirteenth resolution)

It is proposed that the Annual General Meeting should authorise the Board of Directors to make, on one or more occasions, free grants of existing shares or shares to be issued.

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

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

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

It is proposed to the Annual General Meeting that the free grant of shares to beneficiaries should become final and binding:

1. either, for all or part of the shares granted, at the end of a minimum vesting period of four years, in such case without any minimum retention period,
2. or, at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to retain these shares for a minimum period of two years after the date of the final grant thereof.

The Board of Directors will have the possibility, in any event, to set a longer vesting or retention period than these minimum periods, including in the event that the minimum retention period is abolished by the Annual General Meeting, which will make it possible, in particular, to adapt to the various local constraints.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares and the performance conditions to be met for the definitive grant will be assessed partly on the basis of comparable growth in sales compared to the cosmetics market growth rate, and partly on the ratio of operating profit as compared to published cosmetics sales, all the above being assessed on the basis of the average for the last full financial years prior to the date of definitive grant.

If the Annual General Meeting approves this resolution, any free grants of shares will be decided by the Board of Directors, on the basis of the proposals made by General Management reviewed by the Remuneration Committee.

The authorisation requested from the Annual General Meeting would be granted for a period limited to 26 months as from the date of the decision made by the Annual General Meeting. The expiry date of this authorisation would coincide with the end of the authorisation to grant stock options to purchase or subscribe for shares which is also being put to the vote of the Annual General Meeting.

5.1.2.4. Corresponding authorisation for the purpose of carrying out a capital increase reserved for employees (fourteenth resolution)

The delegation of authority to the Board of Directors to increase the share capital, and the authorisations to grant stock options to subscribe for shares and to make free grants of shares to be issued, give rise to a corresponding obligation to submit to the Annual General Meeting a draft resolution enabling a potential capital increase to be carried out reserved for employees.

In accordance with Article L. 3332-19 of the French Labour Code, the issue price may not exceed the average of the closing prices for the twenty trading days before the date of the decision setting the opening date of the subscription period. It may also not be more than 20% lower than this average, unless a blocking period of at least ten years is provided for in respect of the shares subscribed, in which case the issue price may not be more than 30% lower than this average.

The Annual General Meeting is therefore asked to delegate to the Board of Directors, for a period of 26 months, and within a limit of 1% of the share capital, the power to decide to carry out the said capital increase.

5.1.2.5. Amendment of Article 8 paragraph 2 of the Articles of Association with regard to the length of the terms of office of directors (fifteenth resolution)

It is proposed that the Annual General Meeting should decide to amend Article 8 paragraph 2 of the Articles of Association in order to organise the harmonious renewal of the terms of office of the members of the Board of Directors (AFEP-MEDEF Code of Corporate Governance of December 2008).

If this resolution is adopted, the Board of Directors will have the power to propose to the Annual General Meeting the renewal of the terms office of the directors for a period of four years, and by way of exception for periods of between one and three years.

A harmonious renewal of the directors may then be made every year for one-fourth of the members of the Board of Directors, for the term of office of four years provided for in the Articles of Association.

5.1.2.6. Amendment of Article 15A 3° of the Articles of Association relating to the distribution or allocation of profits (preferential dividend) (sixteenth resolution)

It is proposed that the Annual General Meeting should decide to amend article 15A 3° of the Articles of Association in order to incorporate the notion of a preferential dividend.

This proposal would make it possible for any shareholder who can prove, at the end of a financial year, that his shares have been held in registered form for at least two years, to benefit from a preferential dividend on the registered shares, equal to 10% of the dividend per share voted by the Annual General Meeting (initial dividend plus additional dividend).

The number of shares eligible for these preferential dividends may not exceed, for the same shareholder, 0.5% of the share capital at the end of the past financial year.

The first preferential dividend, in accordance with French law, may not be allocated prior to the end of the second financial year following its inclusion the Articles of Association, that is the dividend of 2011 paid after the AGM of 2012.

5.1.2.7. Powers for formalities (seventeenth resolution)

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

5.2. Draft resolutions

Agenda

Ordinary part

First resolution
Approval of the 2008 parent company financial statements,

Second resolution
Approval of the 2008 consolidated financial statements,

Third resolution
Allocation of the company's net income for 2008 and declaration of the dividend,

Fourth resolution
Regulated agreements and regulated commitments,

Fifth resolution
Renewal of the tenure as director of Mr Werner Bauer,

Sixth resolution
Renewal of the tenure as director of Mrs Françoise Bettencourt Meyers,

Seventh resolution
Renewal of the tenure as director of Mr Peter Brabeck-Letmathe,

Eighth resolution
Renewal of the tenure as director of Mr Jean-Pierre Meyers,

Ninth resolution
Renewal of the tenure as director of Mr Louis Schweitzer,

Tenth resolution
Authorisation for the company to buy back its own shares,

Extraordinary part

Eleventh resolution
Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts,

Twelfth resolution
Authorisation given to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares,

Thirteenth resolution
Authorisation given to the Board of Directors to make free grants of existing shares and/or shares to be issued to employees,

Fourteenth resolution
Delegation of authority granted to the Board of Directors for the purpose of carrying out a capital increase reserved for employees,

Fifteenth resolution
Amendment of Article 8 paragraph 2 of the Articles of Association with regard to the length of the terms of office of the directors,

Sixteenth resolution
Amendment of Article 15A 3° of the Articles of Association relating to the distribution or allocation of profits (preferential dividend),

Seventeenth resolution
Powers for formalities.

5.2.1. Ordinary part

First resolution

Approval of the 2008 parent company financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the report of the Board of Directors and the 2008 parent company financial statements showing net income of €1,552,103,144.14 compared with €2,822,429,471.46 for 2007.

Second resolution

Approval of the 2008 consolidated financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the 2008 consolidated financial statements.

Third resolution

Allocation of the company's net income for 2008 and declaration of the dividend

The Annual General Meeting, on the proposal of the Board of Directors, decides to allocate the net income for the 2008 financial year, amounting to €1,552,103,144.14, as follows:

En euros	
No allocation to the legal reserve which already represents over one-tenth of the share capital	-
An amount of will be allocated to shareholders as a dividend (1)	€861,761,102.40
The balance that is will be allocated to the «Other reserves» item	€690,342,041.74

(1) *Including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. the total amount of the share capital.*

This amount takes into account the total number of shares forming the capital at February 16th, 2009, and will be adjusted to reflect the number of shares issued or allocated following the exercise of stock options with 2008 dividend rights on the dividend payment date.

The Annual General Meeting therefore declares a net dividend to be paid for the financial year of €1.44 per share. The Annual General Meeting decides that this dividend will be paid on Friday April 24th, 2009. The amount of distributable income corresponding to the dividends on treasury shares held by the company on such date being allocated to the "Ordinary reserve" item.

It is to be noted that for natural persons who have their tax residence in France, the dividend is liable for personal income tax on the basis of the progressive scale of tax rates and is eligible for the tax deduction provided for in Article 158-3-2 of the French Tax Code, unless such natural person otherwise elects, at the time of receipt of the dividends or on income received during the same year, for the fixed levy in final discharge provided for in Article 117 quater of the French Tax Code.

The table set out below gives the amounts of the dividends distributed, that were fully eligible for the tax deduction provided for in Article 158-3-2 of the French Tax Code, for the last three financial years:

	2005	2006	2007
Dividend per share	€1.00	€1.18	€1.38

Fourth resolution

Regulated agreements and regulated commitments

The Annual General Meeting, having reviewed the special report of the Statutory Auditors provided for in Article L. 225-40 of the French Commercial Code, records that no regulated agreement or new regulated commitment has been entered into during the financial year ended December 31st, 2008 and records the information with regard to the agreements entered into and commitments made during previous financial years.

