REGISTRATION DOCUMENT 2011

ANNUAL FINANCIAL REPORT

L'ORÉAL

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L'ORÉAL

2011 Registration Document

Annual Financial Report

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

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1 Presentation of the Group

1.1. Mission

Beauty for all

For more than a century, L'Oréal has devoted itself solely to one business: beauty. It is a business rich in meaning, as it enables all individuals to express their personalities, gain self-confidence and open up to others.

Beauty is a language.

L'Oréal has set itself the mission of offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety. It pursues this goal by meeting the infinite diversity of beauty needs and desires all over the world.

Beauty is universal.

Since its creation by a researcher, the Group has been pushing back the frontiers of knowledge. Its unique Research arm enables it to continually explore new territories and invent the products of the future, while drawing inspiration from beauty rituals the world over.

Beauty is a science.

Providing access to products that enhance well-being, mobilising its innovative strength to preserve the beauty of the planet and supporting local communities. These are exacting challenges, which are a source of inspiration and creativity for L'Oréal.

Beauty is a commitment.

By drawing on the diversity of its teams, and the richness and the complementarity of its brand portfolio, L'Oréal has made the universalisation of beauty its project for the years to come.

L'Oréal, offering beauty for all.

1.2. History

1909 – Creation of Société Française des Teintures Inoffensives pour Cheveux.

1929 – Imédia, the first quick oxidation hair color.

1935 – Ambre solaire, the first sun protection oil with filtering.

1954 – Cosmair is named as L'Oréal's agent in the United States.

1957 – Launch of Elnett hair lacquer.

1963 – L'Oréal enters the Paris Stock Market.

1964 – Acquisition of Lancôme.

1965 – Acquisition of Laboratoires Garnier.

1970 – Acquisition of Biotherm.

1973 – Acquisition of Gemey, an open door to the consumer make-up market.

1979 – The first model of a reconstructed epidermis from L'Oréal Research.

1981 – Creation of Laboratoires dermatologiques Galderma.

1989 – Acquisition of La Roche-Posay.

1993 – Acquisition of Redken 5th avenue in the United States.

1994 – Acquisition of American agents Cosmair.

1996 – Acquisition of Maybelline in the United States.

1998-2000 – Acquisition of Softsheen and Carson in the United States and in South Africa.

2000 – Acquisition of Matrix and Kiehl's since 1851 in the United States.

2003 – L'Oréal is the majority shareholder in Shu Uemura in Japan.

2004 – Takeover of Gesparal holding.

2006 – Acquisition of The Body Shop.

2007 – Creation of the L'Oréal Corporate Foundation.

2008 – Acquisition of YSL Beauté.

2009 – L'Oréal celebrated its centenary and set itself the target of winning over one billion new consumers.

2010 – Acquisition of Essie Cosmetics in the United States.

2011 – Acquisition of Q-Med, by Galderma, and of Clarisonic.

1.3. Business activities and strategy

1.3.1. The foundations of a winning strategy

1.3.1.1. A growth market: an immense potential

The world cosmetics markets is worth nearly 150 billion euros in net manufacturer prices. Over the last fifteen years, its average annual growth is estimated at approximately 4%. This market, which has experienced strong, regular growth, is also particularly solid and resilient: at the peak of the world economic crisis in 2008-2009, it continued to progress by nearly +3% in 2008 and +1% in 2009 before picking up again to rise by +4.2% in 2010 and +4.4% in 2011 (1). Because the world will always need beauty, the world cosmetics market has a glowing future. Under the combined effects of population growth, urbanisation, progress in infrastructure and growth in world GDP, the population with access to modern cosmetics could grow by 50% over the next twenty years, boosted by the rapid rise of an urban middle class in the New Markets.

1.3.1.2. One Purpose: beauty for everyone

For more than a century, L'Oréal has been pushing back the boundaries of science to invent beauty and to offer men and women all over the world the best of cosmetics in terms of quality, efficacy and safety. Giving everyone access to beauty by offering products in harmony with their needs, culture and expectations in their infinite diversity. This is the true meaning of our activity.

(1) *Source: L'Oréal estimate.*

1.3.1.3. Research and Innovation: inventing the future of beauty

L'Oréal places research and innovation at the centre of its development model. With 19 research and 16 evaluation centres on all continents, the Group has developed more than 130 molecules during the last 40 years. 3,676 researchers play their part in developing new formulae and filed 613 patents in 2011. L'Oréal is now entering the era of universalisation and beauty for everyone. The exploration of new scientific and technological territories is being enriched by this global dimension: with its in-depth knowledge of skin and hair in all latitudes, L'Oréal research creates cosmetics products adapted to the world's diversity.

1.3.1.4 The portfolio of cosmetics brands: offering the best of beauty in each distribution channel

With 27 international brands with diverse cultural backgrounds present in all distribution channels, L'Oréal is able to meet the aspirations of all consumers whatever their origins, beauty habits or revenue levels. The L'Oréal teams design new products in all areas of cosmetics: hair care, hair colour, skin care, make-up and perfumes.

1.3.1.5. The internationalisation of development: attracting a billion new consumers

Present in 130 countries, the Group has shown its ability over the first 100 years of its existence to attract nearly 1 billion consumers, representing around 15% of the population of the planet. With accelerating globalisation, L'Oréal's mission is being enlarged: based on its international positions and its power of innovation, the Group's ambition is to conquer a billion new consumers over the next 10 to 15 years.

1.3.1.6. A commitment to responsible, shared and sustainable growth

With a particularly robust balance sheet and a solid financial situation, the Group can look forward to the future with confidence. Supported by loyal shareholders, vigilant governance and stable management, L'Oréal has always targeted constant, sustainable growth. Based on a solid business model, L'Oréal is also a company which strives to be exemplary, exacting in limiting its footprint on the planet, and increasingly creative in inventing new models of sustainable consumption.

1.3.2. An organisation that serves the Group's development

1.3.2.1. L'Oréal S.A.

L'Oréal Company acts as a holding company and has a role of strategic, scientific and industrial coordination of the Group on a global basis. The role of most of the subsidiaries involves the marketing of the products produced by the Group's plants. L'Oréal Company wholly owns the capital of the vast majority of its subsidiaries. In parallel, L'Oréal S.A. which has its head office in France, performs a sales activity that is specific to this market.

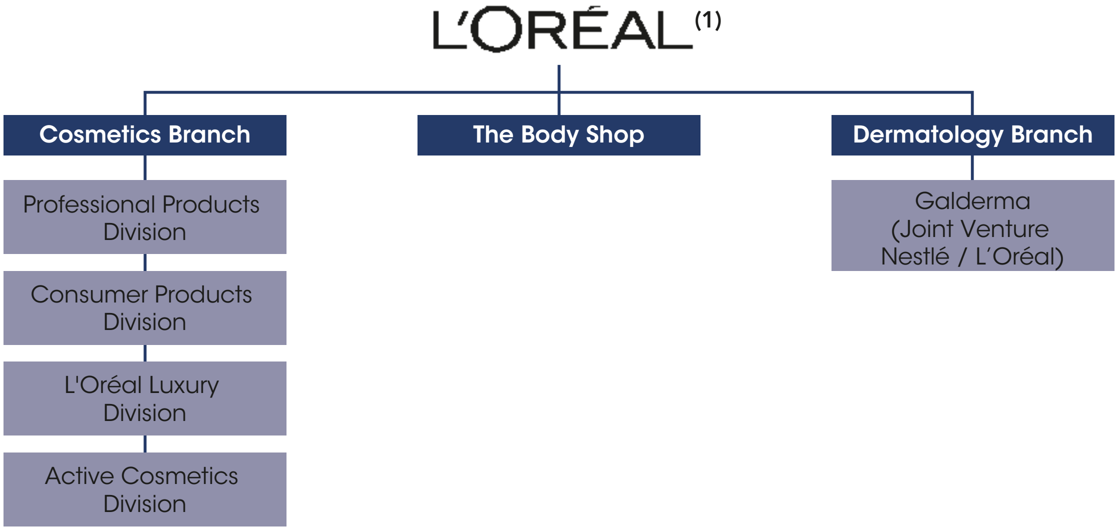
1.3.2.2. Branches and Divisions

The Cosmetics Branch, which represents most of the Group's activities (93% of its sales in 2011) is made up of 4 Operational Divisions which each correspond to a specific marketing channel:

- the **Professional Products Division** markets products used but also sold in hair salons. Privileged partner of hairdressers all around the world , it supports them in every facet of their development and offers them high-level training. Its portfolio of differentiated brands meets the needs of all types of salon. Professional Products Division brands: L'Oréal Professionnel, Redken, Kérastase and Matrix;
- the **Consumer Products Division** offers the best in cosmetic innovations at accessible prices in all mass-market retail channels (hypermarkets, supermarkets, drugstores and traditional stores) on every continent. Consumer Products Division brands: L'Oréal Paris, Garnier, Maybelline, Softsheen Carson and Essie;
- **L'Oréal Luxury** brings together a unique set of prestigious brands. These brands are sold through selective distribution, broken down between department stores, perfumeries, travel retail outlets, but also its own stores and through e-commerce websites. L'Oréal Luxury Division brands: Lancôme, Giorgio Armani, Yves Saint Laurent, Biotherm, Kiehl's, Ralph Lauren, Shu Uemura, Cacharel, Helena Rubinstein, Diesel, Clarisonic and Viktor & Rolf;
- the **Active Cosmetics Division** distributes its products worldwide in health products distribution channel, primarily through pharmacies, drugstores, medispas and, in some countries, dermatologists. Its unique portfolio of five brands, which meets all the needs of consumers in terms of health-beauty, and its privileged partnership with health professionals have made the Division the world's No. 1 in dermocosmetics. Active Cosmetics Division brands: Vichy, La Roche Posay, SkinCeuticals, Innéov and Roger & Gallet.

The Body Shop Branch represents approximately 4% of consolidated sales in 2011. Founded in 1976 in the United Kingdom by Dame Anita Roddick, The Body Shop is known for its ethical commitment and its products with natural ingredients. More than 65% of its products contain ingredients from its Community Fair Trade programme. With a presence in over 60 countries, the brand distributes its products and expresses its values through a network of exclusive stores but also complementary distribution channels: Internet sales and airport shops.

The Dermatology Branch which represents approximately 3% of Group sales (share attributable to L'Oréal), consists of Galderma, a joint venture set up by L'Oréal and Nestlé 30 years ago. After posting regular growth for many years, the laboratory Galderma crossed the threshold of one billion euros in sales in 2010, confirming its place as one of the leaders in dermatology.



(1) *Almost all subsidiaries are directly attached to L'Oréal parent company with a holding or control percentage equal to or close to 100%.*
Their detailed list figures in the annexes of the consolidated and parent company financial statements on pages 140 to 144 and 169 to 173 respectively.

1.3.2.3. Support divisions

Several specialist Divisions provide their expertise and support to the Branches and Operational Divisions:

- the Research and Innovation Division, in charge of fundamental and applied research;
- the Operations Division, in charge of coordination of production and the Supply chain;
- the Human Resources Division, in charge of recruitment, training and talent development policies and co-ordination of social policy;
- the Administration and Finance Division, in charge of the Group's financial policy, controlling and consolidation, information systems and legal and tax co-ordination;
- the Communication, Sustainability and Public Affairs Division, in charge of co-ordination of corporate communication, co-ordination of communication by the Operational Divisions and brands and Sustainable Development.

1.3.2.4 Geographic zones

The Group's international development has naturally meant that L'Oréal has had to adapt its organisation to the need to co-ordinate the establishment and development of its brands on every continent.

Thus, various geographical zones have been created, each with operational responsibility for the subsidiaries in the countries of its region:

- Western Europe zone;
- North America zone;
- Asia, Pacific zone;
- Latin America zone;
- Eastern Europe zone;
- Africa, Middle East zone.

1.3.2.5 Executive Committee

Members of L'Oréal's Executive Committee:

First name/ Last name	Position
Jean-Paul Agon	Chairman and CEO
Laurent Attal	Executive Vice-President Research and Innovation
Jean-Philippe Blanpain	Executive Vice-President Operations
Nicolas Hieronimus	President L'Oréal Luxury
Jean-Jacques Lebel	President Consumer Products Division
Brigitte Liberman	President Active Cosmetics Division
Marc Menesguen	Executive Vice-President Strategic Marketing Department
Christian Mulliez	Executive Vice-President Administration & Finance
Alexandre Popoff	Executive Vice-President Latin America Zone
Sara Ravella	Executive Vice-President Communication, Sustainability and Public Affairs
Frédéric Rozé	Executive Vice-President North America Zone
Geoff Skingsley	Executive Vice-President Africa, Middle East Zone
Jérôme Tixier	Executive Vice-President Human Resources
An Verhulst-Santos	President Professional Products Division
Jochen Zaumseil	Executive Vice-President Asia, Pacific Zone

1.4. International and cosmetics market

1.4.1. A historical presence in developed markets

L'Oréal is present in 130 countries in all 5 continents. Founded in France in 1909, the Group developed rapidly in Western Europe. In 2011, it made 38.4% of its cosmetics sales in this territory, confirming the proportion represented by this zone in its net sales.

In the first half of the 20th century, L'Oréal gained a foothold in North America. Initially, the Group entrusted distribution companies with distributing its products, these companies being united in 1953 around an exclusive agent, Cosmair. Following the company's takeover in 1994, it ensured the Group's development on the North American continent with the status of subsidiary. The acquisition of brands like Maybelline (1996), or Matrix (2000), anchored the Group in North America once and for all. In 2011, its sales on that continent increased by 5.5% like-for-like to reach 23.3% of world sales.

Despite the importance of developed markets, their relative share in Group sales declines every year in favour of the New Markets.

1.4.2. Rapid development outside Western Europe

Beginning in the 1970s, the Latin America Zone developed with a multi-divisional organisation that the Group has reproduced in the other major regions of the world.

Present in Japan for nearly 50 years, the L'Oréal Group has developed its presence in that country by choosing the brands to be given priority for this extremely specific market: *Kérastase* in hair salons, *Lancôme* in Luxury products and *Maybelline* and *L'Oréal Paris* in mass-market products.

The 1990s witnessed the opening up of New Markets with the fall of the Berlin wall which gave our brands access to the markets in Eastern European countries.

L'Oréal was among the first foreign groups to obtain an authorisation from the Indian government in 1994 for the creation of a wholly-owned subsidiary.

In 1997, the Group created a large multi-divisional zone in Asia and opened new subsidiaries, particularly in China where L'Oréal holds 100% of the capital of its entity.

Africa and the Middle East where the Group had a weak presence is a new frontier for development in the New Markets: the number of subsidiaries in that region has increased from 5 to 9 over the last three years.

The mid 2000s was the turning point: the strong acceleration of the development of New Markets is leading to a shift of the point of gravity in the economic world.

In all, the percentage of cometics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 38.3% in 2011. This progress is expected to continue.

1.4.3. A commitment to shared and sustainable growth

Anxious to protect the future and to lay the foundations for lasting growth, the Group is striving to develop its presence in the New Markets by applying the fundamental rules of a good corporate citizen:

- the products offered to consumers meet the highest quality standards;
- the Group's commitments in social matters are the same in all its subsidiaries;
- all production centres comply with the same rules regarding a decrease in discharges and a reduction in environmental footprint. Social audits are carried out at suppliers of plants;
- each subsidiary participates, as far as its resources permit, in the large corporate sponsorship programmes of the L'Oréal Foundation such as For Women In Science and Hairdressers against AIDS.

This approach is in line with the Group's ambition as the world leader in cosmetic products: helping to make the world more beautiful.

1.4.4. Immense development potential

Besides the major countries known as the BRIMC countries (Brazil, Russia, India, Mexico and China), L'Oréal has notably identified among the "growth markets" the following countries: Poland, Ukraine, Argentina, Colombia, Indonesia, Thailand, Vietnam, Philippines, Turkey, Egypt, Saudi Arabia, Pakistan, Kazakhstan, South Africa and Nigeria.

In each of these countries, the consumption of cosmetics products per inhabitant is 10 to 20 times lower than in mature countries. Several dozen million inhabitants have access every year to levels of revenues which make them part of the "middle classes" and allow them to consume modern cosmetics products.

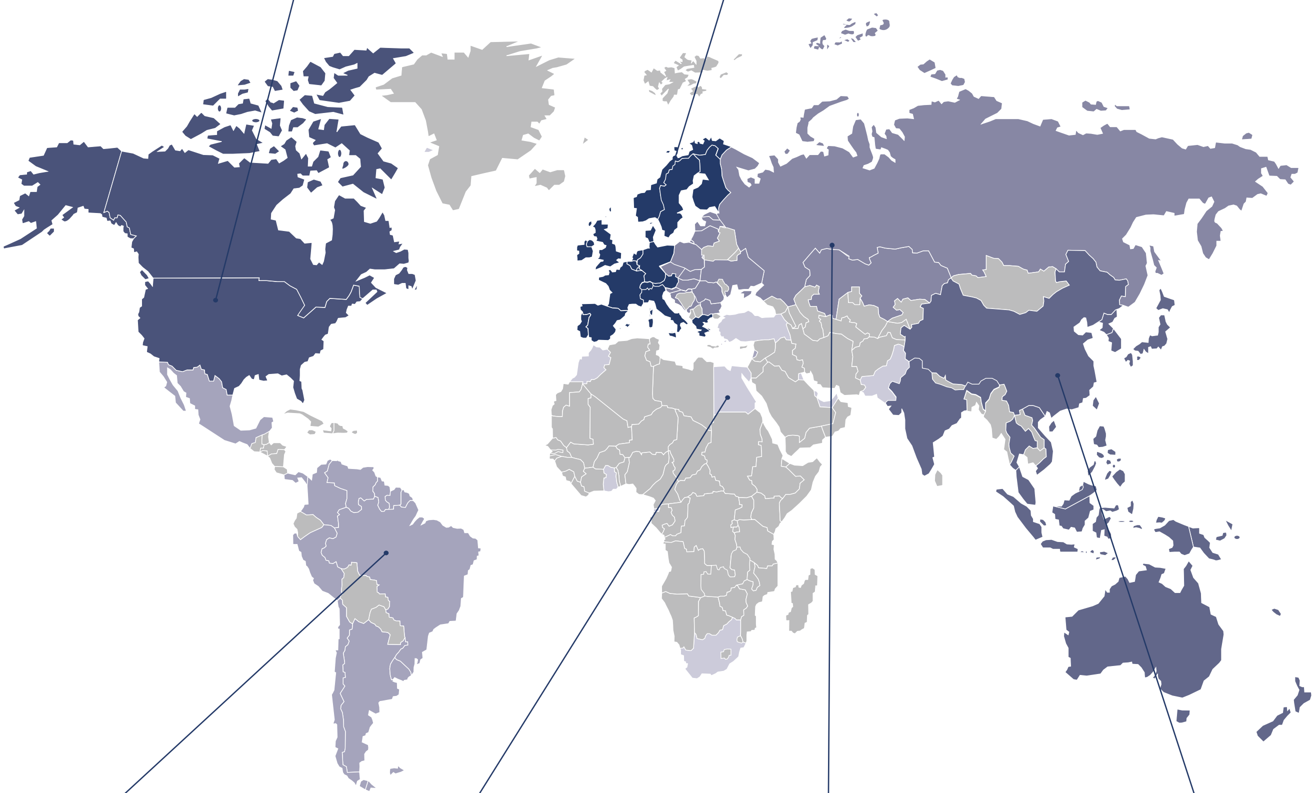
The marketing teams, in particular in large countries, pay heed to these new consumers. The laboratories on all continents study their specificities. The Group's innovation policy is based on the accessibility and adaptation of products to the beauty habits and rituals of all men and women in their infinite diversity. These form the basis for the universalisation of beauty.

NORTH AMERICA

23.3% OF GROUP COSMETICS SALES
+5.5% Sales growth in 2011 (1)
+4.3% Market growth in 2011 (2)
Sales: 4,406 M€
Operating profit: 18.4% *(% of sales)*

WESTERN EUROPE

38.4% OF GROUP COSMETICS SALES
+0.6% Sales growth in 2011 (1)
+0.7% Market growth in 2011 (2)
Sales: 7,247 M€
Operating profit: 20.9% *(% of sales)*



LATIN AMERICA

8.9% of Group cosmetics sales
+13.2% Sales growth in 2011 (1)
+10.9% Market growth in 2011 (2)
Sales: 1,681 M€

AFRICA, MIDDLE EAST

3.1% of Group cosmetics sales
+10.5% Sales growth in 2011 (1)
+6.3% Market growth in 2011 (2)
Sales: 581 M€

EASTERN EUROPE

7.1% of Group cosmetics sales
- 2.8% Sales growth in 2011 (1)
+3.9% Market growth in 2011 (2)
Sales: 1,337 M€

ASIA, PACIFIC

19.2% of Group cosmetics sales
+13.0% Sales growth in 2011 (1)
+4.4% Market growth in 2011 (2)
Sales: 3,619 M€

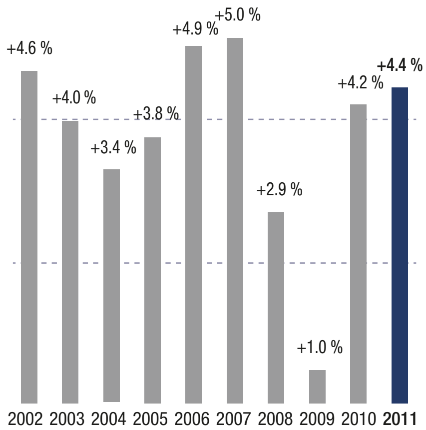
NEW MARKETS

38.3% OF GROUP COSMETICS SALES
+9.5% Sales growth in 2011 (1)
+5.8% Markets growth in 2011 (2)
Sales: 7,218 M€
Operating profit: 18.4% *(% of sales)*

(1) Like-for-like.
(2) Source: L'Oréal estimate.

Worldwide cosmetics market from 2002 to 2011[1]

(annual growth rate as %)

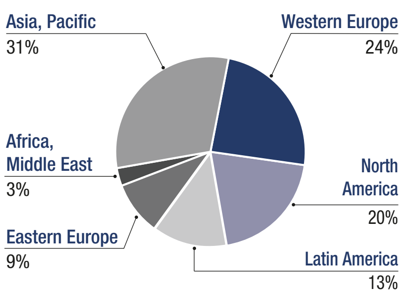


The worldwide cosmetics market represents 153 billion euros, and in 2011 it grew by an estimated +4.4%[1]. It is a particularly solid market, which is steadily expanding, while proving very resilient when economic conditions are at their most difficult. The cosmetics consumer's behaviour has not changed since the beginning of the crisis. There has been no devaluation, banalisation or massification of the market. On the contrary, consumers' aspirations for quality are higher than ever, and they are always eager for technology and new ideas. The cosmetics market remains a supply-led market, driven by innovation, and consumers are always looking for quality, performance and perceived results.

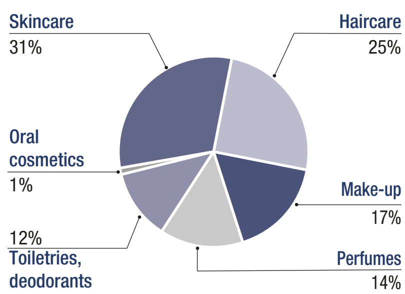
Breakdown of the world cosmetics market in 2011[1]

(as %)

By geographic zone



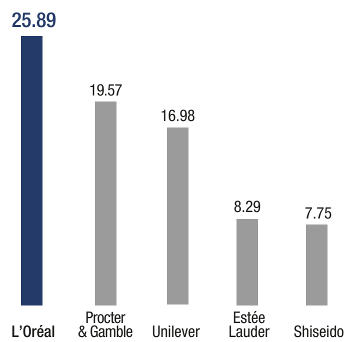
By product category



For the worldwide cosmetics market, 2011 was the year of luxury. With +7.7% growth, the selective market forged ahead, returning to the proportion of the market it achieved in 2007[1]. It made a 35% contribution to worldwide growth, with Asia and the United States leading the way[1]. From a geographic viewpoint, the New Markets continue to attain increasing levels of growth: excluding Japan, they represented 87% of worldwide market growth in 2011[1]. Consumers today have a constantly growing need for colour, in hair colourants, nail varnish and make-up in general. Meanwhile, fragrances too still conjure up their magic for consumers.

Main worldwide players[2]

(in billion of US dollars)



Competitive positions and market shares held by the Group's divisions and brands mentionned 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 on available statistical data.

(1) *Source: L'Oréal estimates of worldwide cosmetics market based on manufacturer net selling prices. Excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.*

(2) *Source: "Beauty's Top 100" WWD, August 2011, 2010 sales.*

1.5. Research and innovation: excellence, to meet the needs of all markets

1.5.1. Research, in the Group's genes

Over a century ago, a scientist called Eugène Schueller founded L'Oréal by launching a major innovation: a harmless hair dye. Research immediately became one of the components of the Group's DNA and very quickly one of the keys to its success. By always keeping one step ahead in this area, L'Oréal has integrated research into a Sustainable Development process. The ingredients used and the work carried out respect the consumers, the environment and biodiversity.

Today, to engage in the conquest of a billion new consumers, the Group has rethought its innovation model and increased its investments. With a budget of 721 million euros in 2011, up by 8.4% as compared to the previous year, L'Oréal's research teams innovate to meet beauty aspirations all over the world in their infinite diversity.

1.5.2. One step ahead in active principles

L'Oréal's fundamental research department was set up in 1963. Its conviction: knowledge of skin and hair enables L'Oréal's researchers to think up new concepts which lead to the synthesis of new molecules. The Group subsequently multiplied the number of patent filings (613 in 2011) and developed a large number of active principles, the main ones being at the source of the Group's flagship products.

This capacity to implement long-term research programmes now enables L'Oréal to remain ahead of its competitors.

Among these major molecules, it is possible to cite Ionene G, launched in 1978 in hair colour with Majirel to ensure real respect of the integrity of hair; Mexoryl SX, a sun filter launched in 1982 in the Vichy Capital Soleil range; Proxylane, which, for the first time in 2006, became part of the Lancôme Absolue BX range to treat deep wrinkles; and more recently, LR2412, used in Lancôme Visionnaire, a star product launched in 2011, which reduces wrinkles while offering a more even skin tone.

1.5.3. Setting up new technological platforms: a decisive competitive advantage

L'Oréal's research team makes breakthrough innovations for all divisions, all brands, and all product categories. The Group creates formulae with textures and uses which enhance the efficacy of active principles. For example, in 2009, L'Oréal Professionnel launched the INOA hair colouring range with the ODS (Oil Delivery System), which makes it possible to dispense with ammonia in the oxidation colouring. The ODS is now a technological platform rolled out in the hair products businesses.

1.5.4. A permanent commitment to predicting the harmlessness and efficacy of products

The harmlessness and efficacy of L'Oréal's technological innovations are essential. To meet these requirements, the research team embarked in the 1980s on developing alternative methods to animal testing for the evaluation of the safety of its products.

Much progress has been made thanks to tissue engineering, which made it possible to reconstruct the first human epidermis in 1983 and then the first complete skin (epidermis and dermis) in 1996. Thanks to these models, L'Oréal was able to put an end to animal testing for finished products in 1989, *i.e.* 14 years before it was required by law in Europe. In three decades, the Group has created genuine expertise in the field of reconstructed tissues. Up until now, nine reconstructed skin and cornea models have been developed.

These models are fabulous tools to predict the safety and efficacy of products and make it possible to reduce the time-to-market.

Research and innovation budget
(€ millions, including 50% of Galderma research expenses)

2009	609
2010	665
2011	**721**

Research employees
(including 50% of Galderma research employees)

2009	3,313
2010	3,420
2011	**3,676**

Number of patents
(cosmetics and dermatological research)

2009	674
2010	612
2011	**613**

1.5.5. The world production centre for reconstructed biological tissues

In 2011, L'Oréal inaugurated its global predictive evaluation centre in Gerland (Lyon). Dedicated to the predictive evaluation of the safety and efficacy of the ingredients and products, this centre is the first cosmetics industry site to produce reconstructed biological tissues (130,000 units per year).

The Group's performances, in terms of predictive evaluation, also benefit from the considerable amount of historical data that L'Oréal has developed over the 100 years of its exclusive innovations in cosmetics. The Group currently has a large data base on several tens of thousands of molecules. Thanks to a computer modelling system, the cross-comparing of all this data makes it possible to predict the efficacy and safety of the ingredients and the products, increasing the reliability and improving the cost of the formulae.

1.5.6. Research in tune with the market

All stages of research which lead up to the launch of an innovative product are connected to the market. There is a veritable interaction between research and marketing.

This approach is closely related to the Group's development strategy in the New Markets. Consumers in India are not the same as those in China or in Europe. Their cosmetic needs and aspirations differ. To pay heed to the needs of its customers in their diversity, L'Oréal has created a Consumer & Market Insights Department in the Innovation Division to build up a global consumer data bank per product category and per major region of the world. The cosmetic needs and expectations of consumers all over the world in 15 priority markets for the Group are identified through these studies.

Research sites worldwide

Local research and adaptation of products

To adapt to consumers all over the world, L'Oréal's research teams are present in all geographic zones through its 19 cosmetics and dermatological research centres and 16 evaluation centres. They are grouped together in 5 regional hubs: in France, the United States, China, Japan and Brazil. In symbiosis with the local environment, they identify cosmetic needs, expertise and practices. All this data then enables the researchers to develop new products that are perfectly in tune with needs. The innovations developed will then be shared with the other research centres, and needs identified in one country may subsequently lead to success right around the world.

1.6. Operations

1.6.1. From sourcing to delivery, continuous improvement of industrial efficiency

The Operations Division is responsible for coordination of production, its optimisation and distribution of products. It comprises seven industrial and supply chain expertise: procurement, packaging, production, quality, supply chain, environment health and safety, and real estate. Three support functions complete the Division's resources: Information Systems, Finance and Human Resources.

After integrating Distribution in 2007, the Production and Technology Division became the Operations Division.

1.6.2. A well-oiled industrial model

With locations all over the world, the Group's plants produce 87% of cosmetics units sold. This choice of in-house production offers a guarantee of quality and traceability and reduces risks. Plants are generally dedicated to the production of one Operational Division and a limited number of product categories. The rotation of brands on the packaging lines is furthermore assisted by an increased standardisation of industrial processes.

This industrial model avoids the need to multiply the number of sites, helps to improve efficiency and guarantees continuous activity on each site.

1.6.3. Continuous improvement and optimisation of production

L'Oréal has set itself the target of continually improving output and optimising production costs. This ambition is accompanied by a demanding quality system. It guarantees the integrity of the formulation of products all over the world and ensures compliance with social and environmental responsibility standards on each production site in accordance with national regulation.

In 2008, L'Oréal launched a global programme to improve the efficiency of its production facilities. Based on a set of best practices, this programme is shared by all sites. This triggered mutualisation of the support and procurement functions in the five major geographic zones. Efficiency has been improved while the specificities of each region have been maintained. This productive, highly responsive organisation model is particularly adapted to L'Oréal's objective of accelerated growth in the New Markets.

1.6.4. Long-term partnerships with suppliers

L'Oréal's industrial success can also be accounted for by the Group's exacting standards in the choice of its suppliers and the sustainable relationships that it sets up with them. In 2010, the Group initiated the "wall-to-wall" programme which consists in setting up a production unit for packaging items operated by a supplier within the plant itself. This partnership develops responsiveness and industrial flexibility, while reducing the transportation of packaging items and the generation of waste related to their packaging. It is aimed at plants with highly specialised technologies that produce very large volumes and have ongoing needs for external resources.

1.6.5. L'Oréal and its partners: working together to innovate

Packaging is a major environmental and industrial challenge for the Operations Division. The Group responded to this challenge in 2010 by creating a packaging fair called "Cherry Pack". International suppliers are able to propose their latest innovations at this event on an exclusive basis. At the end of the two days of presentation, projects are selected by the brands and the Research & Innovation Division. This event shows L'Oréal's intention to reinforce its links with its suppliers by counting on collaborative intelligence.

1.6.6. Strong commitments with regard to social responsibility and safety

The Operations Division, like the Group as a whole, plays a predominant role in the field of social responsibility and safety. Through its "Buy & Care" programme, L'Oréal incites its suppliers to be more responsible and carries out rigorous monitoring of their commitments through a large number of social audits on suppliers throughout the world. The objective is not to sanction suppliers' premices but to help them to improve their safety standards and their environmental and social performances.

In creating the "Solidarity Sourcing" programme, the Group took the initiative of using local suppliers who make commitments in favour of minorities: disabled workers or workers from deprived communities. It may also involve very small suppliers or fair trade players that L'Oréal valorises with the help of its suppliers.

With regard to safety, the Operations Division pays particular attention to employees who work on production sites. They are trained in compliance with safety rules and observe "a safety minute" every day in order to prevent and avoid accidents.

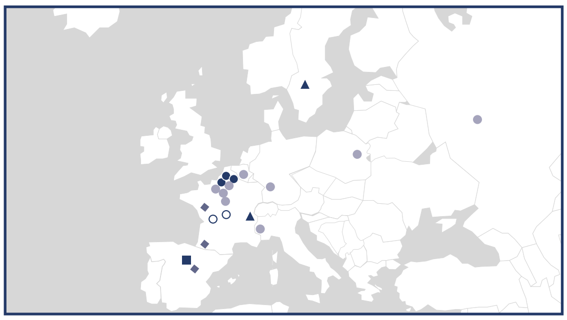
1.6.7. Environmental protection at the heart of production

Throughout the whole of the supply chain, initiatives with regard to Sustainable Development are implemented all over the world. In Libramont (Belgium), the Group has developed a 100% green energy plant which produces more energy than it uses thanks to a biomethanisation process. In Pune in India and in Burgos in Spain, the plants generate the energy they use via photovoltaic panels. In Chevilly-Larue (France), the L'Oréal site uses geothermal energy to heat its premises.

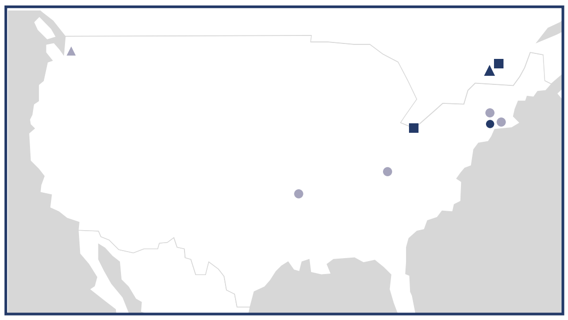
All these initiatives respond to the three goals that the Group has set itself for the 2005-2015 period for plants and distribution centres: reducing greenhouse gas emissions by 50%, reducing waste generated per finished good by 50% and reducing water consumption per finished good by 50% (cf. section 6.2. on page 194).

41 industrial sites worldwide

EUROPE

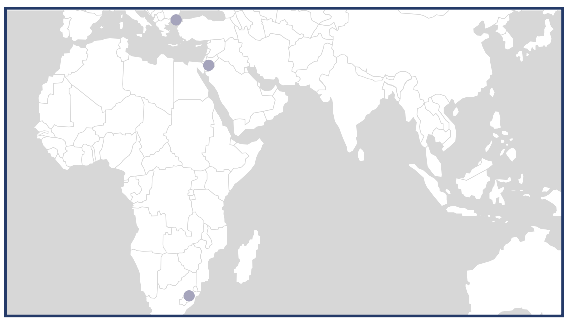


NORTH AMERICA

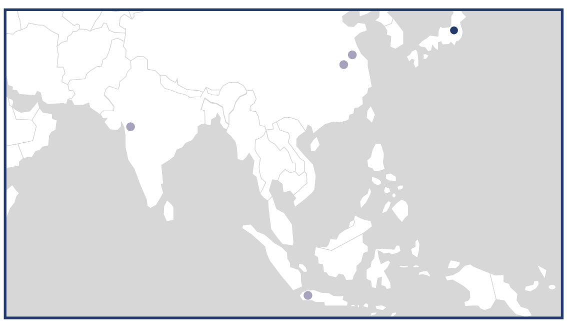


LATIN AMERICA

AFRICA, MIDDLE EAST



ASIA, PACIFIC

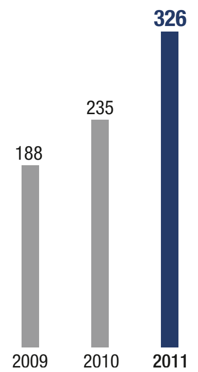


- Active Cosmetics: 2 factories
- Professional Products: 3 factories
- L'Oréal Luxury : 5 factories
- Consumer Products: 23 factories
- Raw Materials: 3 factories
- Devices: 1 factory
- Dermatology: 4 factories

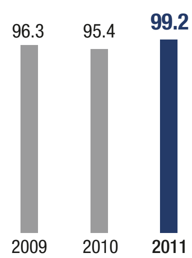
Producing and consuming locally

The Group's plants are spread out all over the world in order to fulfil a very simple objective: to reduce as much as possible the distance between consumers and the production zones. The Group's 41 plants are located in areas enabling a rapid supply of all the countries in which the Group is present. The strong growth of products in the Consumer Products Division, particularly in the New Markets, accounts for the number and geographical breakdown of this Division's plants. Furthermore, in order to support the conquest of the next billion consumers in the emerging markets, the Group launched a new plant in Russia in 2011. In 2012, three other sites are scheduled to open in Mexico, Indonesia and Egypt.

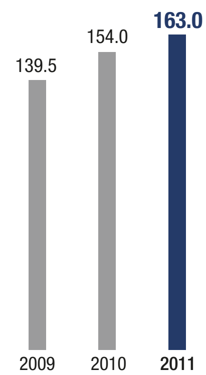
Cosmetics investments
(production and supply chain commitments, € millions)



Comparable product purchasing price index
(index base 100: year N-1)

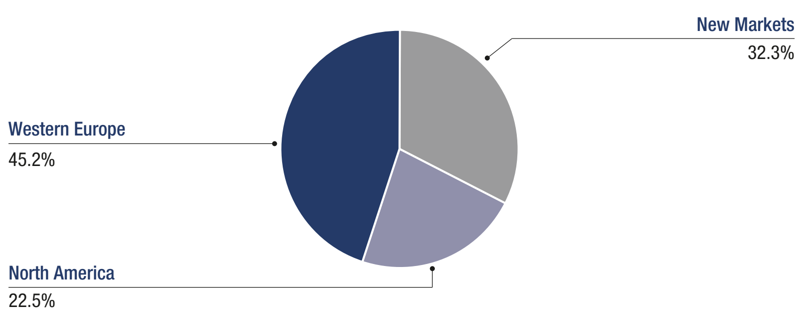


Cosmetics factories workforce productivity index
(index base: 100 in 2002, acquisitions included)

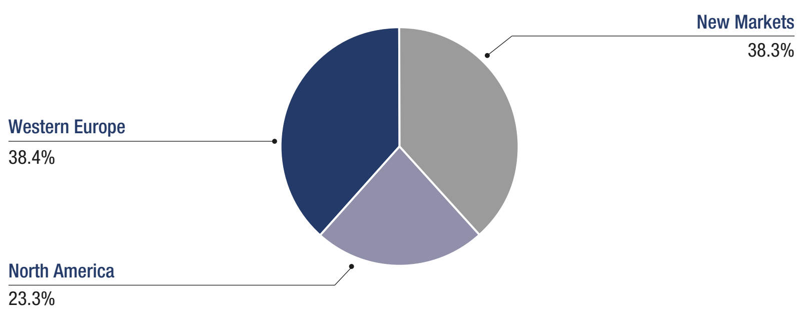


Cosmetics branch production and sales by geographic zone in 2011

PRODUCTION



SALES



1.7. Investment policy

L'Oréal's investment policy responds to long-term objectives.

L'Oréal is an industrial company whose development is governed by two types of investment in particular:

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see, in particular, the section 1.5. on page 12 and the section 1.6. on page 14);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities, particularly in the cosmetics industry. Indeed, in order to win new market share, thorough research has to be conducted all over the world, and advertising and promotional expenses need to be modulated depending on the familiarity of the brands and their competitive position; finally, investments in point-of sale (POS) advertising materials ensure optimal presence for our brands in points of sale.

For reasons relating to strategy and competition, L'Oréal cannot therefore answer questions regarding future investments.

In 2011, the Group's investments amounted to 866 million euros i.e 4.3% of its sales, a very similar percentage to the level before the financial crisis. This evolution reflects the constant efforts made by the Group, in particular in the fields of improvement of industrial efficiency, the performance of research teams and enhancement of the value of brands.

The 866 million euros that were invested in 2011 can be broken down as follows:

- production and physical distribution represent 37.6% of the total investments;
- marketing investments, including moulds, POS and stores account for 41%;
- the balance relates to Research and the headquarters in different countries;
- IT investments spread over all these categories represented 12% of total investments (see note 12 on page 114 and note 14 on page 117 of the chapter *2011 Consolidated Financial Statements*).

1.8. Risk factors

The Group operates in a changing environment. Like any company, it is necessarily exposed to risks which, if they were to materialise, could have a negative impact on its business activities, its financial situation and its assets. This chapter presents the significant risks to which the Group considers that it is exposed: those specific to the business activities of L'Oréal, then the legal, industrial and environmental risks, and finally the risks of an economic and financial nature.

Faced with these risks, L'Oréal has set up an Internal Control system to prevent and control them better. The Internal Control and risk management procedures are thus described in the section 2.5., as provided for by Article L. 225.37 of the French Commercial Code (pages 59 *et seq*).

However, it is not possible to guarantee total absence of risk. Furthermore, other risks of which the Group is not currently aware or which it does not consider as material at the date of this report could have a similar negative effect.

1.8.1. Business risks

1.8.1.1. Image and reputation

The Company's reputation and its brand image may be compromised at any time in a globalised world where information is disseminated rapidly. 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 procedure, whose global task is to prevent, manage and limit the consequences of undesirable events on the Company. The Group crisis management officer reports directly to the Chief Executive Officer. Furthermore, 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.

1.8.1.2. 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 of ingredients in the event of a proven risk or a strongly suspected risk.

1.8.1.3. 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 fragrances and The Body Shop products. 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.

1.8.1.4. Geographic presence and overall economic situation

L'Oréal has subsidiaries in 68 countries, with 62% of its sales being generated outside Western Europe. Global growth in the cosmetics markets has led L'Oréal to develop its activities in countries of the "New Markets" zone, which represent 38% of its cosmetic sales in 2011. The breakdown and changes in L'Oréal's sales are given in the paragraph 1.4.4. on pages 9 and 10.

Besides the currency risks mentioned in chapter 4 in note 24.1. *Hedging of currency risk* on pages 132 to 134 and in paragraph 1.8.7.2. on page 22, 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.

1.8.1.5. 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 networks helps to attenuate any potential negative effect.

1.8.1.6. 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. The development of innovative products and their adaptation to market needs is an ongoing priority for the Group.

This competition is healthy; it leads our teams, all over the world, to always do their best to serve the interests of consumers and the Group's brands. In the context of a constant 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.

1.8.1.7. External growth transactions

Within the scope of its development strategy, L'Oréal has made, and may have occasion to make acquisitions or sign licence agreements.

Implementation of this strategy nevertheless requires that L'Oréal is able to find development opportunities at an acceptable cost and under acceptable conditions.

The Group has introduced a process for the upstream oversight of these transactions which includes:

- the setting-up of multidisciplinary teams for the preparation of projects and "due diligence" work; and
- a review by the Strategy and Sustainable Development Committee of the Board of Directors, then by the Board of Directors, of the opportunities for acquisitions or for equity investment for a significant amount or falling outside the scope of the Group's usual business activities, and the conditions for their implementation.

These operations may have a negative impact on the Group's results if the Group does not succeed in integrating the activities of the companies that have been purchased, their personnel, their products and their technologies under the anticipated conditions, in achieving the expected synergies and in handling liabilities which have not been anticipated at the time of completion of the transaction and for which L'Oréal has little or no protection from the seller.

Acquisitions that have been decided by the Board of Directors are regularly monitored by the Board of Directors which is informed of the conditions of integration and the performances achieved.

1.8.1.8. Information systems

The day-to-day management of activities which notably include purchasing, 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 and access to confidential data and security with regard to both computer hardware and software applications. In addition, in order to adapt to the evolution of new communication methods, L'Oréal has introduced a policy on acceptable use of Information and Communication Technologies and a charter of good practice of use of social media. These measures are described in the paragraph 2.5.2.4. on page 61, *Control activities – The measures recommended by the Group*.

1.8.1.9. Risks related to Human Resources management

One of the keys to the success of L'Oréal lies in the talent of its staff. Should L'Oréal not succeed in identifying, attracting, keeping and training competent employees, the development of its activities and its results could be affected.

The Group therefore develops a motivating, engaging professional environment, and encourages the attachment to its values, including those put forward by the Ethics Charter. L'Oréal's Human Resources policy is moreover described in the paragraph 2.5.2.1. *The Internal Control organisation and environment* on page 59 and in the paragraph 6.1.1. *The L'Oréal Group's Human Resources policy* on page 180.

1.8.2. Legal risks

1.8.2.1. 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 major international brands described in the paragraph 1.3.2.2. *Branches and Divisions* on page 6, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used by L'Oréal Luxury, 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.

1.8.2.2. 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 Innovation Division; this department is responsible for filing the Group's patents, exploiting them and defending them on a worldwide basis.

1.8.2.3. 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 subsidiaries to comply with the regulations of the countries in which the Company operates. Being an active member of professional associations in the countries where its 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 its industrial sector in order to prevent or accompany any risks that may result from changes in regulations.

The European REACH regulations (Registration, Evaluation and Authorisation of Chemicals) that came into force in June 2007 are aimed at increasing human and environmental safety of chemicals by requiring all user companies to prove that they have implemented appropriate risk management measures. L'Oréal plays an active role in this process for the substances manufactured or imported by its European legal entities concerned. Within the framework of national and European associations, L'Oréal contributes to the analysis and drafting of practical guides for implementation of these regulations.

L'Oréal is also subject in Europe to the 7th amendment to the European Cosmetics Directive on animal testing of cosmetic ingredients. An action plan has been drawn up at L'Oréal in order to change the conception and the methods of evaluation of the safety of raw materials. This plan is subject to an accelerated implementation in order to prepare in the best way for the application of these regulations which is scheduled for 2013.

1.8.2.4. 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. It is also the subject of proceedings initiated by national competition authorities, in particular in European countries (see note 22. *Provisions for liabilities and charges* on page 129 in chapter 4).

In order to better prevent this risk, the Group's Legal Department has introduced a training session on competition law for the employees concerned. In 2011, it also distributed an ethical and legal guide on the conditions of fair competition, called "The way we compete".

A provision is set aside in the parent company and consolidated financial statements whenever the Group has an obligation towards another party and will have to face a probable outflow of economic resources whose cost can be estimated with reliability.

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.

1.8.3. 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 41 factories, each specialising in a specific type of technology.

1.8.3.1. Production and Supply Chain

Products must be made available on the market on the scheduled 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 stoppage of activity in a factory or a distribution centre could have an adverse effect on the achievement of commercial objectives.

In order to prevent this risk, business continuity plans exist for each operational site. They aim at anticipating the unavailability of part of the Group supply chain as far as possible and at restarting activities as quickly as possible.

1.8.3.2. Supplier dependence

L'Oréal is dependent on its external suppliers for the delivery of materials (raw materials and packaging items) 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).

1.8.3.3. Environment, Health and Safety (EHS)

The cosmetics industry has a limited environmental risk profile. However, as is the case for any production, distribution, research and general administration operation, L'Oréal is exposed to safety and environmental issues (relating, for example to the use of certain raw materials, the use of machines or electrical equipment in production or storage areas, handling operations liable to cause accidents involving bodily injury, waste water treatment etc.). The main risk faced in the Group's industrial sites is fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals.

1.8.3.4. EHS risk map and audits

Within the scope of this EHS policy, for the industrial sites, 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 Site 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 the sites, to evaluate the level of risks and to put in place the necessary means of control. 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. EHS audits are conducted every three or four years in each factory and distribution centre. The site risk map is reviewed within the scope of this audit. In 2011, an EHS risk audit was carried out at 9 factories and 22 distribution centres.

Detailed information on EHS risks and the way they are managed is available in the Group's Sustainable Development Report which is accessible on-line at www.loreal.com.

1.8.3.5. EHS risk management

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 Environment, Health and Safety (EHS) policy has been implemented throughout the Group for many years.

The Operations Division issues Internal Rules fixing the principles of the L'Oréal policy with regard to EHS. An EHS representative is appointed at each industrial site. Training programmes are systematically organised. EHS performance indicators are collected from all the production sites, all the distribution centres and all the research centres every month. The collection is carried out on a quarterly basis for most of the administrative sites.

The fire risk is dealt with in the framework of very strict fire prevention standards (National Fire Protection Association standards).

L'Oréal Group operates a total of 115 manufacturing sites, of which only three are classified as "Seveso high threshold" and is therefore subject to strict regulations through the European Union Seveso Directive on the prevention of major accident hazards due to the storage of chemicals or inflammable products.

1.8.3.6. Constant concern for the safety of employees

The Group implements the necessary means to ensure that it is in compliance with the legal provisions and the regulations relating to health and safety in the various countries where it operates. Moreover, the preservation of employee health and safety is one of L'Oréal's priorities and is an integral part of the EHS policy and the Group's human and social policy. It rests on the evaluation and prevention of professional risks in the Company as described in detail in paragraph 6.1.2.4. *Health and Safety* on page190.

Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.

1.8.3.7. Natural disasters

The Group's presence at more than 300 sites (shop excluded) throughout the world exposes it in some areas to risks with regard to natural disasters, climate uncertainties or earthquakes, which could have a negative impact on its activities.

In 2010, the Real Estate Department classified countries according to their seismic risk and launched a campaign to assess the vulnerability of the most exposed sites. At the same time, the Information Systems Department initiated a procedure to ensure that the seismic risk is taken into consideration in the IT continuity plans of the most exposed countries.

1.8.4. Counterparty risk

The Group enters into financial relations in priority with international banks and insurance companies given the best ratings by the three main specialised rating agencies. The Group therefore considers that its exposure to the counterparty risk is weak (see note 24.4. *Counterparty risk* on page 135 in chapter 4).

1.8.5. Customer risk

The customer risk may result from non-collection of receivables due to cash problems encountered by customers or due to the disappearance of customers.

However, this risk is limited by Group policy which is to take out customer insurance cover inasmuch as this is permitted by local conditions. The risk associated with credit insurance is mentioned below in paragraph 1.8.8. *Insurance* on page 23.

Furthermore, due to the large number and variety of distribution channels at worldwide level, the likelihood of occurrence of significant damage on the scale of the Group remains limited. The 10 largest customers/distributors represent around 18% of the Group's sales. 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 *Trade accounts receivable* on page 119 in chapter 4 of this document. It does not exceed 2% of gross accounts receivable.

1.8.6. Liquidity risk

The Group's Financial Services Department centralises all the subsidiaries' financing needs and also negotiations with financial institutions in order to have better command over financing conditions. Any transactions that may be carried out directly by subsidiaries are closely supervised.

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 unused confirmed credit lines from first-rate banks totalling €2,438 million. Their terms are less than 1 year for €588 million and ranging from 1 to 4 years for €1,850 million (see note 23.9. *Confirmed Credit lines* on page 132 chapter 4).

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. None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants) (see notes 23.1. *Debt by type* and 23.2. *Debt by maturity* date on page 131 and note 24.5. *Liquidity risk* on page 135 in chapter 4).

The L'Oréal Group benefits from the following short-term credit ratings:

- A-1+, awarded in June 2011 by Standard & Poor's;
- Prime 1, awarded in June 2011 by Moody's; and
- F1+, awarded in July 2011 by FitchRatings.

These ratings are unchanged compared to those assigned in 2010.

1.8.7. Financial and market risks

Financial risks include interest rate risk, currency risk, the risk relating to the impairment of intangible assets, equity risk, risks with regard to the assets hedging employee commitments, the risk relating to changes in tax regulations and the core commodity risk.

1.8.7.1. Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term papers. The Group mainly refinances at floating rates, as mentioned in note 23.4. *Breakdown of fixed rate and floating rate debt* on page 132 in chapter 4. Other details with regard to debt and interest rates are provided in notes 23.5. *Effective interest rates*, 23.6. *Average debt interest rates* and 23.7. *Fair value of borrowings and debts* on page 132 in chapter 4.

None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants).

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. *Hedging of interest rate risk* and 24.3. *Sensitivity to changes in interest rates* on pages 134 and 135 in chapter 4.

1.8.7.2. 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 subsidiaries in different countries. Procurement by subsidiaries is mainly made in the currency of the supplier's country.

In order to limit currency risk, the Group 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. In order to benefit from better visibility of the flows generated, currency risk management is centralised with the Treasury Department at head office (Financial Services Department) which uses a specific tool for centralising the subsidiaries' requirements by currency (FX report).

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. *Hedging of currency risk* on pages 132 to 134 in chapter 4.

The breakdown of consolidated sales for 2011 by currency is specified in the section 3.2. *Financial Highlights* on page 76.

Significant changes in the monetary environment could have an impact on the Group's results and on its shareholders' equity. The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 20.4. *Items directly recognised in equity* on page 124 in chapter 4. Finally, the impact of foreign exchange gains and losses on the profit and loss account is described in note 6 *Foreign exchange gains and losses* on page 105 in chapter 4.