5.2.2. Tenure of directors

Fifth resolution

Renewal of the tenure as director of Mr Werner Bauer

The Annual General Meeting renews the tenure as director of Mr Werner Bauer for a period of three years, on the condition precedent of approval of the fifteenth resolution with regard to amendment of the provisions of Article 8 paragraph 2 of the Articles of Association.

His tenure will expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the previous financial year.

Sixth resolution

Renewal of the tenure as director of Ms Françoise Bettencourt Meyers

The Annual General Meeting renews the tenure as director of Ms Françoise Bettencourt Meyers for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2013 to review the financial statements for the previous financial year.

Seventh resolution

Renewal of the tenure as director of Mr Peter Brabeck-Letmathe

The Annual General Meeting renews the tenure as director of Mr Peter Brabeck-Letmathe for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2013 to review the financial statements for the previous financial year.

Eighth resolution

Renewal of the tenure as director of Mr Jean-Pierre Meyers

The Annual General Meeting renews the tenure as director of Mr Jean-Pierre Meyers for a period of three years, on the condition precedent of approval of the fifteenth resolution with regard to amendment of the provisions of Article 8 paragraph 2 of the Articles of Association.

His tenure will expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the previous financial year.

Ninth resolution

Renewal of the tenure as director of Mr Louis Schweitzer

The Annual General Meeting renews the tenure as director of Mr Louis Schweitzer for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2013 to review the financial statements for the previous financial year.

Tenth resolution

Authorisation for the company to buy back its own shares

The Annual General Meeting, having reviewed the report of the Board of Directors, decides to authorise the Board of Directors, effective as of the date set out hereinafter, with the possibility for it to delegate, to trade in the company's shares on the Stock Exchange or otherwise, in accordance with Articles L. 225-209 *et seq* of the French Commercial Code, and subject to the following conditions:

- the purchase price per share may not be greater than €130;
- the number of shares that may be bought by the company may not exceed 10% of the number of shares forming the capital of the company at the time the shares are bought back, that is, for information purposes, as of February 16th, 2009, 59,844,521 shares for a maximum amount of €7.8 billion, it being stipulated that the company may at no time hold over 10% of its own capital.

In the event of any transaction affecting the company's capital, in particular through capitalisation of reserves followed by the issue and grant of bonus shares, and/or share splits or reverse share splits, the amounts indicated above will be adjusted on the basis of the characteristics of the transaction.

The company may buy its own shares for the following purposes:

- their cancellation for purposes of optimising shareholders' equity and net earnings per share by a reduction in the capital, in accordance with the authorisation granted by the Ordinary and Extraordinary General Meeting on April 22nd, 2008 for a period of 26 months;
- their allocation to employees and corporate officers of the company and affiliates, under the terms and conditions provided for by French law, and in particular within the scope of employee profit-sharing schemes, share purchase options, free grants of shares or company savings schemes;
- stabilising the market through a liquidity agreement entered into with an investment services provider;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase of these shares may be carried out by any means, on one or more occasions, on or off the stock markets, including through the acquisition of blocks of shares.

These transactions may be carried out at any time, in accordance with the regulations in force at the time of the transactions concerned, except during periods of public offers with regard to the company's capital.

The Annual General Meeting decides that this authorisation:

- shall take effect on the date when the Board of Directors decides on its implementation, and that this decision will automatically lead to expiry of the authorisation to buy back the company's shares granted by the Annual General Meeting on April 22nd, 2008, which shall remain in force until such date;
- shall expire at the end of a period of 18 months following this Annual General Meeting.

The Annual General Meeting grants full powers to the Board of Directors, with the possibility for it to delegate, to make all trades, enter into all agreements, prepare all documents, particularly for information purposes, carry out all formalities and make all declarations and filings with all organisations and, in general, take all actions that are necessary for the implementation of this resolution.

5.2.3. Extraordinary part

Eleventh resolution

Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts

The Annual General Meeting, having reviewed the report of the Board of Directors and in accordance with Articles L. 225-109 *et seq* of the French Commercial Code, in particular Article L. 225-129-2 of the French Commercial Code:

1. delegates to the Board of Directors the authority to decide on one or more increases in the share capital:

a. through the issue of ordinary shares of the company,

b. and/or via the capitalisation of share premiums, reserves, profits or other amounts which it will be possible to capitalise pursuant to French law and the Articles of Association in the form of allocations of bonus shares or an increase in the par value of existing shares.

The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months as from the date of this meeting;

2. decides that the total amount of the capital increases that may thus be carried out either immediately and/or in future may not lead to the share capital, which currently amounts to €119,689,042 being increased to over €175,000,000, i.e., for information purposes, a maximum increase of €55,310,958 as compared with the current capital;

3. decides, if the Board of Directors uses this delegation of authority within the scope of the share issues referred to in paragraph 1.a that:

a. the shareholders will have a preferential subscription right to the shares issued pursuant to this resolution, in proportion to the amount of their shares,

b. if subscriptions made by shareholders by way of right on the basis of the shares they hold and, where applicable, their subscriptions for excess shares, do not cover the full number of shares or securities issued as defined above, the Board will be able to offer to the public all or part of the non-subscribed shares or securities;

4. decides that, if the Board of Directors uses this delegation of authority within the scope of capitalisations of share premiums, reserves, profits or other amounts referred to in paragraph 1.b, where applicable, in accordance with the provisions Article L. 225-130 of the French Commercial Code, the fractional share rights will not be negotiable or transferable and the corresponding shares will be sold; the amounts derived from the sale will be allocated to the holders of the rights within thirty days at the latest after entry in their account of the whole number of shares allocated;

5. records that this delegation renders ineffective any prior delegation for the same purpose.

Twelfth resolution

Authorisation given to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares

The Annual General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors:

- authorises the Board of Directors to grant options to purchase existing shares and/or to subscribe for new shares of L'Oréal, to employees or corporate officers of both L'Oréal or companies or economic interest groupings that are directly or indirectly affiliated with it under the conditions of Article L. 225-180 of the French Commercial Code;
- sets at 26 months from the date of this General Meeting the period of validity of this authorisation which may be used on one or more occasions;
- decides that the total number of options thus granted may not, over this 26-month period, make it possible to subscribe for or purchase a total number of shares representing more than 2% of the share capital on the date of the Board of Directors' decision;
- decides that the number of options granted to corporate officers may not represent over 10% of the total allocations made by the Board over this 26-month period, the exercise of such options being linked to performance conditions to be met set by the Board of Directors;
- decides that:

– the purchase price for the shares paid by the beneficiaries will be set by the Board of Directors, without any discount, on the date when the options are granted; this price may not be less than either the average of the closing prices for the twenty trading days before the day on which the options are granted, or the average purchase price of the shares held by the company pursuant to Articles L. 225-208 and L. 225-209 of the French Commercial Code;

– the share subscription price paid by the beneficiaries will be set by the Board of Directors, without any discount, on the day the options are granted; this price may not be less than the average of the closing prices for the twenty trading days before the day on which the options are granted;

- decides that the options must be exercised within a maximum period of ten years as from the date on which they are granted;

- decides that if the company carries out financial transactions in particular affecting the capital after the allocation of the options, the Board of Directors will take the necessary steps to protect the interests of the beneficiaries of the options under the conditions provided for by the laws and regulations;
- records that this authorisation entails, in favour of the beneficiaries of options to subscribe for shares, express waiver by the shareholders of their preferential subscription rights to the shares that will be issued as and when the options are exercised;
- delegates full powers to the Board of Directors, with the possibility to further delegate to the Chief Executive Officer, to set the other terms and conditions for allocation of the options and their exercise, and notably to:

– provide for the possibility to temporarily suspend the exercise of options, in the event that any financial or securities transactions are carried out;

– deduct, if it deems it appropriate, the expenses incurred to increase the share capital from the amount of the share premiums related to these increases and to deduct from this amount the sums required to raise the legal reserve to one-tenth of the new share capital after each capital increase;

- delegates full powers to the Board of Directors to implement this authorisation, with the possibility to further delegate in accordance with the conditions of the laws and regulations, and particularly to record the increases in the share capital resulting from the options which are exercised, to amend the Articles of Association accordingly, to carry out all actions and formalities or have them carried out, and more generally to do all that is necessary;
- records that this authorisation renders ineffective, as from the date hereof, any previous authorisation for the same purpose, to the extent of the unused part, if any.

Thirteenth resolution

Authorisation given to the Board of Directors to make free grants of existing shares and/or shares to be issued to employees

The Extraordinary General Meeting, having reviewed the Report of the Board of Directors and the special report of the Statutory Auditors, in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code:

- authorises the Board of Directors to carry out, on one or more occasions, to employees of the company or of affiliates within the meaning of Article L. 225-197-2 of the French Commercial Code or certain categories of such employees, free grants of existing shares or shares to be issued of L'Oréal;
- sets at 26 months as from the date of this meeting, the period of validity of this authorisation which may be used on one or more occasions;
- decides that the Board of Directors will determine the identity of the beneficiaries of the grants, and the performance conditions to be met for the grant to become definitive;
- decides that the number of shares thus granted free of charge may not represent over 0.2% of the share capital on the date of the Board of Directors' decision;
- decides that the grant of these shares to their beneficiaries will become final and binding:

i) either, for all or part of the shares granted, at the end of a minimum vesting period of four years, in such case without any minimum holding period,
ii) or, at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of the final grant thereof;

- decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (Code de la sécurité sociale) and that such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code;
- authorises the Board of Directors to make, where applicable, during the vesting period, adjustments to the number of shares related to any potential transactions with regard to the company's capital in order to preserve the rights of the beneficiaries;
- records that this authorisation automatically entails, in favour of the beneficiaries of shares granted free of charge, the waiver by the shareholders of their preferential subscription rights in the event of the issue of new shares;
- delegates full powers to the Board, with the possibility to delegate within the legal limits, to implement this authorisation, it being specified that the Board of Directors will be able to provide for longer vesting and holding periods than the minimum periods provided for above.

Fourteenth resolution

Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees

The Annual General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors, and acting in accordance with the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code (Code du travail):

- delegates to the Board of Directors the authority to decide to carry out, on one or more occasions, on its own decisions, in the proportions and at the times it may consider appropriate, the issue of shares reserved for employees (or former employees) of the company or of its affiliates as defined by Article L. 225-180 of the French Commercial Code who are members of a company savings scheme and of any unit trusts through which the shares thus issued may be subscribed by them;

- decides to cancel the preferential subscription right of shareholders for the shares issued in accordance with this authorisation, for the benefit of employees (or former employees) of the company or of its affiliates as defined by Article L. 225-180 of the French Commercial Code who are members of a company savings scheme and of any unit trust through which the shares thus issued may be subscribed by them;
- sets the period of validity of this delegation at 26 months as from the date of this General Meeting, and records that this delegation renders ineffective any prior delegation for the same purpose;
- decides to set at 1% of the share capital existing at the date of this General Meeting, the capital increase that could thus be completed, that is (as at February 16th, 2009) an increase in the share capital by a maximum nominal amount of €1,196,890.40 through the issue of 5,984,452 new shares;
- decides that the price of the shares subscribed for by the beneficiaries referred to above, pursuant to this delegation, will be set in accordance with the provisions of Article L. 3332-19 of the French Labour Code;
- decides that the Board of Directors will have full powers to implement this delegation of authority within the limits and under the conditions specified above in particular in order to:

– set the conditions that must be met by the employees (or former employees) to be able to subscribe, individually or through a unit trust, for the shares issued pursuant to this delegation,

– adopt the conditions of the share issue,

– decide on the list of the companies whose employees may benefit from the share issue,

– decide the amount to be issued, the issue price, the dates and terms and conditions of each share issue,

– set the time period allotted to the members to pay up their shares,

– set the date, even with retrospective effect, as of which the new shares will carry dividend rights, record or cause to be recorded the completion of the capital increase for the amount of the shares that have been effectively subscribed to, or decide to provide for a higher amount of such increase so that all the subscriptions received can effectively be covered,

– deduct, where applicable, the costs, taxes and fees of such issues from the amount of the share premiums and deduct, where applicable, from the amounts of the share premiums, the amounts required to allocate them to the legal reserve to set such reserve at the level required by the French legislation and regulations in force,

– in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be appropriate or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and, in particular, for the issue, subscription, delivery, granting of dividend rights for, listing, negotiability and financial servicing of the new shares and the exercise of the rights attached thereto, and to record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

5.2.4. Amendment of the Articles of Association

Fifteenth resolution

Amendment of Article 8 paragraph 2 of theArticles of Association with regard to the length of the terms of office of directors

The Annual General Meeting, having reviewed the report of the Board of Directors, decides to amend Article 8 paragraph 2 of the Articles of Association, in order to make it possible to organise the harmonious renewal of the terms of office of the members of the Board of Directors.

Accordingly, paragraph 2 of such Article that is currently drafted as follows:

"The term of office of each director is four years."

will be replaced by the following wording:

"The length of the terms of office of directors is four years. By way of exception, the Annual General Meeting may appoint a director for a term of office of one, two or three years, in order to provide for staggered renewal of the directors' terms of office."

Sixteenth resolution

Amendment of Article 15A 3° of the Articles of Association relating to the distribution or allocation of profits (preferential dividend)

The Annual General Meeting, having reviewed the report of the Board of Directors, decides to amend Article 15A 3° of the Articles of Association, in order to incorporate the notion of a preferential dividend.

Accordingly, Article 15A 3° which is currently drafted as follows:

"The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income."

will be replaced by the following wording:

"The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

However, any shareholder who can prove at the end of a financial year, that his shares have been held in registered form for at least two years and that they continue to be in registered form at the date of payment of the dividend paid for such financial year, will be entitled to a preferential dividend on the shares that are thus registered, equal to 10% of the dividend (initial dividend and additional dividend) paid on the other shares, including in the event of payment of the dividend in new shares, the preferential dividend thus paid being rounded down to the nearest lower cent, if necessary.

Similarly, any shareholder who can prove, at the end of a financial year, that his shares have been held in registered form for at least two years and that they continue to be registered in his name at the date of completion of an increase in capital carried out through capitalisation of reserves, profits or share premiums by the distribution of bonus shares, shall be entitled to an increase in the number of bonus shares to be distributed to him, equal to 10%, this number being rounded down to the nearest lower unit in the event of fractional share rights.

The new shares created in this manner will be identical, for the purposes of calculating the rights to the preferential dividend and to the increased share allocations, to the old shares from which they result.

The number of shares eligible for these preferential dividends may not exceed 0.5% of the share capital at the closing date of the past financial year, for the same shareholder."

Seventeenth resolution

Powers for formalities

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

6

Additional information

6

6.1. General information relating to the company

6.1.1. Share capital

See information on pages 79 to 84 of this Document.

6.1.2. Legal form

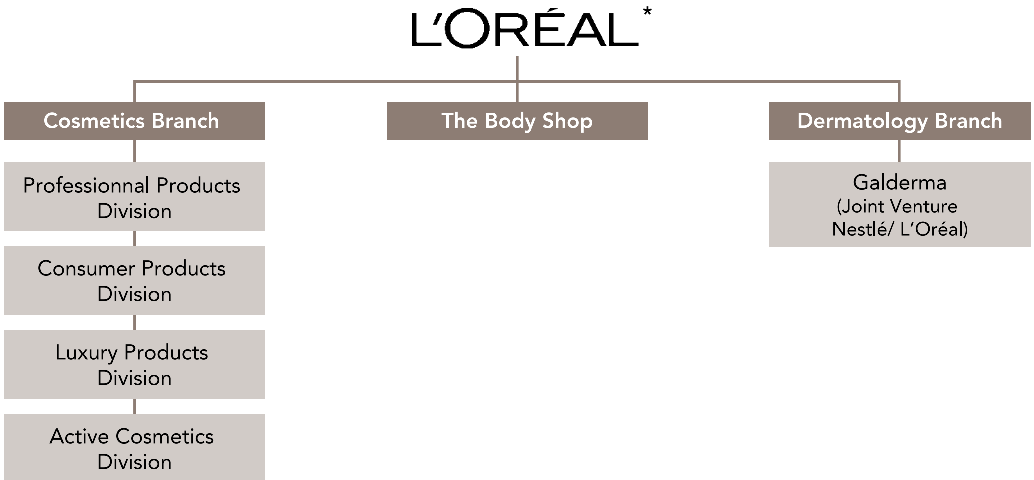
L'Oréal is incorporated in France as a "société anonyme".