1.8.7.3. Risk relating to the impairment of intangible assets

As stated in the above paragraph 1.8.2. relating to legal risks, L'Oréal's brands are a strategic asset for the Group.

As described in note 1.15 *Intangible assets* on page 96 in chapter 4, goodwill and brands with an indefinite life span are not subject to depreciation but to periodic impairment tests which are carried out at least once a year. Where the recoverable value of the brand is lower than its net book value, an impairment loss is recognised. Similarly, any variance between the recoverable value of each Cash-Generating Unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the profit and loss account. The amounts for 2011 are provided in note 7 *Other operational income and expenses* on page 106 in chapter 4.

The data and assumptions used in the impairment tests for the Cash-Generating Units with significant goodwill and non-depreciable brands are described in note 13 *Impairment tests on intangible assets* on page 116 in chapter 4.

1.8.7.4. Equity risk

L'Oréal does not invest its cash in shares. For L'Oréal, the main equity risk lies in the 8.82% stake that it holds as of December 31st, 2011 in the capital of Sanofi, as described in note 15 *Non-current financial assets* on page 118 in chapter 4.

If the Sanofi 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 as explained in note 24.6. *Shareholding risk* on page 135 in chapter 4.

1.8.7.5. Risks with regard to the assets hedging employee commitments

The assets used as financial hedges for employee commitments are, by nature, exposed to the fluctuations on the markets on which such assets are invested.

Pursuant to the provisions of the *Charter on the Management of assets dedicated to the hedging of the Group's employee commitments*, the allocation by category of assets is subject to limits aimed in particular at reducing volatility risks and correlation risks between these different categories of assets.

However, a large, lasting fall in the financial markets could have an impact on the value of the portfolios set up (see note 21 *Post-employment benefits, termination benefits and other long-term employee benefits* on page 125 in chapter 4). Furthermore, the Group adopts a conservative policy for the choice of insurers and custodians for these assets (see counterparty risk in paragraph 1.8.4.).

1.8.7.6. Risk relating to the change in tax regulations

The Group is exposed to risks of an increase in existing taxes or the introduction of new taxes, concerning in particular corporate income tax, customs duties, and import taxes, the repatriation of dividends or social levies, which could have an adverse impact on the Company's results.

1.8.7.7. Core commodity risk

The production of cosmetics depends on the purchase of raw materials, at fluctuating prices. These raw materials or components enter into the composition of products or their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally large increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. It is nevertheless estimated that the impact of this rise on gross margin would remain limited.

In order to anticipate the effect of these fluctuations and as a preventive measure, L'Oréal negotiates price indices with its main suppliers of raw materials and packaging items. The Group therefore does not use hedging.

Also, in order to offset market volatility, L'Oréal makes ongoing efforts by carrying out purchase actions and actions to improve industrial productivity. Furthermore, the pooling of responsibility for purchases initiated in 2008 makes it possible to reinforce these measures.

1.8.8. Insurance

1.8.8.1. The Group's overall insurance policy

The objective of the Group's policy on insurance is to protect the Group's assets and property 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 chosen 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. Overall, the main global insurance companies are involved in one or more of these Group programmes.

1.8.8.2. 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.

Directors' liability

Group companies benefit from a Directors' and officers' liability insurance programme.

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 under the Damage and Transport programmes which are absorbed by the subsidiaries insured.

1.9. Information policy

L'Oréal is pursuing its policy of ongoing improvement in the quality of its financial information and dialogue with its shareholders and French and international investors. The objective is not simply to fulfil statutory obligations, but also to support our shareholders and investors and to strengthen the links forged with the Group.

1.9.1. Modern and complementary communications media

In 2011, L'Oréal's Financial Communications Department took care to reinforce and enhance the information provided to the financial community as a whole by making decisive progress in the following fields:

- **extra-financial information:** shareholders and investors expect issuers to give more sense to financial performance and to the Company's business activities. For that reason, extra-financial information is now provided to supplement financial information in all our publications: Activity Reports, letters to shareholders, newsletters and our shareholders' magazine;
- **modern digital communications:** Alongside our "paper" communication materials, a range of interactive electronic media have been put in place to enrich the circulation of our communications:

1. **the e-newsletter** sent to all the contacts in the Financial Communications Department database at the time of the major events on our financial calendar: annual results, Annual General Meetings, half-year results…,
2. **L'Oréal's shareholders' e-magazine**, intended not only for our shareholders but also for all those who are looking for full information on the life of the Group, offers animated information, enriched with a large number of documents, videos, interviews and testimonials.

- **the guide describing the 5 reasons to take part in the L'Oréal adventure** was published in the autumn of 2011 for the Actionaria Stock Market fair. This publication, which has innovative content and format, is designed to fulfil our shareholders' desire to make more sense of their investment;
- at the beginning of 2012, L'Oréal published for the first time a coherent set of 3 essential documents presenting comprehensively all the aspects of its business: the 2011 Activity Report, the 2011 Registration Document and the 2011 Sustainable Development Report.

This set of three works can be found online on the www.loreal-finance.com and www.loreal.com websites and is available in paper format on request.

In all, L'Oréal's Financial Communications Department makes a vast array of communication tools available to the financial community:

- **the Activity Report;**
- **the Registration Document;**
- **financial news releases;**
- **extra-financial news releases;**

- letters to shareholders;
- e-newsletters;
- the shareholders' e-magazine;
- the dedicated website www.loreal-finance.com.

Strongly committed to its communication policy, L'Oréal offers all shareholders and investors unrestricted access to these media or materials. Everyone can access and download them or can be sent them.

1.9.2. A large number of shareholder events for a regular and detailed dialogue

- As it does every year, the Financial Communications Department organised 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 and the business activities of the Operational Divisions are broadcast live online on the financial website www.loreal-finance.com, and the information presented is made available on this website on the same day, both for the annual results and the half-year results.
- 10 meetings with 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), shareholder associations and financial newspapers brought together over 2,000 participants.
- Participation in the Actionaria Stock Market Fair for the eighth year running offered an opportunity for many shareholders to attend a presentation by Christian Mulliez, Executive Vice-President, Administration and Finance. They were also able to meet representatives of the L'Oréal Group directly and obtain information on registering their shares.

Through these events, our team had the opportunity to meet nearly 6,000 individual shareholders in 2011:

- for the third year running, L'Oréal was given the special award for "Corporate Social and Shareholder Responsibility" by the *Mieux vivre votre argent* magazine in recognition of its overall vision of shareholder, social and environmental policy;
- one symbol of the loyalty of our shareholders who accompany the Group's development over the long term is the fact that more and more shareholders are showing an interest in becoming registered shareholders. Thanks to the preferential dividend and the numerous advantages offered by this method of shareholding, becoming a registered shareholder represents a real "loyalty bonus" for our shareholders;
- created at the beginning of 2010, the "Shareholder Consultation Committee" consisting of 18 shareholders (both registered and bearer shareholders) who actively participate, through their reflections and their work, in developing and enriching the Group's financial communication on themes such as: the Annual General Meeting, digital communication, extra-financial communication, or development of the cosmetics market. In 2011, the Shareholder Consultation Committee met 4 times;
- the Investor Relations Department organises numerous meetings throughout the year with institutional investors of the main international financial market places. In 2011, over 600 investors attended these events;
- the financial website www.loreal-finance.com, created in 1997 for the use of international finance professionals and all L'Oréal shareholders was revised and enhanced in 2011, in particular with the launch of the above-mentioned e-magazine and the updating of the mobile website in order to make it more compatible with the current communication tools.

Finally, 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 round-the-clock access to information on the share price and key dates or provides them with a summary of the latest press release. The Shareholder Services Department is also available on this number during opening hours.

2 Corporate governance

This chapter describes in particular the way in which the Board's work is prepared and organized (§2.2.) and the Internal Control procedures implemented by the Company (§2.5.). All components of members of the Board of Directors' remuneration are mentioned hereby (§ 2.3.) as well as the trading by Directors and corporate officers in L'Oréal shares in 2011 (§ 2.4.). The Statutory Auditor's Reports corresponding to Corporate Governance, which are the Special Report on regulated agreements and commitments with third parties (§ 2.7.) and their Report on the Report prepared by the Chairman of the Board of Directors (§ 2.6.) have been included, as well as the complete text of the Internal Rules of the Board of Directors.

2.1. Summary of the principles

AFEP-MEDEF Code: the reference code

The Board of Directors considers that the recommendations of the AFEP-MEDEF Code of Corporate governance for listed companies of April 2010 fall within the Company's approach to corporate governance. Accordingly, this is the Code referred to by the Company to prepare this Corporate governance chapter, approved by the Board at its meeting on Monday, February 13th, 2012. The AFEP-MEDEF Code can be consulted over the Internet at the following address: http://www.code- afep-medef.com/.

In accordance with Article L. 225-37 of the French Commercial Code, this chapter on Corporate governance includes the Report of the Chairman on the Board's composition and on the ways in which the Board's work is prepared and organised (section 2.2) as well as on the Internal Control procedures implemented by the Company (section 2.5).

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 and of the application of the principle of balanced representation of men and women on the Board, 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.

The Report provided for in this Article also describes the specific terms and conditions of participation by shareholders in the General Meeting or refers to the provisions of the Articles of Association which set out such terms and conditions.

This Report furthermore describes the principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers".

In accordance with Article L. 255-37, paragraph 9, of the French Commercial Code, it is specified that the information provided for in Article L. 225-100-3 of the French Commercial Code is published on page 206 in chapter 7.

In application of this same Article, the Board of Directors of L'Oréal approved this chapter at its meeting of February 13th, 2012.

This chapter identifies those few 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.

2.2. The Board's composition and the way in which the Board's work is prepared and organised

Rich with the experience and diversity of its Directors, the Board of Directors fully assumes its role of controlling the economic and financial management of the Group, validation and monitoring of strategic directions which are submitted to it.

In 2011, the remit of the four committees of the Board of Directors responsible for preparing for its meetings was expanded and additional committee members were appointed.

The Strategy and Sustainable Development Committee is the expression of the Board's wish to ensure that L'Oréal has all the means and all the resources required to respond to each and every sustainable growth issue.

Further to a proposal by the Appointments and Governance Committee, the Board of Directors decided on the reunification of the duties of Chairman with those of Chief Executive Officer on February 10th, 2011. At the end of the year, at the time of the evaluation of its *modus operandi*, the Board expressed its delight at the quality of the dialogue established between the Chairman and CEO and the Directors.

In 2011, within the scope of Internal Control, the Audit Committee reviewed the risk map. The risks are taken into consideration at operational level and there is a process for the regular review of risks.

2.2.1. Composition of the Board of Directors

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 by the Directors, as well as the decisions made, are dealt within this chapter. The Board 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.

The Board of Directors of L'Oréal comprises 14 members: the Chairman and Chief Executive Officer, the Honorary Chairman, 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: Mrs. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

The allocation of L'Oréal's share capital at December 31st, 2011 is shown in this Registration Document in section 7.3.2. page 211.

2.2.1.1. Method of General Management chosen

At its meeting on Thursday, February 10th, 2011, the Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and entrusted Mr. Jean-Paul Agon with such duties. This transfer of responsibilities has been effective since March 18th, 2011. Sir Lindsay Owen-Jones, who continues to be a Director of L'Oréal and chairs the L'Oréal Foundation, has been appointed as Honorary Chairman.

The separation of the duties of Chairman of the Board of Directors from those of Chief Executive Officer from 2006 to 2011 made it possible to ensure a smooth transition between Sir Lindsay Owen-Jones and Mr. Jean-Paul Agon. In 2011, the Board of Directors considered that the environment was favourable to reunifying these duties. This governance model is indeed specifically adapted to the specificities of L'Oréal and its shareholder structure. At the end of 2011, at the time firstly of the evaluation of their work (see section 2.2.2.2. on page 46), and secondly of that of their relationship with the executive management, the Directors noted that this organisation operated in a balanced manner.

2.2.1.2. Corporate officers

L'Oréal's Directors, who are extremely committed to their role, exercise complete freedom of judgment. The composition of the Board of Directors complies with the recommendations of the AFEP-MEDEF Code of Corporate Governance both in terms of independence and in terms of the proportion of male and female Directors.

Experienced Directors who complement one another

L'Oréal's Directors come from different backgrounds, they complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that the Board is called on to make.

Representation of women and men that complies with the provisions of the French law of January 27th, 2011

Three women have seats on L'Oréal's Board of Directors. The Board has thus anticipated the French law of January 27th, 2011 relating to the balanced representation of women and men, which provides for a proportion of 20% of women to be reached by 2014. The Board is doing everything it can to appoint more female Directors. In 2017, its composition will comply with the law which requires balanced represention of women and men, with a proportion of 40% of Directors of the same gender.

Independent directors

The Directors are independently minded. They have a duty of vigilance and exercise complete freedom of judgment. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its committees.

At the end of 2011, 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/she does not maintain any relationship of any kind with the Company, its Group or its General Management which may interfere with his/her 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.

Out of the 14 members of the Board of Directors, six Directors qualify as independent:

Mrs. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and **Mr. 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.

It is furthermore specified that a review was carried out of the financial flows that took place in 2011 between L'Oréal and the companies in which the six independent Directors also hold an office. It appears from this that the nature of these business relationships is not significant.

The proportion of independent Directors is thus equal to at least one-third and in line with the recommendations of the AFEP-MEDEF Code. Under these conditions, the Board's tasks are carried out with the necessary objectiveness and independence and all the Directors take account of the interests of all the shareholders.

Responsible Directors

Handling of conflicts of interest

Within the scope of the rights and obligations of the Directors as defined in the Internal Rules of the Board of Directors of L'Oréal and in accordance with the AFEP-MEDEF Code, "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". In this regard, on the basis of the declarations made by each Director, the Board has not identified any conflict of interests. The information pursuant to Annex I of European Regulation No. 809/2004 set out hereafter contains additional details in this respect.

Information relating to corporate officers pursuant to Annex I 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)

Paragraph 2.2.1.2. above 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 the paragraph 7.3.5. page 212 which concerns agreements relating to shares in the Company's 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.

Stock market ethics

The Board took cognizance of the rules to be applied to prevent insider trading, in particular regarding the periods during which it is prohibited to trade in shares. It decided to amend its Internal Rules accordingly and issued recommendations to General Management to update L'Oréal's Stock Market Code of Ethics and the Fundamentals of Internal Control.

On the basis of the legal provisions, regulations and recommendations, this Code points out that inside information must only be passed on and used for professional purposes.

Inside information is precise information of a non-public nature, which, if made public, could have a significant influence on the share price. Such inside 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 devoted to financial information; exceptional, linked to a specific programme, project or financial transaction.

The Stock Market Code of Ethics states that any person in possession of inside 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 inside information.

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 (see Summary of trading by Directors and corporate officers in L'Oréal shares in 2011 in section 2.4. page 59).

Corporate officers and directorships held by corporate officers

In accordance with the AFEP-MEDEF Code of Corporate governance of April 2010 which provides that *"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"*, the Annual General Meetings held in April 2009 and April 2010 renewed the terms of office of eleven Directors. The terms of office of Mr. Werner Bauer and Mr. Jean-Pierre Meyers were renewed in April 2009 for a period of three years, while the terms of office of Mr. Charles-Henri Filippi and Mr. Francisco Castañer Basco were renewed in April 2010 for periods of one and two years respectively. The other terms of office were renewed for a period of four years. These periods comply with the Company's Articles of Association.

Renewal of tenures as Director in 2011

In 2011, the Annual General Meeting held on April 22nd renewed the terms of office of Mrs. Liliane Bettencourt, Mrs. Annette Roux and Mr. Charles-Henri Filippi for a period of four years.

Liliane Bettencourt (age: 89), daughter of Eugène Schueller, L'Oréal's founder, created the Bettencourt Schueller Foundation in 1987, which she chairs. Liliane Bettencourt has been a L'Oréal Board member since 1995. Everyone is aware of her lifelong attachment to L'Oréal, and her respect for the Company's men and women and all the shareholders. Her presence on the Board is an incitement to pursue the task of helping L'Oréal to grow.

Annette Roux (age: 69) became the head of the Bénéteau family business in 1964, and proved her ability to build an international group, a leader in its market sector. She was the Chairperson and Managing Director from 1976 to 2005, and has been Vice-Chairperson of the Supervisory Board since that time. Embodying one of the biggest success stories in French industry, Annette Roux, as a member of the L'Oréal Board of Directors since 2007, has strengthened and enriched the Board with her skills, her experience and her independence. She is also President of the Bénéteau Corporate Foundation.

Charles Henri Filippi (age: 59) conducted out his career in particular within the HSBC Group, in which he was notably Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Charles Henri Filippi has been a Director of L'Oréal since 2007 and is also a Director of France Telecom, a member of the Supervisory Board of Euris and a non-voting member of the Board of Directors of Nexity. He is currently the Chairman of Citigroup for France.

It is noted that Citigroup does not have, and has never had, a significant position with regard to L'Oréal's banking transactions. Nevertheless, Charles Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal. Charles Henri Filippi is an independent Director, free of interests, available and competent.

Chairman of the L'Oréal Audit Committee, Mr. Filippi harmoniously and effectively supplements the Board's expertise in the field of finance. He has also been a member of the Human Resources and Remuneration Committee since April 2011.

Tenures as Director that are due to expire in 2012

The tenures as Director of Mr. Werner Bauer, Mr. Francisco Castañer Basco, Mr. Bernard Kasriel and of Mr. Jean-Pierre Meyers are due to expire at the close of the Annual General Meeting in 2012.

On Monday, Febuary 13th, 2012, L'Oréal's Board of Directors was informed of the end of Mrs. Liliane Bettencourt's tenure as Board Director. The Board of Directors expresses its profound gratitude to Mrs. Liliane Bettencourt for her active participation in the Board's meetings and for the heartfelt interest she has always demonstrated in the Board's work and that of its committees.

The Board of Directors decided, the 13th of Febuary, to proceed to the cooptation as Director of Mr. Jean-Victor Meyers.

Besides, Mr. Werner Bauer and Mr. Francisco Castañer Basco do not apply for the re-appointment in 2012. The Board of Directors expresses its gratitude for their active participation in the Board's work and that of its committees.

The Annual General Meeting which will be held on Tuesday, April 17th, 2012, will be called to pronounce on:

- the ratification of the appointment of Mr. Jean-Victor Meyers as Director, until the end of this Annual General Meeting, appointment which has been decided by the Board of Directors;
- the appointments as Director of Mr. Jean-Victor Meyers, Mr. Paul Bulcke and Ms. Christiane Kuehne(1);
- the renewal of the tenure as Director of Mr. Jean-Pierre Meyers and Mr. Bernard Kasriel.

(1) *See the Report of the Board of Directors in chapter 8 page 226.*

List of offices and directorships held by corporate officers

Jean-Paul Agon French Age: 55		Expiry date of term of office 2014
Director since 2006 Chairman and Chief Executive Officer (1) Chairman of the Strategy and Sustainable Development Committee [since March 18th, 2011] Professional address: L'Oréal – 41 rue Martre – 92117 Clichy cedex – France Holds 31,500 L'Oréal shares		
Other corporate offices and directorships held		
French company		
L'Air Liquide S.A.	Director	
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Chairman of the Board Director	
L'Oréal USA Inc. (United States)	Director	
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director	
Other		
L'Oréal Corporate Foundation	Director	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign company		
Galderma Pharma S.A. (Switzerland)	Chairman of the Board	May 2008

(1) *Chief Executive Officer since April 2006.*
Chairman of the Board of Directors since March 18th, 2011.

Sir Lindsay Owen-Jones **British** **Age: 65**		**Expiry date of term of office** **2014**
Director since 1984 Honorary Chairman [since March 18th, 2011] Chairman of the Strategy and Sustainable Development Committee [until March 17th, 2011] Professional address: L'Oréal – 41 rue Martre – 92117 Clichy cedex – France Holds 3,029,005 L'Oréal shares		
Other corporate offices and directorships held		
French companies		
Alba Plus SASU	Chairman	
Sanofi	Director	
Foreign company		
Ferrari S.p.A. (Italy)	Director (*Amministratore*)	
Other		
L'Oréal Corporate Foundation	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 Board of Directors	May 2009
L'Oréal S.A.	Chairman of the Board of Directors	March 2011
Foreign companies		
L'Oréal U.K. Ltd (United Kingdom)	Chairman & Director	March 2011
L'Oréal USA Inc. (United States)	Chairman & Director	March 2011

Jean-Pierre Meyers **French** **Age: 63**		**Expiry date of term of office** **2012**
Director since 1987 Vice-Chairman of the Board of Directors Member of the Audit Committee Member of the Appointments and Governance Committee Member of the Human Resources and Remuneration Committee Member of the Strategy and Sustainable Development Committee Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France Holds 15,332 L'Oréal shares		
Other corporate offices and directorships held		
French companies		
Téthys SAS	Chief Executive Officer Member of the Supervisory Board	
Clymène SAS	Chief Executive Officer	
Foreign company		
Nestlé S.A.	Director	
Other		
Bettencourt Schueller Foundation	Vice-Chairman of the Board	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Gespral S.A.	Director	July 2007
Other		
Fondation Ophtalmologique Adolphe de Rothschild	Director	October 2007

Peter Brabeck-Letmathe Austrian Age: 67		Expiry date of term of office 2013
Director since 1997 Vice-Chairman of the Board of Directors Member of the Appointments and Governance Committee Member of the Human Resources and Remuneration Committee Member of the Strategy and Sustainable Development Committee Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland Holds 27,500 L'Oréal shares		
Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland)	Chairman of the Board	
Other corporate offices and directorships held		
Foreign companies		
Credit Suisse Group (Switzerland)	Vice-Chairman of the Board Director	
Delta Topco Limited (Jersey)	Director	
Exxon Mobil (United States)	Director	
Nestlé Health Science S.A. (Lutry, Switzerland)	Director and Chairman of the Board	
Other		
World Economic Forum (Switzerland)	Member of the Foundation Board	
Table Ronde des Industriels Européens (Belgium)	Member of the Executive Committee Chairman of the Working Group on External Economic Relations	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign company		
Roche Holding S.A. (Switzerland)	Director	March 2010
Other		
Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board	April 2008
ECR Europe (Belgium)	Co-Chairman of the Executive Board	May 2008
World Economic Forum (Switzerland)	Chairman of IBC Internat. Business Council	November 2010
Uprona Ltd (Canada)	Director and Chairman	February 2011

Liliane Bettencourt

French
Age: 89

Director since 1995, end of term of office: February 13th, 2012.
Member of the Strategy and Sustainable Development 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.

Other corporate offices and directorships held		
French companies		
Téthys SAS	Chairwoman (end of term of office: January 31st, 2012) Member of the Supervisory Board	
Clymène SAS	Chairwoman (end of term of office: February 1st, 2012)	
Eugène Schueller SARL	Managing Director	
Other		
Bettencourt Schueller Foundation	Chairwoman	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Gespral S.A.	Chairwoman of the Board	July 2007

Françoise Bettencourt Meyers — **Expiry date of term of office 2013**

French
Age: 58

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 76,441,389 shares in bare ownership

Other corporate offices and directorships held		
French companies		
Téthys SAS	Chairwoman (since January 31st, 2012) Chairwoman of the Supervisory Board	
Clymène SAS	Chairwoman since February 1st, 2012	
Financière de l'Arcouest SAS	Chairwoman	
Société Immobilière Sebor SAS	Chairwoman	
Other		
Bettencourt Schueller Foundation	Vice-Chairwoman of the Board	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Gespral S.A.	Director	July 2007

Werner J. Bauer		Expiry date of term of office
German Age: 61		2012
Director since 2005 Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland Holds 2,165 L'Oréal shares		
Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland)	Executive Vice-President	
Other corporate offices and directorships held		
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Director [since April 13th, 2011]	
GEA-Group AG (Germany)	Director [since August 4th, 2011]	
Life Ventures S.A. (Switzerland)	Chairman of the Board	
Nestlé Deutschland AG (Germany)	Chairman of the Supervisory Board	
Nestlé Health Science S.A. (Lutry, Switzerland)	Director	
Nestlé Institute of Health Sciences S.A. (Ecublens, Switzerland)	Chairman of the Board	
Nutrition-Wellness Venture AG (Switzerland)	Chairman of the Board	
Sofinol S.A. (Switzerland)	Chairman	
Other		
Bertelsmann Foundation (Germany)	Member of the Board of Trustees Chairman [since November 2011]	
Bertelsmann Verwaltungs-Gesellschaft (BVG)	Member	
Scienceindustries [ex: 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 companies		
Alcon, Inc. (Switzerland)	Director	August 2010
Hans Rychiger AG (Switzerland)	Director	February 2007
Life Ventures S.A. (Switzerland)	Vice-Chairman of the Board	August 2009
Nestlé Nespresso S.A. (Switzerland)	Director, Chairman of the Board	March 2009
Nutrition-Wellness Venture AG (Switzerland)	Vice-Chairman of the Board	August 2009
Uprona Ltd (Canada)	Director	February 2011
Other		
Cereal Partners Worldwide (Switzerland)	Member of the Supervisory Board	February 2011

Francisco Castañer Basco **Spanish** **Age: 67**		**Expiry date of term of office** **2012**
Director since 1998 Member of the Audit Committee Member of the Strategy and Sustainable Development Committee Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland Holds 3,500 L'Oréal shares		
Main corporate office held outside L'Oréal		
Offices held as representative of Nestlé S.A.		
Other corporate offices and directorships held		
Foreign company		
Nestlé España	Director and Chairman of the Board	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
Foreign companies		
Alcon, Inc. (Switzerland)	Director and Vice-Chairman	August 2010
Galderma Pharma S.A. (Switzerland)	Chairman of the Board	April 2010
	Director	April 2011
Nestlé S.A. (Switzerland)	Executive Vice-President	December 2009
Uprona Ltd (Canada)	Director	February 2011

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Charles-Henri Filippi French Age: 59		Expiry date of term of office 2015
Director since 2007 Chairman of the Audit Committee Member of the Human Resources and Remuneration Committee [since April 22nd, 2011] Professional address: Octagones – 20, rue Quentin-Bauchart – 75008 Paris – France Professional address: Citigroup France – 1-5 rue Paul Cézanne – 75008 Paris – France Holds 2,000 L'Oréal shares		
Main corporate offices held outside L'Oréal		
Octagones (parent company) and Alfina (subsidiary)	Chairman	
Citigroup France	Chairman	
Other corporate offices and directorships held		
French companies		
Euris	Member of the Supervisory Board	
Femu Qui SA	Member of the Supervisory Board [since September 18th, 2010]	
France Telecom	Director	
Nexity	Non-voting member of the Board of Directors	
Piasa S. A	Director	
Viveris Reim SA	Member of the Supervisory Board [since February 25th, 2011]	
Other		
ADIE (Association pour le Droit à l'Initiative Economique)	Director	
Association des Amis de l'Opéra-Comique	Chairman	
Centre National d'Art et de Culture Georges Pompidou	Director	
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
CVC Capital Partners ("CVC")	Senior Advisor	December 2010
HSBC France	Chief Executive Officer	September 2007
	Chairman of the Board	December 2008
HSBC Private Bank France	Chairman of the Supervisory Board	June 2007
Foreign companies		
HSBC Bank plc (United Kingdom)	Director	December 2008
HSBC Holdings plc (United Kingdom)	*Group Managing Director* Member of Group Management Board	September 2007
HSBC Private Banking Holdings (Suisse) S.A.	Director	
HSBC Trinkaus & Burkhardt AG (Germany)	Member of the Supervisory Board	September 2007
Other		
Association des Amis du Festival d'Automne à Paris	Director	September 2009

Xavier Fontanet		**Expiry date of term of office**
French **Age: 63**		**2014**
Director since 2002 Chairman of the Appointments and Governance Committee [since April 22nd, 2011] Professional address: Essilor – 147, rue de Paris – 94227 Charenton Cedex – France Holds 1,050 L'Oréal shares		
Main corporate office held outside L'Oréal		
Essilor International S.A.	Director Chairman of the Board of Directors [until January 2nd, 2012]	
Other corporate offices and directorships held		
French companies		
Crédit Agricole S.A.	Director	
Schneider Electric SA	Member of the Supervisory Board [since December 15th, 2011]	
Other		
Association Nationale des Sociétés par Actions	Permanent representative of Essilor International and Director on the Board of Directors	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Essilor International S.A.	Chairman and Chief Executive Officer	January 2010
Fonds Stratégiques d'Investissement S.A.	Director	June 2011
Foreign companies		
EOA Holding Co. Inc. (United States)	Chairman-Director	October 2010
Essilor India PVT Ltd (India)	Director	June 2010
Essilor Amico (L.L.C) (United Arab Emirates)	Director	December 2011
Essilor Manufacturing India PVT Ltd (India)	Director	June 2010
Essilor of America Inc. (United States)	Director	March 2010
Nikon and Essilor International Joint Research Center Co. Ltd	Chairman and Director	December 2011
Nikon Essilor Co. Ltd (Japan)	Director	December 2011
Transitions Optical Holding B.V. (Netherlands)	Director	May 2010
Transitions Optical Inc. (United States)	Director	May 2010
Shanghai Essilor Optical Company Ltd (China)	Director	April 2010

Bernard Kasriel		**Expiry date of term of office**
French **Age: 65**		**2012**
Director since 2004 Chairman of the Appointments and Governance Committee [until April 22nd, 2011] Chairman of the Human Resources and Remuneration Committee Member of the Strategy and Sustainable Development Committee Professional address: 1 rue Saint-James – 92200 Neuilly-sur-Seine – France Holds 1,525 L'Oréal shares		
Other corporate offices and directorships held		
French company		
Arkema S.A.	Director	
Foreign company		
Nucor (United States)	Director	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Lafarge S.A.	Director	May 2010
LBO France	Member of the Management Board	January 2010 September 2011
	Partner	
Foreign company		
Sonoco Products Company (United States)	Director	February 2007

Marc Ladreit de Lacharrière **French** **Age: 71**		**Expiry date of term of office** **2014**
Director since 1984 Professional address: Fimalac – 97 rue de Lille – 75007 Paris – France Holds 32,340 L'Oréal shares		
Main corporate office held outside L'Oréal		
F. Marc de Lacharrière (Fimalac)	Chairman and Chief Executive Officer	
Other corporate offices and directorships held		
French companies		
Agence France Museums	Chairman of the Board	
Casino	Director	
Gilbert Coullier Productions SAS	Director	
Groupe Lucien Barrière	Director [since March 2011]	
Groupe Marc de Lacharrière	Chairman of the Management Board	
Renault S.A.	Director	
Renault s.a.s.	Director	
Foreign companies		
Fimalac Participations Sarl (Luxembourg)	Managing Director	
Fitch Group (United States)	Chairman	
Fitch Ratings (United States)	Chairman	
Other		
Comité National des Conseillers du Commerce Extérieur de la France	Honorary Chairman	
Conseil Artistique des Musées Nationaux	Member	
Fonds de dotation Abbaye de Lubilhac	Chairman	
Fondation d'Entreprise Culture et Diversité	Member	
L'Oréal Corporate Foundation	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 company		
Fimalac Participations	Managing Director	September 2010
Foreign company		
Algorithmics (Canada)	Director	2009
Other		
Banque de France	Member of the Consultative Council	2008
Bettencourt Schueller Foundation	Member	May 2010

Jean-Victor Meyers **French** **Age: 25**		**Expiry date of term of office** **2012**
Director co-opted the February 13th, 2012 Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France Holds 1,500 L'Oréal shares		
Other corporate offices and directorships held		
French company		
Téthys SAS	Member of the Supervisory Board	
Exemplaire SAS	Chairman	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
None		

Annette Roux **French** **Age: 69**		**Expiry date of term of office** **2015**
Director since 2007 Professional address: Les Embruns – 16 boulevard de la Mer – 85800 Saint-Gilles-Croix-de-Vie – France Holds 1,000 L'Oréal shares		
Main corporate office held outside L'Oréal		
Bénéteau S.A. (1) (2)	Vice-Chairperson of the Supervisory Board	
Other corporate offices and directorships held		
French companies		
Beri 21 S.A.	Chairperson of the Supervisory Board	
BH S.A.S. (2)	Director	
Construction Navale Bordeaux S.A.S (2)	Director	
O'Hara S.A. (2)	Director	
SPBI S.A. (2)	Director	
Foreign company		
Bénéteau España (2)	Director	
Other		
Bénéteau Corporate Foundation	Chairperson	
Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Beri 3000 S.A.	Chairperson and Chief Executive Officer	August 2010
Other		
Fédération des Industries Nautiques	Chairperson	March 2009

(1) Company listed on compartment A of Eurolist.
(2) Companies controlled by Beri 21 S.A.

Louis Schweitzer French Age: 69	Expiry date of term of office 2013

Director since 2005
Member of the Audit Committee [since April 22nd, 2011]
Member of the Strategy and Sustainable Development Committee [since April 22nd, 2011]
Professional address: Renault – Bât. Pierre Dreyfus – 8-10 avenue Emile Zola – 92109 Boulogne-Billancourt Cedex – France
Holds 2,000 L'Oréal shares

Other corporate offices and directorships held		
French companies		
BNP Paribas	Director	
Veolia Environnement	Director Vice-Chairman of the Board	
Foreign companies		
AB Volvo (Sweden)	Chairman of the Board [until April 2012]	
Allianz AG (Germany)	Member of the Consultative Council	
AstraZeneca (United Kingdom)	Director Chairman of the Board	
Bosch (Germany)	Member of the Consultative Council [since March 2011]	
Other		
Comité des Salons	Chairman	
Festival d'Avignon	Chairman	
Fondation Nationale des Sciences Politiques	Member of the Board	
France Initiative	Chairman [since May 3rd, 2011]	
Maison de la Culture MC93	Chairman	
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
Haute Autorité de Lutte contre les Discriminations et pour l'Egalité	Chairman	March 2010
Le Monde (IMPA, IMSA, SEM)	Chairman of the Supervisory Board	December 2010
Renault	Chairman of the Board	April 2009
Foreign company		
Philips (Pays-Bas)	Vice-Chairman of the Supervisory Board	April 2008
Other		
Banque de France	Member of the Consultative Council	
Institut Français des Relations Internationales	Member of the Board	April 2011
Le Cercle de l'Orchestre de Paris	Chairman of the Board	June 2008
Musée du Louvre	Member of the Board	May 2008

2.2.2. The ways in which the Board's work is prepared and organised

2.2.2.1. General information on Board and Committee meetings in 2011

Committed Directors

Preparation and holding of Board meetings and meetings of its committees require increasing availability and a significant investment by the Directors. This has led to an increase in the time devoted to committee and Board meetings, and the Board of Directors has considered it desirable to involve more Directors in the work of the committees.

2.2.2.1.1. The activities of the Board of Directors

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's work is based on Internal Rules (published in section 2.2.2.3. on pages 46 *et seq.*) 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.

Assiduous attendance at meetings by Directors

In 2011, the Board held 5 meetings, with an average attendance rate of 91.4%.

Allocation of the attendance fees, which is made on the basis of attendance by each Director at Board meetings and presence on the various Board Committees, is described in the paragraph 2.3.1. of this chapter dedicated to *Remuneration of the members of the Board of Directors* page 53.

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 at least twice a year at Board meetings, at the time of closing of the annual financial statements and the review of the interim financial statements or at any other time if necessary. 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.

Work focused on business activities and strategy

In 2011, the Board of Directors carried out a great deal of work analysing the components of strategy and following the business activities, in the presence of several senior managers. As attested to by the preparatory work of its committees (see below), the Board looks at all the aspects of the Group's economic and financial management and its development.

2.2.2.1.2. The activities of the Board Committees

The Board's discussions and decisions are assisted by the 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 2011. The membership of these committees, their remits and their work in 2011 are described in detail in this chapter.

The Board Committees act strictly within the framework of the remits given to them by the Board. They prepare actively for its work and make proposals but they do not have any decision-making powers. Their remits are set out in the Internal Rules of the Board of Directors (published in section 2.2.2.3. on pages 46 *et seq.*).

The Strategy and Sustainable Development 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 that are under way. 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 also makes sure that the Company's commitments with regard to Sustainable Development have been duly taken into consideration, in light of the issues specific to the Group's business activities and its objectives. Within this framework, the committee looks at the means and resources put in place and reports on them to the Board.

In 2011, another independent Director, Mr. Louis Schweitzer, was appointed to the committee, thus increasing the number of committee members to seven. The committee is chaired by the Chairman and Chief Executive Officer (Mr. Jean-Paul Agon), two members represent the Bettencourt family (Mrs. Liliane Bettencourt and Mr. Jean-Pierre Meyers), two members come from Nestlé (Mr. Peter Brabeck-Letmathe and Mr. Francisco Castañer Basco) and two independent Directors also serve on the committee (Mr. Bernard Kasriel et Mr. Louis Schweitzer). All these Directors participate in Committee meetings with complete freedom of judgment and in the interest of all the shareholders.

The committee met five times in 2011, with an attendance rate of 92%.

The committee periodically analysed business activities in terms of net sales and results, as well as the prospects and opportunities for development of the Group and its Divisions within the context of changing markets and competition.

Throughout the year, proposed acquisitions were reviewed by the committee before being submitted to the Board for it to make a decision. In addition, the committee familiarised itself with the industrial strategy, particularly in new markets from the perspective of local production, a search for flexibility and the need to adapt to local constraints. Furthermore, at each of its meetings, the committee examined the most recent launches of high value-added products in terms of innovation. Finally, in 2011, the committee received a presention on the Company's Sustainable Development policy and noted that this policy is aimed at:

- ensuring lasting economic growth, built on a model that values the diversity of teams;
- promoting ethical, responsible behaviour on an everyday basis, and development of new avenues in the field of sustainable consumption;
- sharing the Group's development through good corporate citizenship.

The committee reported to the Board on all its work.

The Audit Committee

The main remit of the Audit Committee involves monitoring the process for preparation of financial information, the effectiveness of the Internal Control and risk management systems, the statutory audit of the annual and consolidated accounts by the Statutory Auditors and finally the Statutory Auditors' independence.

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.

In 2011, another independent Director, Mr. Louis Schweitzer, was appointed to the committee, thus increasing the number of committee members to four. The committee is chaired by Mr. Charles-Henri Filippi, an independent Director who has recognised financial expertise, Mr. Jean-Pierre Meyers, Mr. Francisco Castañer Basco, both of whom have been members of the committee since it was created in 1999, and Mr. Louis Schweitzer, an independent Director. These Directors have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures which are presented to them on a regular basis. They participate actively in committee meetings, with complete freedom of judgment 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. However, the Board of Directors decided to change the composition of this committee by appointing another independent Director to the committee in 2011, so that half the committee's members are now independent. All the committee members ensure that L'Oréal's economic and financial balances are preserved and controlled.

The Audit Committee met four times in 2011, in the presence of all its members. On several occasions, it interviewed the Vice-President of the Administration and Finance Division and the senior managers in charge of the areas in which the committee reviews activities, in particular within the scope of the processes related to risk management and control. The Statutory Auditors attend meetings. The committee did not consider it appropriate to use outside experts.

The committee assessed the quality of the Group's annual and interim results of which it was informed prior to the meetings concerned, and examined the main items on the Company's balance sheet and off-balance sheet commitments.

Within the scope of the auditing of the accounts by the Statutory Auditors, the committee regularly asked for their comments and their opinions. Like it does every year, the committee met with the Statutory Auditors outside the presence of management.

The principles adopted by the Group in relation with Information Systems Security were presented to the committee, which noted that L'Oréal's development was taking place through a solid, durable and innovative infrastructure, in a secure environment, with controlled costs.

The committee reviewed the activities of the Internal Audit Department and observed that the organisation and the results of its assignments were of better quality, with identified improvements. In relation with Internal Control, the committee reviewed the risk map showing the risks identified on the basis of an in-depth process, within the regulatory framework and within the scope of the recommendations made by the AMF, of risk identification and analysis. The committee noted that risks are taken into consideration at operational level and that there is a process for a regular review of risks by the Executive Committee.

The committee is regularly informed of the legal risks and the potential litigation and major events liable to have a significant impact on L'Oréal's financial position and its assets and liabilities. No major event liable to have a significant impact on L'Oréal's financial position and its assets and liabilities was noted by the committee.

Finally, the committee reviewed the process for the preparation and approval of financial press releases and appreciated the quality of the "Ethical and Legal Guide to Fair Competition".

The committee reported to the Board on all its work.

The Appointments and Governance Committee

The main remits of the Appointments and Governance Committee involve enlightening the decisions made by the Board with regard to the conditions of performance of General Management and the status of the executive officers, making proposals to the Board for the choice of Directors, discussing the classification of independent Director which is reviewed by the Board every year before the publication of the Annual Report, issuing an opinion on the proposals of the Chairman of the Board for the appointment of the Chief Executive Officer, making sure that the code of corporate governance to which the Company refers is properly applied, ensuring the implementation of a procedure for the preparation of succession plans for the executive officers in the event of an unforeseen vacancy and conducting the reflection process with regard to the committees that are in charge of preparing the Board's work and preparing for the Board's decisions with regard to the updating of its Internal Rules.

Three Directors are members of this committee: Mr. Xavier Fontanet (who joined the committee in May 2011), 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 judgment 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.

In 2011, the committee met four times in the presence of all its members. The Chairman and Chief Executive Officer can attend committee meetings except with regard to any matters on the agenda that concern him directly. The committee examined certain aspects of the organisation and *modus operandi* of the Board of Directors. It looked at the legal situation of Mrs. Liliane Bettencourt in light of her tenure as Director.

When, in 2011, Sir Lindsay Owen-Jones, Chairman of the Board of Directors since 2006 after holding the post of Chairman and Chief Executive Officer from 1988 to 2006, confirmed that he no longer wished to hold this office as from March 18th, the committee recommended to the Board that it reunify the duties of Chairman with those of Chief Executive Officer, as all the conditions were once again met to revert to reunified duties, a governance model which is specifically adapted to L'Oréal and its shareholder structure. The committee proposed to the Board that it appoint Mr. Jean-Paul Agon as Chairman and Chief Executive Officer and the Board decided to do so. It also suggested to the Board to give Sir Lindsay Owen-Jones the position of Honorary Chairman.

The Appointments and Governance Committee once again drew the attention of the Board of Directors to the need to make sure that its composition in 2017 would be in line with the French Law of January 27th, 2011 requiring the balanced representation of women and men, namely a proportion of 40% of Directors of the same gender. The Board of Directors is already in advance of this law which provides for a proportion of 20% of women members to be reached by 2014 and is doing everything it can to gradually appoint more female Directors. Candidacies are submitted to the Board to be included on the agenda for the Annual General Meeting when the time comes.

The committee considered and proposed the conditions in which the continuity of L'Oréal's General Management would be ensured if the Chief Executive Officer is unable to act.

As it does every year, the committee examined the independence of L'Oréal's Directors and made proposals to the Board in connection with the publication of such information in the 2011 Registration Document. On the committee's recommendation, the Board of Directors considered that the Board had six independent Directors out of fourteen members. In the case of Mr. Marc Ladreit de Lacharrière, who has been a Director of L'Oréal for over 12 years, it considered that 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.

At the Board of Directors' request, the committee also reflected on the composition of the Board's committees and increasing the presence of independent Directors on several of them.

The committee reported to the Board on all its work.

The Human Resources and Remuneration Committee

The main remits of the Human Resources and Remuneration Committee are in particular to make proposals with regard to the remuneration of the Chairman of the Board of Directors and that of the Chief Executive Officer, the total amount of the attendance fees to be submitted to the Annual General Meeting and their method of distribution, the implementation of long-term incentive schemes such as for example, stock option plans or plans for free grants of shares. The committee's role has been enlarged to include all the components of the Human Resources policy such as, for example, labour relations, recruitment, diversity, talent management and fostering employee loyalty. The committee also makes sure that the rules of ethical conduct, as set out in a Code of Conduct, and the Group's strong values, such as respect and integrity, are widely disseminated, known and put into practice.

In 2011, Mr. Charles-Henri Filippi, an independent Director, was appointed to the committee. Four Directors are now members of the committee: Mr. Bernard Kasriel, an independent Director and Chairman of the committee, Mr. Jean-Pierre Meyers, Mr. Peter Brabeck-Letmathe and Mr. Charles-Henri Filippi. These Directors actively participate in committee meetings, with complete freedom of judgment and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code which recommends that a majority of the Directors should be independent has not been adopted inasmuch as the Company is controlled by two main shareholders. However, the Board of Directors decided to have the composition of this committee evolve by appointing an additional independent Director as a member in 2011, such that half its members are independent.

In 2011, the committee met four times in the presence of all its members. The Chairman and Chief Executive Officer can attend committee meetings except with regard to any matters on the agenda that concern him directly.

The committee made new proposals to the Board with regard to the remuneration of the corporate officers, particularly after the appointment of a Chairman and Chief Executive Officer (see the section 2.3. page 53) and proposed to the Board to grant stock options and to implement a plan for the conditional grant of shares to employees. The grants are made after the closing of the annual financial statements, they associate those who have made big contributions with the future evolution of the Group's results and help to instil a Group spirit by fostering the loyalty of employees. The stock options and free shares depend on the fulfilment of performance conditions.

In light of the changes in the remits and work of the committees, the committee asked the Board to approve the new rules for the allocation of attendance fees, then proposed the amounts allocated in respect of the 2011 financial year in light of the actual presence of Directors at Board meetings and on a prorated basis according to their membership of one or more committees.

The committee examined the Group's resources in terms of talent, of both men and women, at the various brands and in different countries. The Group has a high-quality pool of talent to build L'Oréal's future success.

The committee reviewed the new requirements resulting from the "Grenelle II" Law with regard to the information which will shortly have to be published on social matters and was informed of the implementation of the ethical principles within the Group.

The committee reported to the Board on all its work.

2.2.2.2. Self-evaluation by the Board of Directors

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 carried out within the framework of the AFEP-MEDEF Code, to which the Board refers.

The Directors again exercised their complete freedom of judgment in 2011. This freedom of judgment allowed them 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, in light of what were considered as avenues of progress following the self-evaluation carried out at the end of 2010, particularly with regard to the strategic challenges faced by the Group which are regularly debated and discussed, in the presence of the senior managers who are members of the Executive Committee. Once again this year, the approach to strategy was examined in detail in the course of the Board's work in light of the development of the brands, the countries and the markets on which the Group operates and, within this framework, the Board's attention focused in particular on the major evolutions in Research & Innovation which are at the heart of the Group's strategy. In 2011, the Board devoted a whole day to Research in one of its laboratories. L'Oréal's Research is essential for the Group's growth, through its discoveries, in compliance with the quality, safety and efficiency standards and in the service of performance for the consumer, everywhere in the world. L'Oréal has established an international presence of its Research & Innovation activities with 5 regional poles: in France, the USA, Japan, China and Brazil.

In 2011, the Board appreciated the rhythm, frequency and format of the information provided to it in connection with business activities in general and the main events in the life of the Group. Making documentation available prior to Board or committee meetings, in compliance with the requirements of confidentiality and the time constraints with which the Company is faced, favours the quality of the debates.

The Directors made new proposals of topics to be included on the agenda for meetings in 2012, principally in relation with the areas for development of the Group, in high-growth zones and on new markets.

2.2.2.3. Appendix: complete text of the Internal Rules of the Board of Directors

At the beginning of 2011, the Board decided to update its Internal Rules in order to add to the remits of two of its committees, give a reminder of the need to strictly respect the confidentiality of the information that it is called on to handle and specify that Board members are prohibited from trading in the Company's shares during certain specific periods.

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.

L'Oréal's Board of Directors refers to the principles of corporate governance as presented by the AFEP-MEDEF Code.

1. Duties and authority of the Board of Directors

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 is a collegial body which collectively represents all the shareholders and which is required to act in all circumstances in the interest of the Company.

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.

In principle, it is agreed by the Board members that all Directors will tender their resignation to the Board prior to the Annual General Meeting following their 73rd birthday and that they will no longer apply for renewal of their tenure if this rule does not enable them to perform their office for at least two years.

In any event, in accordance with French law and the Articles of Association, the total number of Directors who are over 70 years of age may not exceed one third of the Directors in office.

The staggering of the terms of office is organised in order to avoid renewal of too many Directors all at once and favour the harmonious renewal of the Directors.

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.

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.

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).

2. *Modus operandi* of the Board of Directors

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.

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.

The Company provides its Directors with useful information at any time in the life of the Company between Board meetings, if this is required due to the importance or urgent nature of the information. This ongoing information process also includes all relevant information, including criticism, with regard to the Company, and in particular press articles and financial analysis reports.

The Board is regularly given the opportunity to meet the Company's main senior managers.

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.

2.4. Participation by videoconference or telecommunication facilities

In accordance with the legal and regulatory provisions and with Article 9 paragraph 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.

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. 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.

In relation with the performance of their duties, the Review Committees may contact the Company's main senior managers after informing the Chairman of the Board of Directors and provided that they report to the Board in this respect.

The committees may in no event take over the powers of the General Management as set out in paragraph 1.4. of these rules.

3.1. Audit Committee

3.1.1. Remit

The Audit Committee, acting under the exclusive, collective responsibility of the members of the Board of Directors, is responsible for monitoring issues relating to the preparation and control of accounting and financial information.

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.

Without prejudice to the areas of authority of the Board of Directors, this committee is responsible in particular for monitoring:

a) the process for preparation of financial information;

b) the effectiveness of the Internal Control and risk management systems;

c) the statutory audit of the annual and, where applicable, the consolidated accounts by the Statutory Auditors;

d) the Statutory Auditors' independence.

It makes a recommendation with regard to the Statutory Auditors proposed to the Annual General Meeting for appointment.

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.

3.1.2. 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, and if it considers it appropriate, 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, outside the presence of General Management.

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 Statutory Auditors inform the Audit Committee of:

1° their general work programme implemented as well as the various sampling tests they have carried out;

2° the changes which they consider should be made to the financial statements to be closed off or other accounting documents, making any appropriate observations on the valuation methods used to prepare them;

3° the irregularities and inaccuracies they may have discovered;

4° the conclusions resulting from the above observations and rectifications with regard to the results for the period compared to those for the previous period.

The Statutory Auditors also assess, with the Audit Committee, the risks with regard to their independence and the protective measures taken to mitigate these risks.

They inform the committee of significant Internal Control weaknesses, with regard to the procedures for preparation and processing of accounting and financial information, and provide it with the documents required by law every year.

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.

3.1.3. Activity Report

The Audit Committee regularly reports to the Board on the performance of its missions and takes note of the Board's observations.

The committee informs the Board without delay of any difficulty encountered.

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.

3.2. Appointments and Governance Committee

3.2.1. Remit

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

- enlighten the decisions made by the Board with regard to the conditions of performance of General Management and the status of the corporate officers;
- make proposals to the Board for the choice of Directors;
- discuss the status of independent director which is reviewed by the Board every year prior to publication of the Annual Report;
- issue an opinion on proposals made by the Chairman of the Board of Directors for appointment of the Chief Executive Officer;
- ensure the application of the corporate governance code to which the Company refers;
- ensure the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy;
- conduct the reflection process with regard to the committees that are in charge of preparing the Board's work;
- prepare for the decisions by the Board with regard to updating its Internal Rules.

3.2.2. Work organisation

The Appointments and Governance 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.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally.

3.2.3. Activity Report

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

3.3. The Human Resources and Remuneration Committee

3.3.1. Remit

The Board of Directors freely determines the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers.

Within this framework, the main missions of the Human Resources and 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.

The committee also examines:

- all the other components of the Human Resources policy such as, for example, labour relations, recruitment, diversity, talent management and fostering employee loyalty;
- the rules of ethical conduct, as set out in a Code of Conduct, and the Group's strong values, such as respect and integrity, that must be widely disseminated, known and put into practice.

3.3.2. Work organisation

The Human Resources and 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.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally.

3.3.3. Activity Report

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

3.4. The Strategy and Sustainable Development Committee

3.4.1. Remit

The remit of the Strategy and Sustainable Development 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;
- the Company's commitments with regard to Sustainable Development, in light of the issues specific to the Group's business activities and its objectives, and the means and resources put in place.

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

3.4.2. Work organisation

The Strategy and Sustainable Development 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.

3.4.3. Activity Report

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

4. Rights and obligations of Directors

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 hereafter in point 4.6.

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.

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.

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.

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. 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. Beyond this legal obligation and to ensure the quality of the discussions of the Board of Directors, the Board has set a rule that all the information given to Board members and the opinions they express have to be kept strictly confidential.

4.6. Rules governing insider trading

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.

4.6.2. Periods of abstention

During the period preceding the publication of any privileged information to which Directors have access, in their capacity of insiders, Directors must by law refrain from all trading in L'Oréal securities.

Furthermore, it is prohibited for them, in accordance with the AMF's recommendations, to trade in the Company's shares over the following periods:

- a minimum of 30 calendar days before the date of publication of the press release on the annual and half-year results;
- a minimum of 15 calendar days before the date of publication of the press release on quarterly financial information.

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).

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.

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.

5. Remuneration of the corporate officers

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.

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.

7. Amendments to the Internal Rules

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

2.2.3. Specific terms and conditions of participation by shareholders in the Annual General Meeting

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.

In 2012, it is proposed to the shareholders to update the Company's Articles of Association in application of the new regulations, whose purpose is to simplify the participation by shareholders in Annual General Meetings. This involves removing the reference to the irrevocable nature of proxy forms and inserting a reference to the use of communication and electronic signatures.