6.1.3. Law governing the Issuer

French law.

6.1.4. Business activity

The L'Oréal company, in addition to its role of strategic, scientific and industrial coordination of the Group on a global basis, also functions as a holding company and performs a sales activity that is specific to France. Most of the subsidiaries have a role of development and marketing of the products made in the Group's factories. L'Oréal wholly owns the vast majority of its subsidiaries (see the organisation chart set out below). In the other subsidiaries, minority interests are not material. It also has substantial investments in non-consolidated companies (pages 53 and 57 et pages 154 to 157).



* Almost all subsdiaries are directly attached to L'Oréal S.A. with a holding or control percentage equal to or close to 100%. Their detailled list figures in the annexes of the consolidated and Parent Company financial statements on pages 53 to 57 and 154 to 157 respectively.

6.1.5. Date of Incorporation and term of the company (Article 5 of the Articles of Association)

"The company's term shall be ninety-nine years, which began to run on January 1st, 1963 and which shall thus expire on December 31st, 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association."

6.1.6. Purpose of the company (extracts from Article 2 of the Articles of Association)

"The company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows:

- the manufacturing and the sale of cosmetics products in general; of all devices intended for the same uses as the products listed above; of all household maintenance products; of all products and articles relating to feminine and child hygiene and to the embellishment of human beings; the demonstration and advertising of such products; the manufacturing of packaging articles;

- the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution;
- all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the company's interest, in any form whatsoever;
- the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies, the contribution to pre-existing companies, the merger or the alliance with such companies."

6.1.7. Company registration number

632 012 100 Paris Trade and Companies Registry.

6.1.8. Consultation of documents relating to the company

The Articles of Association, financial statements, reports and information for shareholders can be consulted at 41 rue Martre, 92117 Clichy, France, preferably by appointment. See also the www.loreal-finance.com website.

6.1.9. Fiscal year (Article 14 of the Articles of Association)

"Each fiscal year shall have a duration of twelve months, to begin on January 1st and to end on December 31st of each year."

6.1.10. Distribution of profits (Article 15 of the Articles of Association)

" A. From the distributable profits, the following amounts shall be withheld, in the following order:

1. The amount required to pay the "primary dividend" to the shareholders equal to 5% of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.
2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next fiscal year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds.

Such reserve fund(s), which shall not bear any interest, may be distributed to the shareholders, or allocated to complete the 5% primary dividend for the shareholders, in the event of insufficient results during one or more fiscal years, or to acquire and to cancel shares or investment certificates in the company, or to redeem in whole or in part such shares or investment certificates.

3. The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

B. The losses (if any) shall be charged to the retained earnings from preceding fiscal years or to the reserve funds, and the balance shall be booked into a special carry forward account.

6.1.11. Annual General Meetings

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection.

Since the Annual General Meeting of April 29th, 2004, double voting rights have been eliminated.

6.1.12. Statutory share ownership threshold

"Any holder, whether direct or indirect, of a fraction of the company's share capital equal to 1%, or to a multiple of this percentage lower than 5%, is required to inform the company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association). This provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, of thresholds relating to one-twentieth, one-tenth, three-twentieths, one-fifth, one-quarter, one-third, one-half, two thirds, eighteen-twentieths or nineteen-twentieths of share capital or of voting rights (Article L. 233-7 of the French Commercial Code).

"If not disclosed in accordance with the conditions stipulated by law or by the Articles of Association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital, so request during the meeting" (Article 7, paragraph 3 of the Articles of Association).

6.2. The L'Oréal share

6.2.1. Information on the L'Oréal share

Isin code: FR0000120321.

Minimum lot: 1 share.

Par value: €0.2.

Trading on the spot market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD). Unsponsored American Depositary Receipts are freely traded in the United States through certain banks operating in the United States.

6.2.2. Share price

Price at December 31st, 2008	€62.30
High	€99.26 at January 2nd, 2008
Low	€53.32 at October 31st, 2008
Annual decrease in share price at December 31st, 2008	
• L'Oréal	-36.42%
• CAC 40	-42.68%
• Euronext 100	-45.25%
• DJ Euro Stoxx 50	-44.28%
Market capitalisation at December 31st, 2008	€37.53 billion
At December 31st, 2008, the L'Oréal share accounted for:	
• of the CAC 40	2.88%
• of the Euronext 100	3.05%
• of the DJ Euro Stoxx 50	1.18%

6.3. L'Oréal share market

6.3.1. Trading volume and change in the price of the company's share

Date	Price			Average daily trading volume (€ millions)
	High	Low	Average	
2006				
January	67.05	62.30	64.86	108.90
February	76.45	65.15	69.57	129.66
March	75.90	71.90	74.08	101.46
April	74.80	70.60	72.75	101.54
May	75.00	66.70	71.08	147.08
June	73.90	65.60	69.30	99.91
July	79.30	71.65	74.68	98.66
August	84.05	76.60	78.68	109.66
September	82.00	76.65	79.20	105.47
October	80.90	74.55	77.48	116.94
November	79.90	75.65	77.88	82.26
December	79.00	74.35	76.33	87.91
2007				
January	81.85	74.25	77.00	118.56
February	83.24	79.10	81.12	112.01
March	82.30	76.40	79.10	131.51
April	89.20	81.42	85.93	142.89
May	88.50	84.07	86.72	143.90
June	90.24	84.85	87.45	127.14
July	88.74	81.11	85.11	135.64
August	88.87	81.17	84.32	143.39
September	93.49	82.89	88.63	135.67
October	94.90	87.90	91.83	117.97
November	95.80	86.50	91.72	118.48
December	99.97	93.30	96.50	115.86
2008				
January	99.26	74.25	86.62	205.43
February	87.89	77.87	81.85	135.27
March	82.73	75.56	78.72	137.87
April	85.19	72.47	77.70	154.00
May	79.65	76.26	77.81	102.11
June	78.70	66.00	73.06	110.42
July	70.38	60.62	66.51	118.92
August	75.10	66.27	69.99	95.28
September	78.50	67.24	71.84	149.52
October	70.80	53.32	63.39	183.47
November	67.90	57.78	62.10	109.40
December	64.80	58.26	61.86	81.26
2009				
January	65.40	50.00	56.95	83.78
February	56.00	50.00	52.66	72.18

6.3.2. Total Shareholder Return

Amongst the various economic and financial indicators used to measure shareholder value, L'Oréal has chosen to apply the criterion of Total Shareholder Return (TSR). This indicator takes into account not only the value of the share but also the dividend income received (excluding tax credits).

6.3.2.1. 3-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.2005	Purchase of 238 shares at €62.80	€14,946.40		238
05.10.2006	Dividend: €1.00 per share, excluding tax credit		€238.00	238
	Reinvestment: purchase of 4 shares at €72.65	€290.60		242
05.03.2007	Dividend: €1.18 per share, excluding tax credit		€285.56	242
	Reinvestment: purchase of 4 shares at €86.67	€346.68		246
04.30.2008	Dividend: €1.38 per share, excluding tax credit		€339.48	246
	Renvestment: purchase of 5 shares at €76.21	€381.05		251
Total		**€15,964.73**	**€863.04**	
Total net investment		**€15,101.69**		

Portfolio value at 12.31.2008 (251 shares at €62.30): €15,637.30.