2.2.4. Principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers

The Board refers to the recommendations of the AFEP-MEDEF Code for the determination of the remuneration and benefits granted to the corporate officers.

The Board of Directors constantly 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 are 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 on the stock market, 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, which became the Human Resources and Remuneration Committee at the end of 2010, makes its proposals to the Board, which deliberates and makes a collective decision with regard to each proposal.

At the beginning of the year, the committee proposes to the Board:

- the amount of the variable remuneration relating to the previous financial year after a review of each qualitative and quantitative performance criterion in light of the final results for the year. For reasons of confidentiality, the level of performance achieved is measured precisely by the Board but cannot be made public;
- for the current financial year, the amount of the fixed remuneration to be paid, and definition of the objective (value and criteria) determining the variable remuneration. The Human Resources and Remuneration Committee formulates proposals for the grant of stock options to the corporate officers appointed by the Board.

2.3. Remuneration of the members of the Board of Directors and the corporate officers

2.3.1. 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 follow:

- *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."*

In 2011, a fourth member was appointed to both the Audit Committee and the Human Resources and Remuneration Committee.

For 2011, 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 Sustainable Development Committee and an additional amount of €15,000 for the Chairman of this committee; an amount of €10,000 for each Director who is a member of the Human Resources and Remuneration Committee and the Appointments and Governance Committee and an additional amount of €10,000 for the Chairman of each of these committees; an amount of €25,000 for each Director who is a member of the Audit Committee and an additional amount of €25,000 for its Chairman.

A total amount of €1,051,500 was distributed to Directors at the beginning of 2012 in respect of the 2011 financial year, for a total of five meetings like in 2010, according to the following breakdown:

In euros	2010: Total 5 meetings and 16 Committee meetings	2011: Total 5 meetings and 17 Committee meetings
Mr. Jean-Paul Agon	55,000	79,000
Mr. Werner Bauer	55,000	50,000
Mrs. Liliane Bettencourt	65,000	55,000
Mrs. Françoise Bettencourt Meyers	55,000	55,000
Mr. Peter Brabeck-Letmathe	85,000	90,000
Mr. Francisco Castañer Basco	90,000	95,000
Mr. Charles-Henri Filippi	95,000	110,000
Mr. Xavier Fontanet	55,000	65,000
Mr. Bernard Kasriel	100,000	100,000
Mr. Marc Ladreit de Lacharrière	55,000	55,000
Mr. Jean-Pierre Meyers	105,000	115,000
Sir Lindsay Owen-Jones	85,000	61,000
Mrs. Annette Roux	55,000	45,000
Mr. Louis Schweitzer	55,000	76,500

Mr. Jean-Paul Agon, Chairman and Chief Executive Officer, does not receive any attendance fees in the L'Oréal Group other than those referred to above.

2.3.2. Remuneration of the executive officers

2.3.2.1. Remuneration of the Chairman and Chief Executive Officer

In 2011, **Mr. Jean-Paul Agon** assumed the duties of Chief Executive Officer of L'Oréal until March 17th, 2011, then those of Chairman and Chief Executive Officer as from March 18th, 2011, after the Board of Directors decided, at its meeting on February 10th, 2011, to reunify the duties of Chairman with those of Chief Executive Officer and to entrust them to him.

- **With regard to the fixed remuneration** of Mr. Jean-Paul Agon for 2011, it is to be noted that at its meeting on February 10th, 2011, and on the proposal of the Human Resources and Remuneration Committee, the Board of Directors had set such remuneration at a gross amount of €2,100,000 on an annual basis, an amount that was unchanged as compared to 2010.

  The appointment of Mr. Jean-Paul Agon as Chairman and Chief Executive Officer did not lead to any increase in his remuneration in this respect, which continued to be fixed at a gross amount of €2,100,000.

- **With regard to the variable part** of Mr. Jean-Paul Agon's remuneration for 2011, the Human Resources and Remuneration Committee examined the conditions of achievement of the objectives giving rise to the allocation of such amount:

  It is to be noted that the target objective was €2,100,000, as the Board of Directors had set the same target objective of a variable part of remuneration that could represent 100% of the fixed remuneration.

  The performance assessment criteria had been set as follows:

  - half based on quantitative objectives relating to the Company's performance: growth in comparable sales as compared to the budget, market share as compared to the main competitors, operating profit plus advertising and promotion expenses, net earnings per share and cash flow as compared to 2010;
  - half on the basis of an assessment of the qualitative aspects of management: the appropriateness of strategic choices, the quality of leadership and management, the impact of communication, actions to help society and addressing the specific priorities for the year.

On the proposal of the Human Resources and Remuneration Committee, the Board decided, at its meeting on February 13th, 2012, to allocate to Mr. Jean-Paul Agon a variable amount of remuneration of €1,785,000 in respect of 2011, i.e. 85% of the target objective.

- **Concerning the fixed remuneration** of Mr. Jean-Paul Agon for 2012, the Board, at its meeting on February 13th, 2012, set the gross amount of such remuneration at €2,100,000 on an annual basis, an amount which remains unchanged compared to 2011.

- **Concerning the variable remuneration** of Mr. Jean-Paul Agon for 2012, the Board of Directors set the same target objective of variable remuneration that may represent 100% of the fixed part with the following performance assessment criteria:

  - half based on quantitative objectives relating to the Company's performance: growth in comparable sales as compared to the budget, market share as compared to the main competitors, operating profit plus advertising and promotion expenses, net earnings per share and cash flow as compared to 2011;
  - half on the basis of an assessment of the qualitative aspects of management: the appropriateness of strategic choices, the quality of leadership and management, the impact of communication, actions to help society and addressing the specific priorities for the year.

Furthermore, at its meeting on April 22nd, 2011, the Board of Directors allocated 400,000 stock options to Mr. Jean-Paul Agon. Mr. Jean-Paul Agon waived at 200,000 of these stock options. He benefits from 200,000 stock options under the Plan decided by the Board of Directors on April 22nd, 2011. The exercise of these stock options is subject to fulfilment of performance conditions, half based on the growth in cosmetics sales as compared to a panel of competitors and half based on the growth in operating profit, and calculated over a period of 4 full financial years.

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

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

Mr. Jean-Paul Agon **Chairman and Chief Executive Officer** *In euros*	2011		2010	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,100,000	2,100,000	2,100,000	2,100,000
Variable remuneration (1)	1,785,000	1,680,000	1,680,000	1,260,000
Exceptional remuneration	-	-	-	-
Attendance fees (2)	79,000	55,000	55,000	60,000
Benefits in kind	-	-	-	-
Total	**3,964,000**	**3,835,000**	**3,835,000**	**3,420,000**

(1) The variable remuneration for year N is paid in year N+1.
(2) Attendance fees for year N are paid in year N+1

The summary table showing the remuneration, stock options and performance shares awarded to the Chairman and Chief Executive Officer is as follows:

Mr. Jean-Paul Agon **Chairman and Chief Executive Officer** *In euros*	**2011**	**2010**
Remuneration due in respect of the financial year	3,964,000	3,835,000
Valuation of stock options granted during the financial year	3,716,000 (1)	6,868,000 (1)
Valuation of performance shares awarded during the financial year	0	0
Total	**7,680,000**	**10,703,000**

(1) Fair value estimated under IFRS for the preparation of the Company's consolidated financial statements. The figure 2011 takes into account the renouncement by Mr. Jean-Paul Agon at 200,000 stock options allocated under the Plan of April 22nd, 2011.

2.3.2.2. Remuneration of the Chairman of the Board of Directors (until March 17th, 2011)

Sir Lindsay Owen-Jones assumed the duties of Chairman of the Board of Directors until March 17th, 2011, the date as from which the Board of Directors' meeting of February 10th, 2011 decided to reunify the duties of Chairman with those of Chief Executive Officer and to entrust them to Mr. Jean-Paul Agon, Sir Lindsay Owen-Jones remaining a Director of L'Oréal and being appointed as Honorary Chairman.

On the same day, the Board of Directors adopted the following decisions, on the recommendation of the Human Resources and Remuneration Committee:

- the fixed remuneration of Sir Lindsay Owen-Jones for 2011 was maintained at the same level as for 2010, *i.e.* €1,000,000 on an annual basis, including benefits in kind, and without any additional variable remuneration. The amount of such remuneration was therefore €213,888 on a prorated basis for the period from January 1st, 2011 to March 17th, 2011;
- in respect of his duties as Chairman of the Board of Directors, Sir Lindsay Owen-Jones had secretarial services, a company car and a chauffeur at his disposal;
- as from March 18th, 2011, Sir Lindsay Owen-Jones no longer received any remuneration or any special benefit other than his attendance fees as a Director.

The summary table showing the Chairman of the Board of Directors' remuneration is as follows:

Sir Lindsay Owen-Jones **Chairman of the Board of Directors** **(until March 17th, 2011)** *In euros*	**2011 (until March 17th, 2011)** Amounts due	Amounts paid	**2010** Amounts due	Amounts paid
Fixed remuneration	210,631	210,631	1,317,996	1,317,996
Variable remuneration	0	0	0	0
Exceptional remuneration	–	–	-	-
Attendance fees (1)	61,000	85,000	85,000	90,000
Benefits in kind	3,257	3,257	15,336	15,336
Total	**274,888**	**298,888**	**1,418,332**	**1,423,332**

(1) The attendance fees for year N are paid in year N+1.

The summary table showing the remuneration, stock options and performance shares awarded to the Chairman of the Board of Directors is as follows:

Sir Lindsay Owen-Jones **Chairman of the Board of Directors** **(until March 17th, 2011)** *In euros*	**2011**	**2010**
Remuneration due in respect of the financial year	274,888	1,418,332
Valuation of stock options granted during the financial year	0	0
Valuation of performance shares awarded during the financial year	0	0
Total	**274,888**	**1,418,332**

2.3.3. Stock options granted to the executive officers

♦ The stock options granted in 2011 to the executive officers are as follows:

	Date of grant	Nature of options	Valuation of the options (1)	Number of options granted	Exercise price	Exercise period
Mr. Jean-Paul Agon	April 22nd, 2011	Subscription	3,716,000	200,000 (2)	€83.19	April 23rd, 2016 to April 22nd, 2021 inclusive
Sir Lindsay Owen-Jones	None	None	None	None	None	None

(1) Fair value estimated under IFRS for the preparation of the Company's consolidated financial statements.
(2) The Board of Directors on April 22nd, 2011 allocated 400,000 stock options to Mr. Jean-Paul Agon. Mr. Jean-Paul Agon waived at 200,000 of these stock options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors on April 22nd, 2011.

The Board of Directors decided, within the scope of the Plan of April 22nd, 2011, to reapply the retention rule in force for the Plans of November 30th, 2007 and April 27th, 2010: 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 Chairman and 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 Chairman and 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.

In 2011, the Chairman and Chief Executive Officer only received stock-options.

The executive officers who received stock options to purchase and/or subscribe for shares have undertaken not to hedge their risks.

♦ **The stock options granted to the executive officers which can still be exercised are as follows:**

The stock options granted by the Board of Directors to Mr. Jean-Paul Agon since his appointment as a corporate officer, and which can still be exercised are as follows:

Date of grant	Number of options granted	Number of options not yet exercised	1st possible date of exercise	Date of expiry	Subscription price *(in €)*
12.01.2006	500,000	500,000	12.02.2011	12.01.2016	78.06 (S)
11.30.2007	350,000	350,000	12.01.2012	11.30.2017	91.66 (S)
03.25.2009	-	-	-	-	-
04.27.2010	400,000	400,000	04.28.2015	04.27.2020	80.03 (S)
04.22.2011 (1)	200,000	200,000	04.23.2016	04.22.2021	83.19 (S)

(1) The Board of Directors on April 22nd, 2011 allocated 400,000 stock options to Mr. Jean-Paul Agon. Mr. Jean-Paul Agon waived at 200,000 of these stock options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors on April 22nd, 2011.

The stock options that 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 granted	Number of options not yet exercised	1st possible date of exercise	Date of expiry	Purchase (A) or subscription (S) price *(in €)*
12.03.2003	500,000	500,000	12.04.2008	12.03.2013	63.02 (S)
	500,000	500,000	12.04.2008	12.03.2013	71.90 (A)
03.24.2004	-	-	-	-	-
12.01.2004	1,000,000	1,000,000	12.02.2009	12.01.2014	55.54 (S)
06.29.2005	-	-	-	-	-
11.30.2005	700,000	700,000	12.01.2010	11.30.2015	61.37 (S)
	300,000	300,000	12.01.2010	11.30.2015	62.94 (A)
04.25.2006	2,000,000	2,000,000	04.26.2011	04.25.2016	72.60 (S)

2.3.4. Stock options exercised during the financial year by the executive officers

	Date of the Plan	Number of share subscription (S) or purchase (A) options exercised during the financial year	Exercise price
Mr. Jean-Paul Agon	12.01.2004	20,000 (S)	€55.54
Sir Lindsay Owen-Jones (until March 17th, 2011)	-	-	-

2.3.5. Conditional shares granted to the executive officers

Neither Mr. Jean-Paul Agon nor Sir Lindsay Owen-Jones are the beneficiaries of conditional shares either in respect of 2011 or in respect of any previous year.

2.3.6. Commitments made with regard to the executive officers

2.3.6.1. Commitments made with regard to the Chairman and Chief Executive Officer

The Code of Corporate Governance for listed companies, prepared jointly by the AFEP and the MEDEF, to which L'Oréal refers, recommends that companies should put an end to the practice of combining an employment contract with a corporate office (point 19) although it does not impose this as a mandatory requirement. L'Oréal's Board of Directors shares the objectives of this recommendation which aims at avoiding the possibility of concurrently obtaining benefits both from the employment contract and the corporate office and at prohibiting any interference with the possibility of removing corporate officers *ad nutum*. The Board of Directors has formally provided for the methods of application of the objectives of the recommendation, as adapted to the professional context in the L'Oréal Group.

The Board's intention is to use the treatment set out below for Mr. Jean-Paul Agon and, in future, for any new corporate officer appointed who has over 15 years' length of service in the Group at the time of appointment.

L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their careers in the Group as corporate officers. This is how Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years within the Group.

The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr. Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr. Agon would lose the status he acquired as a result of the twenty-seven years he spent working for the Group as an employee.

The Board did not want Mr. Jean-Paul Agon, who accepted the office of Chief Executive Officer after 27 years working with L'Oréal, to be deprived of the benefits to which he would have continued to be entitled had he remained an employee.

The Board of Directors considered that the objective pursued by the AFEP-MEDEF recommendation can be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to his corporate office on the other.

The Board of Directors has decided to eliminate all right to any indemnity in the event of termination of the corporate office.

In the event of departure, and depending on the reasons, Mr. Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities due in the event of voluntary retirement or compulsory retirement on the Company's initiative pursuant to the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining Agreement for the Chemical Industries and the Company-level agreements applicable to all L'Oréal senior managers, are due in any event pursuant to public policy rules of employment law. They are not subject to any condition other than those provided for by the National Collective Bargaining Agreement for the Chemical Industries or the above-mentioned Company-level agreements. The same applies to the non-competition clause and the related financial consideration.

Remuneration in respect of the corporate office will in no event be taken into consideration for calculation of the indemnities due pursuant to the collective bargaining agreement and the Company-level agreements applicable to all L'Oréal senior managers.

Mr. Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers, as described in paragraph 6.1.2.1. on pages 181 *et seq*.

The reference remuneration to be used to calculate all the rights attached to the employment contract and in particular to compute the pension under the above-mentioned defined benefit scheme, is based on the amount of remuneration at the date of suspension of the employment contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000.

This reference remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund.

As of January 1st, 2012, the fixed remuneration amounts to €1,617,000 and variable remuneration to €1,347,500.

The length of service applied will take into consideration his entire career, including the years during which he was Chief Executive Officer and Chairman and Chief Executive Officer.

Mr. Jean-Paul Agon will continue to be entitled to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees due to the fact that he will be treated as a senior manager throughout the entire period of his corporate office.

The above provisions are subject to the procedure applicable to regulated agreements and commitments; this commitment was approved by the Annual General Meeting on April 27th, 2010 making a decision with regard to the Special Report prepared by the Statutory Auditors.

They remain unchanged within the scope of the appointment of Mr. Jean-Paul Agon as Chairman and Chief Executive Officer as from March 18th, 2011.

The table set out below, presented in the form recommended by the AMF, clearly shows that there are no concurrent benefits under the suspended employment contract and the corporate office.

Mr. Jean-Paul Agon (1) Chairman and Chief Executive Officer	Employment contract (2)		Supplementary pension scheme (3)		Indemnities or benefits due or which may become due as a result of termination or change of duties (4)		Indemnities relating to a non-competition clause (5)	
	Yes	No	Yes	No	Yes	No	Yes	No
	x		x			x	x	

(1) Mr. Agon has been a Director since April 25th, 2006, the date on which he was appointed as Chief Executive Officer. His tenure was renewed at the Annual General Meeting on April 27th, 2010. Mr. Agon has been Chairman and Chief Executive Officer since March 18th, 2011.
(2) Mr. Agon's employment contract is suspended throughout the entire length of his corporate office.
(3) Pursuant to his employment contract, Mr. Agon is entitled to benefit from the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de Conjoncture") as described on page 185.
(4) No indemnity is due in respect of termination of the corporate office. In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of dismissal, except in the case of gross misconduct or gross negligence, the dismissal indemnity would be capped, in light of Mr. Agon's length of service, at 20 months' reference remuneration.
(5) In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of 2/3 of the monthly reference fixed remuneration unless Mr. Agon were to be released from application of the clause.

2.3.6.2. Commitments made with regard to the Chairman of the Board of Directors (until March 17th, 2011)

As Sir Lindsay Owen-Jones claimed his pension entitlements in 2006, he no longer had an employment contract with L'Oréal at the end of his term of office as Chairman of the Board of Directors. No benefit or indemnity of any kind was due to him in respect of the termination of his duties as Chairman of the Board of Directors.

Sir Lindsay Owen-Jones (1) (Chairman of the Board of Directors until March 17th, 2011)	Employment contract		Supplementary pension scheme (2)		Indemnities or benefits due or which could become due as a result of termination or change of duties		Indemnities relating to a non-competition clause	
	Yes	No	Yes	No	Yes	No	Yes	No
		x	N/A	N/A		x		x

(1) Sir Lindsay Owen-Jones has been a Director since 1984. His tenure was renewed at the Annual General Meeting on April 27th, 2010. He ceased his duties as Chairman of the Board of Directors on March 17th, 2011.
(2) Sir Lindsay Owen-Jones benefits from the pension cover for members of the "Comité de Conjoncture" since he claimed his pension entitlements in 2006.

2.4. Summary of trading by Directors and corporate officers in L'Oréal shares in 2011

(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
Fimalac Développement, legal entity related to Marc Ladreit de Lacharrière, Director	January 3rd, 2011	Sale	€85.50	€1,548,840.00
	January 4th, 2011	Sale	€85.8701	€2,587,180.24
	January 6th, 2011	Sale	€86.0328	€5,161,968.00
	January 10th, 2011	Sale	€82.7840	€6,953,856.00
Jean-Paul Agon Chairman and Chief Executive Officer	March 4th, 2011	Exercise of share subscription options	€55.54	€1,110,800.00

2.5. Internal Control procedures (Report of the Chairman of the Board of Directors on Internal Control)

At the request of the Chairman and 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 preparation and drafting of this report and the definition of Internal Control, L'Oréal used the Reference Framework recommended by the French financial markets authority (the *Autorité des Marchés Financiers*) on July 22nd, 2010.

2.5.1. 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 Group's assets are valued and protected;
- the Group's financial and accounting information is reliable and provides true and fair statements.

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is to enable 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.

2.5.2. Components of the system

2.5.2.1. 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 ethical values that have guided its development and contributed to establishing its reputation: Integrity, Respect, Excellence, Courage and Transparency.

L'Oréal's Code of Business Ethics exists in 43 versions (35 different languages) and is also published in Braille in French and English. Issued to all employees throughout the world, it 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. Five supplements to the Code of Business Ethics drawn up since 2010 have made it possible to clarify certain aspects.

Respect for these values is taken into consideration by the system of assessment of all the employees and two ethical skills have been included in the ratings: "Acts/Manages with generosity" and "Obtains results with integrity".

The Group's Director of Ethics, who reports directly to the Chairman and Chief Executive Officer, has responsibility for ensuring that the Code of Business Ethics is duly complied with. The employees have a dedicated intranet site which provides additional information on ethics. An annual event, "Ethics Day", enables them to ask the Chairman and Chief Executive Officer questions with regard to ethics directly. They moreover are now able to refer matters to the Director of Ethics through the L'Oréal Ethics Open Talk site which offers a secure information reporting mechanism.

The network of Ethics Correspondents; whose role is in particular to assist the Country Managers to ensure compliance with the Code of Business Ethics is continuing to expand and offers our employees in 40 countries a local contact. The Ethics Correspondents followed a specific training programme in 2011.

The ethics training campaign is continuing. A module on ethics is included in the "Discovery" induction programme for new managers. Ethics modules have also been incorporated into 10 corporate and job training programmes.

Finally, a practical tool for ethical risk assessment and analysis has been made available to the Group's entities. An annual reporting system makes it possible to monitor implementation of the entire ethics process. Visits to countries and the inclusion of ethical issues in internal audit assignments complete the programme.

Responsibilities with regard to Internal Control

The Group is organised into worldwide 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 defined by the General Management with regard to Internal Control. The Functional Divisions bring their expertise to all operational employees.

Worldwide responsibilities for Internal Control of the activities of their Division or Department are entrusted to each of the members of the Management Committee. A system of delegation of authority is in place and continues to strengthen. The powers of the legal representatives of Group companies and of their delegatees are limited and controlled in accordance with the provisions of the Legal Charter.

Specialists in financial control, information systems, Human Resources or industrial and logistics techniques provide support to operational employees at all levels of the organisation, which makes it easier to diffuse best practices of Internal Control.

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 technical training and personal development programmes, including helping employees with integration or management; such programmes 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 Group Information Systems Division, which is responsible in particular for implementation of a single ERP (Enterprise Resource Planning), management software application used by the great majority of commercial subsidiaries, and which issues instructions regarding systems security. The worldwide roll-out of this 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 deployment of an integrated production and management solution in the Group's industrial entities is continuing.

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 entities. In order to make it easier for employees to take on board 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 are regularly updated, supplemented, 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.

A management standard with regard to segregation of duties was distributed to all entities in 2010. It defines the main rules to be observed in the fields of sales, purchasing, logistics, finance, Human Resources and information systems management. The application of these rules is aimed at better prevention of the risks of fraud and reducing the probability that errors (whether intentional or not) may remain undetected.

2.5.2.2. 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

Meetings are regularly organised aimed at passing on information about orientations of the General Management to managers of the subsidiaries. The Functional Divisions also coordinate their networks of experts through seminars and training sessions.

2.5.2.3. 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 section 1.8. on pages 17 to 24 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".

On the basis of the work by the Internal Audit Department, the analysis of major accounting and financial risks, in conjunction with the processes used by subsidiaries, makes it possible to identify Internal Control improvements and update the Group's standards (see Management standards in paragraph 2.5.4.2. hereafter).

Risk mapping

The risk mapping project concerning all L'Oréal's activities initiated in 2010 was finalised in 2011. This process of identification and analysis of the significant risks and processes enhances the knowledge of the Group's risks by formalising and consolidating the work already achieved to date. The results of this work were presented to the Audit Committee in November 2011.

2.5.2.4. 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 related to personnel management specify the documents to be provided to employees, the way to book and report headcount and personnel charges, the procedures for recruitment, training and appraisal and the rules to be observed in the field of payroll management.
- In the area of purchasing, the Purchasing Code of Ethics has been updated: "Nos achats au quotidien" ("Our everyday purchases") is now the practical and ethical guide providing guidelines for each employee in relationships with our 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 safety and quality, procedures relating to the protection of persons, property and data set out the principles for covering industrial and logistical risks relating to organisation and safety. Production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the factories are ISO 9001-certified as far as their production is concerned, ISO 14001-certified for their environmental policy and OHSAS 1800-certified (or equivalent certification) for their safety policy.
- In the area of the Supply Chain, the main assignments consist in defining and applying the sales planning process, customer demand management, development and control of customer service, particularly through management of physical order fulfilment, application of the general terms of sale, the follow-up of orders, management of customer returns and customer disputes as well as accounts receivable collection procedures. Measures are also recommended for the management of distribution centres and inventories, subcontracting, product traceability, business continuity plan and transport.
- In the field of Information Systems, the Group has an Information Systems Security Policy. Based on the international ISO 27001 standard, this policy covers the main topics of Information Systems security, describing the general principles to be applied for each of them. It enables all the Group's Information Systems teams, and by extension all the employees, to share clear objectives, good practices and levels of control adapted to the risks incurred. This policy is accompanied by an information systems security audit programme conducted by an outside firm. It is also supplemented by an Information and Communication Technologies code of conduct, and a code of conduct for the correct use of social media.
- 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. A training tool and a practical guide concerning the issues related to competition law define the principles to be complied with and provide answers to any questions which employees may have in this area.
- In the Insurance field, the Group's choice is to only have recourse to first-rate insurers. The Insurance Charter issues a reminder that the Group mainly uses integrated worldwide programmes to cover all its entities notably against third party liability, damage to property and operating losses resulting from an insured event. With regard to insurance of its customer risk, coverage is put in place inasmuch as this is permitted by local conditions. The results of audits performed by insurance companies in factories and distribution centres are used to improve the Internal Control of these entities.

- 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. The standard with regard to bank powers defines the process for designating the persons empowered to sign to make payments and the rules for implementation of those powers. In addition, the Stock Market Code of Ethics referred to on page 51 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 2.5.4.2. *Monitoring process for the organisation of the accounting and finance functions* on page 64.

2.5.2.5. 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 Environment, Health & Safety Department is responsible for checks related to site safety and environmental compliance while the Quality Department measures performance and the progress made by industrial entities with regard to the quality of production and finally the Information Systems Department assesses compliance with the Security Policy. Indicators and reporting procedures enable the regular monitoring of the local activities of most of these Functional Divisions.

The role of the Internal Audit Department

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

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 risks identified.

The size, the contribution to key economic indicators, the history of the entities together with the pattern of their development, are factors that are also taken into consideration for the preparation of the annual audit plan.

The Internal Audit Department carried out 38 assignments in 2011. These audits concerned 28 commercial entities representing approximately 31% of the Group's sales and 6 factories; the audited factories represent around 23% of worldwide production in units. Furthermore, 4 other assignments were carried out with regard to specific topics. 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.

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, complementary 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 carried out 7 such assignments in 2011.

The action plans decided on further to the audits are followed up regularly by the Internal Audit Department, which measures the rate of progress made in the implementation of the recommendations, weighted by the risk levels applied. The summary of performance and results of the assignments and the progress of the action plans are presented to the Audit Committee every year.

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

2.5.3. The players

The main players involved in monitoring Internal Control are:

- the General Management and its Management Committee;
- the Audit Committee;
- the Functional Divisions, including the Internal Control Department and the Internal Audit Department.

General Management and 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. Its remits are defined in the Internal Rules of the Board of Directors in paragraph 2.2.2.3. on page 46.

Each year, the committee performs a review of the Internal Audit plan, its 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 Audit Committee's work with regard to accounting and financial information is described in paragraph 2.5.4.2. on page 64.

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's main role is to assist and control the operational employees in their administrative, financial and legal activities. In order to do so, it sets the operating rules that apply to all entities in these areas and is responsible for the definition and deployment 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. An Internal Control Committee was created in 2008 with the aim of taking all measures to promote the proper understanding and the proper application of the Group's Internal Control rules and also to monitor progress on important Internal Control projects.

The Internal Control Department

This department, which is separate from Internal Audit and placed under the responsibility of the Administration and Finance Division, 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 this tool and to improve its application and use by operational employees.

The task of this department is to coordinate the implementation of the projects and work decided by the Internal Control Committee with the experts in each area. The updating of the standards mentioned in paragraphs 2.5.2.3. on page 61 and 2.5.4.2. on page 64 is one example of this work.

In addition, the Internal Control Department also monitors compliance with regulatory Internal Control obligations on an ongoing basis.

The Internal Audit Department

In addition to its role of supervision of application of the Internal Control system (see paragraph 2.5.2.5 on page 62), the Internal Audit Department carries out cross-functional analyses with regard to possible Internal Control weaknesses based on findings noted during their assignments. These analyses make it possible to orient the work of the Internal Control Committee and to identify the priority areas for improvement and strengthening of procedures.

The Operations Division

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

The other Functional Divisions

Divisions also involved in Internal Control are the Human Resources Department, the Research and Innovation 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.

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

For the preparation of this report, L'Oréal based itself on the "Application Guide for Internal Control of accounting and financial information published by issuers", which is part of the Reference Framework published by the AMF on July 22nd, 2010. 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.

2.5.4.1. 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 with regard to accounting and financial aspects aims to ensure:

- compliance with accounting 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 for 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.

2.5.4.2. 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 of a financial controller at each level of the organisation contributes to the strengthening of the Internal Control system. This network of subsidiary financial controllers is co-ordinated by the Economic Affairs Department.

Processing and pooling of cash flows and hedging of exchange and interest rate risks are 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 uniform, reliable financial information to be provided.

These accounting policies are regularly updated, taking into account the changes in regulations and accounting principles.

- Accounting standards set out the principles required for harmonised accounting treatment of transactions. They specify in particular the methods of recording balance sheet items and 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. The Group's Accounting Department monitors, on an ongoing basis, new accounting standards currently under preparation, with a view to alerting the General Management and anticipating their effects on the Group's financial statements.
- The chart of accounts, which is common to all subsidiaries, 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 Income Statement but also the controls and validations applicable to the key processes.

The major initiative undertaken since 2008 has involved a 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 2.5.2.3. on page 61. This work has made it possible to bring our approach more closely into line with the recommendations set out in the "Application Guide relating to Internal Control of accounting and financial information" of the AMF Reference Framework. Since then, additions are regularly made to the management standards and are 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.

Management tools

The system for monthly reporting of various economic indicators enables the monitoring of the evolution of the performance of each subsidiary in a continuous and harmonised manner. It also enables assurance to be obtained that such performance is in line with the objectives set.

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 a single reference framework.

In addition, the Group's organisation, which is based on reporting from each subsidiary that is provided directly by the countries to the parent company, without any intermediate aggregates for the vast majority of the subsidiaries, 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 Managing Director and the Finance Director of each subsidiary make a joint commitment with regard to the quality, reliability and completeness of the accounting and financial information they have prepared and sent to the Group's

Economic Affairs Department, through a representation letter that they jointly sign.

The Audit Committee

The role and tasks of the Audit Committee are described above in paragraph 2.2.2.1.2. on page 43 of this report. These tasks are in compliance with the French ordinance of December 2008 on the conditions of application of the 8th European Directive on statutory audits of accounts and are based on the report by the working group on the Audit Committee published by the AMF on July 22nd, 2010.

2.5.4.3. 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, and inventory, fixed asset, payroll and treasury management are covered by specific procedures, follow-up checks and rules for validation, authorisation and booking operations.

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. Their purpose is to verify in particular that:

- inter-company transactions are correctly adjusted and eliminated (these are reported on a monthly basis);
- consolidation operations are checked;
- accounting standards are correctly applied;
- the consolidated published accounting and financial data is harmonised and properly determined and 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 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 publish, 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 a full 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 true and fair view, 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.

2.6. Statutory Auditors' Report, prepared in accordance with Article L. 225-235 of the French Commercial Code on the Report prepared by the Chairman of the Board of Directors

(Year ended December 31st, 2011)

To the shareholders,

In our capacity as Statutory Auditors of L'Oréal and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), 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, 2011.

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 and risk management 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 and risk management 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 and risk management 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 and risk management 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 the 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 and risk management 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, March 2nd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Étienne Boris	David Dupont-Noel

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.

2.7 Statutory Auditors' Special Report on regulated agreements and commitments with third parties

(Annual General Meeting held to approve the financial statements for the year ended December 31st, 2011)

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments with third parties.

It is our responsibility to communicate to you, based on information provided to us, the principal terms and conditions of these agreements and commitments brought to our attention or which we may have identified as part of our engagement, without expressing an opinion on their usefulness or their merit or searching for other agreements or commitments. Under the provisions of Article R. 225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is our responsibility to communicate to you the information pursuant to Article L. 225-31 of the French Commercial Code relating to agreements and commitments previously approved by the Annual General Meeting during the year.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying that the information provided to us is consistent with the underlying documents.

Agreements and commitments to be authorized by the Annual General Meeting

Pursuant to Article L. 225-38 of the French Commercial Code, we hereby advise you that we have not been informed of any agreements or commitments signed during the year to be approved by the Annual General Meeting.

Agreements and commitments authorized in prior years by the Annual General Meeting

Pursuant to Article R. 225-30 of the French Commercial Code, we have been advised that the following agreement, previously approved by the Annual General Meeting of April 27th, 2010 and mentioned in our Statutory Auditors' Special Report of February 19th, 2010, has remained in effect during the year.

Agreement concerning Jean-Paul Agon

- Confirmation of the suspension of Mr. Jean-Paul Agon's employment contract during the period of his corporate office.
- Elimination of all rights to indemnification in respect of Mr. Jean-Paul Agon's corporate office

  In the event of departure, and depending on the reasons, Mr. Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities in the event of voluntary retirement or retirement at the Company's request due pursuant to the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining Agreement for the Chemical Industries and the Company-level agreements applicable to all L'Oréal executives, are due in any event pursuant to public policy rules. They are not subject to any condition other than those provided for by the National Collective Bargaining Agreement for the Chemical Industries or the above-mentioned Company-level agreements. The same applies to the non-competition clause and the related financial consideration.

Remuneration in respect of the corporate office will in no event be taken into consideration for calculation of the indemnities due pursuant to the collective bargaining agreement and the Company-level agreements applicable to all L'Oréal executives.

Mr. Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers.

- Amendment of certain terms and conditions relating to the suspension of the employment contract:
  - the reference remuneration to be used to calculate all the rights attached to the employment contract and in particular to compute the pension under the defined benefit scheme will be based on the amount of remuneration under the employment contract when it was suspended in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This reference remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2012, the fixed remuneration amounts to €1,617,000 and variable remuneration to €1,347,500;
  - the length of service applied will take into consideration his entire career, including the years during which he was Chief Executive Officer.
- Mr. Jean-Paul Agon will continue to benefit from the status of senior manager throughout the period of his corporate office, allowing him to continue to be entitled to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees.

Neuilly-sur-Seine, March 2nd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Étienne Boris	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' Special 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. 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.

3 Comments on the 2011 financial year

2011 was a solid year of development, which has made the Group even stronger. In a cosmetics market whose global trend was favourable, L'Oréal achieved sustained sales growth and confirmed its position as the world leader in beauty.

This year was also for the Group another year of solid construction for operating profit. The strong growth in results reflects the virtuous dynamics set in motion: operational efficiency has advanced in all fields of activity, enabling us to prepare well for the future, and the profitability of the New Markets zone increased substantially.

3.1. The Group's business activities in 2011

3.1.1. Overview of the results for 2011

2011 sales: 20.34 billion euros (+4.3% based on reported figures, +5.1% like-for-like)

Operating profit: +7.7%

Net earnings per share (1): +7.8%

Increase in dividend: +11% at €2.00 per share (2)

3.1.2. Consolidated net sales

Like-for-like, *i.e.* based on a comparable structure and identical exchange rates, the sales trend of the L'Oréal Group was +5.1%. The net impact of changes in consolidation amounted to +0.6%. Currency fluctuations had a negative impact of -1.4%. Growth at constant exchange rates was +5.7%. Based on reported figures, the Group's sales, at December 31st, 2011, amounted to 20.343 billion euros, an increase of +4.3%.

Sales by operational division and by geographic zone

	At December 31st, 2011		
		Growth	
	€ M	Like-for-like	Reported
By operational division			
Professional Products	2,813.8	2.5%	3.6%
Consumer Products	9,835.2	4.5%	3.2%
L'Oréal Luxury	4,800.1	8.2%	6.5%
Active Cosmetics	1,421.7	3.2%	2.6%
Cosmetics total	**18,870.8**	**5.0%**	**4.0%**
By geographic zone			
Western Europe	7,246.6	0.6%	0.9%
North America	4,406.2	5.5%	2.7%
New Markets, of which :	7,218.0	9.5%	8.3%
- Asia, Pacific	3,619.5	13.0%	13.4%
- Eastern Europe	1,336.9	- 2.8%	- 4.4%
- Latin America	1,680.9	13.2%	10.8%
- Africa, Middle-East	580 7	10.5%	4.1%
Cosmetics total	**18,870.8**	**5.0%**	**4.0%**
The Body Shop	767.6	4.2%	1.7%
Dermatology(3)	704.7	8.4%	17.1%
Group total	**20,343.1**	**5.1%**	**4.3%**

(1) Diluted net earnings per share based on net profit excluding non-recurring items attributable to the group.
(2) Proposed at the Annual General Meeting of April 17th, 2012.
(3) Group share, i.e. 50%.

Professional Products

In a generally sluggish market, the Professional Products Division achieved 2011 growth of +2.5% like-for-like and +3.6% based on reported figures. Growth based on constant exchange rates, including the impact of acquisitions, came out at +5.1%. Initiatives in hair colourants and haircare enabled the Division to win market share in all zones.

- Haircare growth was driven by the success of hair oils, with *Mythic Oil* from *L'Oréal Professionnel*, *Elixir Ultime* from *Kérastase* and *Argan-6 oil* by *Redken*. *Fusio-Dose* by *Kérastase*, the ultra-personalised made-to-measure salon haircare, and *Total Results* by *Matrix*, the accessible professional haircare range, are also contributing to growth.

  In hair colourants, *L'Oréal Professionnel* is continuing to roll out INOA, and is reinventing tone-on-tone colour with *Dialight* and *Diarichesse*. *Redken* has created *Color Fusion Extra Lift*, a formula with unique lightening power, and *Matrix* is expanding in Asia thanks to *SoColor* (90ml) and *Wonderbrown*.

- The Division is continuing to improve its positions in the developed markets, with significant market share gains in Germany and the United Kingdom. The conquest of the luxury haircare segment is continuing with *Kérastase* and *Shu Uemura Art of Hair*. In the United States, the Division posted positive growth, bolstered by the SalonCentric network.

  In the New Markets, the Division is growing fast, particularly in Asia, Latin America and the Middle East. It is increasing its presence in all zones by investing in hairdresser training and rolling out innovations attuned to local beauty rituals and expectations, as exemplified by the launches of *Oilthérapie* in India and *X-Tenso Care* in Brazil.

Consumer Products

The Consumer Products Division achieved growth of +4.5% like-for-like and +3.2% based on reported figures at end-2011. *Maybelline* posted another year of strong growth and *L'Oréal Paris* is accelerating.

- *L'Oréal Paris* is launching strong initiatives in all categories. The renewal of the *Elvive* range and the success of *Elvive Triple Resist enriched with Arginine,* are galvanising the haircare segment in Europe. In make-up, the brand is standing out from the competition with *Lash Architect* mascara and *Color Riche* lipstick. The new hair colourant *Sublime Mousse* and the strong growth of skincare in China are also contributing to the brand's acceleration.

  Maybelline is performing extremely well on all continents, with its *Falsies Flared* and *Colossal Cat Eyes* mascaras, *Fit Me* foundation, and *Color Stay* lipsticks.

  Garnier is continuing its initiatives, particularly in skincare with its BB cream, *Miracle Skin Perfector*, in Europe, and *Dark Spot Corrector* in the United States.

- In Western Europe, the Division is winning market share in France, Germany and the Nordic countries. The situation is more difficult in the countries of the South.

  In North America, the Division is improving its positions thanks to haircare, make-up and skincare.

  In the New Markets, the Division is performing well in all zones, with the exception of Eastern Europe. In Asia, the Division is continuing to grow strongly, particularly in facial skincare for both women and men. In Latin America, the Division had a good year, particularly in Mexico, Argentina and Chile, thanks to the success of its deodorants and hair colourants.

L'Oréal Luxury

Bolstered by a lively market trend and the dynamism of its major brands, L'Oréal Luxury recorded 2011 sales up by +8.2% like-for-like and +6.5% based on reported figures. In all regions, the Division has major stand-out innovations, with *Visionnaire* from *Lancôme* taking pride of place.

- *Lancôme* posted a year of strong growth, with the high-profile launch of *Visionnaire*, the first-ever fundamental skin corrector, protected by 20 patents and the winner of the *Prix d'Excellence Marie-Claire*. Meanwhile, the brand is continuing to grow thanks to its flagship products, *Génifique, Rénergie* and *Teint Miracle*. The new mascara *Hypnôse Doll Eyes* and the launch of the fragrance *Trésor Midnight Rose* also reflect the brand renewal now under way.

  L'Oréal Luxury enjoyed an excellent year in facial skincare, with strong performances from *Lancôme*, the rapid expansion of *Kiehl's* on all continents, and the introduction of *Régénessence* skincare by *Giorgio Armani*, along with the initiatives of *Biotherm*.

  Yves Saint Laurent is bringing out its new skincare line, *Forever Youth Liberator*. Its store sales are increasing thanks to *Opium, L'Homme* men's fragrances and the make-up lines.

  The *Giorgio Armani* brand is being driven by the healthy trends of *Acqua di Gio* and *Code Homme*, and by the growing success of the women's fragrance *Acqua di Gioia*.

  Loverdose by *Diesel* was ranked in Europe one of the best women's fragrance launches of the year.

  The instrumental cosmetics brand *Clarisonic*, acquired in December, has joined the L'Oréal Luxury brand portfolio; it is the market leader in sonic technology skincare applications.

- In Western Europe, L'Oréal Luxury ended the year well, particularly in France, driven by the dynamism of *Lancôme*, *Kiehl's* and *Diesel*.

  In North America, the Division recorded strong growth with its brands *Lancôme*, *Yves Saint Laurent*, *Kiehl's*, *Giorgio Armani* and *Viktor & Rolf*.

In the New Markets, L'Oréal Luxury is growing fast. Thanks to *Lancôme*, *Kiehl's* and *Shu Uemura*, the Division is making substantial market share gains in Asia; it is also continuing to grow in Latin America, the Middle East and Eastern Europe.

Active Cosmetics

In 2011, the Active Cosmetics Division grew by +3.2% like-for-like and +2.6% based on reported figures. With strong dynamism in Latin America, the United States and Africa, Middle East, the Division is strengthening its position as number one in the worldwide dermocosmetics market.

- The Division's sales are increasing, thanks to the dynamism not only of *La Roche-Posay*, but also of *SkinCeuticals* and *Roger & Gallet*.

  La Roche-Posay is growing on all continents, thanks in particular to *Tolériane Ultra,* skincare for highly sensitive and allergy-prone skin, and *Cicaplast Baume B5* in the scarring segment.

  Vichy is maintaining its world number one position, and carried out two major launches in Europe: *Lift Activ Sérum 10* in anti-ageing skincare, and *Dercos Aminexil* in anti-hairloss haircare.

  The strong growth of *SkinCeuticals* is continuing, both in its original market in the United States, and in Europe.

  Finally, the internationalisation of *Roger & Gallet* is continuing, with strong growth in the countries it is moving into, and the highly successful launch of the fragrance *Fleur d'Osmanthus.*

- The Division's growth is being boosted by good performances in North America and in the New Markets, particularly Latin America and the Africa, Middle East zone. The very good scores of *Innéov* in Brazil, now the brand's number one market worldwide, are worth noting.

  In Europe, the Division's growth continues to reflect contrasting trends in different countries: positive in France, but more difficult in Southern Europe and in Eastern Europe, where difficulties in the pharmacies channel are continuing.

  The broadening of distribution and the conquest of new health channels, such as drugstores and medispas, are an important element in the Division's worldwide strategy.

Multi-division summary by geographic zone

Western Europe

In a very slightly positive market, L'Oréal recorded a growth rate of +0.6% like-for-like, with good growth rates in France, Germany and the United Kingdom, and in travel retail. Sales have been galvanised in this zone by *Maybelline* make-up and by L'Oréal Luxury. The situation remains more difficult in Southern Europe, and particularly in Greece and Portugal.

North America

In North America, L'Oréal grew faster than the market, and recorded 2011 growth of +5.5% like-for-like. The Luxury, Consumer Products and Active Cosmetics Divisions all posted sustained growth. The Consumer Products Division is significantly outperforming the market trend, thanks in particular to *Maybelline* and *Garnier*. The recently acquired *Essie* brand had a very good year. Growth in the Professional Products Division is less substantial, but is nevertheless ahead of the professional market trend.

New Markets

At December 31st, 2011, the New Markets posted growth of +9.5% like-for-like and +8.3% based on reported figures. Excluding Japan, the New Markets recorded growth of +10.6% like-for-like, driven by the constant dynamism of Asia.

- **Asia, Pacific:** L'Oréal achieved annual growth in Asia-Pacific of +13.0% like-for-like and +13.4% based on reported figures. If Japan is excluded, growth in this zone amounted to +16.1% like-for-like and +15.5% based on reported figures. Despite the disasters which hit Japan, Australia, New Zealand and Thailand during the year, the Group is continuing to improve its positions throughout the zone, driven by markets whose dynamism remains intact. The Group is advancing thanks to the very good scores of L'Oréal Luxury in Greater China and South Korea with *Lancôme, Kiehl's, Shu Uemura* and *Biotherm*. Consumer Products are also contributing to this dynamism thanks to *L'Oréal Paris* and *Maybelline*. L'Oréal is thus asserting its status as a skincare and make-up expert in all countries in this zone. Haircare made a good start in the emerging markets of South-East Asia.

- **Eastern Europe:** At end-2011, the Group is at -2.8% like-for-like in Eastern Europe. In a dismal economic context which is affecting all the countries in this zone, the Group's Divisions recorded contrasting levels of performance. The Professional Products Division and L'Oréal Luxury are improving their penetration. In the Consumer Products Division, a programme of carefully adapted initiatives is under way, for *Garnier* in particular.

- **Latin America:** In 2011, L'Oréal achieved growth of +13.2% like-for-like in Latin America. Argentina, Mexico and Central America are the growth drivers in this zone. Brazil is still posting a solid trend. All the Group's Divisions recorded good performances, particularly the Active Cosmetics Division. The very good results of *Maybelline* make-up in the Consumer Products Division are worth noting.

- **Africa, Middle East:** At December 31st, 2011, Africa - Middle East achieved growth of +10.5% like-for-like. In this zone, growth is being driven by the countries of the Levant, the Gulf and Turkey, and by two recently created subsidiaries, Pakistan and Egypt. However, the situation is more contrasted in South Africa. All Divisions are contributing to the dynamism of this expansion.

The Body Shop sales

In 2011, The Body Shop achieved solid sales growth at +4.2% like-for-like, with a sharp acceleration in the 4th quarter. Retail sales [(1)] also increased by +3.8%.

The Body Shop is further enhancing its militant approach to innovation, with launches including *Brush with Fashion*, a make-up collection created for young consumers, *Earth lovers,* a range of eco-designed, 100%-biodegradable shower gels, as well as *White Musk Libertine*, a fragrance based on animal-friendly musk and Community Fair Trade organic alcohol.

In 2011, The Body Shop achieved growth in Europe and North America and quickly expanded in the New Markets. The brand experienced strong growth in the Middle East, particularly in Saudi Arabia and Egypt, as well as in Asian countries such as India and Hong Kong, and in Eastern Europe. The brand now has 16 online stores and is continuing to grow at an accelerated rate in e-commerce. Finally, The Body Shop now has a robust presence in global Travel Retail outlets across 44 markets.

At the end of 2011, The Body Shop has a total of 2,748 stores, an addition of 143 since December 31st, 2010.

Galderma sales

Galderma's sales increased by +8.4% like-for-like and +17.1% based on reported figures.

Galderma confirmed its dynamism thanks to the success of its innovative products which offset the negative impact of generics on the sales of *Differin 0.1%* gel and cream (acne) in the United States and *Loceryl* lacquer (onychomycosis) in Europe. The *Epiduo* (acne), *Oracea* (rosacea) and *Cetaphil Restoraderm* (therapeutic skincare, line specifically formulated for atopic skin) brands recorded very good scores. The acquisition of Q-Med and its flagship product *Restylane*, the launch of the *Emervel* range (hyaluronic acid dermal fillers) and the success of *Azzalure* (muscle relaxant) have helped Galderma become one of the leaders in the aesthetic and corrective dermatology market.

The expansion of Galderma in the New Markets, such as Brazil, Russia, and the Asian countries has contributed to this solid growth. Good performances in Germany and the United Kingdom are also worth noting.

Galderma continued to invest in R&D and manufacturing, thus assuring its strategic development in the three key segments: prescription products, OTC products and aesthetic and corrective medical solutions.

3.1.3. Results

Operating profitability and consolidated income statement

	2010		2011	
	€ millions	*% sales*	*€ millions*	*% sales*
Sales	**19,496**	**100%**	**20,343**	**100%**
Cost of sales	-5,697	29.2%	-5,851	28.8%
Gross profit	**13,799**	**70.8%**	**14,492**	**71.2%**
Research and development expenses	-665	3.4%	-720	3.5%
Advertising and promotion expenses	-6,029	30.9%	-6,292	30.9%
Selling, general and administrative expenses	-4,049	20.8%	-4,187	20.6%
Operating profit	**3,057**	**15.7%**	**3,293**	**16.2%**

Gross margin came out at 71.2% of sales, an improvement of 40 basis points compared with 2010.

Research expenses increased by 8.4%, representing 3.5% of sales. This latest increase reflects the strategic decision to make significant investments in research.

Advertising and promotion expenses came out at 30.9% of sales, which is identical to the 2010 level.

Selling, general and administrative expenses grew less rapidly than sales. At 20.6%, they improved by 20 basis points compared with 2010.

Overall, **operating profit** came out at €3,293 million, representing growth of 7.7%, reflecting a very significant improvement in profitability compared with 2010, at +50 basis points.

(1) *Retail sales: total sales to consumers through all channels, including franchisees.*

Operating profit by branch and Division

	2010		2011	
	€ millions	*% sales*	*€ millions*	*% sales*
By Operational Division				
Professional Products	552	20.3%	579	20.6%
Consumer Products	1,765	18.5%	1,859	18.9%
L'Oréal Luxury	791	17.5%	926	19.3%
Active Cosmetics	278	20.1%	287	20.2%
Cosmetics Divisions total	**3,385**	**18.7%**	**3,651**	**19.3%**
Non-allocated (1)	-513	-2.8%	-546	-2.9%
Cosmetics branch total	**2,872**	**15.8%**	**3,105**	**16.5%**
The Body Shop	**65**	**8.7%**	**68**	**8.9%**
Dermatology branch (2)	**119**	**19.8%**	**120**	**17.0%**
Group	3,057	15.7%	3,293	16.2%

Once again this year and as in 2010, all the Divisions achieved growth in their operating profitability, particularly L'Oréal Luxury at +180 basis points.

The Body Shop improved its profitability in 2011.

Finally, Galderma had to face competition from generics on two major drugs, *Differin 0.1%* and *Loceryl*.

Profitability by geographic zone

	2010		2011	
Operating profit	*€ millions*	*% sales*	*€ millions*	*% sales*
Western Europe	1,552	21.6%	1,513	20.9%
North America	709	16.5%	810	18.4%
New Markets	1,125	16.9%	1,328	18.4%
Cosmetics Zones total (3)	**3,385**	**18.7%**	**3,651**	**19.3%**

Profitability in Western Europe contracted slightly at 20.9%, returning to its 2009 level.

The profitability figures in the North America and New Markets zones once again increased substantially, with both reaching 18.4% of sales.

Net earnings per share (5): €4.32

€ millions	2010	2011
Operating profit	**3,057**	**3,293**
Finance costs excluding dividends received	-36	-25
Sanofi-Aventis dividends	284	295
Pre-tax profit excluding non-recurring items	**3,305**	**3,563**
Income tax excluding non-recurring items	-932	-978
Minority interests	-2.3	-2.5
Net profit excluding non-recurring items after minority interests (4)	**2,371**	**2,583**
EPS (5) *(€)*	4.01	4.32
Diluted average number of shares	591,392,449	597,633,103

Total finance costs have once again this year declined very substantially, at 25.2 million euros. This latest reduction is the result of the large reduction in our average debt.

Dividends from Sanofi amounted to 295 million euros, an increase of +4.2%.

(1) Non-allocated = Central group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. As a % of cosmetics sales.
(2) Group share, i.e. 50%.
(3) Before non-allocated.
(4) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the 2011 Consolidated Financial Statement on pages 109 to 110.
(5) Diluted net earnings per share excluding non-recurring items after non-controlling interests.

Income tax excluding non-recurring items amounted to 978 million euros, representing a rate of 27.4%, slightly below the 2010 rate.

Net profit excluding non-recurring items after non-controlling interests amounted to 2,583 million euros, up by 8.9%.

Net earnings per share, at €4.32, increased by 7.8%.

Net profit after minority interest: €2,438 million

€ millions	2010	2011	Evolution
Net profit excluding non-recurring items after minority interest	2,371	2,583	
Non-recurring items net of tax	-131	-145	
Net profit after minority interest	**2,240**	**2,438**	**+9%**
Diluted earnings per share *(€)*	3.79	4.08	

After allowing for non-recurring items, representing in 2011 a charge, net of tax, of 145 million euros, **net profit** amounted to 2,438 million euros, an increase of 9%.

Cash flow Statement, Balance sheet and Debt

Gross cash flow amounted to 3,226 million euros.

The **working capital requirement** increased by 322 million euros, after two years of decline in absolute value. This represents a return to a situation more in line with the Group's activity.

Capital expenditure, at 866 million euros, amounted to 4.3% of sales.

After dividend payment and acquisitions (Q-MED and *Clarisonic*), the Group recorded at December 31st, 2011, a **net cash surplus** of 504 million euros.

The balance sheet structure is very solid, as at end-2011 **shareholders' equity** represented 65.7% of total assets. The reinforcement of shareholders' equity compared with end-2010 is mainly the result of profit allocated to reserves and the net increase in value of the Sanofi shares, valued at market price.

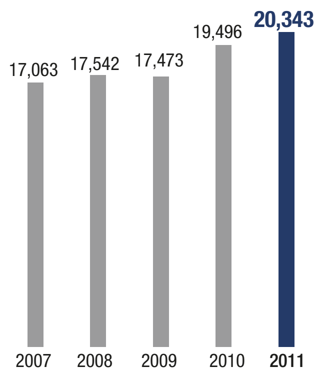
Proposed dividend at the Annual General Meeting of April 17th, 2012

The Board of Directors has decided to propose that the Annual General Meeting of shareholders of April 17th, 2012 should approve a dividend of 2 euros per share, an increase of +11% compared with the dividend paid in 2011. This dividend will be paid on May 3rd, 2012 (ex-dividend date April 27th, 2012 at 0:00 a.m., Paris time).

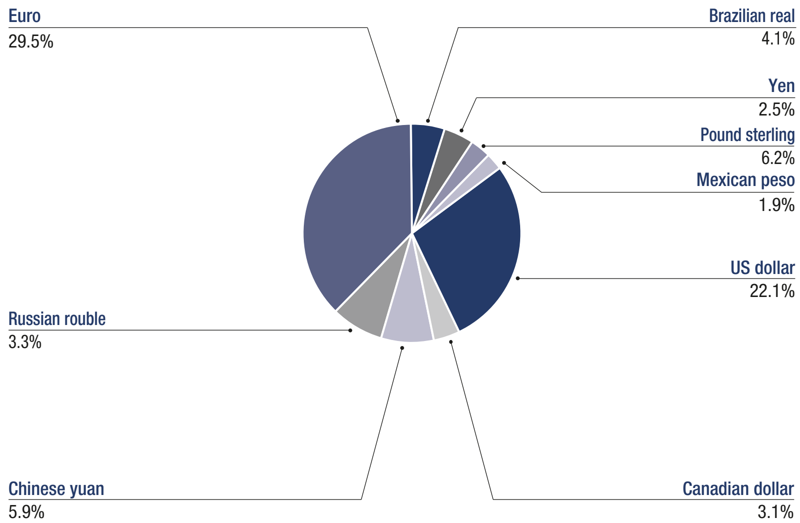
3.2. Financial highlights

3.2.1. 2011 Sustained growth in sales and solid increase in profits

Consolidated sales
(€ millions)



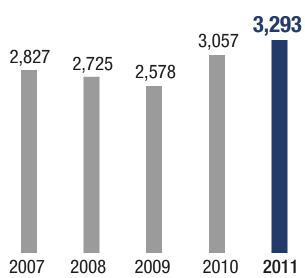
2011 consolidated sales by currency (1)
(as %)



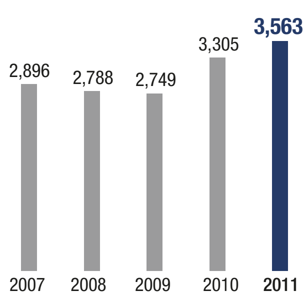
Consolidated sales by branch (2)

(€ millions)	
Cosmetics	18,871
The Body Shop	767
Dermatology (3)	705

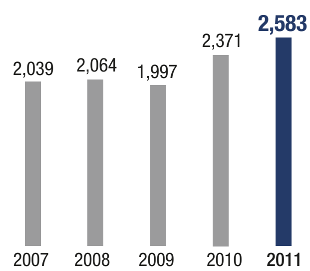
Operating profit
(€ millions)



Pre-tax profit excluding non-recurring items (4)
(€ millions)



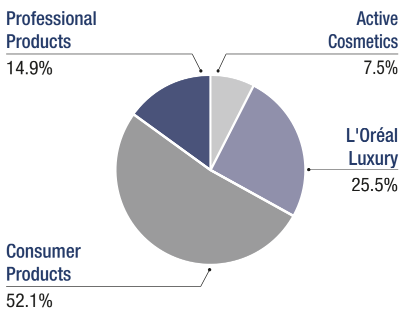
Net profit excluding non-recurring items after minority interests (4)
(€ millions)



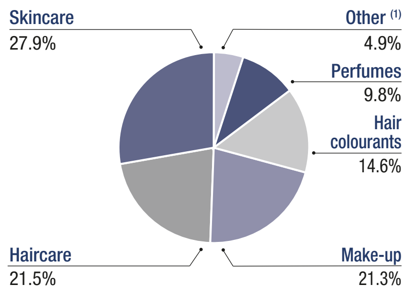
(1) Breakdown of consolidated sales in the main currencies in 2011.
(2) The Group's business is composed of the cosmetics and the dermatology branches and The Body Shop.
(3) Group share. i.e. 50%.
(4) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the 2011 Consolidated Financial Statement on pages 109 to 110.

2011 consolidated sales of the cosmetics branch

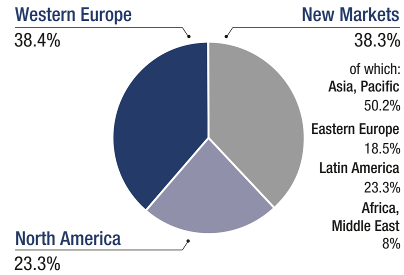
By division



By business segment

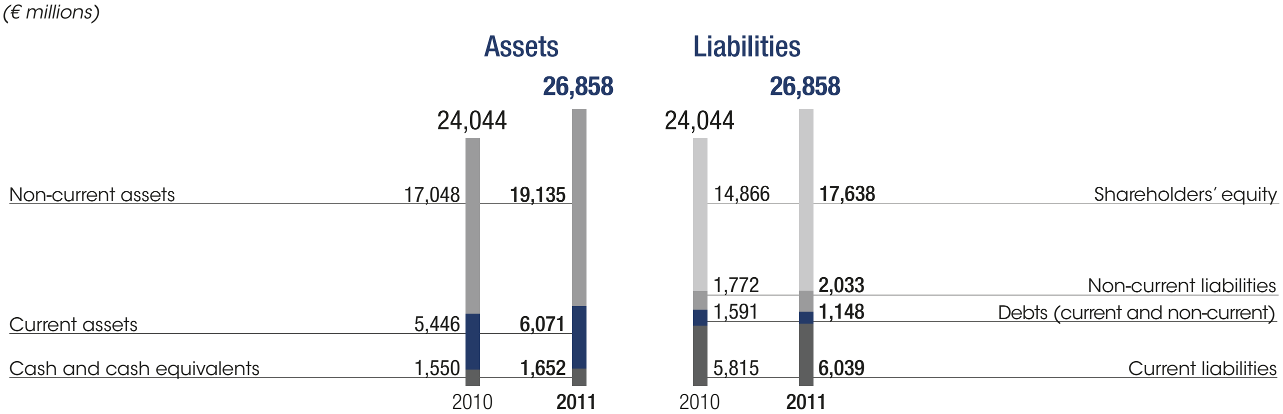


By geographic zone



A solid balance sheet

(€ millions)



Net debt

	12.31.2010	12.31.2011
Net financial debt (2) *(€ millions)*	41	-504 (3)
Net financial debt/Equity	0.3%	-2.9%

Short-term ratings

A-1 +	STANDARD & POOR'S	JUNE 2011
Prime 1	MOODY'S	JUNE 2011
F1 +	FITCH RATINGS	JULY 2011

(1) "Other" includes hygiene products, sales made by American distributors with brands outside of the Group and the sales of Clarisonic.
(2) Net financial debt = current and non-current debt - cash and cash equivalents..
(3) Net cash surplus is of 504 million euros.

3.2.2. 2011 Results

Sales and operating profit by branch [1]

Consolidated sales

		Growth	
	€ millions	Like-for-like	Reported figures
Cosmetics	18,871	+5.0%	+4.0%
The Body Shop	767	+4.2%	+1.7%
Dermatology [2]	705	+8.4%	+17.1%
Total group	**20,343**	**+5.1%**	**+4.3%**

Operating profit

	€ millions	Weight	Growth based on Reported sales	% of sales
Cosmetics	3,105	94.3%	+8.1%	16.5%
The Body Shop	68	2.1%	+4.2%	8.9%
Dermatology [2]	120	3.6%	+0.7%	17.0%
Total group	**3,293**	**100%**	**+7.7%**	**16.2%**

Sales and operating profit by Division

Consolidated sales

		Growth	
	€ millions	Like-for-like	Reported figures
Professional Products	2,814	+2.5%	+3.6%
Consumer Products	9,835	+4.5%	+3.2%
L'Oréal Luxury	4,800	+8.2%	+6.5%
Active Cosmetics	1,422	+3.2%	+2.6%
Total cosmetics sales	**18,871**	**+5.0%**	**+4.0%**

Operating profit

	2010		2011	
	€ millions	% of sales	€ millions	% of sales
Professional Products	552	20.3%	579	20.6%
Consumer Products	1,765	18.5%	1,859	18.9%
L'Oréal Luxury	791	17.5%	926	19.3%
Active Cosmetics	278	20.1%	287	20.2%
Total cosmetics division	**3,385**	**18.7%**	**3,651**	**19.3%**
Non-allocated [3]	-513	-2.8%	-546	-2.9%
Total cosmetics sales	**2,872**	**15.8%**	**3,105**	**16.5%**

(1) The Group's business is composed of the cosmetics and dermatology branches and The Body Shop.
(2) Group share, i.e. 50%.
(3) "Non-allocated" items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non core activities, such as insurance, reinsurance and banking.

Sales and operating profit by geographic zone

Consolidated sales

	€ millions	Growth Like-for-like	Growth Reported figures
Western Europe	7,247	+0.6%	+0.9%
North America	4,406	+5.5%	+2.7%
New Markets. of which:	7,218	+9.5%	+8.3%
- Asia, Pacific	3,619	+13.0%	+13.4%
- Eastern Europe	1,337	-2.8%	-4.4%
- Latin America	1,681	+13.2%	+10.8%
- Africa, Middle-East	581	+10.5%	+4.1%
Total cosmetics sales	**18,871**	**+5.0%**	**+4.0%**

Operating profit

	2010		2011	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,552	21.6%	1,513	20.9%
North America	708	16.5%	810	18.4%
New Markets	1,125	16.9%	1,328	18.4%
Total geographic zones	**3,385**	**18.7%**	**3,651**	**19.3%**
Non-allocated (1)	-513	-2.8%	- 546	-2.9%
Total cosmetics sales	**2,872**	**15.8%**	**3,105**	**16.5%**

Sales by business segment

Consolidated sales

	€ millions	Growth Like-for-like	Growth Reported figures
Skincare	5,257	+7.0%	+6.5%
Haircare	4,057	+1.9%	+1.0%
Make-up	4,029	+6.3%	+4.7%
Hair colourants	2,760	+3.0%	+1.6%
Perfumes	1,840	+3.8%	+1.4%
Other (2)	928	+10.2%	+14.7%
Total cosmetics sales	**18,871**	**+5.0%**	**+4.0%**

(1) "Non-allocated" items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non core activities, such as insurance, reinsurance and banking.
(2) "Other" includes hygiene products, sales made by American distributors with brands outside of the Group and the sales of Clarisonic.

3.2.3. Consolidated sales by geographic zone and by business segment

Professional Products Division

Consolidated sales by geographic zone

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011 Like-for-like	Growth 2010/2011 Reported figures
Western Europe	965.1	977.6	34.7%	+0.2%	+1.3%
North America	982.7	1,018.6	36.2%	+1.6%	+3.6%
New Markets	769.3	817.6	29.1%	+6.5%	+6.3%
Total	**2,717.1**	**2,813.8**	**100%**	**+2.5%**	**+3.6%**

Consolidated sales by business segment

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011 Like-for-like	Growth 2010/2011 Reported figures
Hair colourants	973.8	995.8	35.4%	+2.8%	+2.3%
Styling and textures	340.8	322.8	11.5%	-4.5%	-5.3%
Shampoos and haircare	1,402.6	1,495.2	53.1%	+3.9%	+6.6%
Total	**2,717.1**	**2,813.8**	**100%**	**+2.5%**	**+3.6%**

Consumer Products Division

Consolidated sales by geographic zone

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011 Like-for-like	Growth 2010/2011 Reported figures
Western Europe	3,664.9	3,686.2	37.5%	+0.3%	+0.6%
North America	2,167.4	2,191.9	22.3%	+5.3%	+1.1%
New Markets	3,697.6	3,957.1	40.2%	+8.2%	+7.0%
Total	**9,529.9**	**9,835.2**	**100%**	**+4.5%**	**+3.2%**

Consolidated sales by business segment

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011 Like-for-like	Growth 2010/2011 Reported figures
Hair colourants	1,742.5	1,764.1	17.9%	+3.2%	+1.2%
Haircare and styling	2,428.6	2,455.4	25.0%	+2.3%	+1.1%
Make-up	2,712.9	2,882.3	29.3%	+8.1%	+6.2%
Skincare	2,212.6	2,266.7	23.1%	+2.5%	+2.4%
Other	433.2	466.7	4.7%	+9.3%	+7.7%
Total	**9,529.9**	**9,835.2**	**100%**	**+4.5%**	**+3.2%**

L'Oréal Luxury

Consolidated sales by geographic zone

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011	
				Like-for-like	Reported figures
Western Europe	1,798.7	1,836.2	38.2%	+2 1%	+2.1%
North America	1,016.4	1,064.8	22.2%	+9.4%	+4.8%
New Markets	1,691.4	1,899.1	39.6%	+14.0%	+12.3%
Total	**4,506.6**	**4,800.1**	**100%**	**+8.2%**	**+6.5%**

Consolidated sales by business segment

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011	
				Like-for-like	Reported figures
Skincare	1,753.9	1,991.8	41.5%	+14.6%	+13.6%
Perfumes	1,730.4	1,754.5	36.5%	+3.8%	+1.4%
Make-up	1,022.2	1,053.8	22.0%	+4.3%	+3.1%
Total	**4,506.6**	**4,800.1**	**100%**	**+8.2%**	**+6.5%**

3

Active Cosmetics Division

Consolidated sales by geographic zone

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011	
				Like-for-like	Reported figures
Western Europe	752.3	746.6	52.5%	-1.3%	-0.8%
North America	125.0	130.9	9.2%	+8.2%	+4.7%
New Markets	508.3	544.2	38.3%	+8.9%	+7.1%
Total	**1,385.6**	**1,421.7**	**100%**	**+3.2%**	**+2.6%**

Consolidated sales by business segment

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011	
				Like-for-like	Reported figures
Skincare	1,056.1	1,092.8	76.9%	+4.1%	+3.5%
Haircare	103.3	102.3	7.2%	-0.3%	-0.9%
Make-up	100.6	90.8	6.4%	-9.9%	-9.8%
Other	125.6	135.8	9.5%	+9.0%	+8.1%
Total	**1,385.6**	**1,421.7**	**100%**	**+3.2%**	**+2.6%**

The Body Shop

Retail sales [1]

€ millions	2010	2011	% of 2011 sales	Growth 2010/2011 Like-for-like	Growth 2010/2011 Reported figures
Western Europe	508.8	518.9	38.6%	+1.2%	+2.0%
North America	177.8	175.5	13.1%	+1.9%	-1.3%
New Markets	607.7	649.9	48.3%	+6.4%	+6.9%
Total	**1,294.4**	**1,344.3**	**100%**	**+3.8%**	**+3.9%**

Sales

€ millions	2011	2010/2011 Like-for-like growth
Retail sales [1]	1,344.3	+3.8%
Retail sales with a comparable store base [2]	1,169.1	+0.1%
Consolidated sales	767.6	+4.2%

Number of stores

	At December 31st, 2010	At December 31st, 2011	Variation In 2011
Company owned stores	1,088	1,109	+21
Franchisees	1,517	1,639	+122
Total number of stores	2,605	2,748	+143

Galderma (100% of sales)

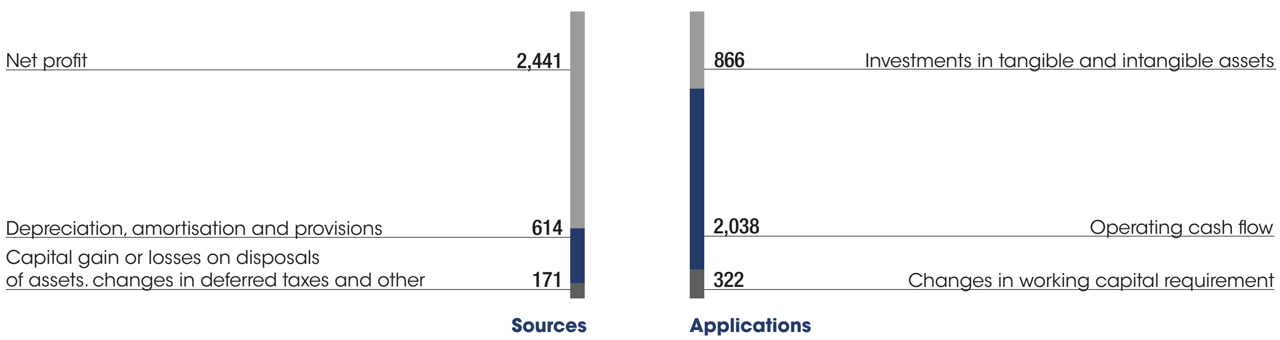
€ millions	2010	2011	% of 2011 sales	Growth 2010/2011 Like-for-like	Growth 2010/2011 Reported figures
Western Europe	260.6	376.4	26.7%	+5.4%	+44.4%
North America	700.6	698.9	49.6%	+5.1%	-0.2%
New Markets	242.2	334.2	23.7%	+20.4%	+37.9
Total	**1,203.4**	**1,409.5**	**100%**	**+8.4%**	**+17.1%**

(1) Total sales to consumers through all channels, including franchisees.
(2) Total sales to consumers by stores which operated continuously from January 1st to December 31st, 2011 and over the same period in 2010, including franchisees.

3.2.4. Simplified consolidated income statements

€ millions	12.31.2010	12.31.2011	% of sales
Sales	**19,495.8**	**20,343.1**	**100.0%**
Gross profit	**13,799.3**	**14,491.6**	**71.2%**
Research and Development	-664.7	-720.5	
Advertising and Promotion	-6,029.1	-6,291.6	
Selling, general and administrative expenses	-4,048.6	-4,186.9	
Operating profit	**3,056.9**	**3,292.6**	**16.2%**
Operational profit	**2,903.7**	**3,196.3**	
Finance costs excluding dividends received	-35.6	-25.2	
Net profit excluding non-recurring items after minority interests	**2,370.9**	**2,582.9**	
Non-recurring items	-131.2	-144.5	
Net profit attributable to owners of the company	**2,239.7**	**2,438.4**	
Diluted earnings per share attributable to owners of the company (euros)	3.79	4.08	
Diluted earnings per share attributable to owners of the company excluding non-recurring items (euros)	4.01	4.32	

3.2.5. Sources and applications of funds *(€ millions)*



Gross cash flow: **3,226**

3.2.6. Financial ratios

	2010	2011
(% of sales) Operating profit/Sales	15.7%	16.2%
(% of shareholders' equity) Net profit excluding non-recurring items after minority interests/Opening shareholders' equity	17.4%	17.4%
(% of shareholders' equity) Net gearing [(1)]	0.3%	-2.9%
Gross cash flow/Investments	4.7x	3.7x

(1) Net gearing = $\frac{\text{Current and non-current debt – Cash and cash equivalents}}{\text{Shareholders' equity after minority interests}}$

3.2.7. L'Oréal 2005-2011

€ millions	2005	2006	2007 (1)	2008 (1)	2009	2010	2011
Results							
Consolidated sales	14,533	15,790	17,063	17,542	17,473	19,496	20,343
Operating profit	2,266	2,541	2,827	2,725	2,578	3,057	3,293
As a percentage of consolidated sales	15.6%	16.1%	16.6%	15.5%	14.8%	15.7%	16.2%
Profit before tax and non-controlling interests	2,370	2,638	2,896	2,788	2,749	3,305	3,563
Net profit excluding non-recurring items after minority interests	1,639	1,833	2,039	2,064	1,997	2,371	2,583
Net profit attributable to owners of the company	1,972	2,061	2,656	1,948	1,792	2,240	2,438
Total dividend	659	739	843	862	899	1,082	1,212
Balance sheet							
Non-current assets	18,686	19,155	17,030	16,380	17,350	17,048	19,135
Current assets	4,537	4,847	5,015	5,450	4,768	5,446	6,071
Cash and cash equivalents	663	781	1,087	1,077	1,173	1,550	1,652
Equity (2)	14,657	14,624	13,463	11,563	13,598	14,866	17,638
Net current and non-current debt	2,217	3,329	2,373	3,700	1,958	41	-504
Gross cash flow	2,130	2,410	2,720	2,746	2,758	3,171	3,226
Per share data *(€)*							
Diluted earnings per share attributable to owners of the company excluding non-recurring items	2.60	2.98	3.36	3.49	3.42	4.01	4.32
Net dividend (3) (4)	1.00	1.18	1.38	1.44	1.50	1.80	2.00 (5)
Share price at December 31st (3)	62.80	75.90	97.98	62.30	78.00	83.08	80.70
Highest share price during the year	67.45	84.05	99.97	99.26	79.32	88.00	91.24
Lowest share price during the year	54.50	62.30	74.25	53.32	46.00	70.90	68.83
Diluted weighted average number of shares outstanding	630,892,470	615,723,220	606,012,471	590,920,078	583,797,566	591,392,449	597,633,103

(1) The 2007 and 2008 balance sheets have been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programmes and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits.
(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 first listed in 1963. The share capital is €120,596,816.40 at December 31st, 2011: the par value of one share is €0.2.
(4) Dividend set in euro since the Annual General Meeting of May 30th, 2000.
(5) Dividend proposed to the Annual General Meeting of April 17th, 2012.

3.3. Recent events and prospects

3.3.1. Significant events that have occurred since the beginning of 2012

See subsequent events in note 31 of the consolidated financial statements page 139.

No significant event has occured since the beginning of the 2012 financial year.

3.3.2. Prospects

L'Oréal's performances in 2011 demonstrate the relevance of the strategic thrusts and provide further confirmation of the key role played by research, innovation and creativity in the Group's industry.

2011 was also another year of solid construction for operating profit. The strong growth in results reflects the virtuous dynamics set in motion: operational efficiency has advanced in all fields of activity, enabling L'Oréal to prepare well for the future, and the profitability of the New Markets zone increased substantially.

The good quality of these results means that the Group is more confident than ever in its ability to achieve sustainable and profitable growth. L'Oréal is well equipped to succeed in its strategy of universalising beauty and to achieve another year of sales and profit growth in 2012.

To the knowledge of the Company, at February 29th, 2012, no events has occured hat could have a significant impact on the financial or commercial situation of the Group since December 31st, 2011.

4 2011 Consolidated Financial Statements*

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

L'Oréal parent company is a French company with its registered office in France, which performs a sales activity specific to that country. At the same time, L'Oréal parent company has firstly a role of holding company and strategic coordination and secondly that of scientific, industrial and marketing coordination of the L'Oréal Group on a worldwide basis. Most of the subsidiaries have a role of marketing of the products manufactured by the Group's factories in the countries or zones in which it is established.

The L'Oréal Group wholly owns the vast majority of its subsidiaries. It also holds 50% of the share capital of Galderma and Innéov developed in a joint venture with Nestlé.

The financial statements set out in this chapter present the results of the L'Oréal Group as a whole, including all subsidiaries. The Statutory Auditors' Report on the consolidated financial statements has been included at the end of this chapter.

4.1. Compared consolidated income statements

€ millions	Notes	2011	2010	2009
Net sales	3	**20,343.1**	**19,495.8**	**17,472.6**
Cost of sales		-5,851.5	-5,696.5	-5,161.6
Gross profit		**14,491.6**	**13,799.3**	**12,311.0**
Research and development		-720.5	-664.7	-609.2
Advertising and promotion		-6,291.6	-6,029.1	-5,388.7
Selling, general and administrative expenses		-4,186.9	-4,048.6	-3,735.5
Operating profit		**3,292.6**	**3,056.9**	**2,577.6**
Other income and expenses	7	-96.3	-153.2	-277.6
Operational profit		**3,196.3**	**2,903.7**	**2,299.9**
Finance costs on gross debt		-48.1	-43.8	-92.0
Finance income on cash and cash equivalents		28.5	17.2	16.0
Finance costs, net		**-19.6**	**-26.6**	**-76.0**
Other financial income (expenses)	8	-5.6	-9.0	-13.0
Sanofi dividends		295.6	283.8	260.1
Profit before tax and non-controlling interests		**3,466.7**	**3,151.9**	**2,471.0**
Income tax	9	-1,025.8	-909.9	-676.1
Net profit		**2,440.9**	**2,242.0**	**1,794.9**
attributable to:				
- owners of the company		2,438.4	2,239.7	1,792.2
- non-controlling interests		2.5	2.3	2.7
Earnings per share attributable to owners of the company *(euros)*	10	4.11	3.82	3.07
Diluted earnings per share attributable to owners of the company *(euros)*	10	4.08	3.79	3.07
Earnings per share attributable to owners of the company excluding non-recurring items (euros)	10	4.36	4.04	3.42
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	10	4.32	4.01	3.42

4.2. Consolidated statements of net profit and gains and losses recognised directly in equity

€ millions	2011	2010	2009
Consolidated net profit for the period	**2,440.9**	**2,242.0**	**1,794.9**
Financial assets available for sale	*1,051.6*	*-852.3*	*1,142.5*
Cash flow hedges	*-6.0*	*-8.0*	*-154.3*
Cumulative translation adjustments	*114.5*	*463.3*	*6.5*
Income tax on items that may be reclassified to profit or loss (1)	*-62.8*	*15.7*	*19.8*
Items that may be reclassified to profit or loss	1,097.3	-381.3	1,014.5
Actuarial gains and losses	*-172.4*	*-213.5*	*-142.9*
Income tax on items that may not be reclassified to profit or loss (1)	*56.2*	*76.3*	*41.6*
Items that may not be reclassified to profit or loss	-116.2	-137.2	-101.3
Changes in gains and losses recognised directly in equity	**981.1**	**-518.5**	**913.2**
Total net profit and gains and losses recognised directly in equity	**3,422.0**	**1,723.5**	**2,708.1**
Attributable to:			
- owners of the company	3,419.5	1,721.2	2,705.4
- non-controlling interests	2.5	2.3	2.7

(1) The tax effect is as follows:

€ millions	2011	2010	2009
Financial assets available for sale	*-63.9*	*14.6*	*-19.8*
Cash flow hedges	*1.1*	*1.1*	*39.6*
Items that may be reclassified to profit or loss	-62.8	15.7	19.8
Actuarial gains and losses	*56.2*	*76.3*	*41.6*
Items that may not be reclassified to profit or loss	56.2	76.3	41.6
Total	**-6.6**	**92.0**	**61.4**

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4.3. Compared consolidated balance sheets

Assets

€ millions	Notes	12.31.2011	12.31.2010	12.31.2009
Non-current assets		**19,135.0**	**17,048.2**	**17,350.4**
Goodwill	11	6,204.6	5,729.6	5,466.0
Other intangible assets	12	2,477.3	2,177.5	2,042.4
Property, plant and equipment	14	2,880.8	2,677.5	2,599.0
Non-current financial assets	15	6,900.9	5,837.5	6,672.2
Deferred tax assets	9	671.4	626.1	570.8
Current assets		**7,722.6**	**6,996.3**	**5,941.1**
Inventories	16	2,052.1	1,810.1	1,476.7
Trade accounts receivable	17	2,996.2	2,685.3	2,443.3
Other current assets	18	904.1	846.0	732.8
Current tax assets		118.0	104.5	115.2
Cash and cash equivalents	19	1,652.2	1,550.4	1,173.1
Total		**26,857.6**	**24,044.5**	**23,291.5**

Equity & Liabilities

€ millions	Notes	12.31.2011	12.31.2010	12.31.2009
Equity	20	**17,637.5**	**14,865.8**	**13,598.3**
Share capital		120.6	120.2	119.8
Additional paid-in capital		1,271.4	1,148.3	996.5
Other reserves		12,368.8	11,107.1	10,141.3
Items recognised directly in equity		2,054.7	1,188.1	2,169.9
Cumulative translation adjustments		24.9	-89.6	-552.9
Treasury stock		-644.4	-850.9	-1,071.6
Net profit attributable to owners of the company		2,438.4	2,239.7	1,792.2
Equity attributable to owners of the company		**17,634.4**	**14,862.9**	**13,595.2**
Non-controlling interests		3.1	2.9	3.1
Non-current liabilities		**2,090.2**	**2,596.6**	**4,306.6**
Provisions for employee retirement obligations and related benefits	21	1,128.9	1,129.0	1,021.4
Provisions for liabilities and charges	22	226.1	181.3	125.6
Deferred tax liabilities	9	677.7	462.0	418.0
Non-current borrowings and debt	23	57.5	824.3	2,741.6
Current liabilities		**7,129.9**	**6,582.1**	**5,386.5**
Trade accounts payable		3,247.7	3,153.5	2,603.1
Provisions for liabilities and charges	22	500.7	536.9	510.0
Other current liabilities	25	2,066.7	1,958.1	1,750.5
Income tax		224.0	166.6	133.2
Current borrowings and debt	23	1,090.8	767.0	389.7
Total		**26,857.6**	**24,044.5**	**23,291.5**

4.4. Consolidated statements of changes in equity

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Items recognised directly in equity	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2009	**584,735,660**	**119.8**	**996.5**	**11,933.5**	**2,169.9**	**-1,071.6**	**-552.9**	**13,595.2**	**3.1**	**13,598.3**
Consolidated net profit for the period				2,239.7				2,239.7	2.3	2,242.0
Financial assets available for sale					*-837.7*			*-837.7*		*-837.7*
Cash flow hedges					*-6.8*			*-6.8*		*-6.8*
Cumulative translation adjustments							*463.3*	*463.3*		*463.3*
Change in gains and losses recognised directly in equity and items that may be reclassified to profit or loss					-844.5		463.3	-381.2		-381.2
Actuarial gains and losses					*-137.3*			*-137.3*		*-137.3*
Change in gains and losses recognised directly in equity and items that may not be reclassified to profit or loss					-137.3			-137.3		-137.3
Total net profit and gains and losses recognised directly in equity				**2,239.7**	**-981.8**		**463.3**	**1,721.2**	**2.3**	**1,723.5**
Capital increase	2,520,175	0.5	151.8					152.3		152.3
Cancellation of Treasury stock		-0.1		-37.8		37.9		-		-
Dividends paid (not paid on Treasury stock)				-878.8				-878.8	-2.2	-881.0
Share-based payment				84.8				84.8		84.8
Net changes in Treasury stock	2,400,068			1.1		182.8		183.9		183.9
Purchase of non-controlling interests				-2.9				-2.9		-2.9
Other movements				7.2				7.2	-0.3	6.9
At 12.31.2010	**589,655,903**	**120.2**	**1,148.3**	**13,346.8**	**1,188.1**	**-850.9**	**-89.6**	**14,862.9**	**2.9**	**14,865.8**
Consolidated net profit for the period				2,438.4				2,438.4	2.5	2,440.9
Financial assets available for sale					*987.7*			*987.7*		*987.7*
Cash flow hedges					*-4.9*			*-4.9*		*-4.9*
Cumulative translation adjustments							*114.5*	*114.5*		*114.5*
Change in gains and losses recognised directly in equity and items that may be reclassified to profit or loss					982.8		114.5	1,097.3		1,097.3
Actuarial gains and losses					*-116.2*			*-116.2*		*-116.2*
Change in gains and losses recognised directly in equity and items that may not be reclassified to profit or loss					-116.2			-116.2		-116.2
Total net profit and gains and losses recognised directly in equity				**2,438.4**	**866.6**		**114.5**	**3,419.5**	**2.5**	**3,422.0**
Capital increase	1,991,497	0.4	123.1					123.5		123.5
Cancellation of Treasury stock								-		-
Dividends paid (not paid on Treasury stock)				-1,065.3				-1,065.3	-2.2	-1,067.5
Share-based payment				86.8				86.8		86.8
Net changes in Treasury stock	2,739,023			1.7		206.5		208.2		208.2
Purchase of non-controlling interests								-		-
Other movements				-1.2				-1.2	-0.1	-1.3
At 12.31.2011	**594,386,423**	**120.6**	**1,271.4**	**14,807.2**	**2,054.7**	**-644.4**	**24.9**	**17,634.4**	**3.1**	**17,637.5**

4.5. Compared consolidated statements of cash flows

€ millions	Notes	2011	2010	2009
Cash flows from operating activities				
Net profit attributable to owners of the company		2,438.4	2,239.7	1,792.2
Non-controlling interests		2.5	2.3	2.7
Elimination of expenses and income with no impact on cash flows:				
♦ depreciation, amortisation and provisions		614.3	734.2	834.0
♦ changes in deferred taxes	9.1	85.9	110.0	51.7
♦ share-based payment	20.3	86.8	84.8	76.7
♦ capital gains and losses on disposals of assets		-1.7	0.1	0.9
Gross cash flow		**3,226.2**	**3,171.1**	**2,758.2**
Changes in working capital	27	-322.0	132.5	466.3
Net cash provided by operating activities (A)		**2,904.2**	**3,303.6**	**3,224.5**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-865.7	-677.9	-628.0
Disposals of property, plant and equipment and intangible assets		15.2	18.3	27.5
Changes in other financial assets (including investments in non-consolidated companies)		-1.2	2.3	36.7
Effect of changes in the scope of consolidation	28	-717.4	-160.7	-160.2
Net cash (used in) from investing activities (B)		**-1,569.1**	**-818.0**	**-723.9**
Cash flows from financing activities				
Dividends paid		-1,107.6	-921.6	-851.5
Capital increase of the parent company		123.5	152.3	31.1
Disposal (acquisition) of Treasury stock		208.2	184.0	65.0
Purchase of non-controlling interests		-	-8.7	-
Issuance (repayment) of short-term loans		852.8	-132.6	-1,886.0
Issuance of long-term borrowings		-	4.0	350.3
Repayment of long-term borrowings		-1,333.6	-1,462.5	-98.4
Net cash (used in) from financing activities (C)		**-1,256.7**	**-2,185.1**	**-2,389.4**
Net effect of changes in exchange rates and fair value (D)		23.4	76.9	-15.3
Change in cash and cash equivalents (A+B+C+D)		**101.8**	**377.4**	**96.0**
Cash and cash equivalents at beginning of the year (E)		**1,550.4**	**1,173.1**	**1,077.1**
Cash and cash equivalents at end of the year (A+B+C+D+E)	19	**1,652.2**	**1,550.4**	**1,173.1**

Income taxes paid amount to €870.5 million, €713.3 million and €613.9 million respectively for the years 2011, 2010 and 2009.

Interests paid amount to €49.9 million, €46.6 million and €105.0 million respectively for the years 2011, 2010 and 2009.

Dividends received amount to €295.6 million, €283.8 million and €260.1 million respectively for the years 2011, 2010 and 2009, and are included within gross cash flow.

4.6. Notes to the 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 2011 have been prepared in accordance with *International Financial Reporting Standards (IFRS)*, as adopted in the European Union as of December 31st, 2011.

On February 13th, 2012, the Board of Directors closed the consolidated financial statements at December 31st, 2011. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on April 17th, 2012.

The Group has not applied any standards or interpretations whose application is not yet compulsory in 2011.

The Group may be concerned by the following amendments or new standards, applicable as from January 1st, 2013 but not yet adopted by the European Union:

- IFRS 9 "Financial instruments" - Phase 1: "classification and measurement";
- IFRS 11 "Joint arrangements";
- IAS 19 revised "Employee benefits".

Standards or amendments to published standards effective January 1st, 2011 do not have any impact for the Group.

The revised IFRS 3 and IAS 27 applicable to business combinations taking place on or after January 1st, 2011 do not have a material impact on the financial statements since acquisitions carried out in 2010 and 2011 involved 100% of the share capital of the companies acquired.

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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, equity and net profit (loss).

These estimates and assumptions mainly concern the measurement of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payment. 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 prepared 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 fully consolidated.

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

Associates 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 exchange 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 income statement.

Forward foreign exchange 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, changes in the fair value of these hedging instruments is recorded as follows:

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

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the balance sheet. Similarly, if a currency hedge has been taken out in respect of fixed assets purchased with foreign currency, these assets are valued in the balance sheet on the basis of the hedging rate.

The Group may decide to hedge certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated 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. Income statement items are translated at average exchange rates for the year.

The resulting translation difference attributable to the Group is entered directly under equity under the item *Cumulative translation adjustments*, while the translation difference attributable to non-controlling interests is recognised under the *Non-controlling interests* item. The translation difference does not impact the income statement other than at the time the Company is sold.

1.3.3. Valuation of goodwill in foreign currencies

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

1.4. Net sales

Net sales are recognised when the risks and rewards inherent to ownership of the goods 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 outflow, 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 products sold, the cost of distributing products to customers including 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 income statement for the financial year during which it is incurred.

Expenses incurred during the development phase are recognised as *Intangible assets* only if they meet all the following criteria set out in 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 uncertainties concerning the decision to launch products relating to these projects, 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 resulting in additional functions are also capitalised.

Capitalised development costs are amortised from the date on which the software is made available in the entity concerned over its probable useful life, which in most cases is 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 income statement for the financial year in which they are incurred.

1.8. Selling, general and administrative expenses

These expenses relate mainly to sales teams and sales team management, marketing teams and administrative services, as well as general expenses and the costs of share-based payment (stock options and free shares).

1.9. Foreign exchange gains and losses

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives. Changes in the time value of hedging derivatives (including option premiums) are systematically charged to the income statement (note 1.3).

1.10. Operating profit

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses. Operating profit corresponds to the definition of current operating profit provided by *Conseil National de la Comptabilité* (CNC) recommendation No. 2009-R-03 of July 2nd, 2009 regarding the presentation of financial statements for companies applying international accounting standards. It notably includes the entire charge relating to the *Contribution Économique Territoriale* (CET) tax collected in France, including its value-added based component. The classification of the CET tax in operating expenses is therefore consistent with the classification of the former business tax *(taxe professionelle)* it replaces.

1.11. Other income and expenses

The *Other income and expenses item* includes capital gains and losses on disposals of property, plant and equipment and intangible assets, impairment of assets, restructuring costs, and clearly identified, non-recurring income and expense items that are material to the consolidated financial statements.

The cost of restructuring operations is fully provisioned if it results from a Group obligation towards a third party originating from a decision taken by a competent body which is announced to the third parties concerned before the end of the reporting period. This cost consists mainly of severance payments, early retirement payments, the cost of unworked notice periods, the costs of training for employees affected by the restructuring measures, and other costs relating to site closures. Any write-offs of fixed assets or impairment charged against inventories and other assets related directly to these restructuring measures are also recorded as restructuring costs.

1.12. Operational profit

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

1.13. Finance costs, net

Net financial debt consists of all current and non-current financial borrowings and debt, less cash and cash equivalents.

Net finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

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 there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet 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 measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carryforwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilized.

Under the French system of tax consolidation, the taxable profits of some French companies are offset when determining the overall tax charge, which is payable only by L'Oréal, the parent company of the tax group. 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, liabilities and contingent liabilities of the Company acquired are measured at fair value 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 and the Group's interest in the fair value of the identified assets and liabilities is recorded as *Goodwill* and allocated to the Cash-Generating Units expected to benefit from the acquisition or the related synergies.

Goodwill generated on the acquisition of an associate is presented in the *Investments in associates* line.

Goodwill is not amortised. It is tested for impairment at least once a year during the fourth quarter or whenever an adverse event occurs. Adverse 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 the carrying amount of assets including goodwill with the recoverable amount of each Cash-Generating Unit. A Cash-Generating Unit corresponds to one or more worldwide brands. A Cash-Generating Unit can contain several brands depending on organisational criteria and particularly when distribution circuits and commercial/management structures are pooled. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering 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, in the same way as the net carrying amounts to which they are compared, at the estimated exchange rate for the following year. The discount rate used for these calculations is based on the Group's weighted average cost of capital (WACC), which amounts to 7.9% for 2011, for 2010 and 2009, adjusted by a country risk premium if necessary. The discount rates are post-tax rates applied to post-tax cash flows, and result in recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows.

The assumptions adopted in terms of sales growth 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 flow forecasts is preferred in order to determine recoverable amounts, unless details of similar recent transactions are readily available.

Impairment charged against goodwill cannot be reversed.

For business combinations carried out after January 1st, 2010, the main changes with regard to previously applicable accounting principles are set out below:

- for each acquisition, the Group chooses whether to recognise the full amount of goodwill regardless of the ownership interest acquired, or an amount of goodwill corresponding to its interest in the acquired company (previously the only method allowed);
- deferred tax assets recognised after the initial accounting is complete are included in profit or loss, and in contrast to previous practices, the amount of goodwill that would have been recorded had the deferred tax asset been recognised as an identifiable asset at the acquisition date is not deducted;
- costs incurred in respect of a business combination are now expensed and no longer included in the cost of the acquisition;
- the cost of the acquisition, which includes contingent consideration, is recognised and measured at its acquisition-date fair value. Subsequent changes in fair value, affecting in particular the contingent consideration recorded in liabilities, are taken to *Other income and expenses* in the income statement and no longer treated as an adjustment to goodwill;
- any previous interest held in the acquiree prior to the date control was obtained is now remeasured at its acquisition-date fair value, with the corresponding gain or loss on remeasurement taken to the income.

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 to enable the value in use to be monitored more easily following the acquisition.

Two approaches have been adopted to date:

- premium-based approach: this method involves estimating the portion of future cash flows that could be generated by the trademark, compared with the future cash 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 used is based on 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 within the Group have a finite life span.

They are amortised over their useful lives as estimated at the date of acquisition.

International trademarks are trademarks which have an indefinite life span. They are tested for impairment at least once a year during the fourth quarter, and whenever an adverse event occurs. Adverse 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 amount of the trademark based on the model adopted when the acquisition took place.

Product ranges include all items comprising a franchise: product concept, complementary name in addition to the trademark, formulas and patents used, packaging, logos, advertising trademarks, etc.

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

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

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

The amortisation period applicable to patents corresponds to the period during which they enjoy legal protection. Formulas, which are not protected by legal means, are amortised over a maximum period of 5 years.

Market shares and business concern accounted for in the consolidated financial statements prepared in accordance with French accounting standards do not meet the definition of a separable intangible asset and were reclassified under *Goodwill* on the transition to IFRS on January 1st, 2004.

1.16. Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at cost and are not revalued.

Significant capital assets financed through capital leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within borrowings and debt on the balance sheet.

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

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Property, plant and equipment are depreciated using the straight-line method, over the following useful lives:

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

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment are considered to have a value of zero at the end of the useful lives indicated above.

1.17. Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and receivables maturing after more than 12 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.*

The fair value of listed securities is determined on the basis of the share price at the closing date. If the fair value of unlisted securities cannot be reliably determined, these securities are valued at cost.

If the unrealised loss accounted for through equity is representative of significant or prolonged impairment, this loss is recorded in the income statement.

Long-term loans and receivables are considered to be assets generated by the business. 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 method.

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 projected 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 doubtful receivables based on an assessment of the risk of non-recovery.

The Group's policy is to recommend credit insurance coverage when this is allowed by local regulations.

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 a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

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 debt.*

Units of cash 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. Any related unrealised gains are accounted for in *Finance costs, net* in the income statement.

The carrying amount 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 equity. Capital gains/losses on disposal of Treasury stock net of tax are charged directly to equity and do not contribute to profit for the financial year.

1.22. Share-based payment: Share subscription or purchase options – Free shares

In accordance with the requirements of IFRS 2 "Share-based payment", the value of options or free shares granted as calculated at the grant date is expensed in the income statement over the vesting period, which is generally 5 years for purchase options and 4 years for free shares.

The fair value of stock options is determined using the Black & Scholes model. This model takes into account the characteristics of the plan such as the exercise price and exercise period, and market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural assumptions regarding beneficiaries.

The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.

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

The impact of IFRS 2 on profit for the period is booked on the *Selling, general and administrative expenses* line of the income statement at Group level, and is not allocated to the Divisions or geographic zones.

1.23. Provisions for employee retirement obligations and related benefits

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

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid. The characteristics of the defined benefit schemes in force within the Group are as follows:

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

  These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

As from January 1st, 2009, the Group decided to adopt the IAS 19 option allowing the direct recognition in equity of actuarial gains and losses instead of the corridor method.

The charges recorded in the income statement during the year include:

- service cost, *i.e.* additional rights vested by employees during the accounting period;
- interest cost, *i.e.* change in the value of the discounted rights over the past year;
- expected return on plan assets, *i.e.* income from external funds 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.

To determine the discounted value of the obligation for each scheme, the Group applies an actuarial valuation method based on the final salary (projected unit credit method). The obligations and the fair value of plan 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).

Actuarial gains and losses in relation to other benefits such as jubilee awards and long-serve bonuses are immediately charged to the income statement.

The liability corresponding to the Company's net defined benefit obligation regarding its employees is recorded in 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 any equivalent consideration being received by the Group in return. They relate mainly to tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

These provisions are estimated on the basis of the assumptions deemed most probable 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 12 months of the closing date, and those linked to the normal operating cycle (such as product returns), are recorded as *Current liabilities*. Other provisions for liabilities and charges are recorded as *Non-current liabilities.*

1.25. Borrowings and debt

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

In accordance with the principle of fair value hedge accounting, fixed-rate borrowings and debt swapped at a floating rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance costs and are offset by changes in the value of the related interest rate swaps.

The fair value of fixed-rate debt is determined by the discounted cash flow method using bond yield curves at the closing date, allowing for the spread corresponding to the Group's risk class to be taken into account.

The carrying amount of floating-rate debt is a reasonable approximation of its fair value.

Medium- and long-term borrowings and debt are recorded under *Non-current liabilities*. Short-term borrowings and debt and the current portion of medium- and long-term borrowings and debt are presented under *Current liabilities*.

1.26. Financial derivatives

Derivative instruments entered into to hedge identifiable foreign exchange and interest rate risks are accounted for in accordance with hedge accounting principles.

The accounting principles applicable to foreign exchange risk are set out in detail in note 1.3.

With regard to interest rate risk, fixed-rate debt and financial loans hedged by interest rate swaps are valued in the balance sheet at their market value. Changes in the fair value of these items are recorded as finance costs and offset by adjustments to the fair value of the related hedging derivatives. Floating-rate debt and financial loans are valued at cost, which corresponds to their market value. The swaps or caps which hedge these items are valued in the balance sheet at their market value, with changes in value recorded directly through equity on the *Items directly recognised in equity* line.

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

1.27. Earnings per share

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

Basic earnings per share are obtained on the basis of the weighted average number of shares outstanding during the year, less the average number of treasury shares held deducted from equity.

Where applicable, diluted earnings per share take into account dilutive stock options and free shares in accordance with the Treasury stock method, under which sums collected on 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. 2011

On January 1st, 2011, Matrix Distribution GmbH, a wholly owned subsidiary of L'Oréal Deutschland GmbH, took over the cosmetic and scissors businesses of Germany-based company Arex GmbH.

Arex GmbH sells exclusive hairdressing brands and high quality scissors exclusively to hairdressers. Arex GmbH had sales of €7 million in 2010 and has been fully consolidated since January 1st, 2011.

On December 13th, 2010, Galderma Holding AB, a wholly owned subsidiary of Galderma Pharma S.A., announced that it had launched a cash offer for Q-Med, a company listed on Nasdaq OMX Nordic in Stockholm.

Created in 1987, Q-Med is a medical device company which develops, markets and sells high quality medical implants for aesthetic and medical use. The majority of its products are based on the company's patented NASHA™ technology for the production of stabilized non-animal hyaluronic acid.

Among other products, its current product portfolio includes Restylane for smoothing out lines and improving facial contours, and the Macrolane injection for shaping the body.

Sales are made through the company's own subsidiaries and distributors in over 70 countries. Q-Med has approximately 636 employees in 20 countries, including around 364 based at the company's head office, R&D laboratories and production facility in Uppsala, Sweden.

In 2010, the company had total revenues of SEK1.5 billion and an operating profit of SEK287 million.

The acceptance period for the offer started on January 4th and ended on March 11th, 2011.

A price of SEK79.00 in cash was offered for each share, with the exception of shares owned by Q-Med founder Bengt Agerup, who sold his 47.5% stake at a price of SEK58.94 per share. An earn-out clause stipulates that the total price can under no circumstances exceed SEK74.96 per share.

On March 15th, 2011, Galderma declared the offer wholly unconditional and acquired 95,361,096 shares, representing 95.95% of the existing issued share capital of Q-Med. Galderma decided to request compulsory acquisition of the remaining shares in Q-Med shares, which was obtained on November 15th, 2011.

Q-Med is proportionally consolidated as from March 1st, 2011.

On December 15th, 2011, L'Oréal announced the completed acquisition of Pacific Bioscience Laboratories Inc., the market leader in the rapidly growing area of sonic skin care devices. The move gives L'Oréal access to patented sonic skin care technology enabling the Company to acquire strategic positions in the booming skin care devices category.

Clarisonic® is sold mainly throughout the US and is also present in the UK, Australia, Mexico, Canada and the Far East. It is sold through a distribution network which includes dermatologists and cosmetic surgeons, spas, prestige retail, e-tail, television shopping and clarisonic.com. In full-year 2010, Clarisonic® delivered net sales of $105 million. It has been fully consolidated since December 15th, 2011.

The cost of these new acquisitions was €813.5 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €415.6 million and €320.8 million, respectively.

These acquisitions represent around €193 million in sales and €33 million in operating profit in 2011.

2.2. 2010

On April 21st, 2010, L'Oréal USA signed an agreement to acquire the assets of Essie Cosmetics, the ultimate nail colour authority in the US, sold mainly in American salons and spas. The acquisition was completed on June 25th, 2010 and the company has been fully consolidated since June 30th, 2010. Essie's net sales were $25 million in 2009.

On June 1st, 2010, L'Oréal USA acquired 100% of the capital of C.B. Sullivan, a New Hampshire-based company. C.B. Sullivan supplies hair salons in six states across the north-eastern United States (Vermont, New Hampshire, Maine, Connecticut, Rhode Island and Massachusetts), with a network of representatives and professional-only outlets. The company's net sales in fiscal year 2009 were approximately $50 million. The acquisition was fully consolidated as of June 1st, 2010.

On December 10th, 2010, L'Oréal USA acquired the professional distribution business of Peel's Salon Services, a Nebraska-based company. Peel's Salon Services supplies hair salons in 12 states across the mid-US, with a network of representatives and professional-only outlets. The company's net sales are approximately $100 million. This acquisition was fully consolidated as of December 11th, 2010.

The cost of these new acquisitions amounts to approximately €204.1 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated after the final purchase price allocation at €119.9 million and €68.6 million, respectively.

These acquisitions represent around $170 million in full-year sales and $7.2 million in full-year operating profit for 2010. They would have contributed $130 million in additional net sales for the Group over the 12 months of 2010.

2.3. 2009

On April 9th, 2009, L'Oréal USA signed an agreement for the acquisition of Idaho Barber and Beauty Supply (IBB), a distributor of professional products to hair salons in several states in the North West of the United States, particularly Idaho, Montana and Washington. Idaho Barber and Beauty Supply are fully consolidated from June 1st, 2009.

On December 31st, 2009, L'Oréal USA acquired Maly's Midwest and Marshall Salon Services, distributors of professional products to hair salons across 8 states in the US Midwest region. Maly's Midwest and Marshall Salon Services have been fully consolidated since December 31st, 2009.

These acquisitions represent around $150 million in full-year sales and $8 million in full-year operating profit for 2009. They would have contributed $93.5 million in additional net sales for the Group over the 12 months of 2009.

The cost of these acquisitions amounts to approximately €60.8 million. The total amount of goodwill and other intangible assets resulting from these acquisitions after the final purchase price allocation is €26.9 million and €20.4 million, respectively.

NOTE 3 Segment information

3.1. Segment information

The **Cosmetics** branch is organised into four sectors, each 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;
- **L'Oréal Luxury Division:** products sold in selective retail outlets, *i.e.* department stores, perfumeries, travel retail, the Group's own boutiques and certain online sites;
- **Active Cosmetics Division:** products for "borderline" complexions (*i.e.* neither healthy nor problematic), sold through all health channels such as pharmacies, parapharmacies, drugstores and medispas.