The initial capital has thus been multiplied by 1.05 over 3 years (3-year inflation rate = 5.5% - Source: INSEE) and the final capital is 1.04 times the total net investment.

The Total Shareholder Return of the investment is thus 1.14% per year (assuming that the shares are sold on December 31st, 2008, excluding tax on capital gains).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.3.2.2. 10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons and fractional allocation

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1998	Purchase of 24 shares at €615.89	€14,781.36		24
06.15.1999	Dividend: €2.82 per share, excluding tax credit		€67.69	24
	Reinvestment: purchase of 1 share at €586.50	€586.50		25
06.15.2000	Dividend: €3.40 per share, excluding tax credit		€85.00	25
	Reinvestment: purchase of 1 share at €825.00	€825.00		26
07.03.2000	Ten-for-one share split			260
06.08.2001	Dividend: €0.44 per share, excluding tax credit		€114.40	260
	Reinvestment: purchase of 2 shares at €78.15	€156.30		262
06.04.2002	Dividend: €0.54 per share, excluding tax credit		€141.48	262
	Reinvestment: purchase of 2 shares at €74.95	€149.90		264
05.27.2003	Dividend: €0.64 per share, excluding tax credit		€168.96	264
	Reinvestment: purchase of 3 shares at €61.10	€183.30		267
05.14.2004	Dividend: €0.73 per share, excluding tax credit		€194.91	267
	Reinvestment: purchase of 4 shares at €63.65	€254.60		271
05.11.2005	Dividend: €0.82 per share		€222.22	271
	Reinvestment: purchase of 4 shares at €56.50	€226.00		275
05.10.2006	Dividend: €1.00 per share		€275.00	275
	Reinvestment: purchase of 4 shares at €72.65	€290.60		279
05.03.2007	Dividend: €1.18 per share		€329.22	279
	Reinvestment: purchase of 4 shares at €86.67	€346.68		283
04.30.2008	Dividend: €1.38 per share		€390.54	283
	Reinvestment: purchase of 6 shares at €76.21	€457.26		289
Total		€18,257.50	€1,989.42	
Total net investment		**€19,268.08**		

Porfolio value at 12.31.2008 (289 shares at €62.30): €18,004.70.

The initial capital has thus been multiplied by 1.22 over 10 years (10-year inflation rate = 19.5% - Source: INSEE) and the financial capital is 1.11 times the total net investment.

The Total Shareholder Return of the investment is thus 1.04% per year (assuming that the shares are sold on December 31st, 2008, excluding tax on capital gains).

NOTE: any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.3.2.3. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons and fractional allocation

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1988	Purchase of 22 shares at €670.62	14,753.64		22
06.30.1989	Dividend: €7.62 per share, excluding tax credit		167.69	22
	Reinvestment: purchase of 1 share at €697.61	697.61		23
06.29.1990	Dividend: €9.15 per share, excluding tax credit		210.38	23
	Reinvestment: purchase of 1 share at €827.80	827.80		24
07.06.1990	Ten-for-one share split			240
06.28.1991	Dividend: €1.07 per share, excluding tax credit		256.11	240
	Reinvestment: purchase of 3 shares at €87.20	261.60		243
06.26.1992	Dividend: €1.28 per share, excluding tax credit		311.18	243
	Reinvestment: purchase of 3 shares at €140.25	420.76		246
06.25.1993	Dividend: €1.46 per share, excluding tax credit		360.02	246
	Reinvestment: purchase of 3 shares at €167.69	503.07		249
06.28.1994	Dividend: €1.65 per share, excluding tax credit		409.97	249
	Reinvestment: purchase of 3 shares at €167.69	503.07		252
06.28.1995	Dividend: €1.86 per share, excluding tax credit		468.69	252
	Reinvestment: purchase of 3 shares at €185.84	557.52		255
06.28.1996	Dividend: €2.03 per share, excluding tax credit		517.03	255
	Reinvestment: purchase of 2 shares at €260.54	521.08		257
07.01.1996	Issue of bonus shares (1 for 10)			282
07.31.1996	Compensation for 7 unused share attribution rights at €22.86 per right		160.00	282
	Reinvestment: purchase of 1 share at €236.91	236.91		283
07.01.1997	Dividend: €2.13 per share, excluding tax credit		604.00	283
	Reinvestment: purchase of 2 shares at €393.93	787.86		285
06.12.1998	Dividend: €2.44 per share, excluding tax credit		695.17	285
	Reinvestment: purchase of 2 shares at €473.05	946.10		287
06.15.1999	Dividend: €2.82 per share, excluding tax credit		809.43	287
	Reinvestment: purchase of 2 shares at €586.50	1,173.00		289
06.15.2000	Dividend: €3.40 per share, excluding tax credit		982.60	289
	Reinvestment: purchase of 2 shares at €825.00	1,650.00		291
07.03.2000	Ten-for-one share split			2,910
06.08.2001	Dividend: €0.44 per share, excluding tax credit		1,280.40	2,910
	Reinvestment: purchase of 17 shares at €78.15	1,328.55		2,927
06.04.2002	Dividend: €0.54 per share, excluding tax credit		1,580.58	2,927
	Reinvestment: purchase of 22 shares at €74.95	1,648.90		2,949
05.27.2003	Dividend: €0.64 per share, excluding tax credit		1,887.36	2,949
	Reinvestment: purchase of 31 shares at €61.10	1,894.10		2,980
05.14.2004	Dividend: €0.73 per share, excluding tax credit		2,175.40	2,980
	Reinvestment: purchase of 35 shares at €63.65	2,227.75		3,015
05.11.2005	Dividend: €0.82 per share		2,472.30	3,015
	Reinvestment: purchase of 44 shares at €56.50	2,486.00		3,059
05.10.2006	Dividend: €1.00 per share		3,059.00	3,059
	Reinvestment: purchase of 43 shares at €72.65	3,123.95		3,102
05.03.2007	Dividend: €1.18 per share		3,660.36	3,102
	Reinvestment: purchase of 43 shares at €86.67	3,726.81		3,145
04.30.2008	Dividend: €1.38 per share		4,340.10	3,145
	Reinvestment: purchase of 57 shares at €76.21	4,343.97		3,202
Total		**44,620.05**	**26,407.77**	
Total net investment		**18,212.28**		

Portfolio value at 12.31.2008 (3,202 shares at €62.30): €199,484.60.

The initial capital has thus been multiplied by 13.52 over 20 years (20-year inflation rate = 45.4% - Source: INSEE) and the final capital is 10.95 times the total net investment.

The total Shareholder Return of the investment is thus 13.28% per year (assuming that the shares are sold on December 31st, 2008).

NOTE: any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.3.3. Dividends

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the Caisse des Dépôts et Consignations.

6.4. Investment policy

L'Oréal is an industrial company whose development is governed by three types of investment:

1. scientific investments and investments in equipment which are explained at length in several sections of the Annual Report (see, in particular, Volume 1, pages 27, 92 and 93),
2. marketing investments which are made on an ongoing basis and inherent to the Group's activities, particularly in the cosmetics industry. In order to win new market shares, thorough research has to be conducted all over the world, and advertising and promotional expenses have to be incurred which are modulated depending on the familiarity of the brands and their competitive position,
3. financial investments which are strictly occasional. They reflect a strategy of moderate external growth which is implemented essentially with a view to exploiting long term opportunities.

For reasons relating to strategy and competition, L'Oréal cannot therefore answer questions relating to future investments.

6

6.5. Information policy

Ever since its first listing on the Paris Stock Exchange over 45 years ago, L'Oréal has constantly been improving the sources of information available to its French and international shareholders and investors.

Based on the new organisation set up in 2007, the Financial Communications Department stepped up its actions in 2008 in order to meet the expectations of shareholders and investors and reply to their information requests during this turbulent period on the stock market.