The *non-allocated* item includes expenses incurred by 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 60 countries), as well as through home and online sales. The Body Shop net sales and operating profit are characterised by strong seasonal fluctuations due to a high level of activity during the last few months of the year.

The **Dermatology** branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, meets the needs of dermatologists and their patients.

Data by branch and by Division are prepared using the same accounting principles as those used for the preparation of the consolidated financial statements.

The performance of each branch and Division is measured on the basis of operating profit.

€ millions 2011	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,813.8	578.6	2,728.7	83.0	97.8
Consumer Products	9,835.2	1,859.0	6,167.0	427.6	344.8
L'Oréal Luxury	4,800.1	926.3	4,304.5	160.7	184.9
Active Cosmetics	1,421.7	286.7	857.3	28.0	43.3
Cosmetics Divisions total	**18,870.8**	**3,650.6**	**14,057.5**	**699.3**	**670.8**
Non-allocated		-546.2	511.7	107.6	121.2
Cosmetics branch	**18,870.8**	**3,104.4**	**14,569.2**	**806.9**	**792.0**
The Body Shop branch	**767.6**	**68.1**	**1,163.6**	**24.0**	**30.9**
Dermatology branch	**704.7**	**120.1**	**1,017.2**	**32.8**	**66.7**
Group	**20,343.1**	**3,292.6**	**16,750.0**	**863.7**	**889.6**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2010	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,717.1	551.9	2,624.0	53.4	101.4
Consumer Products	9,529.9	1,764.6	5,994.0	359.3	409.0
L'Oréal Luxury	4,506.6	790.5	3,651.2	113.3	172.2
Active Cosmetics	1,385.6	278.2	829.6	23.2	40.2
Cosmetics Divisions total	**18,139.1**	**3,385.3**	**13,098.8**	**549.1**	**722.8**
Non-allocated		-512.9	396.1	106.1	82.7
Cosmetics branch	**18,139.1**	**2,872.4**	**13,494.9**	**655.2**	**805.4**
The Body Shop branch	**754.9**	**65.3**	**1,104.7**	**11.9**	**34.9**
Dermatology branch	**601.7**	**119.2**	**612.4**	**24.0**	**47.5**
Group	**19,495.8**	**3,056.9**	**15,212.0**	**691.1**	**887.8**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2009	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,388.5	476.9	2,417.8	60.4	112.4
Consumer Products	8,555.2	1,576.9	5,364.5	317.0	379.5
L'Oréal Luxury (2)	4,041.4	612.0	3,527.6	103.0	202.2
Active Cosmetics (2)	1,272.0	255.0	810.9	21.8	45.9
Cosmetics Divisions total	**16,257.2**	**2,920.8**	**12,120.8**	**502.2**	**740.0**
Non-allocated		-482.0	371.6	53.2	79.3
Cosmetics branch	**16,257.2**	**2,438.8**	**12,492.4**	**555.4**	**819.3**
The Body Shop branch	**726.3**	**53.8**	**1,075.9**	**13.5**	**40.9**
Dermatology branch	**489.1**	**85.0**	**551.0**	**31.9**	**35.8**
Group	**17,472.6**	**2,577.6**	**14,119.3**	**600.8**	**895.9**

(1) Operational assets mainly include goodwill intangible assets and property, plant and equipment, trade accounts receivable and inventories.
(2) After reclassification of the Roger & Gallet business from the L'Oréal Luxury Division to the Active Cosmetics Division.

Operational assets can be reconciled to the 2011, 2010 and 2009 balance sheets as follows:

€ millions	2011	2010	2009
Operational assets	**16,750.0**	**15,212.0**	**14,119.3**
Non-current financial assets	6,900.9	5,837.5	6,672.2
Deferred tax assets	671.4	626.1	570.8
Other current assets	883.0	818.5	756.1
Cash and cash equivalent	1,652.2	1,550.4	1,173.1
Non-allocated assets	**10,107.6**	**8,832.5**	**9,172.2**
Total assets	**26,857.6**	**24,044.5**	**23,291.5**

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3.2. Information by geographic zone

All information is presented on the basis of geographic location of the subsidiaries.

3.2.1. Consolidated net sales by geographic zone

	2011		Growth (%)		2010		2009 (1)	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,931.1	39.0%	1.7%	1.3%	7,801.7	40.0%	7,582.7	43.4%
of which France	2,408.6	11.8%	3.7%	3.7%	2,323.9	11.9%	2,238.2	12.8%
North America	4,932.1	24.2%	2.4%	6.9%	4,818.7	24.7%	4,274.4	24.5%
New Markets	7,479.9	36.8%	8.8%	10.0%	6,875.4	35.3%	5,615.5	32.1%
Group	**20,343.1**	**100.0%**	**4.3%**	**5.7%**	**19,495.8**	**100.0%**	**17,472.6**	**100.0%**

(1) Data for 2009 have been restated to reflect the following modifications as of January 1st, 2010:
- *the Travel Retail business of YSL Beauté, all of which was previously recorded within Western Europe, has now been broken down between the Western Europe, North America and New Markets zones;*
- *the Rest of the World zone is now known as the New Markets zone. However:*
  - Australia, India and New Zealand, previously included in the Africa, Orient, Pacific zone, are included in the Asia zone (now the Asia, Pacific zone),
  - the Africa, Orient, Pacific zone has become the Africa, Middle East zone.

3.2.2. Cosmetics net sales by geographic zone

	2011		Growth (%)		2010		2009 (1)	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,246.6	38.4%	0.9%	0.5%	7,181.0	39.6%	6,998.1	43.0%
of which France	2,355.7	12.5%	4.0%	4.0%	2,264.9	12.5%	2,174.6	13.4%
North America	4,406.2	23.3%	2.7%	7.2%	4,291.5	23.7%	3,813.3	23.5%
New Markets	7,218.0	38.2%	8.3%	9.5%	6,666.6	36.8%	5,445.8	33.5%
Asia, Pacific	3,619.5	19.2%	13.4%	12.9%	3,192.2	17.6%	2,597.9	16.0%
Eastern Europe	1,336.9	7.1%	-4.4%	-2.9%	1,398.9	7.7%	1,212.8	7.5%
Latin America	1,680.9	8.9%	10.8%	13.1%	1,517.7	8.4%	1,144.8	7.0%
Africa, Middle East	580.7	3.1%	4.1%	10.3%	557.8	3.1%	490.2	3.0%
Cosmetics branch	**18,870.8**	**100.0%**	**4.0%**	**5.4%**	**18,139.1**	**100.0%**	**16,257.2**	**100.0%**

(1) Data for 2009 have been restated to reflect the following modifications as of January 1st, 2010:
- *the Travel Retail business of YSL Beauté, all of which was previously recorded within Western Europe, has now been broken down between the Western Europe, North America and New Markets zones;*
- *the Rest of the World zone is now known as the New Markets zone. However:*
  - Australia, India and New Zealand, previously included in the Africa, Orient, Pacific zone, are included in the Asia zone (now the Asia, Pacific zone),
  - the Africa, Orient, Pacific zone has become the Africa, Middle East zone.

3.2.3. Breakdown of operating profit of Cosmetics branch by geographic Zone

€ millions	2011	2010	2009 (1)
Western Europe	1,512.3	1,552.0	1,472.2
North America	810.1	708.5	554.8
New Markets	1,328.1	1,124.8	893.8
Cosmetics Divisions total	**3,650.6**	**3,385.3**	**2,920.8**
Non-allocated	-546.2	-512.9	-482.0
Cosmetics branch	**3,104.4**	**2,872.4**	**2,438.8**

(1) Data for 2009 have been restated to reflect the following modifications as of January 1st, 2010:
- *the Travel Retail business of YSL Beauté, all of which was previously recorded within Western Europe, has now been broken down between the Western Europe, North America and New Markets zones;*
- *the Rest of the World zone is now known as the New Markets zone. However:*
  - Australia, India and New Zealand, previously included in the Africa, Orient, Pacific zone, are included in the Asia zone (now the Asia, Pacific zone),
  - the Africa, Orient, Pacific zone has become the Africa, Middle East zone.

3.2.4. Breakdown of operational assets and consolidated investments by geographic Zone

	2011		2010		2009 (1)	
€ millions	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets
Western Europe	8,213.4	271.5	7,743.9	215.2	7,585.5	254.8
North America	4,486.9	190.4	3,981.2	167.8	3,606.9	153.1
New Markets	3,538.0	294.3	3,090.8	202.0	2,555.3	139.7
Non-allocated	511.7	107.6	396.1	106.1	371.6	53.2
Group	**16,750.0**	**863.7**	**15,212.0**	**691.1**	**14,119.3**	**600.8**

(1) Data for 2009 have been restated to reflect the following modifications as of January 1st, 2010:
- *the Travel Retail business of YSL Beauté, all of which was previously recorded within Western Europe, has now been broken down between the Western Europe, North America and New Markets zones;*
- *the Rest of the World zone is now known as the New Markets zone. However:*
  - Australia, India and New Zealand, previously included in the Africa, Orient, Pacific zone, are included in the Asia zone (now the Asia, Pacific zone),
  - the Africa, Orient, Pacific zone has become the Africa, Middle East zone.

NOTE 4 Personnel costs and number of employees

4.1. Number of employees [1]

	12.31.2011	12.31.2010	12.31.2009
Western Europe	30,155	29,542	29,439
North America	15,195	14,811	14,127
New Markets	23,536	22,266	21,077
Total	**68,886**	**66,619**	**64,643**

(1) Including proportionally consolidated companies and excluding temporary employees of The Body Shop.

4.2. Personnel costs

€ millions	2011	2010	2009
Personnel costs (including welfare contributions)	3,976.8	3,764.9	3,517.1

Personnel costs include share-based payment and taxes on wages and salaries.

4.3. Executive compensation

Costs recorded in respect of compensation and similar benefits granted to the Management Committee and the Board of Directors can be analysed as follows:

€ millions	2011	2010	2009
Directors' fees	1.1	1.0	1.1
Salaries and benefits including employer welfare contributions	25.9	24.3	23.3
Employee retirement obligation charges	10.8	9.2	6.5
Share-based payment (Stock option and free shares)	21.0	28.4	30.0

The number of executives who were members of the Management Committee was 15 at December 31st, 2011 and was 13 at December 31st, 2010 and December 31st, 2009.

NOTE 5 Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amount to €742.2 million, €767.7 million, and €780.8 million, respectively, for 2011, 2010 and 2009.

NOTE 6 Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	2011	2010	2009
Change in time value	-39.6	-17.0	-17.8
Other foreign exchange gains and losses	13.2	-115.0	105.9
Total	**-26.4**	**-132.0**	**88.1**

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

Assets and liabilities denominated in foreign currencies have been translated using the exchange rates effective at the closing date. Foreign exchange gains and losses also include the following items relating to derivative instruments:

- changes in market value linked to variations in the time value (forward points and premiums paid for options);
- changes in market value linked to variations in the spot rate between the inception of the hedge and the date on which the hedged transactions are completed;
- residual ineffectiveness linked to excess hedges and recognised directly in the income statement under other foreign exchange gains and losses for a negative €0.2 million in 2011, a negative €0.4 million in 2010 and a negative €1.3 million in 2009.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	2011	2010	2009
Cost of sales	-15.2	-118.1	70.8
Research and development	-8.0	11.1	2.7
Advertising and promotion	-2.1	-15.9	5.0
Selling, general and administrative expenses	-1.1	-9.1	9.6
Foreign exchange gains and losses	**-26.4**	**-132.0**	**88.1**

NOTE 7 Other operational income and expenses

This item breaks down as follows:

€ millions	2011	2010	2009
Capital gains and losses on disposals of property, plant and equipment and intangible assets	1.7	0.3	-0.9
Impairment of property, plant and equipment and intangible assets (1)	-69.9	-56.4	-53.8
Restructuring costs (2)	-39.9	-17.9	-222.9
Other (3)	11.8	-79.2	-
Total	**-96.3**	**-153.2**	**-277.6**

(1) These impairment charges mainly relate to:
- *in 2011, the Softsheen Carson brand and goodwill for €32.8 million and €31.8 million respectively as well as Sanoflore goodwill for €5.3 million;*
- *in 2010, the Softsheen Carson brand for €14.5 million, the Yue Sai brand for €11.5 million, as well as Sanoflore goodwill for €20.4 million and Softsheen Carson goodwill for €10.0 million;*
- *in 2009, the Biomedic brand for €2.7 million, the Yue Sai brand for €7.6 million, as well as Yue Sai goodwill for €13.9 million, Sanoflore goodwill for €10.0 million and Softsheen Carson goodwill for €19.6 million.*

(2) Including:
- *in 2011, the reorganisation of industrial operations in the United States for €34.6 million;*
- *in 2010, €4.7 million relating to the discontinuation of Shu Uemura in the United States, €5.5 million relating to the discontinuation of Helena Rubinstein in France, €5.0 million relating to the reorganisation of YSL Beauté, and €3.2 million relating to the reorganisation of industrial and logistics operations in France;*
- *in 2009, the next phase of the industrial and logistics reorganisation in Europe resulting in the closure of the Albesa factory (Spain), logistics reorganisation measures in the Iberian peninsula, industrial and logistics reorganisation measures in France and additional charges for the closure of the Biotherm factory in Monaco for €116 million; the link-up between YSL Beauté and the L'Oréal Luxury Division in various countries for €45 million; the next phase of the reorganisation of L'Oréal USA for €42 million; and the reorganisation and streamlining of central and regional structures of The Body Shop for €18 million.*

(3) In 2011, the positive revision of risks relating to investigations carried out by competition authorities for €23 million (see note 22.1) as well as costs relating to the acquisition of Q-Med and Pacific Bioscience Laboratories Inc. for €9.6 million and revision of the earn out clause regarding Essie Cosmetics for €3.0 million.
In 2010, risks relating to investigations carried out by competition authorities (see note 22.1.).

NOTE 8 Other financial income and expenses

This item breaks down as follows:

€ millions	2011	2010	2009
Other financial income	0.9	7.5	0.7
Other financial expenses	-6.5	-16.5	-13.7
Total	**-5.6**	**-9.0**	**-13.0**

NOTE 9 Income tax

9.1. Detailed breakdown of income tax

€ millions	2011	2010	2009
Current tax	939.9	799.9	624.5
Deferred tax	85.9	110.0	51.6
Income tax	**1,025.8**	**909.9**	**676.1**

9.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2011	2010	2009
Profit before tax and non-controlling interests	**3,466.7**	**3,151.9**	**2,471.0**
Theoretical tax rate	29.91%	30.13%	29.83%
Expected tax charge	**1,036.7**	**949.7**	**737.0**
Impact of permanent differences	54.9	93.1	82.6
Impact of tax rate differences	-50.4	-107.7	-91.4
Change in unrecognised deferred taxes	-8.4	-18.5	-8.8
Other (1)	-7.0	-6.7	-43.3
Group tax charge	**1,025.8**	**909.9**	**676.1**

(1) Including tax credits, withholding taxes on distributions, tax reassessments and provisions for tax liabilities. The change between 2010 and 2009 is mainly due to the elimination of withholding taxes in the United States in 2009 for which a provision had been set aside in 2008, and the increase in withholding taxes on distributions due to the increase in profits.

The expected tax charge reflects, for each country, the sum of pre-tax profit multiplied by the normal taxation rate. The theoretical tax rate reflects the total expected tax charge as a percentage of profit before tax and non-controlling interests.

9.3. Deferred taxes in the balance sheet

The net change in deferred taxes (assets and liabilities) can be analysed as follows:

€ millions	
Balance of deferred tax assets at December 31st, 2008	**498.9**
Balance of deferred tax liabilities at December 31st, 2008	**-398.4**
Income statement impact	-51.6
Translation differences	-6.1
Other effects (1)	108.6
Balance of deferred tax assets at December 31st, 2009	**570.8**
Balance of deferred tax liabilities at December 31st, 2009	**-418.0**
Income statement impact	-110.0
Translation differences	6.7
Other effects (1)	114.6
Balance of deferred tax assets at December 31st, 2010	**626.1**
Balance of deferred tax liabilities at December 31st, 2010	**-462.0**
Income statement impact	-85.9
Translation differences	-5.6
Other effects (1)	-78.9
Balance of deferred tax assets at December 31st, 2011	**671.4**
Balance of deferred tax liabilities at December 31st, 2011	**-677.7**

(1) Including mainly the tax effect on actuarial gains and losses recognised in equity and in 2011 on newly consolidated companies for €100 million.

Deferred tax assets and liabilities recorded in the balance sheet may be broken as follows:

€ millions	12.31.2011		12.31.2010		12.31.2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	645.5	461.5	599.0	371.9	540.9	313.2
Deferred tax liabilities on remeasurement of Sanofi (1)		216.2		90.1		104.8
Tax credits and tax loss carry-forwards	25.9		27.1		29.9	
Deferred tax total	**671.4**	**677.7**	**626.1**	**462.0**	**570.8**	**418.0**

(1) In 2011, the deferred tax rate increased to 3.44% (1.72% in 2010 and 2009).

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€321.6 million, €313.2 million and €297.4 million, respectively, at the end of 2011, 2010 and 2009) and provisions for liabilities and charges (€164.1 million, €197.9 million and €180.5 million, respectively, at the end of 2011, 2010 and 2009).

Deferred tax liabilities on temporary differences mainly relate to intangible assets acquired in the context of business combinations other than non tax-deductible goodwill.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €67.5 million at December 31st, 2011 compared with €80.9 million at December 31st, 2010 and €91.0 million at December 31st, 2009.

NOTE 10 Net profit attributable to owners of the company excluding non-recurring items – Earnings per share

10.1. Reconciliation with net profit

Net profit attributable to owners of the company excluding non-recurring items reconciles as follows with net profit attributable to owners of the company:

€ millions	2011	2010	2009
Net profit attributable to owners of the company	**2,438.4**	**2,239.7**	**1,792.2**
Capital gains and losses on property, plant and equipment and intangible asset	-1.7	-0.3	0.9
Impairment of property, plant and equipment and intangible assets	69.9	56.4	53.8
Restructuring costs	39.9	17.9	222.9
Other	-11.8	79.2	-
Tax effect on non-recurring items	-33.0	-22.0	-73.1
Effect of changes in tax rates on the deferred tax liability arising on the remeasurement of Sanofi	62.0	-	-
Tax effect on the acquisition of Pacific Bioscience Laboratories Inc.	19.2	-	-
Net profit attributable to owners of the company excluding non-recurring items	**2,582.9**	**2,370.9**	**1,996.7**

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10.2. Earnings per share

The tables below set out earnings per share attributable to owners of the company:

2011	Net profit attributable to owners of the company *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	2,438.4	592,763,295	4.11
Stock options	-	4,247,654	
Free shares	-	622,154	
Diluted earnings per share	**2,438.4**	**597,633,103**	**4.08**

2010	Net profit attributable to owners of the company *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	2,239.7	586,582,918	3.82
Stock options	-	4,538,021	
Free shares	-	271,510	
Diluted earnings per share	**2,239.7**	**591,392,449**	**3.79**

2009	Net profit attributable to owners of the company *(€ millions)*	Number of shares	Earnings per share attributable to owners of the company *(€)*
Earnings per share	1,792.2	583,388,024	3.07
Stock options	-	320,338	
Free shares	-	89,204	
Diluted earnings per share	**1,792.2**	**583,797,566**	**3.07**

10.3. Earnings per share excluding non-recurring items

The tables below set out in detail earnings per share attributable to owners of the company excluding non-recurring items:

2011	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding nonrecurring items (€)
Earnings per share excluding non-recurring items	2,582.9	592,763,295	4.36
Stock options		4,247,654	
Free shares		622,154	
Diluted earnings per share excluding non-recurring items	**2,582.9**	**597,633,103**	**4.32**

2010	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding nonrecurring items (€)
Earnings per share excluding non-recurring items	2,370.9	586,582,918	4.04
Stock options	-	4,538,021	
Free shares	-	271,510	
Diluted earnings per share excluding non-recurring items	**2,370.9**	**591,392,449**	**4.01**

2009	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding nonrecurring items (€)
Earnings per share excluding non-recurring items	1,996.7	583,388,024	3.42
Stock options	-	320,338	
Free shares	-	89,204	
Diluted earnings per share excluding non-recurring items	**1,996.7**	**583,797,566**	**3.42**

10.4. Calculation of the number of shares

The table below sets out the number of potential ordinary shares excluded from the calculation of earnings per share as they correspond to stock option plans with no dilutive effect on the periods presented:

	2011	2010	2009
Stock option plans	10,676,150	14,858,900	35,994,200

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 used to carry out impairment tests is described in note 1.

€ millions 2011	12.31.2010	Acquisitions/ Disposals	Other movements	12.31.2011
L'Oréal Professionnel/Kérastase	343.1		5.0	348.1
Matrix	296.3	6.5	40.2	343.0
Redken/PureOlogy	467.7	0.9	24.0	492.6
Other	31.9		-31.9	-
Professional Products Total	**1,139.0**	**7.4**	**37.3**	**1,183.7**
L'Oréal Paris	768.1		5.7	773.8
Maybelline/Garnier	1,079.0		23.7	1,102.7
Softsheen Carson	45.0		-32.7	12.3
Other	84.9		1.0	85.9
Consumer Products Total	**1,977.0**		**-2.3**	**1,974.7**
Lancôme	775.2		5.6	780.8
Shu Uemura	152.5		11.4	163.9
YSL Beauté	519.8			519.8
Perfumes	334.0			334.0
Clarisonic	-	260.8	-0.8	260.0
Other	63.4		0.2	63.6
L'Oréal Luxury Total	**1,844.9**	**260.8**	**16.4**	**2,122.1**
Vichy/Dermablend	268.0		1.4	269.4
Other	114.4		-3.6	110.8
Active Cosmetics Total	**382.4**		**-2.2**	**380.2**
Other	9.2			9.2
The Body Shop	**321.8**	**1.1**	**7.9**	**330.8**
Dermatology	**55.3**	**149.5**	**-0.9**	**203.9**
Group Total	**5,729.6**	**418.8**	**56.2**	**6,204.6**

2011 acquisitions mainly relate to Arex GmbH, Q-Med and Pacific Bioscience Laboratories Inc. (Clarisonic) for €415.6 million. No significant disposals took place during 2011. Other movements mainly reflect the positive impact of changes in exchange rates for €82.7 million, partly offset by the allocation of the purchase price of the Peel's Salon Services for €6.1 million and by impairment losses on Softsheen Carson for €31.8 million and on Sanoflore for €5.3 million (included in the "Other" line of Active Cosmetics). Impairment losses have been recorded against these Cash-Generating Units as their performance did not meet forecasts.

The accumulated impairment losses relating to Softsheen Carson, Yue Sai and Sanoflore amount to €136.8 million, €29.8 million and €35.7 million, respectively, at December 31st, 2011.

€ millions **2010**	**12.31.2009**	**Acquisitions/ Disposals**	**Other movements**	**12.31.2010**
L'Oréal Professionnel/Kérastase	328.6	2.5	12.0	343.1
Matrix	266.3	9.3	20.7	296.3
Redken/PureOlogy	419.4	2.1	46.2	467.7
Other	40.0	34.8	-42.9	31.9
Professional Products Total	**1,054.3**	**48.7**	**36.0**	**1,139.0**
L'Oréal Paris	756.6		11.5	768.1
Maybelline/Garnier	992.8	24.5	61.7	1,079.0
Softsheen Carson	50.9		-5.9	45.0
Other	35.2	49.8	-0.1	84.9
Consumer Products Total	**1,835.5**	**74.3**	**67.2**	**1,977.0**
Lancôme	767.6		7.6	775.2
Shu Uemura	123.7		28.8	152.5
YSL Beauté (1)	528.4		-8.6	519.8
Perfumes	334.0			334.0
Other	62.9		0.5	63.4
L'Oréal Luxury Total	**1,816.6**		**28.3**	**1,844.9**
Vichy/Dermablend (1)	264.8		3.2	268.0
Other	131.0		-16.6	114.4
Active Cosmetics Total	**395.8**		**-13.4**	**382.4**
Other	9.2			9.2
The Body Shop	**312.5**	**1.9**	**7.4**	**321.8**
Dermatology	**42.2**		**13.1**	**55.3**
Group Total	**5,466.0**	**124.9**	**138.7**	**5,729.6**

(1) After reclassification of the Roger & Gallet business from the L'Oréal Luxury Division to the Active Cosmetics Division.

2010 acquisitions mainly relate to Essie Cosmetics, C.B. Sullivan and Peel's Salon Services for €123.0 million. The provisional goodwill totalling €74.3 million resulting from the acquisition of Essie Cosmetics has been allocated to the Essie Cosmetics Cash-Generating Unit (included on the "Other" line of Consumer Products) for €49.8 million, with the remainder allocated to the Maybelline/Garnier Cash-Generating Unit based on expected synergies for €24.5 million. The goodwill representing the difference between the acquisition cost and Peel's Salon Services' identifiable assets and liabilities is shown in full for €34.8 million on the "Other" line of the Professional Products Division, pending the final purchase price allocation. No significant disposals took place during 2010. Other movements consist mainly of a positive impact of changes in exchange rates for €187.4 million, partly offset by the allocation of the purchase price of the American distributors acquired in 2009 for €16.3 million, and by impairment losses on Softsheen Carson for €10.0 million and on Sanoflore for €20.4 million (included in the "Other" line of Active Cosmetics). Impairment losses have been recorded against these Cash-Generating Units as their performance did not meet forecasts.

The accumulated impairment losses relating to Softsheen Carson, Yue Sai and Sanoflore amount to €103.2 million, €27.6 million and €30.4 million, respectively, at December 31st, 2010.

€ millions 2009	12.31.2008	Acquisitions/ Disposals	Other movements	12.31.2009
L'Oréal Professionnel/Kérastase	334.2		-5.6	328.6
Matrix	272.2		-5.9	266.3
Redken/PureOlogy	428.8	2.2	-11.6	419.4
Other	-	41.5	-1.5	40.0
Professional Products Total	**1,035.2**	**43.7**	**-24.6**	**1,054.3**
L'Oréal Paris	756.4		0.2	756.6
Maybelline/Garnier	1,003.5		-10.7	992.8
Softsheen Carson	72.6		-21.7	50.9
Other (1)	35.5		-0.3	35.2
Consumer Products Total	**1,868.0**		**-32.5**	**1,835.5**
Lancôme	773.0		-5.4	767.6
Shu Uemura	130.6		-6.9	123.7
YSL Beauté (2)	551.0	0.1	-22.6	528.4
Perfumes	335.9		-1.9	334.0
Other	75.3		-12.4	62.9
L'Oréal Luxury Total	**1,865.6**	**0.1**	**-49.1**	**1,816.6**
Vichy/Dermablend (2)	266.4		-1.6	264.8
Other	142.8		-11.8	131.0
Active Cosmetics Total	**409.3**		**-13.4**	**395.8**
Other (1)	9.2			9.2
The Body Shop	**292.1**	**5.6**	**14.8**	**312.5**
Dermatology	**53.1**		**-10.9**	**42.2**
Group Total	**5,532.5**	**49.4**	**-115.9**	**5,466.0**

(1) After reclassification of the "distance selling" business under the Consumer Products Division.
(2) After reclassification of the Roger & Gallet business from the L'Oréal Luxury Division to the Active Cosmetics Division.

2009 acquisitions mainly relate to Idaho Barber and Beauty Supply, Maly's Midwest and Marshall Salon Services for €43.7 million. No disposals took place during 2009. Other movements consist mainly of a negative impact of changes in exchange rates for €37.0 million, impairment losses on Yue Sai for €13.9 million (included in the "Other" line of L'Oréal Luxury), on Softsheen Carson for €19.6 million, and on Sanoflore for €10.0 million (included in the "Other" line of Active Cosmetics), as well as the recognition of deferred tax assets on YSL Beauté and CollaGenex (Dermatology).

Accumulated impairment losses relating to Softsheen Carson, Yue Sai and Sanoflore amount to €85.0 million, €24.7 million and €10.0 million, respectively, at December 31st, 2009.

NOTE 12 Other intangible assets

€ millions 2011	12.31.2010	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2011
Brands with an indefinite life span (2)	1,295.5			119.9	38.9	1,454.3
Amortisable brands and product ranges	66.8	0.7		5.0	2.0	74.4
Licences and patents	725.6	9.0	-0.1	185.5	10.4	930.4
Other	906.5	98.6	-23.2	9.7	6.9	998.4
Gross value	**2,994.3**	**108.3**	**-23.3**	**320.1**	**58.2**	**3,457.5**
Brands with an indefinite life span (3)	66.3	32.8			5.3	104.3
Amortisable brands and product ranges	48.6	3.7			2.5	54.8
Licences and patents	270.9	42.4	-0.1	-0.7	6.6	319.1
Other	431.2	88.3	-23.2		5.8	502.1
Amortisation and provisions	**816.9**	**167.2**	**-23.3**	**-0.7**	**20.1**	**980.2**
Other intangible assets – net	**2,177.5**	**-58.9**	**0.0**	**320.8**	**38.0**	**2,477.3**

(1) This item consists mainly of changes in the scope of consolidation resulting from Arex GmbH, Q-Med and Pacific Bioscience Laboratories Inc.
(2) At December 31st, 2011, brands with an indefinite life span consist mainly of The Body Shop (€495.8 million), Matrix (€281.1 million), Kiehl's (€125.6 million), Shu Uemura (€129.3 million) and Clarisonic (€86.5 million).
(3) Impairment losses were recognised during the period against the Softsheen Carson brand, for €32.8 million.

Other movements mainly consisted of changes in exchange rates with a positive €44.1 million impact over the period, as well as the allocation of the purchase price of the American distributors acquired in 2010 (shown on the "Other" line for €9.8 million).

Accumulated impairment losses amount to €14.0 million on Biomedic, €40.8 million on Yue Sai and €49.5 million on Softsheen Carson at December 31st, 2011.

€ millions 2010	12.31.2009	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2010
Brands with an indefinite life span (2)	1,183.1			46.0	66.4	1,295.5
Amortisable brands and product ranges	62.6	0.6	-0.4		4.0	66.8
Licences and patents	662.9	7.6	-1.6		56.7	725.6
Other	776.2	84.8	-19.0	11.9	52.6	906.5
Gross value	**2,684.8**	**93.0**	**-21.0**	**57.9**	**179.7**	**2,994.3**
Brands with an indefinite life span (3)	37.3	26.0			2.9	66.3
Amortisable brands and product ranges	32.4	13.8	-0.4		2.8	48.6
Licences and patents	217.8	32.5	-1.6		22.2	270.9
Other	354.9	83.9	-18.8		11.2	431.2
Amortisation and provisions	**642.4**	**156.2**	**-20.8**		**39.1**	**816.9**
Other intangible assets – net	**2,042.4**	**-63.2**	**-0.2**	**57.9**	**140.6**	**2,177.5**

(1) This item consists mainly of changes in the scope of consolidation resulting from Essie Cosmetics and C.B. Sullivan.
(2) At December 31st, 2010, brands with an indefinite life span consist mainly of The Body Shop (€481.1 million), Matrix (€274.5 million), Kiehl's (€122.9 million) and Shu Uemura (€121.5 million).
(3) Impairment losses were recognised during the period against the Yue Sai and Softsheen Carson brands, for €11.5 million and €14.5 million, respectively.

Other movements mainly consisted of changes in exchange rates with a positive €128.1 million impact over the period, as well as the allocation of the purchase price of the American distributors acquired in 2009 (shown on the "Other" line for €16.3 million).

Accumulated impairment losses amount to €14.0 million on Biomedic, €37.8 million on Yue Sai and €14.5 million on Softsheen Carson at December 31st, 2010.

€ millions **2009**	12.31.2008	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2009
Brands with an indefinite life span (2)	1,174.0				9.1	1,183.1
Amortisable brands and product ranges	62.1	1.7			-1.2	62.6
Licences and patents	608.2	43.4			11.3	662.9
Other	745.0	63.5	-23.8	2.5	-11.0	776.2
Gross value	**2,589.2**	**108.7**	**-23.8**	**2.5**	**8.2**	**2,684.8**
Brands with an indefinite life span (3)	27.9	10.3			-0.9	37.3
Amortisable brands and product ranges	29.6	3.7			-0.9	32.4
Licences and patents	188.8	29.6			-0.6	217.8
Other	304.8	81.1	-23.4		-7.6	354.9
Amortisation and provisions	**551.1**	**124.7**	**-23.4**		**-10.0**	**642.4**
Other intangible assets – net	**2,038.2**	**-16.0**	**-0.4**	**2.5**	**18.2**	**2,042.4**

(1) This item consists mainly of changes in the scope of consolidation resulting from Idaho Barber and Beauty Supply.
(2) At December 31st, 2009, brands with an indefinite life span consist mainly of The Body Shop (€466.7 million), Matrix (€259.5 million), Kiehl's (€116.9 million) and Shu Uemura (€104.7 million).
(3) Impairment losses were recognised during the period against the Yue Sai and Biomedic brands, for €7.6 million and €2.7 million, respectively.

Other movements mainly consisted of changes in exchange rates over the period.

Accumulated impairment losses amount to €14.0 million on Biomedic and €23.3 million on Yue Sai at December 31st, 2009.

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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, are carried out based on the following data and assumptions:

€ millions	Net carrying amount of goodwill and brands with indefinite useful lives	Discount rate *(%)* International excluding USA	Discount rate *(%)* USA
2011 test			
Maybelline/Garnier	1,102.7	7.9	8.9
The Body Shop	826.6	7.9	(1)
Lancôme	780.8	7.9	8.9
L'Oréal Paris	773.8	7.9	8.9
Matrix	624.1	7.9	8.9
Redken	555.6	7.9	8.9
YSL Beauté	519.8	7.9	(1)
2010 test			
Maybelline/Garnier	1,079.0	7.9	8.9
The Body Shop	802.9	7.9	(1)
Lancôme	775.2	7.9	8.9
L'Oréal Paris	768.1	7.9	8.9
Matrix	570.8	7.9	8.9
Redken	528.8	7.9	8.9
YSL Beauté	519.8	7.9	(1)
2009 test			
Maybelline/Garnier	992.8	7.9	8.9
The Body Shop	779.2	7.9	(1)
Lancôme	767.6	7.9	8.9
L'Oréal Paris	756.6	7.9	8.9
YSL Beauté (2)	528.4	7.9	(1)
Matrix	525.8	7.9	8.9
Redken	476.2	7.9	8.9

(1) Since the USD amounts for the YSL Beauté and The Body Shop CGUs are not material, no specific discount rate has been used in this respect.
(2) After reclassification of the Roger & Gallet business from the L'Oréal Luxury Division to the Active Cosmetics Division.

At December 31st, 2011, the impact of a 1-point increase in the discount rate on all Cash-Generating Units would be an impairment loss of around €21.3 million.

The terminal growth rate is consistent in accordance with market data, *i.e.* 3%.

The impact of a 1-point decrease in the terminal growth rate on all Cash-Generating Units would be an impairment loss of around €12.7 million.

NOTE 14 Property, plant and equipment

€ millions 2011	12.31.2010	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2011
Land and buildings	1,729.4	65.2	-35.2	2.3	127.1	1,888.8
Machinery and equipment	2,585.3	156.9	-78.7	-1.6	85.2	2,747.1
Point-of-sales advertising: stands and displays	1,161.0	245.7	-191.5	18.5	11.7	1,245.4
Other property, plant and equipment and fixed assets in progress	1,337.5	287.7	-64.4	19.2	-154.3	1,425.7
Gross value	**6,813.2**	**755.5**	**-369.8**	**38.4**	**69.7**	**7,307.0**
Land and buildings	924.8	68.2	-28.3	2.8	11.6	979.1
Machinery and equipment	1,725.2	209.3	-75.8	2.6	2.7	1,864.0
Point-of-sales advertising: stands and displays	797.9	223.1	-190.5	10.8	1.3	842.6
Other	687.8	107.1	-63.4	12.6	-3.5	740.5
Depreciation and provisions	**4,135.7**	**607.7**	**-358.0**	**28.8**	**12.1**	**4,426.2**
Property, plant and equipment - net	**2,677.5**	**147.7**	**-11.8**	**9.6**	**57.7**	**2,880.8**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items.

€ millions 2010	12.31.2009	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2010
Land and buildings	1,663.7	43.3	-38.5	54.2	6.7	1,729.4
Machinery and equipment	2,495.1	100.7	-139.3	91.5	37.3	2,585.3
Point-of-sales advertising: stands and displays	1,080.7	197.0	-207.9	75.5	15.7	1,161.0
Other property, plant and equipment and fixed assets in progress	1,164.1	257.0	-44.9	71.6	-110.3	1,337.5
Gross value	**6,403.6**	**598.0**	**-430.6**	**292.8**	**-50.6**	**6,813.2**
Land and buildings	871.6	68.0	-29.6	21.7	-6.9	924.8
Machinery and equipment	1,617.6	223.1	-132.9	50.8	-33.4	1,725.2
Point-of-sales advertising: stands and displays	718.6	236.9	-207.6	51.0	-1.0	797.9
Property, plant and equipment	596.8	109.4	-42.6	33.7	-9.5	687.8
Depreciation and provisions	**3,804.6**	**637.4**	**-412.7**	**157.2**	**-50.8**	**4,135.7**
Property, plant and equipment - net	**2,599.0**	**-39.4**	**-17.8**	**135.6**	**0.2**	**2,677.5**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items.

€ millions 2009	12.31.2008	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2009
Land and buildings	1,608.5	34.1	-45.3	14.2	52.2	1,663.7
Machinery and equipment	2,459.8	115.3	-141.5	12.3	49.2	2,495.1
Point-of-sales advertising: stands and displays	1,081.5	151.4	-163.9	6.3	5.4	1,080.7
Other property, plant and equipment and fixed assets in progress	1,161.4	216.6	-76.8	-3.8	-133.3	1,164.1
Gross value	**6,311.2**	**517.4**	**-427.5**	**29.0**	**-26.5**	**6,403.6**
Land and buildings	819.8	75.5	-26.3	5.8	-3.2	871.6
Machinery and equipment	1,525.5	242.6	-137.0	5.5	-19.0	1,617.6
Point-of-sales advertising: stands and displays	637.3	233.5	-161.2	3.2	5.9	718.6
Other property, plant and equipment	575.4	114.8	-74.5	-0.5	-18.4	596.8
Depreciation and provisions	**3,557.9**	**666.4**	**-399.0**	**14.0**	**-34.7**	**3,804.6**
Property, plant and equipment - net	**2,753.3**	**-149.0**	**-28.5**	**15.0**	**8.2**	**2,599.0**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items.

Property, plant and equipment include capital lease contracts for the following amounts:

€ millions	12.31.2011	12.31.2010	12.31.2009
Land and buildings	113.4	112.8	112.6
Machinery and equipment	2.4	3.0	5.5
Other property, plant and equipment and fixed assets in progress	18.8	16.7	20.9
Gross value	**134.6**	**132.5**	**139.0**
Depreciation	63.1	58.1	62.3
Net value	**71.5**	**74.4**	**76.7**

NOTE 15 Non-current financial assets

	12.31.2011		12.31.2010		12.31.2009	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Financial assets available for sale						
♦ Sanofi (1)	6,709.4	4,033.5	5,657.2	4,033.5	6,509.6	4,033.5
♦ Unlisted securities (2)	6.0	7.1	3.5	4.3	4.1	4.9
Financial assets at amortised cost						
♦ Non-current loans and receivables	185.6	190.6	176.8	182.8	158.5	168.9
Total	**6,900.9**	**4,231.2**	**5,837.5**	**4,220.6**	**6,672.2**	**4,207.3**

(1) L'Oréal's stake in Sanofi was 8.82% at December 31st, 2011. The carrying amount at December 31st, 2009, December 31st, 2010 and December 31st, 2011 (€6,509.6 million, €5,657.2 million and €6,709.4 million respectively) corresponds to the market value of the shares based on the closing price at each of these dates (€55.06, €47.85 and €56.75, respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12.

(2) As the fair value of unlisted securities cannot be reliably determined, they are stated at cost less any impairment losses.

NOTE 16 Inventories

€ millions	12.31.2011	12.31.2010	12.31.2009
Finished products and consumables	1,839.8	1,606.0	1,326.4
Raw materials, packaging and semi-finished products	438.9	416.3	357.1
Gross value	**2,278.7**	**2,022.3**	**1,683.5**
Valuation allowance	226.7	212.2	206.8
Inventories – net	**2,052.1**	**1,810.1**	**1,476.7**

NOTE 17 Trade accounts receivable

€ millions	12.31.2011	12.31.2010	12.31.2009
Gross value	3,042.3	2,733.4	2,493.5
Valuation allowance	46.2	48.1	50.2
Net value	**2,996.2**	**2,685.3**	**2,443.3**

Trade accounts receivable are due within one year. Group policy is to recommend credit insurance coverage as far as local conditions allow. The non-collection risk on trade receivables is therefore minimised, and this is reflected in the level of the allowance, which is less than 2% of gross receivables.

NOTE 18 Other current assets

€ millions	12.31.2011	12.31.2010	12.31.2009
Tax and employee-related receivables (excluding income tax)	309.2	310.9	268.3
Prepaid expenses	231.3	208.9	168.1
Derivatives	114.0	83.2	65.4
Other current assets	249.6	243.0	231.0
Total	**904.1**	**846.0**	**732.8**

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NOTE 19 Cash and cash equivalents

	12.31.2011		12.31.2010		12.31.2009	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	598.2	597.0	523.6	522.9	83.3	82.9
Bank accounts and other cash and cash equivalents	1054.0	1054.0	1026.8	1026.8	1089.8	1089.8
Total	**1,652.2**	**1,651.0**	**1,550.4**	**1,549.7**	**1,173.1**	**1,172.7**

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). Marketable securities are considered as *Financial assets available for sale.* At December 31st, 2011, they consisted solely of investments in euro zone government bonds through mutual funds.

Unrealised gains amount to €1.2 million compared with €0.7 million and €0.4 million, respectively, in 2010 and in 2009.

Term accounts with a maturity of less than 3 months at inception are shown on the *Bank accounts and other cash and cash equivalents* line.

NOTE 20 Equity

20.1. Share capital and additional paid in capital

Share capital consists of 602,984,082 shares with a par value of €0.20 at December 31st, 2011, following the exercise of subscription options for 1,991,097 shares and 400 free shares.

Share capital consisted of 600,992,585 shares with a par value of €0.20 at December 31st, 2010, following the Board of Directors' decision on April 27th, 2010 to cancel 500,000 shares and the exercise of subscription options for 2,520,175 shares.

Share capital consisted of 598,972,410 shares with a par value of €0.20 at December 31st, 2009, following the Board of Directors' decision on February 16th, 2009 to cancel 3,970,600 shares and the exercise of subscription options for 527,200 shares.

20.2. Treasury stock

Shares acquired under the shareholder-approved L'Oréal share buyback programme are deducted from consolidated equity. Capital gains or losses relating to these shares are also recorded in equity net of tax.

a) 2011

The change in the number of shares in 2011 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2011	**600,992,585**	**-11,336,682**	**589,655,903**
Shares cancelled			-
Options and free shares exercised	1,991,497	2,739,023	4,730,520
Treasury stock purchased	-		
At 12.31.2011	**602,984,082**	**-8,597,659**	**594,386,423**

The change in Treasury stock in 2011 is as follows:

In shares	Buyback programme	Allocated to stock options plans	Total	*€ millions*
At 01.01.2011	**-**	**11,336,682**	**11,336,682**	**850.9**
Shares cancelled				
Options and free shares exercised		-2,739,023	-2,739,023	-206.5
Treasury stock purchased		-	-	-
At 12.31.2011	**-**	**8,597,659**	**8,597,659**	**644.4**
€ millions	-	644.4	644.4	

b) 2010

The change in the number of shares in 2010 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2010	**598,972,410**	**-14,236,750**	**584,735,660**
Shares cancelled	-500,000	500,000	-
Options exercised	2,520,175	2,400,068	4,920,243
Treasury stock purchased	-		
At 12.31.2010	**600,992,585**	**-11,336,682**	**589,655,903**

The change in Treasury stock in 2010 is as follows:

In shares	Buyback programme	Allocated to stock options plans	Total	*€ millions*
At 01.01.2010	**-**	**14,236,750**	**14,236,750**	**1,071.6**
Shares cancelled		-500,000	-500,000	-37.9
Options exercised		-2,400,068	-2,400,068	-182.8
Treasury stock purchased		-	-	-
At 12.31.2010	**-**	**11,336,682**	**11,336,682**	**850.9**
€ millions	-	850.9	850.9	

c) 2009

The change in the number of shares in 2009 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2009	**602,415,810**	**-19,275,342**	**583,140,468**
Shares cancelled	-3,970,600	3,970,600	-
Options exercised	527,200	1,064,242	1,591,442
Treasury stock purchased	-	3,750	3,750
At 12.31.2009	**598,972,410**	**-14,236,750**	**584,735,660**

The change in Treasury stock in 2009 is as follows:

In shares	Buyback programme	Allocated to stock options plans	Total	*€ millions*
At 01.01.2009	**3,808,000**	**15,467,342**	**19,275,342**	**1,410.6**
Shares cancelled	-3,808,000	-162,600	-3,970,600	-272.3
Options exercised		-1,064,242	-1,064,242	-66.5
Treasury stock purchased		-3,750	-3,750	-0.3
At 12.31.2009	**-**	**14,236,750**	**14,236,750**	**1,071.6**
€ millions	-	1,071.6	1,071.6	

20.3. Share subscription or purchase options – Free shares

1) Share subscription or purchase options

The table below sets out data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2011.

Grant date	Number of options	Number of options not yet exercised	Exercise period from	Exercise period to	Exercise price
12.03.2003	2,500,000	1,333,650	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	1,615,000	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	773,693	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	2,043,610	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	2,687,575	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,182,004	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	5,045,750	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,824,100	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,590,500	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	4,189,000	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,470,000	04.23.2016	04.22.2021	83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee). The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

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	March 2009	April 2010	April 2011
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%	3.15%	2.83%	3.42%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years	6 years	7 years	7 years	7 years	7 years	8 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17.00%	21.00%	20.50%	22.52%	23.00%	31.95%	23.53%	22.60%
Expected dividends	1.00%	1.35%	1.00%	1.20%	1.34%	1.38%	1.35%	1.35%	1.35%	1.24%	2.83%	1.86%	2.10%
Share price	€63.45	€61.30	€63.45	€60.60	€54.60	€59.40	€61.30	€74.10	€74.60	€94.93	€50.94	€80.50	€85.68
Exercise price	€71.90	€62.94	€63.02	€64.69	€55.54	€60.17	€61.37	€72.60	€78.06	€91.66	€50.11	€80.03	€83.19
Fair value	€15.24	€12.30	€15.66	€14.67	€10.15	€9.45	€12.88	€17.48	€17.19	€25.88	€12.16	€17.17	€18.58

Expected volatility is equal to the implied volatility of the options listed on MONEP at the grant dates. As from 2007, in order to mitigate the effects of atypical phenomena, the volatility used corresponds to the average between implied volatility at the grant date and 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 2009, 2010 and 2011 are set out below:

	12.31.2011		12.31.2010		12.31.2009	
	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	37,296,504	71.55	40,051,000	70.86	39,166,092	72.39
♦ Options granted	1,470,000	83.19	4,200,000	80.03	3,650,000	50.11
♦ Options exercised	-4,730,120	70.24	-4,920,243	68.40	-1,591,442	59.87
♦ Options expired	-1,511,952		-2,034,253		-1,173,650	
Number of options not exercised at end of period	32,524,432	72.02	37,296,504	71.55	40,051,000	70.86
Of which:						
number of exercisable options at end of period	19,450,832	69.63	18,299,654	67.61	19,083,150	71.32
expired options at end of period	214,750		326,750		571,000	

The weighted average share price was €81.60 million, €80.47 million and €60.37 million, respectively, for 2011, 2010 and 2009.

The total charge recorded in 2011, 2010 and 2009 amounted to €62.8 million, €76.5 million and €74.5 million, respectively.

2) Free shares

On April 22nd, 2011, April 27th, 2010 and March 25, 2009, the Board of Directors decided to grant respectively 1,038,000, 450,000 and 270,000 free shares.

Vesting conditions

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

The performance conditions concern:

- April 22nd, 2011 plan:
  - for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2012, 2013 and 2014 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2012, 2013 and 2014 fiscal years and will use a predefined allocation scal based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 25% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the increase in comparable Cosmetic revenues for the 2011, 2012 and 2013 fiscal years for the 2010 plan and for the 2010, 2011 and 2012 fiscal years for the 2009 plan compared with the growth of the cosmetics market;
  - for 75% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the percentage, over the same period, resulting from the ratio between operating profit and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012 and 2013 fiscal years for the 2010 plan and 2010, 2011 and 2012 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

Fair value of free shares granted

The fair value corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile. The cost of the holding period amounts respectively to 8.54%, 8.64% and 8.47% of the share value at the grant date for the 2011, 2010 and 2009 plans.

On the basis of these assumptions, the fair values for the 2011, 2010 and 2009 plans amount to €70.36, €66.78 and €40.23 respectively for French residents, and to €77.67, €73.73 and €44.55 respectively, for non-residents, compared to a share price of €85.68, €80.50 and €50.94, respectively.

The expense recorded in 2011, 2010 and 2009 amounted to €24.0 million, €8.4 million and €2.2 million, respectively.

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20.4. Items directly recognised in equity

The following tables indicate movements in these items:

€ millions	12.31.2011	12.31.2010	12.31.2009
Financial assets available for sale			
Reserve at beginning of period	1,624.1	2,476.4	1,334.0
Changes in fair value over period	1,052.2	-852.3	1,142.5
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss	-0.5	-	-0.1
Reserve at end of period	**2,675.8**	**1,624.1**	**2,476.4**

€ millions	12.31.2011	12.31.2010	12.31.2009
Cash flow hedges - foreign exchange			
Reserve at beginning of period	0.2	8.1	162.0
Changes in fair value over period	-16.9	-151.5	-7.2
Changes in fair value recorded in profit and loss	9.3	143.6	-146.7
Reserve at end of period	**-7.4**	**0.2**	**8.1**

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€181.6 million (-€171.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2011.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€186.5 million (-€167.5 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2010.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€136.6 million (-€136.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2009.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€12.8 million (+€25.8 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2011.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of +€3.3 million (+€8.2 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2010.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€18.0 million (+€21.6 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2009.

€ millions	12.31.2011	12.31.2010	12.31.2009
Cash flow hedges - interest rates			
Reserve at beginning of period	-1.7	-1.6	-1.3
Changes in fair value over the period	-0.3	-0.7	-0.8
Changes in fair value recorded in profit and loss	2.0	0.6	0.5
Reserve at end of period	**-**	**-1.7**	**-1.6**

€ millions	12.31.2011	12.31.2010	12.31.2009
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-624.0	-410.5	-267.6
Actuarial gains/(losses) over the period	-172.5	-215.7	-140.9
Impact of asset ceiling	0.1	2.2	-2.0
Reserve at end of period	**-796.4**	**-624.0**	**-410.5**

€ millions	12.31.2011	12.31.2010	12.31.2009
Total items recognised directly in equity			
Gross reserve	1,872.0	998.6	2,072.4
Associated tax effect	182.7	189.5	97.5
Reserve net of tax	**2,054.7**	**1,188.1**	**2,169.9**

NOTE 21 Post-employment benefits, termination benefits and other long-term employee benefits

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

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid.

The characteristics of the defined benefit schemes in force within the Group are as follows:

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

  These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

Pension obligations are determined and recognised in accordance with the accounting principles presented in note 1.23. As from January 1st, 2009, the Group decided to adopt the IAS 19 option allowing the direct recognition in equity of actuarial gains and losses instead of the corridor method.

The actuarial assumptions used to calculate these obligations take into account the economic conditions specific to each country or Group company. The weighted average assumptions for the Group are as follows:

	12.31.2011	12.31.2010	12.31.2009
Discount rate	4.5%	4.6%	5.3%
Salary increase	4.7%	4.7%	4.9%
Expected long-term return on plan assets	5.5%	5.7%	5.9%

	12.31.2011			12.31.2010			12.31.2009		
	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate
Expected rate of health care inflation	5.4%	3.7%	2016	5.5%	3.6%	2016	6.3%	4.1%	2016

The discount rates are obtained by reference to market yields on high quality corporate bonds having maturity dates equivalent to those of the obligations. Bond quality is assessed by reference to the AA-/Aa3 minimum rating provided by one of the three main credit-rating agencies.

They can be broken down by geographic zone as follows:

In %	2011	2010	2009
Weighted average (all countries)	**4.5%**	**4.6%**	**5.3%**
of which:			
Euro zone	4.7%	4.4%	5.2%
United States	4.3%	5.0%	5.8%
United Kingdom	5.0%	5.5%	5.8%

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €172.3 million for the Euro zone, €41.6 million for the United States and €34.8 million for the United Kingdom.

The expected return on plan assets is determined on the basis of the asset allocation of the investment portfolio, taking into account the associated risks and past performance for each asset category.

It can be broken down by geographic zone as follows:

In %	2011	2010	2009
Weighted average (all countries)	**5,5%**	**5.7%**	**5.9%**
of which:			
Euro zone	5,5%	5.6%	6.0%
United States	6,0%	6.8%	6.8%
United Kingdom	5,8%	6.0%	6.1%

A 50 basis point decrease in the expected return would decrease the assets as well as the expected return on plan assets by -€5.5 million for the Euro zone, -€2.4 million for the United States and -€1.6 million for the United Kingdom.

The breakdown of plan assets is as follows:

In %	12.31.2011	12.31.2010	12.31.2009
Equity securities (1)	34.3%	38.2%	36.3%
Bonds	53.1%	50.0%	53.2%
Property assets (2)	4.2%	4.4%	5.2%
Monetary instruments	3.9%	2.1%	1.1%
Other	4.5%	5.3%	4.2%
Total	**100%**	**100%**	**100%**

(1) Of which L'Oréal shares: nil.
(2) Of which property assets occupied by Group entities: nil.

The allocation of plan assets has to comply with specific investment limits for the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The variations during 2011, 2010 and 2009 are set out below:

€ millions	Present value of defined benefit obligations	Plan assets	Unrecognised plan amendments	Net provisions
Balance at December 31st, 2008	**2,288.4**	**-1,321.7**	**-5.0**	**961.6**
Service cost	87.2			87.2
Interest cost	127.6			127.6
Expected return on assets		-89.5		-89.5
Past service cost: new plans/plan amendments	0.1		-0.7	-0.6
Curtailments	-14.8		11.8	-3.0
Settlements	-0.8	0.6		-0.2
Benefits paid	-130.0	95.9		-34.1
Contributions paid	4.5	-181.2		-176.7
Actuarial gains and losses	222.0	-79.1		142.9
Translation differences	0.9	-3.8	-0.2	-3.1
Other movements	15.4	-6.2		9.2
Balance at December 31st, 2009	**2,600.5**	**-1,585.0**	**5.9**	**1,021.4**
Service cost	99.0			99.0
Interest cost	135.2			135.2
Expected return on assets		-102.9		-102.9
Past service cost: new plans/plan amendments	14.3		-17.4	-3.1
Curtailments	-0.2		-0.8	-1.0
Settlements	-0.3	0.3		-
Benefits paid	-139.8	105.2		-34.6
Contributions paid	7.2	-232.4		-225.2
Actuarial gains and losses	245.9	-32.4		213.5
Translation differences	87.5	-58.6	0.1	29.0
Other movements	-0.5	-1.8		-2.3
Balance at December 31st, 2010	**3,048.8**	**-1,907.6**	**-12.2**	**1,129.0**
Service cost	111.7			111.7
Interest cost	131.4			131.4
Expected return on assets		-114.5		-114.5
Past service cost: new plans/plan amendments	2.8		-3.1	-0.3
Curtailments	-1.3		-0.8	-2.1
Settlements	-0.1	0.1		-
Benefits paid	-139.2	102.8		-36.4
Contributions paid	6.6	-280.0		-273.4
Actuarial gains and losses	45.5	126.9		172.4
Translation differences	45.4	-35.1		10.3
Other movements	1.1	-0.3		0.8
Balance at December 31st, 2011	**3,252.7**	**-2,107.7**	**-16.1**	**1,128.9**

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	12.31.2011	12.31.2010	12.31.2009
Present value of defined benefit obligations wholly or partly funded	2,860.7	2,625.4	2,279.5
Fair value of plan assets	2,107.7	1,907.6	1,585.0
Net position of defined benefit obligations wholly or partly funded	753.0	717.8	694.5
Present value of defined benefit obligations wholly unfunded	392.0	423.4	321.0

The retirement expense charged to the income statement is recorded within personnel expenses under operational profit and can be analysed as follows:

€ millions	2011	2010	2009
Service cost	111.7	99.0	87.2
Interest cost	131.4	135.2	127.6
Expected return on plan assets	-114.5	-102.9	-89.5
Amortisation of actuarial gains and losses	-	-	-
New plans/plan amendments	-0.3	-3.1	-0.6
Curtailments	-2.1	-1.0	-3.0
Settlements	-	-	-0.2
Total	**126.2**	**127.2**	**121.5**

Contributions to defined contribution plans recognised as an expense in 2011, 2010 and 2009 amounted to €344.8 million, €310.6 million and €301.0 million, respectively.

A change of one percentage point in medical cost inflation would have the following impact:

	Increase of 1%	Decrease of 1%
Impact on projected benefit obligation	18.8	-14.8
Impact on current service cost and interest costs	2.0	-1.6

The benefit obligation, fair value of plan assets and actuarial gains and losses for the periods presented are as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009	12.31.2008	12.31.2007
Benefit obligation	3,252.7	3,048.8	2,600.5	2,288.4	2,370.1
Plan assets	-2,107.7	-1,907.6	-1,585.0	-1,321.7	-1,508.2
(Surplus)/Deficit	**1,145.0**	**1,141.2**	**1,015.5**	**966.7**	**861.9**
Experience adjustments arising on the benefit obligation	15.1	-5.6	-33.0	12.1	44.3
Experience adjustments arising on plan assets	-127.0	-30.2	81.0	-373.3	-50.9

NOTE 22 Provisions for liabilities and charges

22.1. Closing balances

€ millions	12.31.2011	12.31.2010	12.31.2009
Non-current provisions for liabilities and charges	**226.1**	**181.3**	**125.6**
Provisions for restructuring	-	-	0.4
Other non-current provisions (1)	226.1	181.3	125.2
Current provisions for liabilities and charges	**500.7**	**536.9**	**510.0**
Provisions for restructuring	93.6	90.6	179.8
Provisions for product returns	219.2	209.4	174.6
Other non-current provisions (1) (2)	187.9	236.9	155.6
Total	**726.8**	**718.2**	**635.6**

(1) *This item includes provisions for tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract), personnel-related costs and risks relating to investigations carried out by competition authorities.*

(2) *National competition authorities from several European countries have launched investigations focusing on the cosmetics industry. Notifications of complaints were sent to the Group's subsidiaries in Germany, the Netherlands, Spain and Switzerland. A decision was handed down by the national competition authority regarding Italy on December 15th, 2010, against which an appeal is in process.*

At December 31st, 2010 total provisions for competition disputes amounted to €91.3 million.

In 2011, investigations that had been initiated and/or financial sanctions adopted against our subsidiaries in the Netherlands and Switzerland were abandoned. Spain received notification of a fine which it has provisioned and challenged on appeal. In Italy, the appeal is still in progress but the fine was paid to avoid any late-payment interest. The provision was revised accordingly, to €35.1 million at December 31st, 2011.

Other requests for information have also been sent and investigations launched in Europe, although no notification of complaints had been received at December 31st, 2011.

In France on January 26th, 2012 the Paris Court of Appeal, to which the case was referred back following a decision by the Cour de Cassation (France's highest civil court), upheld the decision of the French Competition Council of March 13th, 2006 resulting from its investigation of 13 suppliers and 3 distributors in the luxury perfumes and cosmetics industries between 1997 and 1999. The Appeal Court's decision may be appealed against before the Cour de Cassation. The financial sanctions adopted against L'Oréal have already been provisioned and paid.

22.2. Changes in provisions for liabilities and charges during the period

€ millions	12.31.2009	12.31.2010	Charges (2)	Reversals used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2011
Provisions for restructuring	180.2	90.6	44.2	-38.0	-6.7	3.4	93.6
Provisions for product returns	174.6	209.4	138.2	-100.7	-36.1	8.4	219.2
Other provisions for liabilities and charges	280.8	418.2	140.2	-100.6	-54.9	11.2	414.0
Total	**635.6**	**718.2**	**322.6**	**-239.3**	**-97.7**	**23.0**	**726.8**

(1) *Mainly resulting from translation differences*

(2) *These figures can be analysed as follows:*

€ millions	Charges	Reversals (used)	Reversals (not used)
♦ Other income and expenses	47.4	-71.1	-33.2
♦ Operating profit	229.3	-164.4	-56.9
♦ Financial (income)/expense	0.4	-0.3	-0.1
♦ Income tax	45.6	-3.5	-7.6

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The change in this caption in 2010 can be analysed as follows:

€ millions	12.31.2008	12.31.2009	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2010
Provisions for restructuring	125.1	180.2	20.4	-106.4	-6.1	2.5	90.6
Provisions for product returns	162.9	174.6	184.6	-161.3	-21.4	32.9	209.4
Other provisions for liabilities and charges	254.5	280.8	216.6	-62.6	-21.6	5.0	418.2
Total	**542.5**	**635.6**	**421.6**	**-330.3**	**-49.1**	**40.4**	**718.2**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
♦ Other income and expenses	95.2	-106.7	-6.1
♦ Operating profit	263.9	-217.3	-35.1
♦ Financial (income)/expense	0.6	-0.1	
♦ Income tax	61.9	-6.2	-7.9

The change in this caption in 2009 can be analysed as follows:

€ millions	12.31.2007	12.31.2008	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2009
Provisions for restructuring	10.6	125.1	146.0	-83.5	-12.0	4.6	180.2
Provisions for product returns	139.1	162.9	97.9	-74.9	-8.7	-2.6	174.6
Other provisions for liabilities and charges	284.5	254.5	127.5	-76.0	-27.9	2.7	280.8
Total	**434.2**	**542.5**	**371.4**	**-234.4**	**-48.6**	**4.7**	**635.6**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
♦ Other income and expenses	146.0	-83.5	-12.0
♦ Operating profit	178.0	-129.5	-27.9
♦ Financial (income)/expense	0.1	-0.8	
♦ Income tax	47.3	-20.6	-8.7

NOTE 23 Borrowings and debt

The Group uses bank loans for its medium-term financing needs and commercial paper issues in France and in the US for its short-term financing needs. None of these loans contain an early repayment clause linked to financial ratios (covenants).

23.1. Debt by type

€ millions	12.31.2011 Non-current	12.31.2011 Current	12.31.2010 Non-current	12.31.2010 Current	12.31.2009 Non-current	12.31.2009 Current
Short-term paper	-	795.7	-	71.1	-	115.5
MLT bank loans	-	-	751.2	563.0	2,664.4	100.0
Debt on capital lease contracts	47.5	11.6	53.2	10.9	57.4	11.1
Overdrafts	-	10.3	-	47.9	-	36.0
Other borrowings and debt	10.0	273.2	19.9	74.1	19.8	127.1
Total	**57.5**	**1,090.8**	**824.3**	**767.0**	**2,741.6**	**389.7**

23.2. Debt by maturity date

€ millions	12.31.2011	12.31.2010	12.31.2009
Under 1 year (1)	1,090.8	767.0	389.7
1 to 5 years	36.1	796.1	2,709.3
Over 5 years	21.4	28.2	32.3
Total	**1,148.3**	**1,591.3**	**3,131.3**

(1) At December 31st, 2011, the Group had confirmed undrawn credit lines for €2,438.6 million. These lines were not subject to any covenants.

At the end of 2011, expected interest payments totalled around €2.6 million for 2012, €0 million for the period 2013-2016 and €0 million after 2016.

At the end of 2010, expected interest payments totalled around €12.6 million for 2011, €5.0 million for the period 2012-2015 and €1.0 million after 2015.

At the end of 2009, expected interest payments totalled around €28.3 million for 2010, €33.0 million for the period 2011-2014 and €1.4 million after 2014.

These estimates are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and assuming that no debt is rolled over at maturity. Amounts payable under capital leases are not taken into account as they are not material.

23.3. Debt by currency (after allowing for currency hedging instruments)

€ millions	12.31.2011	12.31.2010	12.31.2009
US Dollar (USD)	480.1	127.2	158.5
Swedish Krona (SEK)	344.4	6.7	0.4
Brazilian Real (BRL)	55.6	4.6	4.3
Yen (JPY)	45.0	64.4	71.5
Canadian Dollar (CAD)	37.9	25.5	56.0
Mexican Peso (MXN)	37.9	38.3	35.4
Yuan (CNY)	32.0	29.7	41.5
Euro (EUR)	-	1,122.8	2,579.0
Other	115.4	172.1	184.7
Total	**1,148.3**	**1,591.3**	**3,131.3**

23.4. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	12.31.2011	12.31.2010	12.31.2009
Floating rate	1,094.0	1,517.3	3,052.2
Fixed rate	54.3	74.0	79.1
Total	**1,148.3**	**1,591.3**	**3,131.3**

23.5. Effective interest rates

Effective interest rates on Group debt after allowing for hedging instruments were 0.21% in 2009, 0.21% in 2010 and 1.47% in 2011 for short-term paper, and 1.02% in 2009 and 1.15% in 2010 for bank loans. The Group no longer had any bank loans at December 31st, 2011.

23.6. Average debt interest rates

Average interest rates after allowing for hedging instruments were 1.63% in 2009, 0.99% in 2010 and 1.39% in 2011 on euro-denominated debt and 0.53% in 2009, 0.36% in 2010 and 0.19% in 2011 on USD-denominated debt.

23.7. Fair value of borrowings and debt

The fair value of fixed-rate debt is determined for each loan by discounting future cash flows, based on bond yield curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net carrying amount of outstanding bank loans and other floating-rate loans is a reasonable approximation of their fair value.

The fair value of borrowings and debt amounted to €1,148.4 million at December 31st, 2011. The fair value of borrowings and debt amounted to €1,591.8 million at December 31st, 2010. The fair value of borrowings and debt amounted to €3,131.7 million at December 31st, 2009.

23.8. Debt covered by collateral

No debt was covered by material amounts of collateral at December 31st, 2011, 2010 or 2009.

23.9. Confirmed credit lines

At December 31st, 2011, L'Oréal and its subsidiaries had €2,438.6 million of confirmed undrawn credit lines, compared with €2,387 million at December 31st, 2010 and €2,425 million at December 31st, 2009.

Credit lines fall due as follows:

- €588.6 million in less than 1 year;
- €1,850.0 million between 1 year and 4 years.

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 counterparties rated investment grade.

In accordance with Group rules, 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 on commercial transactions recorded on the balance sheet and on highly probable future transactions.

The Group's policy regarding its exposure to currency risk on future commercial transactions is to hedge at the end of the year a large part of the currency risk for the following year, using derivatives based on operating budgets in each subsidiary.

All the Group's future foreign currency flows are analysed in detailed forecasts for the coming budgetary year. Any currency risks identified are hedged by forward contracts or by options in order to reduce as far as possible the currency exposure of each subsidiary. The term of the derivatives is aligned with the Group's settlements. Exchange rate derivatives are negotiated by REGEFI (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when required by local regulations. Such operations are supervised by REGEFI.

As the Group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by managing their own cash and debt are almost non-existent.

Owing to the Group's policy of hedging a large part of annual requirements for the following year at the end of the current year, the sensitivity of profit or loss to changes in foreign exchange rates at December 31st is marginal. The impact of changes in foreign exchange rates on the foreign exchange cash flow hedges reserve is described in note 20.4.

The following derivatives, all of which have a maturity of less than 18 months at inception, are held for currency risk hedging purposes:

	Nominal			Market value		
€ millions	12.31.2011	12.31.2010	12.31.2009	12.31.2011	12.31.2010	12.31.2009
Currency futures						
Purchase of EUR against foreign currencies	**1,662.1**	**1,595.9**	**1,500.1**	**-52.7**	**-51.9**	**-17.1**
EUR/RUB	300.7	301.8	2.8	1.5	-5.8	-0.1
EUR/USD	265.3	170.2	298.1	-20.9	-2.3	4.7
EUR/CNY	165.3	85.4	107.9	-8.7	-2.7	1.6
EUR/CHF	161.6	255.8	228.8	-1.6	-14.9	-3.7
EUR/MXN	87.1	78.3	74.2	1.8	-1.1	0.8
EUR/GBP	85.0	-0.7	32.7	-6.8	-0.4	1.2
EUR/BRL	81.0	84.0	89.3	0.3	-5.6	-7.2
EUR/CAD	69.8	79.3	97.8	-2.5	-2.0	-2.4
EUR/AUD	64.9	60.8	64.0	-4.9	-5.6	-4.2
EUR/HKD	49.5	72.3	71.4	-7.2	0.0	0.5
EUR/Western European currencies	24.9	17.7	82.7	-1.2	-2.2	-1.7
EUR/Eastern European currencies	85.9	100.6	100.0	1.2	-0.1	-1.0
EUR/Asia Pacific currencies	117.5	180.6	171.7	-2.7	-5.6	-1.8
EUR/Other currencies	103.6	109.8	78.7	-1.2	-3.8	-3.8
Purchase of USD against foreign currencies	**305.3**	**247.4**	**191.4**	**11.7**	**-9.7**	**-6.0**
USD/Latin American currencies	133.0	119.5	80.4	5.6	-3.8	-2.9
USD/Asia Pacific currencies	112.6	72.3	50.0	4.3	-4.0	-0.7
USD/Other currencies	59.7	55.6	61.0	1.8	-1.9	-2.4
Sale of USD against foreign currencies	**192.1**	**-**	**140.4**	**-9.7**	**-**	**7.5**
Sale of USD against CHF	192.1	-	140.4	-9.7	-	7.5
Other currency pairs	245.2	232.9	173.0	-3.2	-1.7	0.8
Currency futures total	2,404.7	2,076.2	2,004.9	-53.9	-63.3	-14.8
Currency options						
EUR/USD	121.0	122.8	-	2.7	8.0	-
EUR/GBP	73.5	82.3	65.0	1.2	4.5	2.1
EUR/Other currencies	231.3	222.7	17.4	9.5	11.0	0.3
CHF/USD	96.3	-	10.4	2.9	-	0.2
Other currency pairs	14.8	30.3	5.8	0.4	1.0	0.2
Currency options total	**536.8**	**458.1**	**98.6**	**16.7**	**24.5**	**2.8**
of which total options purchased	536.8	458.2	98.6	16.7	24.5	2.8
of which total options sold	-	-0.1	-	-	0.0	-
Total	**2,941.5**	**2,534.3**	**2,103.5**	**-37.2**	**-38.8**	**-12.0**

The total amount of options sold corresponds exclusively to the sale of previously purchased options when it was considered appropriate to replace them with other hedging instruments.

The market values by type of hedging are as follows:

€ millions	2011	2010	2009
Fair value hedges [1]	-5.4	-18.7	3.8
Cash flow hedges	-31.8	-20.1	-15.8
Net foreign investment hedges	-	-	-
Total	**-37.2**	**-38.8**	**-12.0**

(1) Fair value hedges relate to currency risks on operating receivables and payables as well as on foreign currency investments and financing.

The fair value of the derivatives is their market value.

The Group has no significant foreign currency exposures 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. Interest rate derivatives are never held for speculative purposes.

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 debt that they hedge.

Interest rate derivatives are as follows:

€ millions	Notional			Market value		
Interest rate derivatives	**12.31.2011**	**12.31.2010**	**12.31.2009**	**12.31.2011**	**12.31.2010**	**12.31.2009**
Cash flow hedges						
Fixed-rate borrower interest rate swaps						
EUR Euribor/fixed rate	-	14.3	15.2	-	-1.7	-1.8
USD Libor/fixed rate	-	-	-	-	-	-
Purchase of caps						
USD Libor	-	-	-	-	-	-
Fair value hedges						
Floating-rate borrower interest rate swaps						
EUR Euribor/fixed rate	-	-	-	-	-	-
Total	**-**	**14.3**	**15.2**	**-**	**-1.7**	**-1.8**

The fair value of interest rate derivatives is their market value. The market value of interest rate derivatives is calculated by discounting future flows at the interest rate prevailing at the balance sheet date.

Maturities of interest rate derivatives broken down by type of hedge are as follows:

	Nominal by maturity											
	12.31.2011				12.31.2010				12.31.2009			
€ millions	< 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												
Fixed-rate borrower interest rate swaps	-	-	-	-	1.0	4.6	8.7	14.3	0.9	4.3	10.0	15.2
Purchase of caps	-	-	-	-	-	-	-	-	-	-	-	-
Fair value hedges												
Floating-rate borrower interest-rate swaps	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**1.0**	**4.6**	**8.7**	**14.3**	**0.9**	**4.3**	**10.0**	**15.2**

24.3. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have a direct positive impact of €5.6 million on the Group's net finance costs at December 31st, 2011, compared with a positive impact of €0.5 million at December 31st, 2010 and a negative impact of €18.6 million at December 31st, 2009. This calculation allows for cash, cash equivalents and derivatives, and assumes that total net debt/net cash remains stable and that fixed-rate debt at maturity is 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 €0.2 million at December 31st, 2011 compared with €1.3 million at December 31st, 2010 and €1.2 million at December 31st, 2009.

24.4. Counterparty risk

The Group has financial relations with international banks rated investment grade. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used to manage exchange rate and interest rate risk are issued by leading international banking counterparties.

24.5. Liquidity risk

The Group's liquidity risk can be assessed on the basis of its outstanding short-term debt under its paper programme totalling €795.7 million. If these bank facilities were not renewed, the Group had confirmed undrawn credit lines of €2,438.6 million at December 31st, 2011. The availability of these credit lines is not dependent on financial covenants.

24.6. Shareholding risk

No cash has been invested in shares.

Available cash is invested with top-ranking financial institutions in the form of non-speculative instruments which can be drawn in very short periods. At December 31st, 2011, cash was invested exclusively in Euro-zone government bonds through mutual funds (note 19).

At December 31st, 2011, the Group holds 118,227,307 Sanofi shares for an amount of €6,709.4 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €56.75 on December 31st, 2011 would have an impact of plus or minus €670.9 million before tax on Group equity.

If the share price were to fall significantly below €34.12 (the initial cost of the Sanofi shares), or fall below that price for a prolonged length of time, L'Oréal may have to recognise an impairment loss on its asset through profit or loss.

At December 31st, 2010, the Group held 118,227,307 Sanofi shares for an amount of €5,657.2 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €47.85 on December 31st, 2010 would have an impact of plus or minus €565.7 million before tax on Group equity.

At December 31st, 2009, the Group held 118,227,307 Sanofi shares for an amount of €6,509.6 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €55.06 on December 31st, 2009 would have an impact of plus or minus €651.0 million before tax on Group equity.

24.7. Fair value hierarchy

IFRS 7 as amended in 2009 requires financial assets and liabilities recognised at fair value in the balance sheet to be classified according to three levels:

- level 1: quoted prices on an active market;
- level 2: valuation techniques using observable inputs;
- level 3: valuation techniques using unobservable inputs.

The following table provides an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

€ millions December 31st, 2011	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		114.0		114.0
Interest rate derivatives				-
Sanofi shares	6,709.4			6,709.4
Marketable securities	598.2			598.2
Total assets at fair value	**7,307.6**	**114.0**		**7,421.6**
Liabilities at fair value				
Foreign exchange derivatives		147.2		147.2
Interest rate derivatives				
Total liabilities at fair value		**147.2**		**147.2**

€ millions December 31st, 2010	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		83.2		83.2
Interest rate derivatives		-		-
Sanofi shares	5,657.2			5,657.2
Marketable securities	523.6			523.6
Total assets at fair value	**6,180.8**	**83.2**		**6,264.0**
Liabilities at fair value				
Foreign exchange derivatives		115.3		115.3
Interest rate derivatives		1.8		1.8
Total liabilities at fair value		**117.1**		**117.1**

€ millions December 31st, 2009	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		65.4		65.4
Interest rate derivatives		-		-
Sanofi shares	6,509.6			6,509.6
Marketable securities	83.3			83.3
Total assets at fair value	**6,592.9**	**65.4**		**6,658.3**
Liabilities at fair value				
Foreign exchange derivatives		79.9		79.9
Interest rate derivatives		1.8		1.8
Total liabilities at fair value		**81.7**		**81.7**

NOTE 25 Other current liabilities

€ millions	12.31.2011	12.31.2010	12.31.2009
Tax and employee-related payables (excluding income tax)	1,039.0	986.8	918.2
Credit balances on trade receivables	598.4	582.2	525.3
Fixed asset payables	124.0	121.2	78.1
Derivatives	147.2	117.1	81.7
Other current liabilities	158.0	150.8	147.2
Total	**2,066.7**	**1,958.1**	**1,750.5**

NOTE 26 Off-balance sheet commitments

26.1. Operating lease commitments

These amount to €1,784.2 million at December 31st, 2011 compared with €1,764.3 million at December 31st, 2010 and €1,776.2 million at December 31st, 2009, of which:

- €416.8 million was due in within 1 year at December 31st, 2011 compared with €376.6 million at December 31st, 2010 and €351.3 million at December 31st, 2009;
- €1,070.5 million was due in 1 to 5 years at December 31st, 2011 compared with €975.9 million at December 31st, 2010 and €933.4 million at December 31st, 2009;
- €296.9 million was due in over 5 years at December 31st, 2011 compared with €411.8 million at December 31st, 2010 and €491.5 million at December 31st, 2009.

26.2. Other off-balance sheet commitments

Confirmed credit lines are discussed in note 23.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within 1 year and are as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Guarantees given (1)	121.5	109.5	117.7
Commitments under Dermatology contracts	28.2	48.5	31.3
Guarantees received	54.8	45.8	33.7
Capital expenditure orders	229.8	220.8	168.0
Firm purchase commitments under logistics supply contracts	448.9	461.8	400.9

(1) These consist mainly of guarantees given to governmental bodies or concerning loans granted to third parties who are partners of the Group.

26.3. Contingent liabilities

In the course of 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 the related cost can be reliably estimated. On this basis, a provision has been set aside for risks relating to investigations carried out by competition authorities described in note 22.1.

At the present time, no exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the L'Oréal Company or Group.

26.4. Environmental risks

The Group strictly complies with regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial position, earnings or assets.

The risks identified at December 31st, 2011 are not material.

NOTE 27 Changes in working capital

This caption amounts to a negative €322.0 million in 2011, a positive €132.5 million in 2010 and a positive €466.3 million in 2009, and can be analysed as follows:

€ millions	2011	2010	2009
Inventories	-200.9	-217.0	169.6
Trade accounts receivable	-275.2	-90.6	312.3
Trade accounts payable	60.9	415.8	-89.3
Other receivables and payables	93.2	24.3	73.7
Total	**-322.0**	**132.5**	**466.3**

NOTE 28 Impact of changes in the scope of consolidation in the cash flow statement

In 2011, this item mainly related to the acquisitions of Q-Med and Pacific Bioscience Laboratories Inc.

In 2010, this item mainly related to the acquisitions of Essie Cosmetics and US distributors.

In 2009, this item mainly related to the acquisitions of US distributors and of non-controlling interests in Shu Uemura.

NOTE 29 Transactions with related parties

29.1. Joint ventures

Transactions with proportionally consolidated companies were as follows:

€ millions	2011	2010	2009
Sales of goods and services	0.9	0.9	0.8
Financial expenses and income	6.4	0.8	1.4

The following receivables and payables were recorded on the balance sheet for the related parties:

€ millions	12.31.2011	12.31.2010	12.31.2009
Operating receivables	2.8	2.7	1.5
Operating payables	0.1	0.2	0.3
Financial receivables	211.9	80.6	94.8

29.2. Related parties with a significant influence on the Group

No significant transactions have been carried out with a member of senior management or a shareholder with a significant influence on the Group.

29.3. Associates

The Group had no equity-accounted companies in 2011, 2010 or 2009.

29.4. Additional information on jointly controlled entities

The information presented below corresponds to amounts attributable to the Group based on its ownership interest.

€ millions 2011	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	320.2	852.0	690.8	138.0	704.7	-584.6	120.1
Innéov	11.5	1.3	21.5	0.1	31.5	-32.9	-1.4

€ millions 2010	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	228.3	481.0	326.9	75.3	601.7	-482.5	119.2
Innéov	9.7	1.6	17.9	0.1	31.1	-30.7	0.4

€ millions 2009	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	176.4	450.2	288.6	62.7	489.1	-404.1	85.0
Innéov	7.9	0.7	15.6	0.1	27.7	-29.5	-1.8

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NOTE 30 Fees accruing to auditors and members of their networks payable by the Group

	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Amount		%		Amount		%	
€ millions excl. VAT	2011	2010	2011	2010	2011	2010	2011	2010
Audit								
Statutory audit	5.5	5.5	73%	65%	5.8	5.7	76%	88%
L'Oréal	1.0	1.0	13%	11%	1.0	1.0	12%	15%
Fully consolidated subsidiaries	4.5	4.5	60%	54%	4.8	4.7	64%	73%
Other directly related audit assignments (1)	1.6	2.4	21%	29%	1.2	0.4	16%	7%
L'Oréal	0.2	0.1	3%	1%	1.0	0.1	14%	2%
Fully consolidated subsidiaries	1.4	2.3	18%	28%	0.2	0.3	2%	5%
Audit sub-total	**7.1**	**7.9**	**93%**	**94%**	**7.0**	**6.1**	**92%**	**95%**
Other services								
Other services (legal, tax, employee-related, other)	0.5	0.5	7%	6%	0.6	0.3	8%	5%
Total	**7.6**	**8.4**	**100%**	**100%**	**7.6**	**6.4**	**100%**	**100%**

(1) Mainly concerning acquisition audits.

NOTE 31 Subsequent events

No events occurred between the balance sheet date and the date on which the Board of Directors authorised the consolidated financial statements for issue.

4.7. Consolidated companies at December 31st, 2011

4.7.1. Fully consolidated companies (1)

Company	Head office	% interest	% control (2)
Areca & Cie	France	100.00	
Avenamite S.A.	Spain	100.00	
Banque de Réalisations de Gestion et de Financement (Regefi)	France	100.00	
Beauté Créateurs	France	100.00	
Beauté, Recherche & Industries	France	100.00	
Beautycos International Co. Limited	China	100.00	
Beautylux International Cosmetics (Shanghai) Co. Ltd	China	100.00	
Belcos Ltd	Japan	100.00	
Biotherm	Monaco	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	
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	
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 France	France	100.00	
Cosmétique Active International	France	100.00	
Cosmétique Active Ireland Ltd	Ireland	100.00	
Cosmétique Active Production	France	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	
Gemey Maybelline Garnier	France	100.00	
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	

(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 unless otherwise indicated.

Company	Head office	% interest	% control (2)
Laboratoire Sanoflore	France	100.00	
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 de Beauté	Belgium	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 Brasil Licenciamentos Empresariais, Cosmeticos e Perfumes Ltda	Brazil	100.00	
L'Oréal Bulgaria EOOD	Bulgaria	100.00	
L'Oréal Canada, Inc.	Canada	100.00	
L'Oréal Central West Africa	Nigeria	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 Cosmetics Industry SAE	Egypt	100.00	
L'Oréal Danmark A/S	Denmark	100.00	
L'Oréal Deutschland GmbH	Germany	100.00	
L'Oréal East Africa Ltd	Kenya	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.	The 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 Kazakhstan LLP	Kazakhstan	100.00	
L'Oréal Korea Ltd	Korea	100.00	
L'Oréal Liban SAL	Lebanon	99.88	
L'Oréal Libramont	Belgium	100.00	
L'Oréal Magyarorszag Kozmetikai Kft	Hungary	100.00	
L'Oréal Malaysia SDN BHD	Malaysia	100.00	
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.	The 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 Pakistan Private Limited	Pakistan	100.00	
L'Oréal Panama S.A.	Panama	100.00	
L'Oréal Peru S.A.	Peru	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 unless otherwise indicated.

Company	Head office	% interest	% control (2)
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 France	France	100.00	
L'Oréal Produits de Luxe International	France	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 SLP S.A. de C.V.	Mexico	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. (as a group)	United States	100.00	
L'Oréal Venezuela, C.A.	Venezuela	100.00	
L'Oréal Verwaltungs GmbH	Germany	100.00	
L'Oréal Vietnam Co. Ltd	Vietnam	100.00	
L'Oréal West Africa Ltd	Ghana	100.00	
Marigny Manufacturing Australia Pty Ltd	Australia	100.00	
Masrelor LLC	Egypt	100.00	
Matrix Distribution GmbH	Germany	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	
Parbel of Florida, Inc.	United States	100.00	
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	
Productos Capilares L'Oréal S.A.	Spain	100.00	
Redken France	France	100.00	
Roger & Gallet	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	100.00	
Sicôs & Cie	France	100.00	
SkinEthic	France	99.09	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche-Posay	France	99.98	
Sofamo	Monaco	100.00	
Soprocos	France	100.00	
Soproréal	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 unless otherwise indicated.

Company	Head office	% interest	% control (2)
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	France	100.00	
YSL Beauté Hong Kong Ltd	Hong-Kong	100.00	
YSL Beauté Middle East Fze	United Arab Emirates	100.00	
YSL Beauté Singapore Pte Ltd	Singapore	100.00	
YSL Beauté Vostok o.o.o.	Russia	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 unless otherwise indicated.

4.7.2. Proportionally consolidated companies consolidated

Company	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 Holding AB	Sweden	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)	
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 o.o.o.	Russia	50.00 (1)	
Galderma Omega	France	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)	
G. Production 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)	

(1) Companies jointly owned with Nestlé.
(2) Equivalent to the percentage interest unless otherwise indicated.

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Company	Head office	% interest	% control [2]
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 Nederland B.V.	The Netherlands	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 (Shanghai) Trading Co., Ltd	China	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]	
Q-Med (as a group)	Sweden	50.00 [1]	

(1) Companies jointly owned with Nestlé.
(2) Equivalent to the percentage interest unless otherwise indicated.

4.8. Statutory Auditors' Report on the consolidated financial statements

(Year ended December 31st, 2011)

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2011, 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.

I. 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 at December 31st, 2011 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.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of 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 these impairment tests 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 as part 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.

III. Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented 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, March 2nd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Etienne Boris	David Dupont-Noel

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 also includes information relating to the specific verification of information given in the Group's Management Report.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

5 2011 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.*

The individual financial statements set out in this chapter are those of L'Oréal parent company. They show the financial position of the parent company *stricto sensu*. Unlike the consolidated financial statements, they do not include the results of the Group's subsidiaries.

This year, the information with regard to the parent company financial statements that was previously included in the Management Report of the Board of Directors is now included in this chapter. The pages concerned are the table showing the main changes and thresholds crossed regarding investments in subsidiaries and holdings, the table of subsidiaries and holdings and the five-year financial summary as well as the amount of expenses and charges provided for in Article 223 quater of the French Tax Code and the table showing trade accounts payable provided for by Articles L. 441-6-1 and D. 441-4 of the French Commercial Code. The Statutory Auditor's Report on the parent company financial statements completes this information

5.1. Compared income statements

€ millions	Notes	12.31.2011	12.31.2010	12.31.2009
Operating revenue		**2,597.7**	**2,400.8**	**2,197.2**
Sales	2	2,421.1	2,231.0	2,051.1
Reversals of provisions and transfers of charges		28.6	35.4	24.4
Other revenue	3	148.0	134.4	121.7
Operating expenses		**-2,409.0**	**-2,293.8**	**-2,102.8**
Purchases and change in inventories		-196.0	-185.6	-187.2
Other purchases and external charges		-1,275.6	-1,191.3	-1,085.3
Taxes and similar payments		-95.3	-96.3	-70.8
Personnel costs		-659.4	-609.1	-576.6
Depreciation, amortisation and charges to provisions	5	-102.6	-134.4	-106.3
Other charges		-80.1	-77.1	-76.6
Operating profit		**188.7**	**107.0**	**94.4**
Net financial revenue	6	2,033.0	1,913.9	1,597.1
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	-74.4	28.7	106.9
Exchange gains and losses		-21.8	-58.7	-8.0
Net financial income		**1,936.8**	**1,883.9**	**1,696.0**
Profit before tax and exceptional items		**2,125.5**	**1,990.9**	**1,790.4**
Exceptional items	7	**14.4**	**-79.0**	**-42.8**
Employee Profit Sharing		-21.4	-21.2	-20.7
Income tax	8	51.3	104.6	114.9
Net profit		**2,169.8**	**1,995.3**	**1,841.8**

5.2. Compared balance sheets

Assets

€ millions	Notes	12.31.2011	12.31.2010	12.31.2009
(net amounts)				
Intangible assets	11	669.4	545.4	496.6
Tangible assets	12	299.4	278.8	251.9
Financial assets	14	9,200.5	8,814.9	8,872.8
Non-current assets		**10,169.3**	**9,639.1**	**9,621.3**
Inventories		34.6	34.7	26.7
Prepayments to suppliers		25.1	26.2	19.3
Trade accounts receivable	18	423.5	323.9	299.9
Other current assets	18	149.6	167.9	165.5
Marketable securities	16	596.5	861.0	1,053.0
Cash and cash equivalents	27	238.4	157.9	105.3
Current assets		**1,467.7**	**1,571.6**	**1,669.7**
Prepaid expenses		26.8	25.9	21.0
Unrealised exchange losses	22	18.0	9.8	12.6
Total assets		**11,681.8**	**11,246.3**	**11,324.6**

Shareholders' equity and liabilities

€ millions	Notes	12.31.2011	12.31.2010	12.31.2009
Share capital		120.6	120.2	119.8
Additional paid-in capital		1,271.4	1,148.3	996.5
Reserves and retained earnings		6,562.4	5,632.3	4,706.4
Net profit		2,169.8	1,995.3	1,841.8
Regulated provisions		82.5	66.5	60.2
Shareholders' equity		**10,206.7**	**8,962.6**	**7,724.7**
Provisions for liabilities and charges	**19**	**268.8**	**221.1**	**179.4**
Borrowings and debts	20	506.8	1,384.5	2,831.9
Trade accounts payable	21	382.3	379.6	330.9
Other current liabilities	21	305.9	292.5	251.7
Other liabilities		**1,195.0**	**2,056.6**	**3,414.5**
Unrealised exchange gains	22	11.3	6.0	6.0
Total shareholders' equity and liabilities		**11,681.8**	**11,246.3**	**11,324.6**

5.3. Changes in shareholders' equity

The share capital of €120,596,816.40 comprises 602,984,082 shares with a par value of €0.2 each following transactions carried out in 2011:

- subscription to 1,991,097 shares following the exercise of options;
- subscription to 400 shares following the free grant of shares.

Changes in shareholders' equity are as follows:

€ millions	Share capital	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	Total
Balance at December 31st, 2008 before appropriation of net profit	**120.5**	**965.5**	**45.4**	**4,215.8**	**1,552.1**	**53.8**	**6,953.1**
Changes in share capital	-0.7	31.0		-267.2			-236.9
Appropriation of 2008 net profit				712.4	-712.4		0.0
Dividends paid for 2008					-839.7		-839.7
2009 net profit					1,841.8		1,841.8
Other movements during the period						6.4	6.4
Balance at December 31st, 2009 before appropriation of net profit	**119.8**	**996.5**	**45.4**	**4,661.0**	**1,841.8**	**60.2**	**7,724.7**
Changes in share capital	0.4	151.8		-37.1			115.1
Appropriation of 2009 net profit				963.0	-963.0		0.0
Dividends paid for 2009					-878.8		-878.8
2010 net profit					1,995.3		1,995.3
Other movements during the period						6.3	6.3
Balance at December 31st, 2010 before appropriation of net profit	**120.2**	**1,148.3**	**45.4**	**5,586.9**	**1,995.3**	**66.5**	**8,962.6**
Changes in share capital	0.4	123.1					123.5
Appropriation of 2010 net profit				930.1	-930.1		0.0
Dividends paid for 2010					-1,065.2		-1,065.2
2011 net profit					2,169.8		2,169.8
Other movements during the period						16,0	16,0
Balance at December 31st, 2011 before appropriation of net profit	**120.6**	**1,271.4**	**45.4**	**6,517.0**	**2,169.8**	**82.5**	**10,206.7**

Reserves include an amount of €18.2 million in 2011 corresponding to unpaid dividends on treasury shares, compared with €20.1 million in 2010 and €22 million in 2009.

Regulated provisions consist mainly of the provision for investments which amounted to €23.7 million at December 31st, 2011, compared with €18.4 million at December 31st, 2010 and €16.2 million at December 31st, 2009. In 2011, a charge of €6.1 million was made to the provision for investments in respect of employee Profit Sharing for 2011 (€5.7 million in 2010 and €5.3 million in 2009). This provision includes the transfer to the Company of some of the provisions set aside by our subsidiaries under a Group agreement. In 2011, an amount of €0.8 million set aside to the provision in 2006 was reversed (compared with €3.5 million in 2010 and €2.8 million in 2009).

Accelerated tax-driven depreciation at December 31st, 2011 amounted to €58.4 million compared with €47.6 million at December 31st, 2010 and €44.0 million at December 31st, 2009.

Details of share subscription option and free share plans are provided in note 17 and in the Management Report.

5.4. Statements of cash flows

€ millions	Notes	12.31.2011	12.31.2010	12.31.2009
Operating activities				
Net profit		2,169.8	1,995.3	1,841.8
Depreciation and amortisation		71.1	93.4	84.7
Charges to provisions (net of reversals)		133.8	43.0	-75.0
Gains and losses on disposals of non-current assets		1.3	13.6	-0.2
Other non-cash transactions (complete transfer of assets and liabilities)		-45.4	-	-
Gross cash flow		2,330.6	2,145.3	1,851.3
Changes in working capital	25	-60.7	41.5	30.1
Net cash provided by operating activities		2,269.9	2,186.8	1,881.4
Investing activities				
Investments in non-current assets		-220.8	-211.3	-90.1
Changes in other financial assets	26	-185.7	194.7	-19.9
Disposals of non-current assets		0.4	51.6	3.8
Net cash from (used in) investing activities		-406.1	35.0	-106.2
Financing activities				
Capital increase		123.5	152.2	31.1
Dividends paid		-1,065.2	-878.8	-839.7
Changes in financial debt		-965.3	-1,452.0	-1,122.8
Net cash from (used in) financing activities		-1,907.0	-2,178.6	-1,931.4
Cash acquired or sold in the period (complete transfer of assets and liabilities)		40.3	1.9	48.4
Change in cash and cash equivalents		**-2.9**	**45.1**	**-107.8**
Cash and cash equivalents at beginning of year		149.8	104.7	212.5
Cash and cash equivalents at end of year	**27**	**146.9**	**149.8**	**104.7**

5.5. Notes to the parent company financial statements

Detailed list of notes

The following notes form an integral part of the parent company financial statements.

The financial statements are presented in millions of euros, while the figures in the table detailing subsidiaries and affiliates are expressed in thousands of euros.

NOTE 1 Accounting principles

The Company's annual financial statements are prepared in accordance with French law and regulations (1999 French Chart of Accounts) and with French generally accepted accounting principles.

The items recorded in the financial statements are valued at historical cost, except for non-current assets revalued in accordance with legal requirements.

1.1. Sales

These are comprised of sales of goods (net of rebates and discounts) and services (including technological assistance fees).

1.2. Advertising and promotion expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses for the year in which the advertisement or promotional initiative 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. 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.

In accordance with regulation no. 2004-06 on assets, certain trademarks have been identified as amortisable in accordance with their estimated useful life.

Non-amortisable trademarks are tested for impairment at least once a year on the basis of the valuation model used at the time of their acquisition. A provision for impairment is recorded where appropriate.

Initial trademark registration costs have been recorded as expenses since 2005.

Patents are amortised over a period ranging from two to ten years.

Business goodwill is not amortised. It is written down whenever the present value of future cash flows is less than the book value.

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 accelerated tax-driven amortisation, which is recognised over a 12-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, including acquisition expenses.

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 year

Both straight-line and declining-balance depreciation is calculated over the actual useful lives of the assets concerned.

Exceptionally, industrial machinery and equipment is depreciated using the straight-line method over a period of ten years, with all additional depreciation classified as accelerated tax-driven depreciation.

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 mainly based on the current and forecast profitability of the subsidiary concerned and the share of 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 recognised against these items to reflect their value in use at the end of the financial year.

Treasury stock acquired in connection with buyback programmes is recognised in other long-term investments.

At the end of the financial year, other long-term investments are compared with their probable sale price and a provision for impairment recognised where appropriate.

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.

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, representing the difference between the book value of the Treasury stock and the average share price in the month preceding the reporting date.

A provision for liabilities and charges in respect of shares of Treasury stock allocated to free share plans for L'Oréal parent company employees is recognised over the period during which the rights to the free shares vest. Shares of Treasury stock allocated to free share plans for employees of other Group subsidiaries are written down in full. However, the subsidiaries concerned will bear most of the cost of granting these free shares.

1.11. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised to cover probable outflows of resources to third parties, without receipt of equivalent consideration by the Company. They relate mainly to industrial and commercial contingencies and litigation (legal actions, product returns, etc.) and to tax and employee-related contingencies.

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

1.12. Accounting for foreign currency transactions and exchange rate hedges

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 contracted to hedge commercial transactions recognised in the balance sheet or future transactions that are considered to be highly probable. Gains and losses generated by these instruments are recognised symmetrically with the gains and losses arising on 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.

Hedges have already been taken out in respect of forecast operating transactions for the next financial year. The impact of such hedges on profit or loss will be recorded during the same accounting period as the transactions hedged.

1.13. Accounting for interest rate instruments

Gains and losses arising on interest rate swaps and caps hedging financial liabilities exposed to interest rate risk are recorded on a time-proportion basis symmetrically with the gains and losses on the items hedged.

1.14. Employee retirement obligations and related benefits

L'Oréal operates pension, 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.

These obligations are partially funded by an external scheme where the funds are gradually built up through contributions paid. The contributions are expensed as incurred under the *Other purchases and external charges* caption.

The related obligations are measured using an actuarial valuation method based on final salaries. The method takes account of length of service, life expectancy, turnover by category of personnel and economic assumptions such as inflation and discount rates.

No provision is recognised in the balance sheet for net unfunded obligations, which are shown in off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards is no longer recognised as an off-balance sheet commitment; instead, a provision is recognised in the balance sheet based on an actuarial valuation of the obligation.

NOTE 2 Sales

€ millions	12.31.2011	12.31.2010	12.31.2009
Goods	887.1	834.2	781.5
Raw materials, packaging	-	-	8.0
Services (1)	1,238.9	1,185.1	1,053.0
Rentals	46.4	41.6	39.0
Other revenues from ancillary activities	248.7	170.1	169.6
Total	**2,421.1**	**2,231.0**	**2,051.1**

(1) Mainly invoicing of technological assistance.

The Company generated €1,362.1 million of its sales in France in 2011, compared with €1,272.0 million in 2010 and €1,214.7 million in 2009.

NOTE 3 Other revenue

This account mainly includes trademark royalties.

NOTE 4 Average headcount

Average headcount can be broken down as follows:

	2011	2010	2009
Executives	3,146	3,046	2,853
Supervisors	2,028	2,031	2,062
Administrative staff	307	323	356
Manual workers	250	272	275
Sales representatives	285	285	309
Total	**6,016**	**5,957**	**5,855**
of which apprentices	171	170	148
External temporary staff	166	184	146

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Depreciation and amortisation	63.5	59.3	60.4
Impairment of non-current assets (1)	7.1	48.5	21.6
Impairment of current assets	2.6	1.9	3.6
Provisions for liabilities and charges	29.4	24.7	20.7
Total	**102,6**	**134.4**	**106.3**

(1) Of which Sanoflore €4.8 million and Softsheen Carson €2.3 million in 2011.

NOTE 6 Net financial income

Net financial income amounts to €2,033.0 million in 2011 (€1,913.9 million in 2010 and €1,597.1 million in 2009), and mainly includes the following items:

€ millions	12.31.2011	12.31.2010	12.31.2009
Dividends received	1,957.6	1,951.3	1,655.4
Revenues on other receivables and marketable securities	5.0	1.1	1.6
Interest expense on loans	-23.4	-23.8	-59.1
Losses settled at the level of partnership entities (SNCs)	-0.1	-9.8	-2.6
Redemption of perpetual loan	-	-	-
Other items not broken down (1)	93.9	-4.9	1.8
Total	**2,033.0**	**1,913.9**	**1,597.1**

(1) Including a merger surplus relating to the complete transfer of assets and liabilities involving Laboratoire Garnier et Cie for €45.4 million and accrued revenue relating to amounts rebilled to subsidiaries to reflect the cost of free share grants under the April 22nd, 2011 plan for €48.2 million (see analysis of charges to provisions for financial items).

The *Net (charges to)/reversals of provisions and transfers of charges)* caption represents net charges of €74.4 million in 2011 compared with net reversals of €28.7 million in 2010 and net reversals of €106.9 million in 2009. The caption mainly includes:

€ millions	12.31.2011	12.31.2010	12.31.2009
Net charges to (-)/reversals of (+) provisions for impairment of financial assets (excluding Treasury stock)	-16.4	4.6	-29.9
Net charges to (-)/reversals of (+) provisions for impairment of Treasury stock (1)	-54.8	22.1	179.4
Net charges to (-)/reversals of (+) provisions for liabilities and charges relating to financial items	-5.3	10.6	-23.3
Net charges to (-)/reversals of (+) provisions for impairment of other financial assets	1.1	-8.5	-18.0
Other movements not broken down	1.0	-0.1	-1.3
Total	**-74.4**	**28.7**	**106.9**

(1) Including €48.2 million offset by accrued revenue relating to amounts rebilled to subsidiaries to reflect the cost of free share grants.

NOTE 7 Exceptional items

In 2009, 2010 and 2011, this caption notably includes charges to provisions or reversals of provisions for liabilities and charges.

NOTE 8 Income tax

The tax income for the year breaks down as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Tax on profit before tax and exceptional items	37.6	90.0	95.2
Tax on exceptional items and employee Profit Sharing	13.7	14.6	11.3
Other	-	-	8.4
Income tax	**51.3**	**104.6**	**114.9**

The tax income booked by L'Oréal S.A. in 2011 takes account of savings of €72.8 million resulting from tax consolidation (€117.9 million in 2010 and €128.5 million in 2009). These savings mainly result from the utilisation of tax losses booked by companies in the tax group.

The application of tax legislation led to an increase of €50.3 million in net profit for 2011, mainly reflecting the net charge to regulated provisions along with tax credits on research, corporate sponsorship activities and employee Profit Sharing.

Income tax has been calculated taking account of the additional 5% contribution, in accordance with the 2011 Amended Finance law.

NOTE 9 Increases or reductions in future tax liabilities

	12.31.2009		12.31.2010		Changes		12.31.2011	
€ millions	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences								
Regulated provisions	-	17.0	-	18.4	6.9	10.7	-	22.2
Temporarily non-deductible charges	58.6	-	44.4	-	26.4	19.5	51.3	-
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	-	2.3	-	1.3	7.3	8.3	-	2.3
Temporarily non-taxable revenue								
Deductible items								
Tax losses, deferred items								
Potentially taxable items								
Special reserve for long-term capital gains	-	176.8	-	176.8	-	-	-	176.8

The figures have been calculated taking account of 3.3% social contribution which increases income tax at both statutory and reduced tax rates.

NOTE 10 Research costs

Amounts invested in Research activities in 2011 totalled €619.4 million compared with €596.0 million in 2010 and €537.5 million in 2009.

NOTE 11 Intangible assets

€ millions	12.31.2009	12.31.2010	Acquisitions/ Charges	Disposals/ Reversals	Other movements	12.31.2011
Patents and trademarks	348.7	379.4	72.8	-	0.4	452.6
Business goodwill	113.3	113.3	-	-	-	113.3
Software	152.4	175.4	19.9	-2.1	11.2	204.4
Other intangible assets	78.9	128.3	53.6	-	-	181.9
Intangible assets in progress	16.1	26.7	20.0	-	-16.6	30.1
Gross value	**709.4**	**823.1**	**166.3**	**-2.1**	**-5.0**	**982.3**
Patents and trademarks	37.5	40.2	4.0	-	-	44.2
Business goodwill	0.3	0.3	-	-	-	0.3
Software	101.7	112.8	23.8	-2.1	-	134.5
Other intangible assets	32.4	35.0	2.4	-	-	37.4
Amortisation	**171.9**	**188.3**	**30.2**	**-2.1**	**-**	**216.4**
Patents and trademarks	22.7	34.6	-	-	-	34.6
Other intangible assets	18.2	54.8	7.1	-	-	61.9
Provisions	**40.9**	**89.4**	**7.1**	**-**	**-**	**96.5**
Net book value	**496.6**	**545.4**	**129.0**	**0.0**	**-5.0**	**669.4**

In 2011, the increase in the *Patents and trademarks* and *Other intangible assets* captions mainly results from the acquisition of Pacific Bioscience Laboratories (Clarisonic) for €124.7 million, of which €71.1 million relates to patents and trademarks. The rest of the increase results from the complete transfer of assets and liabilities involving Laboratoire Garnier & Cie.

In 2010, the increase in the *Patents and trademarks* and *Other intangible assets* captions mainly resulted from the acquisition of Essie.

In 2009, the increase in *Business goodwill* resulted from the allocation of the loss generated by the complete transfer of assets and liabilities of YSL Beauté Holding to L'Oréal S.A. on May 29th, 2009. This loss was entirely attributable to the shares previously held by YSL Beauté Holding.