The Group's shareholder information policy centres on several key events:

- two major financial information meetings for analysts and investors, to which journalists specialising in the cosmetics sector are invited. The presentations of the L'Oréal Group's financial results are broadcast live online on the financial website www.loreal-finance.com, and the charts presented at these financial information meetings are also made available online on the same day, both for the annual results and the half-year results. Widely used by everyone, our website won the Boursoscan first prize for financial information. This prize is awarded jointly by Boursorama, the leading stock market information site in France and Opinionway, a specialist survey firm;
- the Annual General Meeting, which is the high point in the dialogue between senior managers and shareholders;
- the Group's presentations to shareholders in several large provincial cities in France and also in foreign countries, in collaboration with the French Investment Club Federation (Fédération Française des Clubs d'Investissement – FFCI), the Society of Investor Relation Managers in France (Cercle de Liaison des Informateurs Financiers en France – CLIFF) and financial newspapers;
- outside France, numerous meetings with institutional investors in the main international financial centres are organised throughout the year;
- participation in the Actionaria Fair at the Palais des Congrès in Paris on November 21st and 22nd, 2008, enabled the many shareholders present to meet representatives of the L'Oréal Group face-to-face and to get to know more about one of its businesses through beauty care and make-up demonstrations arranged by Helena Rubinstein;
- final thanks to its rolling panel of shareholders and several shareholder surveys carried out over the year, L'Oréal is "ready to listen" to its shareholders and have them participate in developing and enriching its financial communication.

L'Oréal also offers its shareholders a wide range of documents presenting the Group, its strategy and recent developments, which are updated regularly to provide a more accurate presentation: The Annual Report, filed as a Reference Document, three Letters to Shareholders, together with a Shareholder Digest. All these documents are available in French and English on request and can be downloaded from the financial website www.loreal-finance.com. News releases and financial announcements complete the list of available information.

In 1997, L'Oréal created the specialised financial website www.loreal-finance.com for the use of international finance professionals and all its shareholders. This interactive resource, with a Shareholder's Corner that has been revised and enhanced in 2008, contains all the Group's financial and stock market information, and indicates the price of the L'Oréal share in real time. Tens of thousands of visits are made to the site each month.

Since 2005, L'Oréal has offered the possibility to be systematically advised in real time, thanks to electronic information (RSS Flow), of the publication of any new financial information. Moreover, a freephone service is available to L'Oréal shareholders calling from France (0 800 66 66 66) or other countries (+33 1 40 14 80 50). An interactive vocal server gives shareholders access to information on the share price and key dates or provides them with a summary of the latest press release 24 hours a day. The Shareholder Services department is also available on this number during opening hours (See also Volume 1, page 30 and 31).

6.6. Annual information document

This Annual Information Document has been drawn up in application of Article 451-1-1 of the French Monetary and Financial Code and Article 221-1-1 of the General Regulation of the AMF (*Autorité des Marchés Financiers*). This document lists the information published or made public by L'Oréal from January 1st, 2008 to February 28th, 2009 to meet its legal or regulatory obligations.

Information available on the www.loreal-finance.com website

6.6.1. Press releases

Date	Press releases
Weekly from January 7th, 2008 to November 17th, 2008	Disclosure of trading in own shares (available online on www.loreal-finance.com)
Monthly from January 31st, 2008 to February 28th, 2009	Disclosure of monthly trading in own shares and of the total number of voting rights and number of shares forming the share capital
January 7th, 2008	L'Oréal USA acquires Columbia Beauty Supply
January 23rd, 2008	Project for strategic agreement between L'Oréal and PPR regarding Yves Saint Laurent Beauté
January 24th, 2008	2007 sales
February 13th, 2008	Strong growth in 2007 annual sales
February 26th, 2008	News release concerning Galderma
March 3rd, 2008	Agreement for the acquisition of the entire capital of Le Club des Créateurs de Beauté
March 17th, 2008	Maison Martin Margiela and L'Oréal sign a partnership agreement
March 28th, 2008	Extraordinary and Ordinary General Meeting of April 22nd, 2008 / 2007 Annual Report
March 28th, 2008	Simplified notice of Shareholders Meeting published in "*La Vie Financière*"
April 7th, 2008	News release concerning Galderma
April 15th, 2008	First quarter 2008 sales
April 22nd, 2008	Extraordinary and Ordinary General Meeting of April 22nd, 2008
April 30th, 2008	News release concerning YSL Beauté
June 17th, 2008	European Commission approves acquisition of Yves Saint Laurent Beauté by L'Oréal
June 19th, 2008	L'Oréal announces the renewal of its share buyback programme
June 30th, 2008	YSL Beauté joins L'Oréal's Luxury Products Division
July 17th, 2008	First half 2008 sales
August 28th, 2008	First half 2008 financial report
October 30th, 2008	Sales at September 30th, 2008
November 28th, 2008	Board of Directors' Meeting
February 16th, 2009	2008 Annual Results
February 20th, 2009	Remuneration of L'Oréal Corporate Officers

6.6.2. Reference Document

Date	Type of document
March 27th, 2008	2007 Reference Document no. D. 08-0153 (AMF registration)

6.6.3. «Bulletin des annonces légales et obligatoires»

Date	Issue No.	Publication
February 8th, 2008	17	2007 sales
March 14th, 2008	32	Published notice of Shareholders' and Equity Interest Holders' meeting
April 4th, 2008	41	Notice to attend the Shareholders' and Equity Interest Holders' Meeting
April 4th, 2008	41	2007 consolidated annual and annual parent company financial statements
April 30th, 2008	52	Approval of 2007 financial statements
May 14th, 2008	59	1st quarter 2008 sales
August 13th, 2008	98	2nd quarter 2008 sales

6.6.4. Publication of notices in journals of legal notices

Journal of legal notices	Publication date	Purpose of notice
Les Petites Affiches	February 22nd, 2008, no. 39	Capital increase, capital reduction, amendment of the Articles of Association
La Gazette du Palais	April 4th-5th, 2008, no. 95-96	Notice to attend the Shareholders' meeting
Les Petites Affiches	September 29th, 2008, no. 195	Change in share capital and amendment of the Articles of Association

6.6.5. Information registered with the Paris Commercial Court

Publication date and number	Purpose of notice
02.25.2008, registration no. 17982	Capital increase and capital reduction (extract from the minutes of the Board of Directors' Meeting of February 13th, 2008)
02.25.2008, registration no. 17982	Updated Articles of Association at February 13th, 2008
05.02.2008, registration no. 18524	2007 consolidated annual financial statements
05.02.2008, registration no. 18525	2007 annual parent company financial statements
09.19.2008, registration no. 84514	Registration of the authorisation given to the Board of Directors to cancel shares acquired by the company within the scope of Articles L. 225-209 and L. 225-208 of the French Commercial Code (extract from the minutes of the Annual General Meeting of April 22nd, 2008)
10.13.2008, registration no. 91976	Capital increase and capital reduction (extract from the minutes of the Board of Directors' Meeting of August 28th, 2008)
10.13.2008, registration no. 91976	Updated Articles of Association at August 28th, 2008

6.7. Recent events and prospects

February 16th, 2009

2008 Annual Results: in a difficult environment, L'Oréal is proving resilient and continues to grow.

The full text of this news release is available online and can be consulted on the www.loreal-finance.com website.

To the knowledge of the company, at February 28th 2009, no event has occured that could have a significant impact on the financial or commercial situation of the Group since Decembre 31st, 2008.

6.8. Auditors

2006, 2007 and 2008	Date of first appointment	Term of office	Expiry date
Auditors			
PricewaterhouseCoopers Audit Auditor, member of the «Compagnie Régionale de Versailles», represented by Etienne Boris 63 rue de Villiers 92200 Neuilly-sur Seine (France)	April 29th, 2004	6 years	AGM reviewing the financial statements for 2009 to be held in 2010
Deloitte & Associés Auditor, member of the «Compagnie Régionale de Versailles», represented by Etienne Jacquemin 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 29th, 2004	6 years	
Substitute auditors			
Mr Yves Nicolas 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	6 years	
Mr Jean-Paul Picard 47 rue de Courcelles 75008 Paris (France)	May 29th, 2001 (1)	6 years	

(1) Renewed on April 29th, 2004.

6.9. Fees of Auditors and members of their networks charged to the Group

€ thousands excl. VAT	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Amount		%		Amount		%	
	2008	2007	2008	2007	2008	2007	2008	2007
Auditing	5,767	5,866	86%	80%	5,491	5,180	79%	83%
L'Oréal	999	1,086	15%	15%	978	1,171	14%	19%
Fully consolidated subsidiaries	4,768	4,780	71%	65%	4,513	4,009	65%	64%
Other related assignments	474	862	7%	12%	1,203	877	17%	14%
L'Oréal	87	14	1%	0%	823	449	12%	7%
Fully consolidated subsidiaries	387	848	6%	12%	380	428	5%	7%
Audit sub-total	**6,241**	**6,728**	**93%**	**92%**	**6,693**	**6,057**	**96%**	**97%**
Other services (legal/tax/employee-related)	449	625	7%	8%	286	194	4%	3%
Total	**6,690**	**7,353**	**100%**	**100%**	**6,979**	**6,251**	**100%**	**100%**

6.10. Historical financial information included by reference

In accordance with Article 28 of European Regulation EC No. 809-2004 of April 29th, 2004, this 2008 Reference Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31st, 2007, prepared in accordance with IFRS and the related Statutory Auditors' report presented on pages 5 to 56 of Volume 2 of the 2007 Reference Document filed with the Autorité des Marchés Financiers on March 27th, 2008 under the number D. 08-0153, and also information extracted from the 2007 Management Report presented on pages 59 to 65 of Volume 2 of the Reference Document;
- the consolidated financial statements for the year ended December 31st, 2006, prepared in accordance with IFRS and the related Statutory Auditors' report presented on pages 7 to 50 of Volume 2 of the 2006 Reference Document filed with the Autorité des Marchés Financiers on March 29th, 2007 under the number D. 07-0241, and also information extracted from the 2006 Management Report presented on pages 53 to 58 of Volume 2 of the Reference Document.

7 Statutory Auditors' report on the financial statements

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

7.1 Statutory Auditors' report on the financial statements

(Year ended December 31st, 2008)

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2008, on:

- the audit of the accompanying financial statements of L'Oréal;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31st, 2008, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matter:

Investments have been valued in accordance with the accounting methods described in the notes to the Company's financial statements under "Accounting policies – Financial Assets – Investments and advances". As part of our audit, we reviewed whether these accounting methods were appropriate and evaluated the assumptions used.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether qualified or not. This information is presented below the opinion on the financial statement and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Specific verifications and information

We have also performed the specific verifications required by law.

We have no matters to report regarding:
- the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information provided in the Management Report of the Board of Directors in respect of remuneration and benefits granted to certain company officers and any other commitments made in their favor in connection with, or subsequent to, their appointment, termination or change in function.

In accordance with the law, we verified that information related to acquisitions of investments and controlling interests and the identity of shareholders were disclosed in the Management Report.

Neuilly-sur-Seine, February 25th, 2009
The Statutory Auditors

PricewaterhouseCoopers Audit
Etienne Boris

Deloitte & Associés
Etienne Jacquemin

7.2 Statutory Auditors' report on the consolidated financial statements

(Year ended December 31st, 2008)

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2008, on:

- the audit of the accompanying consolidated financial statements of L'Oréal;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements, based on our audit.

Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31st, 2008 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- L'Oréal performs impairment tests on goodwill and intangible assets with indefinite useful lives at least once a year and whenever there is an indication that an asset may be impaired, in accordance with the methods set out in Notes 1.15 and 13 to the consolidated financial statements. We have reviewed the terms and conditions for implementing this impairment test as well as the assumptions applied;
- obligations relating to pensions, early retirement benefits and other related benefits granted to employees have been valued and recorded in accordance with the accounting policies described in Notes 1.23 and 21 to the consolidated financial statements. We have reviewed and analyzed the valuation methods of these obligations and the data used and the assumptions applied.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

Specific verification

As required by the French law, we have also verified the information given in the Group's Management Report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 25th, 2009

The Statutory Auditors

PricewaterhouseCoopers Audit Etienne Boris	Deloitte & Associés Etienne Jacquemin

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.3 Statutory Auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*) on the report prepared by the Chairman of the Board of Directors of L'Oréal

(Year ended December 31st, 2008)

In our capacity as Statutory Auditors of L'Oréal, and in accordance with Article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31st, 2008.

It is the Chairman's responsibility to prepare and submit to the Board of Directors for approval, a report describing the Internal Control and risk management procedures implemented by the Company and providing the other information required by Article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you our observations on the information set out in the Chairman's report on Internal Control procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by Article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information concerning the Internal Control procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on Internal Control procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the Internal Control procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the Internal Control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on Internal Control procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by Article L. 225 37 of the French Commercial Code.

Neuilly-sur-Seine, February 25th, 2009

The Statutory Auditors

PricewaterhouseCoopers Audit
Etienne Boris

Deloitte & Associés
Etienne Jacquemin

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.4. Statutory Auditors' special report on regulated agreements and commitments with third parties

(Year ended December 31^{st}, 2008)

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments with third parties.

Our responsibility does not include identifying any undisclosed agreements or commitments. We are required to report to shareholders, based on the information provided, on the main terms and conditions of the agreements and commitments that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article R. 225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

Regulated agreements and commitments with third parties relating to the year ended December 31^{st}, 2008

We hereby inform you that, with the exception of the agreement approved on February 13^{th}, 2008, communicated in our Statutory Auditors' special report dated February 27^{th}, 2008 and which remained in force during the year as described on page 2 of this report, we have not been informed of any agreement and commitment signed during the year and governed by Article L. 225-38 of the French Commercial Code (*Code de commerce*).

Regulated agreements and commitments approved in prior years which remained in force during the year

Pursuant to the French Commercial Code, we were informed that the following agreements and commitments approved in prior years remained in force during the past year.

Agreements and commitments related to Mr Jean-Paul Agon

- Granting Jean-Paul Agon the same status as a senior executive during his term of office, in particular for the purpose of pension and employee benefits, so that he can continue to enjoy the same benefits as those received before his appointment as corporate officer (Board of Directors meeting of April 25^{th}, 2006).

  As of the date hereof, this scheme provides entitlement to the payment of a life annuity (with a surviving spouse pension and, under certain conditions, an orphan pension) as well as benefits in the event of temporary disability, definitive disability or death.

- Agreement providing for the termination benefits of the Managing Director (Board of Directors Meeting of February 13^{th}, 2008).

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and regulated commitments issued in French and is provided solely for the convenience of English speaking readers. This report on regulated agreements and regulated commitments should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and the report does not apply to those related party agreements described in IAS 24 or other equivalent accounting standards.

- in the event of non-renewal or removal from his corporate office, except for gross misconduct or gross negligence, Mr Jean-Paul Agon will be entitled to an indemnity for termination of his corporate office equal to 3 months' remuneration (solely his fixed remuneration) per year of performance of the corporate office of Chief Executive Officer, as from 2006 inclusive, and limited to a maximum of 12 months of the fixed part of the last remuneration received in respect of his corporate office, subject to fulfilment of performance conditions.
- this indemnity will be added to the indemnities payable, where applicable, in the event of subsequent termination of his resumed employment contract calculated on the basis of the applicable collective bargaining agreement.
- in the event of retirement at the Company's request or voluntary retirement which takes place at the time of termination of his corporate office or thereafter, Mr Jean-Paul Agon will be entitled to a departure or retirement indemnity determined in accordance with the same terms and conditions as those applicable to a senior manager of L'Oréal, namely, on the basis of his total length of service accrued pursuant to his employment contract and his corporate office, an amount of 6 months' average remuneration (fixed + variable portions) over the 12 months prior to the month of his departure, subject to fulfilment of performance conditions.