NOTE 12 Tangible assets

€ millions	12.31.2009	12.31.2010	Acquisitions/ Charges	Disposals/ Reversals	Other movements	12.31.2011
Land	62.8	60.5	2.9		0.1	63.5
Buildings	393.5	393.0	14.0	-3.8	61.6	464.8
Industrial machinery and equipment	176.5	182.0	8.4	-1.2	1.7	190.9
Other tangible assets	84.5	89.3	15.2	-6.0	11.6	110.1
Tangible assets in progress	41.8	79.2	11.3	n/s	-70.0	20.5
Advances and prepayments	0.3	1.9	0.9	-	-	2.8
Gross value	**759.4**	**805.9**	**52.7**	**-11.0**	**5.0**	**852.6**
Buildings	296.5	305.1	17.8	-3.7	-	319.2
Industrial machinery and equipment	145.1	152.9	10.0	-1.1	-	161.8
Other tangible assets	65.3	69.1	9.0	-5.9	-	72.2
Depreciation	**506.9**	**527.1**	**36.8**	**-10.7**	**-**	**553.2**
Land	0.6	-	-	-	-	-
Provisions	**0.6**	**-**	**-**	**-**	**-**	**-**
Net book value	**251.9**	**278.8**	**15.9**	**-0.3**	**5.0**	**299.4**

Depreciation and amortisation recognised in 2011 against tangible and intangible assets included:

- a charge of €51.6 million on a straight-line basis;
- a charge of €12.7 million on a declining-balance basis;
- a charge of €2.7 million relating to exceptional depreciation and amortisation.

NOTE 13 Non-current assets held under finance leases

€ millions	Non-current assets held under finance leases at 12.31.2011				Balance sheet total including non-current assets held under finance leases		
Balance sheet captions	Cost on initial recognition (1)	Depreciation (2) Period	Depreciation (2) Accumulated	Net book value	Gross value	Depreciation	Net book value
Land and buildings	43.5	-1.7	-21.0	22.5	571.8	-340.1	231.7
Industrial machinery and equipment	-	-	-	-	190.9	-161.8	29.1
Total at 12.31.2011	**43.5**	**-1.7**	**-21.0**	**22.5**	**762.7**	**-501.9**	**260.8**
Total at 12.31.2010	43.5	-1.7	-19.3	24.2	679.0	-477.3	201.7
Total at 12.31.2009	43.1	-1.3	-17.6	25.5	675.9	-459.2	216.7

(1) Value of the assets on the date the leases were signed.
(2) Depreciation charge for the year and accumulated depreciation that would have been recognised for these assets had they been purchased outright – Depreciation method used: straight-line 2% to 5%.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year-end				
Balance sheet captions	Period	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	Residual purchase price under the lease
Land and buildings	4.9	62.0	5.4	19.6	2.7	27.7	1.4
Industrial machinery and equipment	-	-	-	-	-	-	-
Total at 12.31.2011	**4.9**	**62.0**	**5.4**	**19.6**	**2.7**	**27.7**	**1.4**
Total at 12.31.2010	4.8	57.1	5.3	19.7	8.0	33.0	90.1
Total at 12.31.2009	4.3	52.2	5.1	20.0	12.6	37.7	1.4

NOTE 14 Financial assets

€ millions	12.31.2009	12.31.2010	Acquisitions/ Subscriptions	Disposals/ Reductions	Other movements	12.31.2011
Investments	9,030.9	9,027.0	1.2	-1.4	20.7	9,047.5
Loans and other receivables	170.7	125.3	768.8	-368.4	-20.9	504.8
Other	8.4	3.8	0.4	-0.4	-	3.8
Gross value	**9,210.0**	**9,156.1**	**770.4**	**-370.2**	**-0.2**	**9556.1**
Investments	302.7	298.2	24.2	-7.8	-	314.6
Loans and other receivables	29.8	38.3	-	-2.0	-	36.3
Other	4.7	4.7	-	-	-	4.7
Provision for impairment	**337.2**	**341.2**	**24.2**	**-9.8**	**-**	**355.6**
Net book value	**8,872.8**	**8,814.9**	**746.2**	**-360.4**	**-0.2**	**9,200.5**

The table detailing subsidiaries and affiliates is presented at the end of the notes to the financial statements.

NOTE 15 Transactions and balances with related entities and parties

Related-party data is as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Financial assets	9,185.2	8,799.3	8,857.9
Trade accounts receivable	331.0	233.0	203.9
Other accounts receivable	2.4	6.0	4.3
Cash and cash equivalents	193.5	152.4	102.1
Borrowings	114.3	17.1	9.3
Trade accounts payable	87.6	78.5	64.0
Other payables	n/s	0.3	5.7
Financial expenses	0.6	10.2	2.6
Financial revenues	2,059.8	1,951.9	1,655.5

All material related-party transactions were entered into on an arm's length basis.

NOTE 16 Marketable securities

This account can be broken down as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
L'Oréal shares	644.5	850.9	1,071.6
Financial instruments	2.2	2.9	4.1
Premiums paid on options	4.6	7.2	0.2
Gross value	**651.3**	**861.0**	**1,075.9**
L'Oréal shares	-54.8	n/s	-22.9
Financial instruments	-	-	-
Premiums paid on options	-	-	-
Provision for impairment	**-54.8**	**n/s**	**-22.9**
Net book value	**596.5**	**861.0**	**1,053.0**

The 8,597,659 L'Oréal shares of Treasury stock held in connection with employee stock purchase option plans had a net value of €589.7 million at December 31st, 2011 against €850.9 million at December 31st, 2010 and €1,048.7 million at December 31st, 2009.

In 2011, stock options were exercised in respect of 2,739,023 shares.

Stock purchase options expiring in 2011 represented a total of 2,393,105 shares or €187.3 million (gross and net basis).

In 2011, the total market value of Treasury stock amounted to €679.0 million based on the average share price in December and to €693.8 million based on the closing share price on December 31st.

In 2010, the total market value of Treasury stock amounted to €968.2 million based on the average share price in December and to €941.9 million based on the closing share price on December 31st.

In 2009, the total market value of Treasury stock amounted to €1,087.2 million based on the average share price in December and to €1,110.5 million based on the closing share price on December 31st.

NOTE 17 Stock purchase and subscription options – Free shares

17.1. Stock purchase and subscription options

The table below sets out data concerning the option plans in force at December 31st, 2011.

Grant date	Number of options	Number of options not yet exercised	Exercise period From	Exercise period To	Exercise price
03.26.2002	2,500,000	1,255,550	03.27.2007	03.26.2012	81.65
09.04.2002	2,500,000	1,114,000	09.05.2007	09.04.2012	76.88
12.03.2003	2,500,000	1,333,650	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	1,615,000	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	773,693	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	2,043,610	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	2,687,575	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,182,004	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	5,045,750	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,824,100	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,590,500	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	4,189,000	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,470,000	04.23.2016	04.22.2021	83,19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee). The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

The share price used as the basis for calculating the 10% social contribution for the April 22nd, 2011 plan was €18.58.

17.2. Free shares

On April 22nd, 2011, April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 1,038,000, 450,000 and 270,000 free shares.

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

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The performance conditions concern:

- April 22nd, 2011 plan:
  - for 50% of shares granted, the increase in comparable Cosmetics revenues for the 2012, 2013 and 2014 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2012, 2013 and 2014 fiscal years and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

A rebilling agreement concerning the cost of free shares was set up in 2011 between L'Oréal parent company and the subsidiaries concerned.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 25% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the increase in comparable Cosmetics revenues for the 2011, 2012 and 2013 fiscal years for the 2010 plan and for the 2010, 2011 and 2012 fiscal years for the 2009 plan compared with the growth of the cosmetics market;
  - for 75% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the percentage, over the same period, resulting from the ratio between operating profit and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012 and 2013 fiscal years for the 2010 plan and 2010, 2011 and 2012 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

The share price used as the basis for calculating the 10% social contribution for the April 22nd, 2011 plan was €70.36 for free shares.

NOTE 18 Maturity of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
Loans and other receivables	429.9	74.9	504.8	41.0	463.8
Other financial assets	-	3.8	3.8	-	3.8
Trade accounts receivable	**377.9**	**48.2**	**426.1**	**2.6**	**423.5**
Other current assets, of which	**149.8**	**-**	**149.8**	**0.2**	**149.6**
Tax and employee-related receivables	116.3	-	116.3	-	116.3
Receivable from Group and shareholders	1.0	-	1.0	-	1.0
Other receivables	32.5	-	32.5	0.2	32.3
Prepaid expenses	**26.8**	**-**	**26.8**	**-**	**26.8**

Accrual accounts included in receivables amounted to €58.9 million at December 31st, 2011 compared with €15.9 million at December 31st, 2010 and €18.1 million at December 31st, 2009.

NOTE 19 Provisions for liabilities and charges

€ millions	12.31.2009	12.31.2010	Charges	Reversals (provisions used)	Reversals (provisions not used)	12.31.2011
Provisions for litigation	5.8	6.8	1.5	0.5	0.4	7.4
Provisions for exchange losses	6.6	3.7	6.6	3.7	-	6.6
Provisions for charges	42.2	38.6	37.7	19.2	1.3	55.8
Other provisions for liabilities (1)	124.8	172.0	47.7 (2)	18.6	2.1	199.0
Total	**179.4**	**221.1**	**93.5**	**42.0**	**3.8**	**268.8**

(1) This caption notably includes provisions for tax contingencies and for industrial and commercial risks relating to operations (contracts, product returns) and employee-related liabilities.
(2) Including the complete transfer of assets and liabilities involving Laboratoire Garnier et Cie for €1.1 million.

The impacts of changes in provisions for liabilities and charges at different levels of the income statement are shown below:

€ millions	Charges	Reversals (provisions used)	Reversals (provisions not used)
Operating profit	29.4	18.0	3.2
Net financial income	32.6	22.0	-
Exceptional items	30.4	2.0	0.6
Income tax	-	-	-
Total	**92.4**	**42.0**	**3.8**

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NOTE 20 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans and from short-term commercial paper issued in France. The amount of the programme is €2,600 million. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

Liquidity on the commercial paper issues is provided by confirmed short-term credit facilities with banks, which amounted to €2,400.0 million at December 31st, 2011 (€2,350.0 million at December 31st, 2010 and €2,387.5 million at December 31st, 2009).

All borrowings and debt are denominated in euros and can be broken down as follows:

Breakdown by type of debt

€ millions	12.31.2011	12.31.2010	12.31.2009
Bonds	n/s	n/s	n/s
Borrowings and debt due to financial institutions	0.1	1,314.8	2,767.4
Perpetual loan	-	-	-
Commercial paper	344.3	-	-
Other borrowings and debt	71.1	61.7	63.8
Overdrafts	91.3	8.0	0.7
Total	**506.8**	**1,384.5**	**2,831.9**

Breakdown by maturity

€ millions	12.31.2011	12.31.2010	12.31.2009
Less than 1 year	468.9	591.8	125.4
1 to 5 years	36.7	791.4	2,705.2
More than 5 years	1.2	1.3	1.3
Total	**506.8**	**1,384.5**	**2,831.9**

The table below shows the main changes in this caption during the 2011 financial year:

€ millions	
Borrowings taken out	2,011.9
Borrowings repaid	2,973.0

Effective interest rate and average interest rate on borrowings and debt

The effective interest rate on borrowings and debt after taking into account hedging instruments was 3.25% in 2011, 1.15% in 2010 and 1.02% in 2009.

The average interest rate on borrowings and debt after taking into account hedging instruments was 1.59% in 2011, 0.97% in 2010 and 1.62% in 2009.

NOTE 21 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**382.3**	**-**	**382.3**
Other current liabilities, of which	**296.4**	**9.5**	**305.9**
Tax and employee-related payables	233.0	-	233.0
Payables related to non-current assets	33.5	-	33.5
Payable to Group and shareholders	6.2	-	6.2
Other payables	23.7	9.5	33.2

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Trade accounts payable	**205.4**	**202.3**	**182.3**
Payables related to non-current assets (1)	**24.6**	**25.9**	**5.6**
Tax and employee-related payables, of which	**144.6**	**138.3**	**128.0**
Provision for employee Profit Sharing	23.0	21.7	20.5
Provision for incentives	61.1	62.3	57.8
Other payables	**29.1**	**29.1**	**27.1**
Total	**403.7**	**395.6**	**343.0**

(1) Mainly concerning Essie in 2010 et 2011.

NOTE 22 Unrealised exchange gains and losses

The revaluation of foreign currency receivables and payables at the exchange rates prevailing at December 31st, taking account of the related hedging instruments, led to the recognition of the following unrealised exchange gains and losses:

	Unrealised exchange losses			Unrealised exchange gains		
€ millions	12.31.2011	12.31.2010	12.31.2009	12.31.2011	12.31.2010	12.31.2009
Financial receivables	6.1	5.9	5.3	-	-	-
Trade accounts receivable	0.1	0.6	0.6	2.9	0.8	1.2
Borrowings and debt	6.2	-	0.2	6.1	0.2	-
Trade accounts payable	3.5	0.4	1.4	0.1	1.0	0.2
Other payables	-	-	-	-	1.1	0.4
Derivative financial instruments	2.1	2.9	5.1	2.2	2.9	4.2
Total	**18.0**	**9.8**	**12.6**	**11.3**	**6.0**	**6.0**

In accordance with the accounting principles described above, the overall foreign exchange position at December 31st, 2011 is an unrealised loss of €6.7 million arising mainly on the Venezuelan bolivar. This loss was recognised through profit and loss. At December 31st, 2010, the overall foreign exchange position was an unrealised loss of €3.8 million compared with an unrealised loss of €6.6 million recognised through profit and loss at December 31st, 2009.

NOTE 23 Derivative financial instruments

Derivative financial instruments mainly consist of futures transactions and can be broken down as follows:

€ millions	Notional			Market value		
	12.31.2011	12.31.2010	12.31.2009	12.31.2011	12.31.2010	12.31.2009
Currency futures						
Purchase of EUR against foreign currencies						
EUR/RUB	264.6	288.6	0.4	0.3	-6.2	0.0
EUR/CNY	165.4	85.7	109.0	-9.1	-2.9	1.3
EUR/USD	77.2	0.0	29.6	-6.1	0.0	-1.3
EUR/BRL	73.4	77.3	84.7	0.2	-5.5	-6.9
EUR/GBP	29.8	16.6	14.3	-1.0	0.3	0.0
EUR/IDR	23.8	25.0	14.2	-1.4	-0.9	-0.9
EUR/AUD	16.7	13.2	9.6	-1.2	-1.1	-0.6
EUR/CAD	15.2	12.4	14.5	-0.6	-0.4	-0.5
EUR/KZT	11.1	11.8	8.0	-0.7	-0.1	-0.2
EUR/MXN	11.0	5.8	5.5	0.5	-0.1	-0.1
EUR/PLN	8.5	4.7	6.8	0.1	-0.1	-0.1
EUR/CHF	7.9	5.8	4.3	-0.1	-0.5	-0.1
EUR/INR	6.8	0.6	0.0	0.2	0.0	0.0
EUR/CLP	6.3	5.7	3.5	-0.1	-0.4	0.0
EUR/ZAR	3.4	9.3	4.0	-0.2	-1.7	-0.5
EUR/UAH	0.7	18.0	0.0	-0.1	0.1	0.0
EUR/ARS	0.6	5.4	0.0	-0.1	-0.1	0.0
EUR/Other currencies	44.0	31.5	25.5	-0.4	-1.0	-0.5
Sale of EUR against foreign currencies						
EUR/JPY	17.5	18.4	10.5	0.7	0.1	-0.4
EUR/USD	0.0	11.8	0.0	0.0	-1.0	0.0
EUR/Other currencies	1.6	2.0	0.9	0.1	0.0	0.0
Purchase of USD against foreign currencies						
USD/BRL	64.7	55.6	43.6	3.2	-3.1	-3.3
USD/ARS	39.0	30.9	0.0	-0.3	0.1	0.0
USD/RUB	9.6	11.3	0.0	0.1	-0.3	0.0
USD/Other currencies	0.4	4.4	0.0	0.0	-0.1	0.0
Sale of USD against foreign currencies						
USD/CNY	32.3	32.6	16.0	0.0	0.0	-0.3
USD/IDR	8.3	18.5	12.7	0.0	0.1	0.3
Other currency pairs						
ARS/BRL	24.4	35.6	0.0	-2.0	0.9	0.0
JPY/CNY	12.7	8.7	4.4	-0.1	0.3	0.0
Other currencies	5.6	4.8	3.2	-0.2	0.0	-0.1
Currency futures total	**982.5**	**852.0**	**425.2**	**-18.3**	**-23.6**	**-14.2**
Currency options						
USD/EUR	48.5	45.3	0.0	1.1	3.0	0.0
GBP/EUR	9.0	5.5	5.1	0.2	0.3	0.2
EUR/CNY	33.4	36.0	0.0	0.8	1.6	0.0
EUR/BRL	22.3	26.4	4.0	1.6	1.8	0.0
Other currencies/EUR	19.6	11.8	1.5	0.8	0.4	0.0
Currency options total	**132.8**	**125.0**	**10.6**	**4.5**	**7.1**	**0.2**
Of which total options purchased	132.8	125.0	10.6	4.5	7.1	0.2
Of which total options sold	0.0	0.0	0.0	0.0	0.0	0.0
Total instruments	**1,115.3**	**977.0**	**435.8**	**-13.8**	**-16.5**	**-14.0**

Total options sold correspond exclusively to the resale of previously purchased options when it appeared appropriate to replace them with other hedging instruments.

NOTE 24 Off-balance sheet commitments

24.1. Lease commitments

Operating lease commitments amount to €61.6 million due in less than one year, €172.3 million due between 1 and 5 years and €31.7 million due 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 can be broken down as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Commitments granted in connection with employee retirement obligations and related benefits (1)	508.5	536.6	441.7
Commitments to buy out non-controlling interests	6.8	6.4	8.5
Guarantees given (2)	662.1	657.5	614.3
Guarantees received	10.1	10.1	9.4
Capital expenditure orders	64.0	44.8	70.5
Documentary credits	4.8	3.9	3.5

(1) The discount rate used to measure these commitments at December 31st, 2011 was 4.50% for plans providing for payment of capital and 4.75% for annuity plans, compared with respectively, 4.25% and 4.50% at end-2010, and 5.00% and 5.25% at end-2009.
An agreement for the pooling of employee-related liabilities was set up in 2004. Pursuant to this agreement, commitments are allocated among the French companies in the Group and their financing is organised in proportion to their respective payroll costs (customised for each plan) so that the companies are joint and severally liable for meeting the aforementioned commitments within the limit of the collective funds built up.

(2) This caption includes miscellaneous guarantees and warranties, including €659.4 million at December 31st, 2011 on behalf of direct and indirect subsidiaries (€641.5 million at December 31st, 2010 and €593.1 million at December 31st, 2009). Seller's warranties are also included in this amount as appropriate.

24.3. Contingent liabilities

In the ordinary course of its operations, L'Oréal is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Company sets aside a provision wherever a risk is found to exist and the related cost can be reliably estimated.

At the present time, no exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the Company.

NOTE 25 Changes in working capital

Changes in working capital represented a negative €60.7 million at December 31st, 2011, compared to a positive €41.5 million at December 31st, 2010 and a positive €30.1 million at December 31st, 2009, and can be broken down as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Inventories	0.2	-7.9	5.2
Receivables	-93.0	-49.5	50.3
Payables	32.1	98.9	-25.4
Total	**-60.7**	**41.5**	**30.1**

NOTE 26 Changes in other financial assets

This caption includes flows related to Treasury stock in the year, classified within marketable securities.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents amount to €146.9 million at December 31st, 2011 compared with €149.8 million at December 31st, 2010 and €104.7 million at December 31st, 2009, and can be broken down as follows:

€ millions	12.31.2011	12.31.2010	12.31.2009
Cash	238.4	157.9	105.3
Accrued interest receivable	-0.2	-0.1	-
Bank overdrafts (note 20)	-91.3	-8.0	-0.7
Accrued interest payable	-	-	0.1
Total	**146.9**	**149.8**	**104.7**

NOTE 28 Other disclosures

Statutory audit fees for 2011 are not presented in the notes to the parent company financial statements but in note 30 to the consolidated financial statements of the L'Oréal Group.

NOTE 29 Subsequent events

No events occurred between the end of the financial year and the date the Board of Directors authorised the consolidated financial statements for issue.

5.6. Table of subsidiaries and holdings at December 31st, 2011

Table of subsidiaries and holdings at December 31st, 2011 (€ thousands)

Detailed information

	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 (1)
A. Main French subsidiaries (holdings of over 50%)							
Areca & Cie	35	8	99.78	35	35	46	106
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	76,672	99.99	75,670	75,670	12,297	
Beauté Créateurs	612	522	100	30,844	30,844	1,632	6,031
Beauté, Recherche et Industries	22,900	-8,314	100	20,311	12,150	-998	
Centrex	1,800	29	99.99	3,532	3,532	386	709
Chimex	1,958	32,842	100	21,501	21,501	2,998	4,300
Cosmétique Active France	24	19,317	61.97	130	130	17,161	8,585
Cosmétique Active International	19	19,014	80.43	15	15	15,143	9,447
Cosmétique Active Production	186	21,363	80.14	5,081	5,081	5,356	4,113
EpiSkin	9,402	0	99.99	9,402	9,402	-702	260
Exclusive Signatures International	10	0	99.00	10	10	3,679	549
Fapagau & Cie	15	5,564	79.00	12	12	8,249	7,393
Faprogi	15	3,813	59.90	9	9	2,143	2,241
Finval	2	0	99.00	2	2	7,728	2,810
Gemey Maybelline Garnier	50	690	66.61	34	34	39,206	27,645
Gemey Paris-Maybelline New York	35	5,011	99.96	46	46	15,126	15,669
Goldys International	15	0	99.90	15	15	-2	
Helena Rubinstein	30	1	99.95	46,661	46,661	3,505	4,012
Holdial	1	0	98.00	1	1	483	329
L & J Ré	1,500	9,245	99.99	1,500	1,500	1,321	
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	11,954	6,255
Laboratoires Innéov	325	-7,185	50.00	18,800	0	-4,370	
Laboratoire Sanoflore	1,122	-1,718	100	5,197	0	315	
Lancôme Parfums et Beauté & Cie	1,192	0	99.99	3,235	3,235	64,918	40,824
LaScad	18	0	99.17	18	18	50,565	45,616
Lehoux et Jacque	39	56	100	263	263	321	319
L'Oréal Produits de Luxe France	84	56,209	68.55	1,457	1,457	15,438	8,100
L'Oréal Produits de Luxe International	98	75,253	77.36	76	76	40,943	31,654
Parfums Cacharel & Cie	1	-572	99.00	2	0	1,003	
Parfums Guy Laroche	332	5,416	100	1,656	1,656	231	106
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	35	29
Parfums Ralph Lauren	2	-544	99.00	2	0	54	
Prestige & Collections International	32	3,952	81.67	3,823	3,823	18,350	12,957
Roger & Gallet	3,034	10,390	100	109,693	109,693	543	479
Sicôs & Cie	375	7,336	80.00	999	999	11,016	7,207
Société de Développement Artistique	2	0	99.00	2	2	-66	
Soprocos	8,250	9,602	100	11,904	11,904	2,341	4,815
Soproréal	15	4,839	99.90	15	15	3,416	4,485
Sparlys	750	713	100	3,826	3,826	1,906	1,989
Viktor & Rolf Parfums	2	0	99.00	1	1	372	16
YSL Beauté	130,786	-25,620	89.80	299,622	299,622	19,679	

(1) *The SNCs (general partnership), GIEs (economic interest groupings) and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit.*

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	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 (1)
B. Main French investments (holdings of less than 50%)							
Galderma International	462	42,626	26.67	2	2	14,862	12,094
Innéov France	80	-4,061	n/s	n/s	n/s	-1,212	
La Roche-Posay Dermato-Cosmétique	2	0	1	0	0		
Sanofi (2)	2,681,838	(2)	8.82	423,887	423,887	(2)	295,568

(1) The SNCs (general partnership), GIEs (economic interest groupings) and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit.
(2) Sanofi: 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 12.31.2011 is 6,709,400 thousand euros.

	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	27	100	6,216	6,216	95	113
Beautycos International Co. Ltd (China)	52,482	47,231	73.46	46,195	46,195	5,921	
Beautylux International Cosmetics (Shanghai) China	5,629	-2,134	100	16,871	16,871	136	
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,520	5,835
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	6,173	7,384	99.99	28,439	28,439	3,078	
Canan Tuketim Urunleri Pazarlama A.S. (Turkey)	1,149	-2,786	99.99	11,128	4,494	-190	
Club des Créateurs de Beauté (Belgium)	81	-78	100	3,821	36	19	
Cosmelor Ltd (Japan)	3,554	32,750	100	35,810	35,810	1,366	3,497
Cosmephil Holdings Corporation (Philippines)	171	-139	100	400	14	0	
Cosmétique Active Ireland Ltd (Ireland)	82	572	99.99	732	732	1,090	1,305
Elebelle (Proprietary) Ltd (South Africa)	806	40,107	100	61,123	46,783	3,609	3,259
Egyptelor LLC	6	64	99.80	7	7	16	
Erwiton S.A. (Uruguay)	739	2,267	100	17	17	8,420	7,088
Galderma Pharma S.A. (Switzerland)	15,694	56,590	50.00	10,124	10,124	89,981	37,367
Kosmepol Sp. z.o.o. (Poland)	38,844	27,029	99.73	48,965	48,965	1,325	
Lai Mei Cosmetics Int. Trading Shanghai Co Ltd (China)	9,500	7,693	100	11,197	11,197	336	180
L'Oréal Adria d.o.o. (Croatia)	131	1,326	100	1,503	1,503	3,398	4,346
L'Oréal Central West Africa (Nigeria)	1,176	38	99.91	1,176	1,176	-367	
L'Oréal Argentina SA	13,081	5,239	99.99	81,068	35,154	18,497	9,442
L'Oréal Australia Pty Ltd	2,711	23,018	100	33,867	33,867	41,342	36,492

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 average rate for 2011.
It is specified that the list above is not exhaustive.

	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
L'Oréal Balkan d.o.o. (Serbia)	1,283	-309	100	1,285	1,285	1,062	
L'Oréal Baltic SIA (Latvia)	387	3,054	100	529	529	518	
L'Oréal Belgilux S.A. (Belgium)	16,124	18,226	98.93	77,150	77,150	30,262	30,778
L'Oréal Bulgaria EOOD	102	708	100	102	102	1,913	3,575
L'Oréal Canada Inc.	3,979	19,042	100	146,517	146,517	74,426	66,027
L'Oréal Ceska Republika s.r.o (Czech Republic)	5,939	3,266	100	8,678	8,678	7,589	7,496
L'Oréal Chile S.A. (Chile)	20,888	9,450	99.99	43,784	43,784	27,016	15,302
L'Oréal China Co Ltd (China)	43,498	73,972	100	345,733	345,733	139,370	87,498
L'Oréal Colombia S.A. (Colombia)	1,931	3,658	94.00	6,395	6,395	2,402	1,821
L'Oréal Cosmetics Industry S.A.E (Egypt)	2,372	-25	99.99	2,352	2,352	-858	
L'Oréal Denmark A/S (Denmark)	270	5,642	100	8,336	8,336	8,809	8,945
L'Oréal Deutschland Gmbh (Germany)	12,647	283,536	100	76,855	76,855	179,294	176,689
L'Oréal Espana S.A. (Spain)	59,911	16,629	63.86	299,154	299,154	49,435	69,110
L'Oréal Finland Oy (Finland)	673	16	100	1,280	1,280	11,667	11,283
L'Oréal Guatemala S.A.	1,044	544	99.99	2,162	2,162	825	334
L'Oréal Hellas S.A. (Greece)	5,736	8,017	91.82	24,881	24,881	6,998	11,940
L'Oréal Hong-Kong Ltd	3	3,562	99.97	604	604	42,666	82,602
L'Oréal India Private Ltd	49,919	-16,902	99.99	68,467	44,210	8,712	
L'Oréal Investments B.V. (Netherlands)	18	0	100	18	18	0	
L'Oréal Israel Ltd	4,137	10,078	92.97	38,497	33,597	6,175	3,651
L'Oréal Italia Spa	1,680	67,402	100	226,469	226,469	76,996	63,307
L'Oréal Japan Ltd (Japan)	370	-861	100	275	0	-208	
L'Oréal Kazakhstan Llp	422	1,861	100	422	422	5,930	3,906
L'Oréal Korea Ltd (Korea)	1,991	4,164	99.99	20,794	20,794	24,926	16,952
L'Oréal Liban SAL (Lebanon)	3,139	556	99.88	7,698	7,698	8,147	6,148
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,249	-145	100	7,815	7,815	518	1,202
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	2,119	100	6,762	6,762	9,613	8,443
L'Oréal Mexico S.A de C.V	2,349	87,761	99.99	8,443	8,443	23,266	
L'Oréal Middle East (United Arab Emirates)	2,752	-954	100	37,284	37,284	22,222	16,981
L'Oréal Nederland B.V. (Netherlands)	1,178	81	100	22,014	22,014	42,700	20,366
L'Oréal New Zealand Ltd	44	2,755	100	6,110	6,110	5,591	4,581
L'Oréal Norge A/S (Norway)	1,384	4,157	100	4,050	4,050	17,230	14,816
L'Oréal Osterreich Gmbh (Austria)	2,915	897	100	3,818	3,818	12,219	12,296
L'Oréal Pakistan Private Ltd	6,142	-4,434	99.99	6,161	0	-3,192	
L'Oréal Panama S.A.	159	7,705	100	168	168	8,089	
L'Oréal Peru S.A. (Peru)	2,096	973	99.99	3,739	3,739	1,716	1,376
L'Oréal Philippines Inc.	2,062	-1,457	95.38	12,478	0	-2,458	

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 average rate for 2011.
It is specified that the list above is not exhaustive.

	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 Polska Sp. Z.O.O. (Poland)	405	-1,353	100	707	707	24,448	27,897
L'Oréal Portugal Lda	495	210	100	6,459	6,459	10,795	19,985
L'Oréal Romania SRL (Romania)	2,187	542	100	5,883	5,883	1,840	3,637
L'Oréal Singapore Pte Ltd (Singapore)	1,165	883	100	18,991	18,991	6,850	4,632
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	384	100	856	856	2,702	1,806
L'Oréal Slovensko s.r.o. (Slovaquia)	1,598	752	100	1,673	1,673	4,984	4,525
L'Oréal Suisse S.A.	346	2,679	100	160,311	160,311	46,283	24,837
L'Oréal Sverige AB (Sweden)	2,038	1,217	100	2,247	2,247	15,004	15,176
L'Oréal Taiwan Co Ltd (Taiwan)	187	6,012	100	17,881	17,881	18,677	11,574
L'Oréal Thailand Ltd	3,992	667	99.99	5,238	5,238	10,995	6,653
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	37,993	-30,561	99.99	43,965	13,837	3,974	
L'Oréal UK Ltd	121,150	-50,840	99.99	145,573	145,573	84,838	89,616
L'Oréal Ukraine	3,033	4,669	100	2,990	2,990	14,484	13,021
L'Oréal Uruguay S.A.	485	945	100	5,435	677	1,140	
L'Oréal USA Inc. (3)	4,402	2,380,512	100	3,569,657	3,569,657	209,139	178,719
L'Oréal Venezuela C.A.	6,201	-286	100	16,970	7,079	6,881	
L'Oréal Vietnam Co Ltd	4,237	-4,403	100	4,346	0	-1,194	
Masrelor LLC (Egypt)	1,945	-23	99.99	5,949	5,949	-61	
Maybelline Suzhou Cosmetics Ltd (China)	54,529	-13,222	66.75	49,601	26,643	1,274	
Nihon L'Oréal KK (Japan)	138,845	109,153	100	415,182	359,812	25,511	
Parbel of Florida Inc. (USA)	40	-3,637	100	100,317	100,317	25,218	19,149
Procosa Productos de Beleza Ltda (Brazil)	100,647	96,853	99.99	170,243	170,243	69,550	20,565
P.T. L'Oréal Indonesia	1,510	2,878	99.00	2,305	2,305	1,519	
P.T. Yasulor Indonesia	31,602	11,460	99.98	67,692	44,722	111	
Scental Limited (Hong-Kong)	5	170	99.99	8	8	0	
Seda Plastik Ve Boya San. Ith. Tic. Ldt. Sti (Turkey)	1,206	875	99.00	1,843	1,843	-203	
Sofamo (Monaco)	160	-40,943	99.97	1,851	0	-128	
The Body Shop International PLC (4)	13,556	866,426	100	992,445	992,445	64,524	40,994
Venprobel (Venezuela)	20	-67	100	2,722	0	0	
YSL Beauté Hong Kong Ltd	0	1,432	100	6,405	1,373	0	
YSL Beauté Middle East fzco	5,698	842	100	17,096	17,096	4,978	12,614
YSL Beauté Vostok o.o.o. (Russia)	2,707	-4,467	99.48	2,802	0	-148	
YSL Beauté Singapore Pte ltd	280	1,495	100	336	336	0	
B. Main Foreign investments (holdings of less than 50%)	**n/s**	**n/s**	**n/s**	**n/s**	**n/s**	**n/s**	**n/s**

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 average rate for 2011.
It is specified that the list above is not exhaustive.

(3) Figures from the sub-consolidation of L'Oréal USA.Inc.
(4) The Body shop, consolodated ligures for the sub-group

Information relating to all subsidiaries and investments

	Subsidiaries		Investments	
	French	Foreign	French	Foreign
Book value of shares held				
♦ gross restated	703,855	7,919,772	423,889	1
♦ net	671,268	7,637,814	423,889	1
Amount of loans and advances granted	408,831	65,976	17,434	
Amount of guarantees and security granted	24,104	635,317		
Amount of dividends booked	259,048	1,390,841	307,662	2

5.7. Other information relating to the financial statements of L'Oréal parent company

5.7.1. Expenses and charges falling under Article 223 quater of the French Tax Code

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	€1.1 million
Corresponding tax amount	€0.4 million

5.7.2 Trade accounts payable

In accordance with the French Law on the Modernisation of the Economy of August 4th, 2008 and the resulting Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the breakdown of the balance of trade accounts payable by L'Oréal parent company at year-end is as follows:

€ millions	2010	2011
Trade accounts payable not yet due	170.7	171.8
including:		
at 30 days	95.6	97.8
between 30 days and 45 days	75.1	74.0
more than 45 days	-	-
Trade accounts payable due	4.6	6.3

5.7.3 Net sales (excluding taxes)

Net sales *€ millions*	2011	2010	Change as a %
1st quarter	635.9	580.5	9.54 %
2nd quarter	623.7	558.9	11.59 %
3rd quarter	576.5	542.8	6.21 %
4th quarter	585.0	548.8	6.60 %
Total	**2,421.1**	**2,231.0**	**8.52 %**

N.B: These net sales figures include sales of goods and finished products, accessories, waste and services, less 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.

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5.8. Five-year financial summary

L'Oréal Parent Company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2007	2008	2009	2010	2011
I. Financial position at financial year-end					
a) Share capital	123.6	120.5	119.8	120.2	120.6
b) Number of shares	617,975,610	602,415,810	598,972,410	600,992,585	602,984,082 (1)
c) Number of convertible bonds	0	0	0	0	0
II. Overall results of operations					
a) Net pre-tax sales	2,073.8	2,115.2	2,051.1	2,231.0	2,421.1
b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and Profit Sharing reserve)	2,841.7	1,713.4	1,766.3	2,048.4	2,344.8
c) Income tax	-68.7	-143.4	-114.9	-104.6	-51.3
d) Net profit	2,822.4	1,552.1	1,841.8	1,995.3	2,169.8
e) Amount of distributed profits	842.9	861.8	898.9	1,082.5	1,212.4 (2)
III. Results of operations per share					
a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions	4.68	3.05	3.11	3.55	3.94
b) Net profit	4.57	2.58	3.07	3.32	3.60
c) Dividend paid on each share (not including tax credit)	1.38	1.44	1.50	1.80	2.00 (2)
IV. Personnel					
a) Number of employees	5,862	5,848	5,855	5,957	6,016
b) Total salaries	370.3	381.1	403.8	426.7	459.0
c) Amount paid for welfare benefits (social security, provident schemes, etc)	158.7	159.3	172.8	182.5	200.4

(1) The share capital comprises 602,984,082 shares with a par value of €0.2, following the subscription of 1,991,497 shares of treasury stock by means of exercise of stock options.

(2) The dividend will be proposed to the Annual General Meeting of April 17th, 2012

5.9. Investments (main changes including shareholding threshold changes)

Investments

(main changes including shareholding threshold changes)

	Situation at 12.31.2010		Acquisitions		Subscriptions		Sales		Situation at 12.31.2011	
(€ thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Club Créateurs Beauté Taiwan	328.4	100.00			1,072.2	100.00	1,400.6	100.00	0.0	0.00
Cosmetique active Suisse	4,644.9	100.00					4,644.9	100.00 (2)	0.0	0.00
Laboratoire Bioexigence	37.0	100.00					37.0	100.00 (1)	0.0	0.00
Laboratoire Garnier et Cie	5,783.9	99.97	2.0	0.03 (1)			5,785.9	100.00 (1)	0.0	0.00
L'Oréal Central West Africa (Nigeria)	0.0	0.00			1,175.7	99.91			1,175.7	99.91
L'Oréal Cosmetics Industry (Egypt)	853.8	99.99			1,498.3	99.99			2,352.1	99.99
L'Oréal Hellas (Greece)	23,086.7	85.73	1,308.3	6.09					24,395.0	91.82
L'Oréal Pakistan	3,998.2	99.99			2,162.7	99.99			6,160.9	99.99
L'Oréal Produits de Luxe Suisse	417.7	100.00					417.7	100.00 (2)	0.0	0.00
L'Oréal Suisse	116,775.9	100.00			43,396.7	100.00 (2)			160,172.6	100.00
L'Oréal Venezuela	12,502.4	100.00			4,468.0	100.00			16,970.4	100.00
L'Oréal Vietnam	3,074.4	100.00			1,271.4	100.00			4,345.8	100.00
Masrelor (Egypt)	1,831.4	99.99			4,117.6	99.99			5,949.0	99.99
PT Yasulor (Indonesia)	56,992.1	99.98			10,700.0	99.98			67,692.1	99.98
YSL Beauté Suisse	38,334.0	100.00					38,334.0	100.00 (2)	0.0	0.00
	268,660.8		**1,310.3**		**69,862.6**		**50,620.1**		**289,213.6**	

(1) Transfer of all the assets and liabilities.
(2) Pooling.

5.10. Statutory Auditors' Report on the financial statements

(Year ended December 31st 2011)

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st 2011, 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.

I - 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31st 2011, and of the results of its operations for the year then ended in accordance with French accounting principles.

II - 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 note 1.7.1 "Accounting policies – Financial Assets – Investments and advances" to the Company's financial statements. As part of our audit, we reviewed whether these accounting methods were appropriate and evaluated the assumptions used.

These assessments were made as part 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.

III - Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by law.

We have no matters to report as to 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.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Neuilly-sur-Seine, March 2nd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Étienne Boris	David Dupont-Noel

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 financial statements 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 also includes information relating to the specific verification of information given in the Management Report.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

6 Corporate social, environmental and societal responsibility

This chapter has been prepared in view of the future application of the decree relating to corporate transparency obligations on social, environmental and societal matters.

As from 2003, by signing the United Nations Global Compact, the Group adopted the directives to communicate with stakeholders on the progress made in the integration of the principles of the Pact and thus undertook to attest every year to the advances made in the various fields concerned.

The following year, a new stage was reached with the publication of the Group's first Sustainable Development Report. The Global Reporting Initiative (GRI) indicators, described in detail in the report, are those used by the Group to measure the progress made with regard to Sustainable Development.

In 2011, Ethical Corporation, an organisation that encourages debate and discussion with regard to corporate social responsibility, presented L'Oréal with an award for its extra-financial reporting. This award was made in recognition of the Group's capacity to show the progress accomplished tangibly and transparently.

Within the scope of this constant improvement in extra-financial reporting, this chapter includes information on the way in which the L'Oréal Group took into account the social, environmental and societal consequences of its business activities in 2011.

The scope and the methodology of the reporting are detailed in the methodology note placed at the end of each of the three parts of this chapter.

6.1. Social information

6.1.1. The L'Oréal Group's Human Resources policy

L'Oréal has always placed the human dimension at the centre of the Company, in a long-term vision.

The development of Women and Men is one of the key elements of the Group's social and economic performance.

The intention to practice an active policy with regard to diversity as a factor of progress, innovation and creation of a social relationship has been expressed for a number of years and has been enriched over time with the Group's global growth.

Recognised as one of the most attractive companies in the world for young graduates and one of the companies that provide the most training for development of the leadership of its senior managers, L'Oréal always tries to achieve the right balance between constant improvement of the efficiency of its organisation and the enhancement of its pool of talents, at all levels and in all countries.

L'Oréal's Human Relations policy is founded on:

- an active recruitment policy which is based on partnerships with the best educational institutions in the world, the use of novel corporate gaming and methods that make it possible to identify and attract the best talents and select them effectively from among the million spontaneous applications received every year;
- the ambition to enable each employee to evolve thanks to individual performance monitoring and a large number of career development opportunities supported by comprehensive training programmes that are accessible to everyone. The international locations of training structures make it possible to roll out our training programmes throughout the world. The large-scale mobility between jobs and between countries and the many individual promotions each year attest to the vitality of career management at L'Oréal. This momentum is ensured by an HR network which is both in tune with employee expectations and aware of the requirements of our business;
- the intention to recognise the effective contribution made by everyone through a dynamic remuneration policy and long-term global incentive systems;
- a regular evaluation of the expectations of employees throughout the world through opinion surveys leading to action plans;
- the search for a work environment and working conditions that will help to make it possible for everyone to achieve personal satisfaction;
- an active dialogue between management and employees and their representatives both in Europe and in the rest of the world.

6.1.2. Social information with regard to the consolidated scope of the L'Oréal Group

The workforce indicated in the "*Total workforce*" and "*Geographic distribution of workforce*" charts is the total workforce present in the Group at December 31st, 2011 (1).

For Galderma and Innéov that are proportionally consolidated, the workforce at December 31st, 2011 is recorded on a prorated basis according to the stake held by L'Oréal.

All the other social indicators set out in this chapter relate to the "Cosmetics" and "The Body Shop branches" (2).

If an indicator relates to a scope different from that of the "Cosmetics and The Body Shop branches", the scope of consolidation is indicated in a note.

For each social theme handled and pursuant to the NRE law, a more detailed section may be included and will only concern L'Oréal parent company.

(1) Including employees with a permanent or fixed-term contract of employment.
(2) Innéov is included, Galderma (dermatology) is excluded.

6.1.2.1. Employment

Total workforce and distribution of employees by geographic zone, by gender and by age

In 2011, L'Oréal had **68,886** employees.

Distribution of workforce by geographic zone

	2010	2011
Western Europe	29,542	30,155
North America	14,811	15,195
New Markets	22,266	23,536
Total	**66,619**	**68,886**

Distribution by gender

	Men	Women
Western Europe	33%	67%
North America	29%	71%
New Markets	36%	64%
Total	**33%**	**67%**

Average age by geographic zone

	2011
Western Europe	38
North America	38
New Markets	34
Total	**37**

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Workforce at L'Oréal parent company

L'Oréal S.A. had a total of 6,015 employees at December 31st, 2011.

2011	Men	Women	All
Executives	1,392	1,753	3,145
Supervisors and technical staff	452	1,576	2,028
Administrative staff	116	191	307
Manual workers	155	95	250
Sales representatives	166	119	285
Total	**2,281**	**3,734**	**6,015**

Temporary employees should be added to this total; they represented 2.43% of the workforce on average and an average monthly number of 166 temporary workers for an average contract length of 15.15 days.

Recruitments

- Number of employees hired in 2011[1]: 6,746
  - 4,967 employees hired on permanent contracts;
  - 1,779 employees hired on fixed-term contracts.

(1) *This indicator covers approximately 60% of world scope.*

Number of employees hired at L'Oréal parent company:

L'Oréal hired 301 employees on permanent contracts, 346 employees on fixed-term contracts and 284 employees on work and training contracts (170 apprenticeship contracts and 114 contracts offering professional experience). In addition, 300 people were hired on an occasional basis during a holiday period or for a season.

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

Number of redundancies or dismissals at L'Oréal parent company:

In 2011, there were no economic redundancies.

Out of a total of 6,015 employees, 47 were dismissed for personal reasons including 2 dismissals for physical incapacity.

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 parent company in 2011.

Remuneration and trends

Personnel costs (including payroll costs) [1]

(€ millions)	2010	2011
Total	**3,624**	**3,833**

(1) *The comparison between the two years takes into account foreign exchange impacts and structural changes.*

In each country, remuneration policy is based on a system of performance assessment applied everywhere in the world. Career development is managed on an individual basis and depending on the countries concerned, salaries and salary variations consist of an individual portion and a collective portion.

L'Oréal wishes to offer motivating compensation in order to attract the best talents and foster their loyalty. Consequently, nearly all the subsidiaries participate in a survey with regard to remuneration every year. Remuneration varies according to the position, skills, performance and potential of each and every employee.

L'Oréal complies with the statutory and contractual obligations with regard to remuneration in all its subsidiaries.

Remuneration at L'Oréal parent company

Gross average monthly remuneration of Women and Men continuously present in the Company

These are employees (excluding senior managers) on permanent contracts, who have been present for two consecutive years.

Employees who have changed category are compared in the category to which they belong during the 2nd year.

	2010			2011			
In euros	Men	Women	All	Men	Women	All	Change
Executives	6,110	5,091	5,540	6,495	5,424	5,895	+6.4%
Supervisors and technical staff	3,016	2,995	2,969	3,188	3,127	3,141	+5.8%
Administrative staff	2,242	2,124	2,169	2,379	2,259	2,305	+6.3%
Manual workers	2,543	2,440	2,506	2,676	2,585	2,643	+5.5%
Sales representatives	4,150	3,676	3,958	4,357	3,902	4,173	+5.4%

Employer payroll contributions

Total employer payroll contributions at L'Oréal parent company for 2011 amounted to €175,775,565.

Profit Sharing, Incentive and Mandatory Profit Sharing schemes

For many years, L'Oréal's policy has been to associate employees with the results of the Company, which lead to a pay-out of €204.3 million in 2011.

L'Oréal has implemented a worldwide incentive scheme that is related to the results of its subsidiaries (WPS – *Worldwide Profit Sharing programme*), which is aimed at making employees feel that they are part of the Company and enhancing their motivation.

Compliance with the principles and rules of this programme is coordinated, at Corporate level, by the Social Relations Department, with the involvement of General Management and Human Resources Departments in the zones, and the Human Resources Department and General Management at Group level. The implementation and management of the programme are carried out locally by the General Management of each subsidiary.

In addition to the systems of Mandatory Profit Sharing, Incentive and Profit Sharing schemes for employees, the Group has for many years granted stock options in an international context, in order to associate those who have made big contributions with the future evolution of the Group's results and instil a stronger Group spirit.

In 2009, L'Oréal enlarged its policy by introducing a mechanism for the conditional grant of shares to employees (ACAS), in order to reach out to a broader population of potential beneficiaries, thanks to a long-term simulation tool that is more motivating than stock options.

In 2011, the Group decided to enlarge the operation for the conditional grant of shares to employees even further.

In all, nearly 2,800 employees, *i.e.* approximately 14% of the senior managers in the world, benefit from at least one stock option plan or plan for the conditional grant of shares, according to the terms and conditions set out in paragraphs 7.3.7. to 7.3.9. on pages 214 *et seq*.

Incentive at L'Oréal parent company

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 2009. 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.

Within the framework of the new regulations on sharing profits (Article 1 of French Law No. 2011-894 of July 28th, 2011), L'Oréal proposed the payment of an Additional Incentive amount in respect of the "non-mandatory monetary benefits" provided for by the legislation, linked with the increase in the dividend per share paid in 2011 in respect of the results for 2010.

L'Oréal chose to propose the payment of an Additional Incentive amount as it corresponds to the system which is the closest to the notion of "value sharing".

A company-level agreement was thus entered into with the Central Works Council of L'Oréal on October 6th, 2011.

This Additional Incentive payment has led to an increase of +6.5% in the amount of Incentive payments made in 2011. It was paid on December 31st, 2011.

Changes in gross Incentive amounts at L'Oréal parent company:

€ thousands	2007 (1)	2008 (1) (2)	2009 (1) (2)	2010 (1) (2)
L'Oréal parent company	51,766	55,236	57,358	58,809

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

For an annual gross salary of:	The gross Incentive amount for 2010 paid in 2011 represented	Additional Incentive payment to "share in profits for 2011"	Total
€25,000	€6,674 i.e. 3.2 months	€474	€7,148 i.e. 3.4 months
€35,000	€7,853 i.e. 2.7 months	€558	€8,411 i.e. 2.9 months
€45,000	€9,032 i.e. 2.4 months	€642	€9,674 i.e. 2.6 months
€65,000	€11,390 i.e. 2.1 months	€810	€12,200 i.e. 2.3 months

Mandatory employee Profit Sharing at L'Oréal parent company

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 2009.

L'Oréal 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 Sharing amount;
- 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.

Profit Sharing amounts under the mandatory system are available immediately but may be blocked for 5 years in the Company savings plan or the frozen current account, or invested until retirement in the collective retirement savings plan, which allows them to benefit from a tax exemption.

Changes in gross employee Profit Sharing at L'Oréal parent company:

€ thousands	2007 (1)	2008 (1) (2)	2009 (1) (2)	2010 (1) (2)
L'Oréal parent company	19,489	21,612	19,802	19,527

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

Profit Sharing for 2010 paid in 2011 represented the equivalent of 0.7 month's salary.

L'Oréal Company Savings Plan and Share Funds at L'Oréal parent company

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 D. 3324-33 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 (PEE) consisting of seven investment funds offering a wide range of possibilities (money market, bonds, shares, French and international securities, etc.) and great flexibility of use. A fund which is 100%-composed of L'Oréal shares with two sub-funds, one that could receive incentive payments, on which an additional employer contribution of +25% is paid, and the other that could receive employee Profit Sharing and voluntary payments, on which no additional employer contribution is paid.

In 2011, the following amount net of CSG, CRDS and the forfait social levy was invested by the employees of L'Oréal and its subsidiaries in France in the fund which is 100% composed of L'Oréal shares, "L'Oréal Intéressement" (Incentive): €45,412,299, plus the net amount of the additional incentive amount to "share in profits for 2011" of €2,148,184.

The employer contributions added to these payments were respectively €9,961,285 and €463,525, which, at the opening trading price for the L'Oréal share on the date of each of these employer contributions, namely €85.15 on April 29th, 2011 for "L'Oréal Intéressement" and €80.53 for "Supplément d'Intéressement" (Additional incentive) on December 30th, 2011, represented the equivalent of 122,741 L'Oréal shares.

As the total net amount of Incentives allocated in 2011 was €104,850,644, L'Oréal therefore proposed nearly 285,000 shares free-of-charge to its employees in France in 2011 in the form of this additional employer's contribution.

Company Savings Plan and frozen current account

Outstanding balances for all the companies concerned in France:

€ thousands	2009	2010	2011
Company Savings Plan + frozen current account + PERCO	650,968	716,189	720,185

At December 31st, 2011, 48% of the savings of L'Oréal employees were invested in L'Oréal shares, and 9,649 Group employees in France were shareholders of L'Oréal through the Savings Plan.

Employee Benefit and pension schemes and other benefits

Depending on the legislation and practices in each country, L'Oréal adheres to pension schemes, pre-retirement arrangements and Employee Benefit schemes offering a variety of additional coverage for its employees.

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 together closely with the operational management of the divisions and zones.

The characteristics of the pension schemes and other pre-retirement benefits offered by the subsidiaries outside France vary depending on the applicable laws 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, Belgium 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, are regularly reviewed by the Supervisory Committee.

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" *("Garantie de ressources des retraités anciens cadres dirigeants")*. Prior to this, on December 31st, 2000, L'Oréal closed another defined benefit scheme, also with conditional entitlements, the "Pension Cover of the Members of the Comité de Conjoncture" *("Garantie de retraite des membres du 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 Managers who fulfil, in addition to having ended their career with the Company, the condition of having had the status of Senior Manager within the meaning of Article L. 3111-2 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, each year leading to a steady, gradual increase of 1.8% in the level of the Guarantee. 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 450 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 granted 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, it being specified that at the date of closure of the scheme, on December 31st, 2000, the minimum length of service required was 10 years. The Pension Cover may not exceed 40% of the calculation basis for the Pension Cover, plus 0,5% 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 for the three years used for the calculation basis. Around 120 Senior Managers (active or retired) 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 a supplemental agreement applicable as from January 1st, 2009.

All executives and sales representatives affiliated with the CIPC-R 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 employees.

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.

In euros	12.31.2009	12.31.2010	12.31.2011
Number of members	11,806	11,967	12,594
Total net contributions	7,497,479	8,027,527	8,742,485

Pre-retirement arrangements

L'Oréal pays close attention to the retirement conditions of its employees and pre-retirement arrangements that have been in force for a number of years, which have been confirmed and improved within the scope of the agreement on the employment of older workers, signed on December 3rd, 2009, which provides in particular for the introduction of a time savings account for older employees:

- the early retirement leave (CFC): this pre-retirement arrangement consists of exempting employees from the requirement to perform their activities; but during this period, they remain employees of L'Oréal and continue to receive their remuneration (within the limit of €9,280 gross/month) as well as Mandatory Profit Sharing, Incentive payments and paid leave;
- early retirement leave under the time savings account: this arrangement, linked to the 35-hours 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 under the C.E.T. each year since 2001, 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: a new scale of indemnities at L'Oréal was implemented by a collective agreement as from 2011, which is more favourable than the French National Collective Bargaining Agreement for the Chemical Industries.

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from two month's salary for five years' service, to 8 months' salary for 40 years' service.