  This indemnity may not be lower than the departure or retirement indemnity to which he would be entitled pursuant to his resumed employment contract, and will not be received cumulatively with either such a departure or retirement indemnity or with an indemnity due to non-renewal or removal from his corporate office.

The performance conditions mentioned above and decided on by the Board of Directors are assessed as follows: one-half will be based on the rate of growth in L'Oréal's consolidated sales as compared to the market growth rate while the other-half will be based on the change in earnings per share (diluted net earnings per share excluding non-recurrent items, after minority interests); both these conditions will be assessed for the last four financial years prior to the year in which the corporate office ends.

Depending on the level of fulfilment of such conditions, the amount of each component of the indemnity will be reduced or may even amount to zero.

Were an event to occur which would be likely to lead to a significant reduction in earnings per share during the financial year, then the Board of Directors would reserve the right to include the year then in progress in the four years taken into account in order to calculate the performance condition.

We performed the procedures that we deemed necessary with regard to French professional standards in relation to this engagement. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Neuilly-sur-Seine, February 25th, 2009
The Statutory Auditors

PricewaterhouseCoopers Audit
Etienne Boris

Deloitte & Associés
Etienne Jacquemin

7.5 Statutory Auditors' special report on the granting of share subscription and/or purchase options to employees and corporate officers

Ordinary and Extraordinary Shareholders' Meeting of April 16th, 2009

(12th resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Articles L. 225-177 and R. 225-144 of the French Commercial Code (*Code de commerce*), we have prepared this report on the granting of share subscription and/or purchase options to employees and corporate officers of L'Oréal and companies or economic interest grouping directly or indirectly affiliated with L'Oréal within the meaning of Article L. 225-180 of the French Commercial Code.

It is the responsibility of the Board of Directors to prepare a report on the reasons for the granting of share subscription and/or purchase options and the proposed terms and conditions for determining the subscription and/or purchase price. It is our responsibility to comment on the proposed terms and conditions for determining the subscription or purchase price.

We performed the procedures that we deemed necessary with regard to French professional standards in relation to this engagement. These procedures consisted in verifying that the proposed terms and conditions for determining the subscription and/or purchase price are disclosed in the Board of Directors' report, that they comply with legal provisions, in order to inform shareholders, and that they do not appear obviously inappropriate.

We have no comments to make on the proposed terms and conditions.

Neuilly-sur-Seine, February 25th, 2009

PricewaterhouseCoopers Audit Etienne Boris	Deloitte & Associés Etienne Jacquemin

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.6 Statutory Auditors' Special Report on the free granting of existing shares or shares to be issued to employees of the Company

Ordinary and Extraordinary Shareholders' Meeting of April 16th, 2009

(13th resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Article L. 225-197-1 of the French Commercial Code (*Code de commerce*), we have prepared this report on the project for the free granting of existing shares or shares to be issued to employees of L'Oréal or affiliated companies as defined by Article L. 225-197-2 of the French Commercial Code, or to certain categories of employees.

Shareholders are requested to authorize the Board of Directors to grant, for no consideration and on one or more occasions, existing shares or shares to be issued. It is the role of the Board of Directors to prepare a report on the transaction which it wishes to perform. It is our role, where necessary, to comment on the information which is communicated to you on the proposed transaction.

We performed the procedures that we deemed necessary with regard to French professional standards in relation to this engagement. These procedures consisted in verifying that the proposed terms and conditions presented in the Board of Directors' report comply with the provisions provided for by law.

We have no comments to make on the information given in the Board of Directors' report relating to the proposed transaction.

Neuilly-sur-Seine, February 25th, 2009

PricewaterhouseCoopers Audit Etienne Boris	Deloitte & Associés Etienne Jacquemin

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.7 Statutory Auditors' Special Report on the share capital increase reserved for employees of the Company

Ordinary and Extraordinary Shareholders' Meeting of April 16th, 2009

(14th resolution)

In our capacity as Statutory Auditors of your Company and in accordance with the engagement set forth in Articles L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present you with our report on the proposal to delegate to the Board of Directors the authority to perform a share capital increase, on one or several occasions, reserved for employees (or former employees) of the Company or affiliated companies, as defined by Article L. 225-180 of the French Commercial Code, who are members of a L'Oréal Group corporate savings plan as well as any mutual funds via which such issued shares would be subscribed by such employees.

This proposed share capital increase is submitted to you for approval pursuant to Articles L. 225-129-6 of the French Commercial Code and Article L. 3332-18 *et seq.* of the French Labor Code (*Code du travail*).

The total number of shares likely to be issued, on one or several occasions, pursuant to this delegation, cannot exceed 1% of the Company's share capital existing as of the date of this Ordinary and Extraordinary Shareholders' Meeting.

On the basis of its report, the Board of Directors asks you to delegate, for a period of twenty-six months, the authority to decide one or several share capital increases and to cancel your preferential share subscription rights to the shares issued. Where appropriate, the Board of Directors shall set the terms and conditions of the share capital increases.

It is the role of the Board of Directors to prepare a report in accordance with Articles R. 225-113 and R. 225-114 of the French Commercial Code. It is our role to comment on the fair presentation of financial data taken from the accounts, on the proposed cancellation of preferential subscription rights and on certain other information concerning the issue, presented in this Report.

We performed the procedures that we deemed necessary with regard to French professional standards in relation to this engagement. These procedures consisted in verifying the content of the Board of Directors' report in respect of this transaction and the terms and conditions for determining the share issue price.

Subject to the subsequent review of the terms and conditions of each share capital increase that the Board of Directors may decide in connection with this delegation, we have no comment to make on the terms and conditions for determining the share issue price as set forth in the Board of Directors' report.

As the share issue price has not yet been set, we can express no opinion on the final terms and conditions under which the share capital, or several share capital increases, would be performed. As a result, we do not express an opinion on the cancellation of your preferential share subscription rights which the Board of Directors has proposed.

In accordance with Article R. 225-116 of the French Commercial Code, we shall prepare an additional report for each share capital increase that your Board of Directors may decide to perform.

Neuilly-sur-Seine, February 25th, 2009
The Statutory Auditors

PricewaterhouseCoopers Audit
Etienne Boris

Deloitte & Associés
Etienne Jacquemin

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.8. Person responsible for the Reference Document and the Annual Financial Report

Mr Christian Mulliez, Executive Vice-President, Administration and Finance, on the authority of L'Oréal's Chief Executive Officer, Mr Jean-Paul Agon.

7.9 Declaration by the person responsible for the reference document and the Annual Financial Report

"I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Reference Document is, to the best of my knowledge, in accordance with the facts and that there is no omission likely to affect the fairness of the presentation.

I certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets and liabilities, financial position and profit or loss of the company and all the other companies included in the scope of consolidation, and that the Management Report on page 58 includes a fair review of the development and performance of the business and the position of the company and all the other companies included in the scope of consolidation, together with a description of the principal risks and uncertainties that they face.

I have obtained a letter of completion of audit from the Statutory Auditors in which they state that they have verified the information relating to the financial position and the financial statements set out in this Reference Document and have read the Reference Document in its entirety."

Clichy, March 19th, 2009

On the authority of the Chief Executive Officer,

Christian Mulliez

Executive Vice-President, Administration and Finance.

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The two volumes listed below, together constitute the 2008 Reference Document of the L'Oréal Group, which has been filed with the Autorités des Marchés Financiers, in accordance with Article 212-13 of the General Regulation of the Autorité des Marchés Financiers.

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Annual Financial Report

In order to facilitate the reading of Annual Financial Report (Rapport Financier Annuel), the following table provides the page references of the main information required by article L.451-1-2 of the French Monetary and Financial Code

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