In order to increase the special leave prior to retirement, the employee may opt to convert his/her 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.

	12.31.2009			12.31.2010			12.31.2011		
	M	W	Total	M	W	Total	M	W	Total
Early retirement leave	77	109	186	49	102	151	51	127	178
Compulsory retirement on the Company's initiative			37			25			5
Voluntary retirement			187			234			162

(Source: HR France statistics 2009, 2010 and 2011).

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 pre-retirement benefit commitments is the retrospective method based on estimated calculations of the final salary.

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

€ millions	12.31.2009	12.31.2010	12.31.2011
Provision for pension commitments in consolidated balance sheet liabilities	585.9	687.8	662.6

(Source: HR France statistics 2009, 2010 and 2011).

Employees Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4 bis 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 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.

€ thousands	12.31.2009	12.31.2010	12.31.2011
Net Employee Benefit Contributions	9,340.5	9,877.1	10,170.0 (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

The employees of L'Oréal parent company and its French subsidiaries benefit from additional schemes covering healthcare costs.

The healthcare scheme is compulsory for all the employees of L'Oréal and its French subsidiaries.

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

Contributions are generally individual. The contribution by the employee is partly financed by the Company.

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 parent company retirees has been specified in the regulations for the additional defined benefit pension scheme applicable as from January 1st, 2008. The financial management of this scheme was outsourced to insurance companies in July 2011.

6.1.2.2. Work organisation

Organisation of working time

L'Oréal complies with the statutory and contractual obligations with regard to working time in each of its subsidiaries. Working time depends on the local environment and the business activities carried out.

The number of part-time employees is 8,995, of which 8,404 women and 591 men.

Organisation of working time at L'Oréal parent company

L'Oréal parent company applies the National Collective Bargaining Agreement for the Chemical Industries and various Company-level agreements, including the agreement dated June 30th, 2000 which was concluded in application of the French Law on the adjustment and reduction of working time.

Working week

The average working week posted up 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

At L'Oréal parent company, some employees across all categories have chosen to work part-time. Out of a total of 599 part-time employees, the vast majority work 4 days out of 5, primarily on the basis either of parental leave or "Wednesdays off for mothers and fathers for family reasons".

Overtime

L'Oréal parent company does not require its employees to work much overtime. The total number of hours of paid overtime in 2011 was 28,533 for a gross amount of €591,086, representing the equivalent of 15.62 persons, that is 0.26% of the total workforce.

Absenteeism

The overall rate of absenteeism is estimated at 4.6%, 2.5% of which is due to sickness, using the following method:

Method of calculation

- Total absenteeism: B/(A+B)
- Sickness absenteeism: C/(A+B)

(A) Number of days effectively worked by all employees with contracts, including training days.

(B) Number of days of absence (sick leave, occupational diseases, maternity leave, accidents in the workplace and/or travel to work accidents or any other absence not provided for by contract).

(C) Number of days of sick leave (excluding occupational diseases, maternity leave, accidents in the workplace or travel to work accidents...).

Absenteeism at L'Oréal parent company

At L'Oréal parent company, the total rate of absenteeism was 4.29% in 2011, 2.28% of which was related to sickness.

Reasons for absenteeism

Reasons for absenteeism	% absenteeism
Sick leave	2.28%
Accidents in the workplace/travel to work accidents – occupational diseases	0.13%
Maternity leave – Adoption	1.32%
Family events	0.43%
Part-time work for health reasons	0.14%
Total	**4.29%**

6.1.2.3. Social relations

Organisation of the dialogue between employees and management and in particular the procedures for information and consultation of the employees and negotiations with them

The quality of the social climate at L'Oréal is the fruit of an on-going dialogue between Management, employees and their representatives.

L'Oréal places great importance on communication with its employees. L'Oréal has carried out a global employee opinion survey since 2003 with the assistance of the international firm of Towers Watson, a survey that was repeated in 2011-2012. The results are shared with the employees and employee representatives. They are the subject of actions plans implemented in a decentralised manner, as far as possible in line with the expectations expressed.

An agreement signed in 1996 between L'Oréal and French and European trade unions (FECCIA and EMCEF) led to the establishment of the Company's Instance Européenne de Dialogue Social/European Works Council (IEDS/EWC). The initial agreement has been regularly updated, in particular in 2009 to introduce a new information and consultation procedure which applies to transnational projects involving local consultation procedures. This procedure allows for the possibility of an opinion from the IEDS/EWC. It is then implemented with the Liaison Secretariat extended to include members from the countries concerned or with the entire IEDS/EWC, depending on the geographic and strategic dimensions of the project. This revision represented an important advance which aims to reinforce social dialogue at L'Oréal while remaining a step ahead of changes in legislation.

The IEDS/EWC contributes to discussions and formal meetings with members about the Group's current situation and future prospects.

It has 30 members, who receive regular training on economic and social issues.

Today, the IEDS/EWC covers more than 30,000 employees in 26 countries which are part of the European Economic Area; among these 26 countries, the 16 countries with more than 145 employees are represented directly.

In France, the employees are represented by 107 employee representative bodies and 600 employee representatives.

Professional relations and social welfare at L'Oréal parent company

Social dialogue at L'Oréal parent company. is based around a Central Works Council, 3 works councils at its establishment, 13 Health, Safety and Working Conditions Committees, 9 employee representative bodies and 30 trade union delegates.

Social welfare

Breakdown of expenses at L'Oréal parent company

€ thousands	2011
Accommodation	1,587
Transport	631
Restaurants & catering	5,993 (1)
Miscellaneous	2,030
Total	**10,241**

(1) Including the proportionate share of the rent of the Company restaurant facilities.

Payment to the 3 Establishment Works Councils of L'Oréal parent company: €1,622 thousand.

Report on collective agreements

At L'Oréal, 226 agreements were in force at December 31st, 2011, 38 agreements were signed in France in 2011 and 69 agreements were signed in the rest of the world.

The collective agreements signed at L'Oréal parent company in 2011 are as follows:

Company-level agreements:

- L'Oréal agreement relating to Research/Evaluation Classifications signed on September 30th, 2011;
- L'Oréal agreement with regard to the payment of an Additional Incentive amount – French Law No. 2011-894 of July 28th, 2011;
- supplemental agreement to the agreement of January 24th, 1983 (Article 3 of the agreement) relating to the length of service bonus of November 9th, 2011;
- supplemental agreement No. 2 of November 25th, 2011 to the agreement entered into on December 17th, 2007 and to its supplemental agreement No. 1 on the Benefit Scheme applicable to Manual Workers, Administrative Staff, Technical Staff and Supervisors who do not fall within the scope of Article 36 of Appendix I and of Articles 4 and 4bis of the AGIRC Agreement of March 14th, 1947;
- supplemental agreement No. 4 of November 25th, 2011 to the agreement entered into on December 17th, 2007 on the Benefit Scheme applicable to Executives and comparable categories of employees who fall within the scope of Articles 4 and 4bis of the AGIRC Agreement of March 14th, 1947;
- supplemental agreement No. 4 of November 25th, 2011 to the agreement entered into on December 17th, 2007 on the Benefit Scheme applicable to employees who fall within the scope of Article 36 of Appendix I of the AGIRC Agreement of March 14th, 1947.

Establishment-level agreements:

- agreement on weekend work signed on April 28th, 2011 – La Barbière production site;
- supplemental agreement on the extension of the period of weekend work signed on June 1st, 2011 – La Barbière production site

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6.1.2.4. Health and Safety

For several years, L'Oréal has applied a well-established policy in the field of health and safety (EHS policy). This defines the Company's commitment to developing, producing, distributing and selling innovative products of the highest quality, while having an ethical conduct and guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its activities. This approach is part of an overall environmental, health and safety policy described in section 6.2. on pages 194 *et seq.*

L'Oréal is eager to provide a safe and healthy work environment for its employees. Health and safety are of paramount importance and L'Oréal's ultimate goal is zero accident.

Comprehensive measures have been taken focused on risk reduction and continuous improvement. A safety culture has been instilled, setting high standards and involving employees at all levels of the Company.

Keen to increase safety in the workplace, the General Management has set an ambitious objective to improve the results obtained.

Performance summary

Overall, 2011 was a good year in terms of performance. Operational and administrative sites showed an improvement as compared to 2010. However, the deterioration in the performance of Research and Innovation (R&I) laboratories or sites and the distribution centres had a significant impact on the Group's performance.

Out of the 198 lost-time accidents registered in the Group in 2011, 80% occurred at administrative sites, including 10% in R&I laboratories or sites, and 20% in Operations.

- Operational sites (factories and distribution centres)

  TFc = 1.36 *vs.* 1.58 in 2010 (-13.9%)

- Administrative sites (including R&I)

  TFc = 2.29 *vs.* 2.39 in 2010 (-4%)

- Group: operational and administrative sites

  TFc = 2.01 *vs.* 2.10 in 2010 (-4%)

TFc (Conventional Frequency Rate) = number of lost-time accidents per million hours worked by L'Oréal staff.

Management is the guiding force behind this change in safety culture, supported and assisted by the EHS network. L'Oréal has set up the necessary tools and programmes to achieve excellence in this area.

The basic safety improvement programmes will be based on the following elements:

- EHS steering committees;
- 2010 SHAP ;
- Mesur ;
- SIO (Safety Improvement Opportunities);
- Safety Training for management;
- Ergonomic Attitude;
- EHS "Culture Audits".

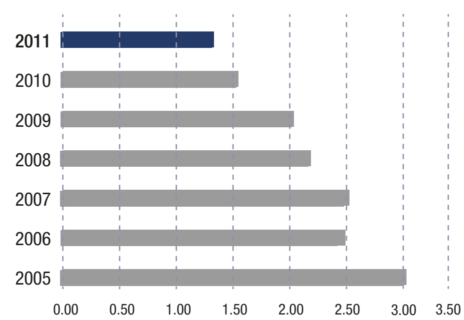
Safety Target for Operations

The initial target is an 81% improvement in our safety record by 2015 (base year 2005: TFc = 3.09), representing a TFc of < 0.60.

Performance summary for Operations

In line with the positive trend observed over the last few years, performances continued to be very good in 2011. The accident rate fell by 14% compared with last year.

TFc (Conventional Frequency Rate) – Factories and distribution centres



Zero accident in 2011 [1]

- 72 out of 115 factories and distribution centres recorded zero lost-time accident.
- As well as a reduction in the number of accidents, it is also important to note that the accident severity rate has fallen by 50% since 2005.

Millions of hours without a lost-time accident since 2005 – Operational and administrative sites

- 13 factories, 4 distribution centres and 16 administrative sites reached or passed the threshold of one million hours worked without a lost-time accident.
- 2 factories have now reached 3 million hours.

(1) L'Oréal permanent staff.

Health and safety conditions at L'Oréal parent company

For many years, L'Oréal has undertaken a proactive policy for continuous improvement in the working conditions of its employees, thereby contributing to the development of an environment favouring the quality of life at work.

Within this framework, and beyond the systems that already exist, L'Oréal wished to go one step further by implementing firstly a stress prevention and management programme and secondly introducing a reflection on the prevention of arduous working conditions pursuant to the provisions of French law No. 2010-1330 of November 9th, 2010.

- Attentive to the stress which could be experienced by employees whatever the circumstances, at the start of 2009 L'Oréal undertook a stress prevention and management programme with the support of a network of occupational doctors (6 exclusively dedicated to L'Oréal) and a duly empowered body, "Intervenant en Prévention des Risques Professionnels" (IPRP).

  This programme is based on 3 main measures:

  - a prevention plan including in particular two training modules enabling both employees (1 day) and managers (2 days) to understand the mechanisms of stress better and give them operational solutions to regulate their impact;
  - an individual assessment of the employee's level of stress, anxiety and depression via a questionnaire proposed at the time of the annual employee medical check-up, based on scientifically recognised scales; at the end of the process, results are shared with the occupational doctor;
  - an annual analysis of the Company's collective results by the Health, Safety and Working Conditions Committees.

  After being initially tested on 2 L'Oréal parent company's sites in 2009, this action plan was rolled out in 2011 to all L'Oréal entities.

- Within the scope of the provisions of French Law No. 2010-1330 of November 9th, 2010 and French decrees No. 2011-354 of March 30th, 2011 and No. 2011-824 of July 7th, 2011, L'Oréal continued its reflections on the way to improve working conditions and the prevention of arduous working conditions with the aim of enabling employees to remain in active employment with the Company longer and under better conditions.

  Although not obligatory, discussions have begun in certain business sectors or establishments of L'Oréal, in conjunction with the Health, Safety and Working Conditions Committees and the EHS teams, in order to prepare action plans in favour of the prevention of arduous working conditions.

In application of the French decree of November 5th, 2001 relating to occupational risks, L'Oréal has updated the single document for the evaluation of occupational risks in the Company by including these two points in particular.

In 2011, 89 meetings were held in the 13 Health, Safety and Working Conditions Committees that exist at L'Oréal.

6 occupational doctors are present on all the Company's sites and over 6,500 medical examinations were carried out in 2011.

In 2011, there were 22 lost-time accidents.

Measures taken to improve safety

Preservation of the health and safety of the employees is a fundamental objective which forms an integral part of the human and social policy. It rests on risk prevention both at an individual level, through screening tests making it possible to provide employees with thorough, adapted individual medical attention, and at collective level through the assessment and management of professional risks.

The health and safety policy is part of an overall programme, conducted in close cooperation with the occupational doctors, safety officers and the Health, Safety and Working Conditions Committees.

List of collective agreements with regard to health and safety:

- agreement on weekend work signed on April 28th, 2011 – La Barbière production site;
- supplemental agreement on the extension of the period of weekend work signed on June 1st, 2011 – La Barbière production site

6.1.2.5. Training

Training is an integral part of employee development policy at L'Oréal. An individual interview is held once a year with each employee in this connection.

L'Oréal regularly ensures the personal and professional development of its employees through a training system tailored to individual needs, everywhere and for all functions. The "Learning for Development" Department is completely integrated into the Company. It makes it possible to profit from best practices all over the world and to have a consistent view of training programmes.

Number of hours of training: 1,022,772.

Training at L'Oréal S.A.:

In 2011, L'Oréal parent company spent €15,264 thousand on continuing education for its employees, representing 4% of total salaries.

Number of persons receiving training in 2011: 4,705 *i.e.* 78% of the workforce at 12.31.2011.

Number of training actions in 2011: 13,189 *i.e.* 2 training actions on average per person trained.

Number of hours of training in 2011: 128,312.

Number of employees who made use of the Individual Training Entitlement Droit Individuel à la Formation (D.I.F): 264.

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

6.1.2.6. Diversity and equal opportunities

For over 15 years, L'Oréal has been conducting a global proactive policy in favour of Diversity. Centred around 6 primary criteria (nationality, socio-cultural background and ethnic origin, gender, disability and age), the Diversities policy has led to a number of achievements which currently make L'Oréal one of the recognised major players in this field. A signatory of the Diversity Charter in France in 2004, L'Oréal has now signed seven charters which exist in Europe and contributed to the creation of two charters in Italy and Sweden.

After obtaining the Diversity label in France in 2009, L'Oréal was awarded in 2011, the first European professional equality label, the Gender Equality European Standard, for seven of the European countries.

L'Oréal furthermore prepared a report on Diversities in France with a hundred or so indicators covering all 6 dimensions of the Diversities policy.

With regard to Disability, L'Oréal has strived to develop an overall global Disability policy focusing on five complementary areas: job access and maintenance in employment, raising of awareness, accessibility of premises and information, and partnership with the sheltered work sector. Each subsidiary is encouraged to integrate its initiatives into this process.

To accelerate the mobilisation of countries, L'Oréal has put in place since 2008 awards known as "Initiatives for the Disabled" which reward operational entities for their concrete actions in favour of the Disabled. These awards, which are presented every two years in the presence of the General Management, make it possible to showcase and share the actions carried out by the various L'Oréal entities both in France and in Europe. In 2012, this competition will be open to all subsidiaries throughout the world.

Commitments in favour of professional equality between women and men at L'Oréal parent company

- The question of professional equality between women and men has been at the heart of L'Oréal's social and human policy for many years. It has been the source of social innovation: the "Schueller leave" extending statutory maternity leave by an additional 4 weeks, which was introduced at the end of the 1960s, the "'Wednesday off for mothers and fathers for family reasons" put in place in 1976 or more recently (2008) maintenance of the salary for paternity leave.
- Three company-level agreements signed unanimously by the trade unions with regard to remuneration of female staff members on maternity leave (2007), professional equality between women and men or achieving a better balance between private and professional life (2008).
- Professional equality is the subject of regular exchanges of views with employee representatives. At the time of the mandatory annual bargaining round, differences in remuneration are reported in particular at the time of the review of the Company's Social Balance Sheet, all the indicators are presented by gender, and finally, at the time of the annual review of the report on the Comparative Situation on the general conditions of employment and training of women and men in the Company.
- L'Oréal completes its parental policy by setting up systems of assistance to find childcare solutions or inter-company day nurseries whenever possible. Nine structures (5 of which are dedicated to L'Oréal parent company) are available to take employees' children, thus increasing the number of cots available for L'Oréal employees to 133.

Actions in favour of employment and insertion of disabled workers

- At December 31st, 2011, L'Oréal S.A. employed 153 disabled employees and regularly uses the services of companies in the sheltered work sector (Protected Workshops, Specialised Companies and Sheltered Work centres).

Actions in favour of Older Employees

Following the collective agreement signed in 2009, a number of systems have been developed aimed at reinforcing the transmission of knowledge and professional development throughout employees' careers.

6.1.2.7. Promotion and compliance with the provisions of the fundamental conventions of the International Labour Organisation

Besides the questions inherent in the law on collective negotiations and the elimination of discrimination in the field of employment described in the paragraphs 6.1.2.3 page 188 "*Social Relations*" and 6.1.2.6 page 192 "*Diversity and equal opportunities*", L'Oréal contributes to the abolition of forced labour. Recourse to penitentiary work is possible, either directly or via a supplier/subcontractor, but solely when it is voluntary within the scope of a programme for the reinsertion, and paid at market price.

L'Oréal furthermore contributes to the abolition of child labour. The Group has chosen to set a compulsory minimum age of 16 for its entire staff, a minimum age limit which is higher than that required by the Fundamental Conventions of the International Labour Organisation (ILO).

All L'Oréal entities are required to verify the age of their employees at the time when they are hired.

In light of their young age, employees who are between 16 and 18 years old are subject to specific measures and in particular: no night work, no overtime, no work involving the use of hazardous substances or tools, no carrying of heavy loads, the implementation of a reinforced training programme, appointment of an internal "tutor" and inclusion on a special register. In 2011, 537 employees of between 16 and 18 years of age worked in the Group's entities.

Methodological note

Social, Health and Safety data scope, indicators, reporting method and systems

Social data

Scope of consolidation

The workforce indicated in the "Total Workforce" and "Geographic distribution of workforce" charts is the total workforce present at December 31st of the year concerned (1).

For proportionally consolidated companies, the workforce at December 31st is recorded on a prorata basis according to the stake held by L'Oréal.

All the other social indicators set out in the Social information section relate to the "Cosmetics" and "The Body Shop" branches (2).

If an indicator relates to a scope different from that of the "Cosmetics" and "The Body Shop" branches, the scope of consolidation is indicated in a note.

Indicators

The indicators chosen are those used in the management of employees and of the social aspects of the Group. They reflect the results of the Group's Human Resources policy.

Data

Four methods are used to collect data for the defined scope:

- most of the data are collected using the dedicated "Country Reporting" intranet system, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics, including: workforce, ethics, worldwide Profit Sharing, social relations, remuneration, HR expenses, recruitment and training and absenteeism.

  At the beginning of each year, the local Human Resources Directors provide the required data for the previous year.

  When the data are compiled, each country must validate a charter committing to the accuracy of all the data provided;
- other data are collected by each corporate division concerned (*i.e.*, Training, Recruitment) using dedicated systems which follow the same operational and dissemination approach;
- if information is not consolidated for the entire Cosmetics Group scope, it is recognised that it can be extrapolated from the available results for the entities connected to the local Information Systems (SI), provided that the scope covered by such entities is representative (3);
- lastly, the specific data relating to "executives" are gathered from the "CAROL" online career monitoring system, deployed in all "Cosmetics Group" subsidiaries.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

Health and safety data

Scope of consolidation

The safety indicators set out relate to the factories and distribution centres but also the administrative sites and research centres of the "Cosmetics", "Dermatology" and "The Body Shop" branches.

Safety reporting covers all the sites and distribution centres. In 2011, it covers 70% of the workforce of the administrative sites and research centres.

(1) *Including employees with a permanent or fixed-term contract of employment.*

(2) *Innéov is included, Galderma (dermatology) is excluded.*

(3) *In France, the gender distribution of the Cosmetics workforce was extrapolated from the gender breakdown of the entities connected to the France HRIS. The extrapolation method concerns 5% of the French workforce, which is not yet connected to the local HRIS.*

The safety indicators of the factories and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental and safety reporting systems: however, for the 2011 financial year, most of the factories and distribution centres that have recently been purchased participated in the reporting.

Indicators

The indicators applied are those used in the management of the Company's sites. They reflect the results of the Group's Environmental, Health and Safety (EHS) policy.

Data

One method is used to collect data for the defined scope:

The health and safety data are collected using the dedicated site reporting "QIS" intranet system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

6.2. Environmental information

L'Oréal's environmental policy is aimed at minimising environmental impact while guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its business activities. The cosmetics industry has a limited impact on the environment but, as with any manufacturing activity, risks do exist. Before building or renovating a factory anywhere in the world, and before introducing new manufacturing equipment and processes, L'Oréal assesses all the potential Environment Health and Safety (EHS) impacts and develops mitigation strategies where required.

The health and safety measures adopted in favour of L'Oréal's employees are described in paragraph 6.1.2.4. page 190.

The Group's EHS policy and manual

In 2010, L'Oréal updated and brought together in one place all the elements that support implementation of its EHS policy across L'Oréal's worldwide sites.

EHS policy at L'Oréal is organised and managed in accordance with an EHS manual, which sets out the measures to be applied by all operational sites under L'Oréal's control. It covers safety measures and safety objectives (zero accident), resource efficiency, greenhouse gas emissions, EHS responsibilities, internal procedures. For L'Oréal sites, the EHS manual is a key tool to drive further improvements in their EHS performances. Distributed to all operational sites in 2011, it will be extended to cover Research & Innovation centres and administrative sites in 2012.

Organisation of EHS

There are clear accountabilities for EHS at every level. The General Manager of L'Oréal's Operations Department, who reports to the Group's CEO, is responsible for health, safety and environmental issues. EHS managers liaise with the EHS Department for each aspect of operations.

The remuneration of factory managers and distribution centre managers is partly linked to their performances in the field of health, safety and the environment.

Worldwide audit programme

External experts regularly visit L'Oréal's production and distribution sites to assess the progress made and the risks they present. Third-party audits are also carried out at supplier sites in accordance with the same criteria as those used for Group entities.

L'Oréal has a comprehensive programme of EHS audits, which includes in particular risk audits, "Culture Audits" and subcontractor audits.

Risk audits are designed to ensure that procedures and methods used by employees do not carry inherent risks. They are carried out by recognised independent experts across all international operations. As a general rule, it takes four to five days for a team of three or four auditors to evaluate a factory and two to three days to evaluate a distribution centre. In 2011, risk audits were carried out at nine factories and twenty-two distribution centres.

Initially launched in 2009, the EHS "Culture Audits" programme, which aims at enabling employees to grasp the risks inherent in their work environment, focuses on leadership, an EHS culture and industrial excellence. EHS "Culture Audits" are triggered by a site's performance and conducted by internal EHS specialists through Group interviews with 20-30% of the site's employees. In 2011, EHS "Culture Audits" were carried out at twenty-three factories and fourteen distribution centres.

EHS policy training

A targeted training programme is provided on L'Oréal's EHS policy for managers and EHS professionals across the Group. The objectives of this training programme are as follows:

- identify and share EHS vision, challenges and values across the Group;
- identify the risks inherent in a role, task, behaviour or use of equipment and implement tailored corrective solutions;
- enable managers to implement EHS policy effectively within their teams.

Training sessions in EHS policy have been provided to managers and EHS specialists in Europe (134 people), South America (24 people) and North America (19 people), who all have operational functions in this area.

In 2011, 42 L'Oréal participants took part in open seminars for site managers on the topic of "EHS & leadership", held at the CEDEP, the collaborative learning community based on the INSEAD campus in France. The main objectives of these seminars were to change the mindset of managers on safety, build recognition of safety as a core issue for companies and senior management executives, and improve their ability to instil and maintain safe behaviour over the long term.

Our global industrial policy demands all sites to:

- ensure compliance with the regulations;
- apply best practices in energy efficiency or efficient consumption of resources;
- roll out breakthrough projects in a permanent search for operational performance allied with environmental performance.

L'Oréal has made an important commitment to reducing its environmental footprint for its factories and distribution centres between 2005 and 2015: an absolute reduction of 50% in direct and indirect CO_2 emissions and a reduction in water consumption and waste generated per finished product by 50%. Concrete, measurable actions are being taken by the L'Oréal teams by reinforcing the Company's corporate societal responsibility principles and sharing them with others.

6.2.1. General environmental policy

L'Oréal has undertaken to reduce its impact on the environment and its use of natural resources through absolute reductions. When this is not possible, L'Oréal strives to improve its eco-efficiency and to adopt a more ecological approach.

Furthermore, L'Oréal applies the ISO 14001 environmental management standard. All the Group's factories are certified except the BRI Lassigny, Galderma Brazil and Russia factories.

The factories and distribution centres are committed to improving their environmental indicators:

- 50% absolute reduction in greenhouse gas emissions (scope I and II);
- 50% reduction in waste generated per finished product;
- 50% reduction in water consumption per finished product.

The reductions are calculated on a like-for-like basis (2005-2015).

Summary of the environmental performances of the L'Oréal Group's factories and distribution centres:

- 15.8% increase in manufacturing capacity (2005-2011);
- greenhouse gas emissions: absolute reduction of 29.8% (tonnes of CO_2, direct and indirect, 2005-2011) on a like-for-like basis according to the GHG Protocol [1];
- 22.6% reduction in water consumption (litres per finished product, 2005-2011);
- 16.9% reduction in the production of transportable waste (grams per finished product including returnable packaging, at the factories and distribution centres 2005-2011);
- the waste recycling rate has increased from 89.1% in 2005 to 95.7% in 2011, with 17 factories at 100% in 2011;
- absolute improvement of 15.9% in the wastewater quality index (2005-2011).

6.2.2. Pollution and waste management

For many years, L'Oréal has followed an ambitious waste management policy. This policy goes beyond regulatory compliance and the prevention of human risks to the environment and consists of waste prevention, recycling and reuse and energy recovery in order to avoid waste to landfill.

(1) Greenhouse Gas Protocol : international method of carbon accounting.

In 2011, in line with the targets that L'Oréal set in 2009, namely to reduce the quantity of waste per finished product by 50% (2005-2015), new initiatives have been implemented across the Group in order to go further in reducing waste at source and reducing the overall environmental footprint:

- **96%** of waste is reused, recycled or recovered;
- **more than 50%** of the Group's sites send zero waste to landfill;
- waste per finished product, including returnable packaging, remained stable as compared to 2010.

2011 *(in tonnes)*	Total
Transportable waste (tonnes)	137,797
Recycled waste (tonnes)	131,813
Recycling ratio *(%)*	95.7

The transportable waste is directly related to the activities at the site. For a factory, for example, it consists of raw material packaging waste or packaging items, waste oil or wastewater treatment unit sludge.

Transportable waste does not include exceptional waste which is 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.

6.2.3. Sustainable use of resources

L'Oréal's strategy for raw materials is a fundamental component of Sustainable Development vision. The impact of the raw materials used is measured with the help of the environmental evaluation guide. L'Oréal encourages the use of raw materials having a favourable impact, evaluates those raw materials having an unfavourable profile and promotes those which are renewable and of plant origin, with respect for biodiversity.

Water is first on the list of resources to be preserved, and L'Oréal endeavours to control the use made of water throughout the entire production cycle.

Water

L'Oréal has had a water conservation programme in place since 2003 which has made it possible to make significant progress in reducing total water use and increasing eco-efficiency.

In 2011, water consumption per finished product was reduced by 5.7% and overall water consumption in factories and distribution centres decreased by 4% as compared to 2010. Over the past 5 years (2007-2011), water use per finished product has been reduced by 14.5% and absolute consumption cut by 8.3%, by re-thinking each use made of water and optimising the systems. All this is in the context of a 7.2% increase in production over the same period.

Water use

A lot of the water consumed in L'Oréal factories is used for cleaning production equipment and packaging lines to maintain very strict hygiene standards. This represents approximately 40% of all water consumption in the industrial sites.

To meet the targets set, L'Oréal's teams aim to reduce the amount of water used for cleaning operations as far as possible without affecting quality. This is a major challenge because cleaning is a complex process that takes place in different ways, depending on the formulas involved and the equipment used.

A new cleaning method called OptiCIP has been developed. It allows to take into account site specifics such as equipment and type of product, then to apply the most effective cleaning processes in the factories.

In 2011, several factories ran pilot projects (particularly in Warsaw, Poland, Florence in the United States, and Vichy, France), with initial findings showing significant savings of 50% and more on certain types of equipment. Implementation plans are now in place, with the aim of standardising the OptiCIP method by 2015.

Wastewater

In 2011, Chemical Oxygen Demand (COD) of wastewater before treatment rose by 5.9%, which corresponds to 18.5 kg of COD per tonne of bulk produced.

Approximately half of L'Oréal's sites have on-site wastewater treatment plants. These use a range of methods including physical, chemical and biological processes, or other technologies adapted to different wastewater characteristics and local discharge conditions.

The COD of wastewater after on-site treatment has increased by 7%, *i.e.* to 1.2 g of COD per finished product.

With the aim of minimising overall energy use and solid waste production while maximising residual water treatment efficiency, L'Oréal supports an European research project with the University of Newcastle in the United Kingdom, which is looking into energy efficiency in wastewater treatment.

2011	Total
Discharges to the soil	0
Water consumption *(m^3)*	2,883,798

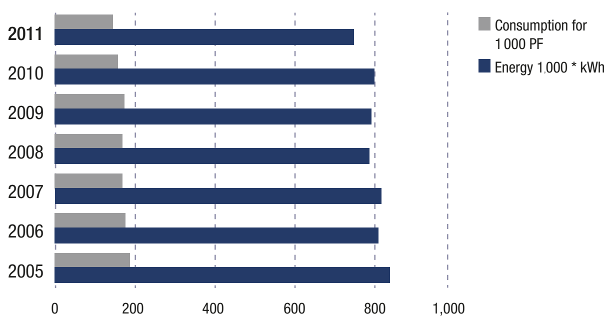
Transparency in water reporting: water disclosure of Carbon Disclosure Project

Since 2010, L'Oréal has been a Founding Responder to the *Carbon Disclosure Project* (CDP) water reporting initiative. The CDP is a leading, independent, not-for-profit organisation that promotes transparency in climate change reporting. In 2010, the CDP expanded its scope to include water reporting. L'Oréal reports every year on its water management strategies, water consumption and water discharges and describes the Group's initiatives in this area.

Energy

L'Oréal's objective is to reduce its greenhouse gas emissions. The main driver to achieve this consists in improving energy efficiency in all operations: "green energy" purchases are maintained but renewable energy production projects are developed on site in order to achieve the objectives.

Total energy consumption



6.2.4. Contribution to adapting to and combating climate change

To help address climate change, L'Oréal made a significant pledge in 2009: to achieve an absolute reduction of 50% in its direct and indirect carbon emissions between 2005 and 2015. Good progress has been made and in 2011, carbon emissions have been reduced by 29.8% as compared to 2005. The change in the scope taken into account satisfies the GHG Protocol rules.

Energy and greenhouse gases in manufacturing

The cosmetics industry has a relatively low energy demand as compared with other sectors. For example, L'Oréal is exempt from the European regulations on carbon emission quotas.

However, the L'Oréal sites are committed to using energy efficiently and reducing dependency on fossil fuels.

Wherever possible, natural gas is preferred to fuel oil (which has a higher carbon intensity) and renewable energies (solar energy, hydraulic energy, biomass…) are developed on site. Each initiative taken by every site across the world is valued in this respect, because each contribution is important in reducing the overall carbon footprint.

BUS (*Better Utilities for Sustainability*) Project

The BUS project, a Group-wide pilot project run by operations managers, draws on expertise from across L'Oréal to identify methods, technical solutions and good practices in cleaning, cooling, air compression and other factory processes.

To date, 11 good practices have been identified, notably to improve energy efficiency; they are accompanied by technical recommendations and rolled out throughout the whole Group.

2011	Total
Direct CO_2 *(tonnes)*	71,012
Indirect CO_2 (scope 2) *(tonnes)*	91,558
SO_2 *(tonnes)*	6.5
Electricity *(MWh)*	373,756
Gas *(MWh)*	328,960
Fuel oil *(MWh)*	19,309
Others *(MWh)*	24,587
Energy consumption *(MWh)*	746,612

Methodology for the calculation of indirect emissions (Scope 2)

The methodology used for calculation of the 2005 reference is based on the 2003 emission factors of local electricity suppliers – when they are available. When these emission factors are not available, IEA (International Energy Agency) and eGrid (1) emission factors, available in 2006, corresponding to IEA factors for 2003 and EPA (2) (eGRID) factors for 2000, are used.

6.2.5. Protection of biodiversity

For many years, L'Oréal has implemented a programme for the protection of biodiversity aimed in priority at:

- assessing or limiting the impact of raw materials on the environment;
- establishing a responsible supply chain.

(1) *The Emissions & Generation Resource Integrated Database.*
(2) *Environmental Protection Agency.*

Assessment of the impact of raw materials on the environment and on ecosystems

L'Oréal's commitment to biodiversity goes back over fifteen years with the creation of the Group's first ecotoxicology laboratory. Anticipating and minimising the potential impact of the ingredients used in its products on the natural environment and, in particular, on aquatic ecosystems, is of primordial importance to L'Oréal. From the product-conception phase onwards, therefore, raw materials undergo a robust selection process before entering a formulation.

The Group has developed several tools and procedures to determine the potential impact on biodiversity of the ingredients:

- development in its ecotoxicology laboratory of innovative methods for early environmental evaluation of raw materials (*e.g.* automation of the safety test on microalgae);
- launch in 2004 of the assessment of its entire raw materials portfolio for persistence, bioaccumulation and toxicity criteria.

As of the end of 2008: 99% of raw materials were assessed in this way. All new raw materials now systematically have to undergo this assessment before they can be accepted into the ingredients portfolio.

Establishment of responsible supply chains

As from 2005, in a desire to preserve biodiversity, L'Oréal introduced a process for procurement of raw materials of plant origin showing respect for biodiversity.

A systematic analysis of the impacts on biodiversity was implemented and is based on two tools which make it possible:

- to identify upstream the potential stakes linked to the use of a plant with 3 areas of vigilance (ecology, equity and social challenges). The information is consolidated in an internal database. In 2010, the portfolios of raw materials of natural origin for the recent acquisitions made by the Group were also analysed;
- to minimise the impacts at the level of the supply chains concerned, using the RMSA (*Raw Material Sustainability Assessment*) Framework for the evaluation of supplier practices, in particular in the area of "respect for biodiversity". At the end of 2011, 80% of the sustainable raw materials involving biodiversity issues was evaluated.

Methodological note

Environmental data scope, indicators, reporting method and systems

Scope of consolidation

The environmental indicators set out relate to the factories and the distribution centres of the "Cosmetics", "Dermatology" and "The Body Shop" branches.

If an indicator relates to a scope different from that of the "Cosmetics", "Dermatology" and "The Body Shop" branches, the scope of consolidation is indicated in a note.

The environmental indicators of the factories and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental and safety reporting systems. However, for the 2011 financial year, most of the factories and distribution centres that have recently been purchased participated in the reporting.

Indicators

The indicators chosen are those used in the management of the sites of the Company. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

Data

One method is used to collect data for the defined scope:

The data are collected using the dedicated site reporting "QIS" intranet system, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics, including: quality, process performance, EHS data.

The required data are reported every month by the local managers.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

6.3. Societal information

6.3.1. Territorial, economic and social impact of activities

The L'Oréal Group is a leading economic player in all the geographical zones where it is established. On this basis, L'Oréal contributes to local employment and thus participates in regional development, while remaining attentive to the local populations.

Territorial impact of L'Oréal parent company on employment and regional development

In France, 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, Mitry-Mory.

Over the past three years on all these sites, L'Oréal has hired 1,721 employees on permanent and fixed-term contracts and has thus contributed to regional development.

L'Oréal promotes partnerships with local authorities with regard to employment.

For example, on April 12th, 2011, in partnership with *IMS-Entreprendre pour la Cité* and 16 other businesses, the L'Oréal Aulnay Chanteloup site organised a Forum on Employment and Diversity which enabled 164 young people to benefit from recruitment interviews that led to 50 recruitments.

L'Oréal will have to pay an amount of €20.747 million for the territorial economic contribution (CET) – which replaces business tax – in respect of the 2011 financial year.

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 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 Environment, Health and Safety competitions, prizes are awarded for civic initiatives in recognition of the efforts made by a site (factory, distribution centre or administrative site) which demonstrates its commitment, mobilisation and involvement in the community in which it operates. Awards are presented for 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.

For further details on the Group's Sustainable Development strategy, as well as its commitments, results and challenges, reference should be made to the dedicated website, www.developpementdurable.loreal.com. It includes, in particular, examples of the "*Solidarity Sourcing*" policy. Inspired from The Body Shop *Community Trade* programme, L'Oréal created a global solidarity purchasing programme in mid-2010: *Solidarity Sourcing*. Its aim is to help to give economically vulnerable persons durable access to employment. In order to do so, the Group has transformed its purchasing process in order to open it up to new types of suppliers who find it difficult to trade with multi-national companies. *Solidarity Sourcing* concerns, for example, enterprises endeavouring to employ disabled persons, or social insertion enterprises, small companies or fair trade producers.

Chimex, a L'Oréal Group subsidiary, has been engaged for several years in a Sustainable Development policy and has placed Corporate Social and Environmental Responsibility at the heart of its business strategy.

Specialised in the conception of processes and in the production of active agents in Chemistry and Biotechnologies, it develops "well thought-out" processes according to a methodology which integrates innovative technologies and eco-conception parameters right from the design phase and continually endeavours to limit the environmental impact of its processes.

It has taken a large number of initiatives concerning the environment or participated in societal projects, such as educational partnerships with schools, which led to it winning one of the *European Responsible Care Awards for its Harmonie project targeting schools in Le Thillay* in the suburbs of Paris, use of geothermal energy or the introduction of technologies making it possible to plan to reuse water on its production sites.

In 2011, Chimex obtained the Lucie standard awarded to companies that are committed to Sustainable Development.

6.3.2. Relations with stakeholders

Through its Sustainable Development Department, L'Oréal maintains a regular dialogue with all organisations and associations concerned by the development and activities of L'Oréal.

In 2011, L'Oréal created "*Stakeholder Forums*" in order to hold discussions with representatives of civil society and inform them of progress made by the Group in the field of Sustainable Development. In this manner, L'Oréal met directly with nearly 300 associations and NGO opinion leaders at information and discussion forums in London, Hong Kong, Peking, Sao Paolo and New York. Furthermore, individual meetings with stakeholders are held in France to discuss the main issues concerning, firstly, the Grenelle II agenda, and secondly, sustainable innovation and consumption. This approach, which is among L'Oréal's Global Compact commitments, has been recognised by the various stakeholders as being a credible, sincere approach to making progress in this area.

L'Oréal more specifically maintains relations with educational establishments and associations.

Relations with educational establishments in France and associations

Educational establishments

L'Oréal has always built close partnerships with primary and secondary schools but also with universities, graduate engineering and business schools and research establishments.

L'Oréal offers students the possibility of discovering the Company during their courses by offering them internships every year and, for over 20 years, through apprenticeship contracts and contracts offering professional experience across all its professions.

In 2011, 660 students joined L'Oréal parent company under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

585 young people on work and training contracts (320 apprenticeship contracts and 265 contracts offering professional experience) were present in the Group in France at December 31st, 2011, 284 of whom worked at the L'Oréal parent company.

Over 87% 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 approximately 80%.

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

L'Oréal parent company will have to pay an amount of €1.896 million in apprenticeship tax in respect of 2011 financial year.

Environmental defence associations

L'Oréal has undertaken to reduce its greenhouse gas emissions, its water consumption and its waste generated per unit produced by 50% over the period 2005-2015. L'Oréal actively contributes to environmental protection through its commitments in associations or societies at national level (e.g. Eco-Emballages, the French eco-packaging organisation), European level (e.g. *Forest Footprint Disclosure project* in the United Kingdom) 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.

L'Oréal philanthropy in 2011

L'Oréal has always been committed to worthy causes and taken an interest in its surrounding communities. In the 1990s, the Group created with UNESCO the first programme to support women in their scientific careers called "For Women in Science", an initiative that is now implemented throughout the world. Since that time, L'Oréal has never stopped developing projects all over the world to combat all forms of exclusion. Through its subsidiaries, its brands and its Foundation, the Group intents to go one step further and make commitment to good corporate citizenship a real strategy in the Company.

L'Oréal's commitments are aimed at promoting education and equal opportunities, restoring people's physical appearance (a major factor in establishing social relations) and also giving everyone access to beauty, all reflecting one ambition: to give meaning to the beauty sector.

The L'Oréal Foundation

Created in 2007 with a budget of €40 million over five years, the L'Oréal Corporate Foundation (the Foundation) develops the Group's major global programmes, which are rolled out in all the countries in which L'Oréal is present.

It develops programmes in three main areas which reflect the Group's values and its businesses: science, solidarity and education.

In the field of science, L'Oréal promotes scientific education and the participation of women in scientific careers, by recognising the excellence of women researchers and encouraging young girls to follow scientific vocations.

- In the field of solidarity, L'Oréal takes part in therapeutic programmes to care for appearances to restore confidence to vulnerable people and help them to recover their self-esteem and to re-enter a social life.
- In the field of education, L'Oréal undertakes to provide education on HIV prevention and promote equal opportunities, through the support provided to deserving pupils from underprivileged environments.

Governance

Under the chairmanship of Sir Lindsay Owen-Jones, the L'Oréal Foundation's Board of Directors has nine members, made up of six personalities from L'Oréal and three from outside the Company, chosen for their expertise in the Foundation's areas of intervention.

The three main programmes supported by the Foundation

"For Women in Science"

To fight against the lack of representation of women in the scientific world, L'Oréal created the "For Women in Science" programme with UNESCO in 1998.

This programme aims to encourage, recognise and accompany women scientists throughout their entire career, through awards and research fellowships. Some 200 women are thus rewarded every year, making a total of nearly 1,300 women from 106 countries who have received support since the creation of the programme, including Elisabeth Blackburn and Ada Yonath, who have since become Nobel Prize winners. 48 L'Oréal subsidiaries have now developed fellowships for promising young women scientists in their countries.

"Beauty from the Heart"

Illness, unemployment or precarious living conditions can lead to exclusion and cut people off from society.

Convinced that an improvement in appearances is a first step towards social and professional reinsertion, the L'Oréal Foundation has created the "Beauty from the Heart" programme consisting of product donations, socio-aesthetic workshops and reconstructive surgery, which relies on L'Oréal's expertise in the field of beauty to help vulnerable people whose appearance has suffered to regain self-confidence and find their way back into society.

The Foundation has chosen to support worthy causes such as dependency, cancer, young people or those living in precarious conditions.

The L'Oréal Foundation and the Group's brands thus distribute more than 550,000 products a year to beneficiaries from underprivileged environments, thanks to associations that take action in the field, such as the Agence du don en nature (Agency for gifts in kind), the Restaurants du cœur ("Restaurants of the Heart") or the Samu social in Paris. The socio-aesthetic care financed by the Foundation provides help to 300 beneficiaries, particularly women with cancer, people in a precarious situation or young people with serious psychological disorders.

Finally, in dramatic cases where children or women are outcast from society due to an appearance disfigured by illness, accidents or "honour crimes", the Foundation has considered that it is of crucial importance to support reconstructive surgery in countries where these operations are not reimbursed by the health insurance schemes in order for these patients to be able to lead a normal life. In 2011, it enabled over 1,100 operations to be carried out in Asia and Africa, through its support for the Médecins du Monde association's "Opération Sourire" programme and the Enfants du NOMA and Humani Terra associations.

"Hairdressers against AIDS"

For ten years, L'Oréal and UNESCO have believed that they could contribute to the prophylaxis of HIV infection by devising a programme based on the expertise of hairdressers. This preventive and education programme centres round professional hairdressers, whose special relationships with their customers and ability to communicate make them very effective in passing on information and raising awareness of HIV issues. More than 400,000 hairdressers were trained in 2011 in the 30 countries in which the programme is currently active.

Local initiatives on all continents

In addition to the major programmes initiated by the Foundation and rolled out across the world, each and every L'Oréal entity is encouraged to take local actions in relation with the situations in their particular countries. In 2011, L'Oréal thus supported several hundreds of projects throughout the world, primarily involving actions in the fields of solidarity and education, but also in the field of emergency aid or health.

L'Oréal Singapore provided support to the Singapore Association of the Visually Handicapped by proposing makeup, care and "appearance management" workshops for visually handicapped persons. In Japan, the "*100 love Hands*" project offers hand massages to women cancer patients and mothers of children with rare diseases to improve their well-being. Insertion in society through professions in the beauty sector is another strong commitment: through its "*Beauty For a Living*" programme, L'Oréal Vietnam has helped 120 young women since 2009, to escape their underprivileged condition, by providing them with training as hairdressers and thereby enabling all of them to open a hairdressing salon or find a job.

Other countries support education for young girls like L'Oréal Morocco, which has developed for the last 3 years with INSAF (the National Solidarity Institution for Women in Distress), the "schooling for every girl" programme to promote sending young girls to school and fight against young girls being required to undertake domestic work.

In 2011, employees completely refitted the classrooms of the Hsaine School, in the Chichaoua region, which has 270 pupils. L'Oréal entities also show their commitments to society through the emergency aid they provide. In Thailand, at the time of the recent floods that hit the country, L'Oréal's local teams thus took action to help 10,000 victims in the emergency shelters set up in the capital, by distributing essential hygiene products and offering haircuts. The subsidiary has made a more long-term commitment and extended its training programme in the beauty professions, initially intended for women suffering from violence, to include those who lost their jobs due to factories closing down at the time of the floods.

6.3.3. Subcontracting with suppliers

L'Oréal builds a balanced, long-lasting relationship with its subcontractors and suppliers with respect for social and environmental issues.

Amount of subcontracting (L'Oréal parent company)

€ thousands	2011
Subcontracting purchases	7,025
Special contract work	309,161

How the Company promotes the provisions of the fundamental conventions of the ILO to its subcontractors and ensures that its subsidiaries comply with these fundamental conventions

L'Oréal makes sure that human rights are respected throughout its logistics chain. Within the framework of L'Oréal's "*Buy & Care*" programme, all suppliers and subcontractors are asked to comply with the Group's general terms of purchase, which require them to comply with the Fundamental Conventions of the International

Labour Organisation as well as local legislation, in particular with regard to minimum wages, working time and health and safety.

Regular audits are carried out to check on this compliance.

With regard to the employment of young workers, suppliers and subcontractors may request waivers from the Group Purchasing Director for the use of employees under the age of 16 upon presentation of a complete file (schooling, type of contract, working conditions, type of work). Pursuant to the "Suppliers/ Subcontractors and Child Labour " policy, formally laid down in 2011, waivers of this kind are only possible for apprenticeship programmes or for children carrying out light work if this work does not affect their health and safety or their regular attendance at school, where the local law allows it and when the supplier/ subcontractor has appointed an internal "tutor" for the children.

6.3.4. Ethical practices

Actions taken to avoid all forms of corruption

L'Oréal supports the fight against corruption, abides by the United Nations Anti-Corruption Convention of October 31st, 2003 and undertakes to apply all applicable laws, including anti-corruption laws.

L'Oréal's Code of Business Ethics publicly states a zero-tolerance policy on corruption. It applies to all employees and covers bribery and "facilitation payments", conflicts of interests, gifts and entertainment.

The anti-corruption policy contained in the Code of Business Ethics applies to all employees, officers, Executive Committee members and Management Executives of the Group and its subsidiaries worldwide. Other policies such as the Purchasing Code of Ethics ("Our Everyday Purchases"), a practical guide drawn up to govern the relationships between suppliers and all purchasers involved in purchasing decisions, also address these issues.

This commitment is supported at the very top of the Company, particularly by L'Oréal's Chairman and CEO who, for example, answered questions from employees on this subject during a live webchat, on the Group's last Ethics Day in October 2011.

Country Managers are responsible and accountable for implementation of L'Oréal's anti-corruption policy. The Group's Director of Ethics systematically meets with each new Country Manager in order to raise awareness of corruption issues.

The ethical risk assessment and analysis tool enables Country Managers to assess any ethical risks (including corruption) and to take the necessary steps to remedy the problems.

L'Oréal's commitment is supported by Human Resources procedures. Thus, the skill "Obtains results with integrity" is now included in the annual system of assessment of all our employees.

Training courses and communication on Ethics deal not only with bribery and "facilitation payments" but also with gifts and entertainment, as well as conflicts of interests.

Employees are encouraged to express any concerns they have on-line in accordance with L'Oréal's "Open Talk" policy, and a dedicated website provides a secure mechanism for asking questions or raising concerns directly, including on a no-names basis, with the Group's Director of Ethics.

L'Oréal's Internal Audit terms are particularly vigilant in this respect. Corruption risks are systematically reviewed during internal audit assignments, notably through individual interviews with regard to Ethics.

These interviews include questions specifically concerning corruption and are conducted independently with the Country Manager and the administrative and financial manager. They give rise to an individual report reviewed and signed by these latter persons.

Measures adopted with regard to consumer health and safety

Protection of consumer safety is one of L'Oréal's absolute priorities. The stringent safety tests carried out on products before they are brought to market ensure that L'Oréal meets all current safety rules in the national regulations of all the countries where the Group's products are marketed. In this respect, long before the legal requirements were introduced, the Group had already set up a product safety assessment team in order to guarantee that products are safe for both professionals and consumers.

Evaluations by L'Oréal's International Safety Assessment Department, based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle.

The product safety evaluation is based on a complex process: assessment of the safety of each ingredient of all finished products on the basis of existing safety data and the latest medical and scientific knowledge. If necessary, L'Oréal conducts additional safety studies subcontracted to qualified laboratories all over the world. The results of these studies are interpreted by experienced scientists who are specially trained in safety assessments.

At the end of the process, a specific safety certificate, signed by a safety assessment expert, is issued for each product that L'Oréal places on the market.

Furthermore, L'Oréal's ethical values, rooted in both scientific rigour and responsiveness to societal concerns, lead to a pre-emptive approach whereby formulations are evolved by removing and/or replacing substances that are the subject of concern.

L'Oréal's added value, in terms of the safety assessment of its ingredients and end products, lies in its investment for over twenty years in the development of predictive methods and tissue engineering. For many years, L'Oréal has been investing in science and technology to create new assessment tools which are used every day by safety assessors.

L'Oréal also works closely with all the international stakeholders involved in relevant industries in order to progress the development of alternative multidisciplinary solutions in the field of safety assessment.

In fact, L'Oréal's products continually evolve as and when technological innovations occur, but with the constant desire to guarantee the highest level of safety for both consumers and professionals.

6.3.5. Other actions taken in favour of Human Rights

L'Oréal's Chairman and Chief Executive Officer has given the Director of Ethics the task of making sure that human rights are respected in the Company's business activities.

Several chapters of the Code of Business Ethics are devoted to practical implementation of compliance with human rights: health, hygiene and safety, diversity, moral and sexual harassment, respect of privacy, contributing to the community, choice and equal treatment of suppliers, to name but a few. The Code of Business Ethics is available on the www.loreal.com website.

Training and communication on Ethics also address Human Rights issues. In 2011, 77% of the countries where the Group is present included Human Rights topics (health, hygiene and safety, diversity, moral harassment, sexual harassment, respect for privacy, contributing to the community, choice and equal treatment of suppliers) in their local training courses and 83% of them communicated on these topics.

Country Managers are responsible for implementation of the Human Rights policy in their country. The Group's Director of Ethics meets systematically with each Country Manager in order to bring their attention to Human Rights issues.

Country Reporting Ethics, an annual reporting system on ethical issues, covers all the subjects addressed in the Code of Business Ethics and therefore provides an analysis of the initiatives implemented in the countries. This information makes it possible, in particular, to assess the Group's performance in the application of Human Rights.

The ethical risk assessment and analysis tool enables Country Managers to assess any ethical risks (including in the field of Human Rights) and to take the necessary steps to remedy the problems that may arise.

Methodological note

The information with regard to societal commitments, a new section which now supplements the information on social and environmental issues, is provided from the perspective of the requirements of the Grenelle II regulations.

Societal commitment data scope, indicators, reporting method and systems

Scope of consolidation

The scope covers, depending on the indicators, L'Oréal parent company, France or the Group. The specific scope is specified for each indicator.

Indicators

The indicators chosen are those anticipated within the scope of the Grenelle II regulations, with the aim of data comparability.

Data

The following methods are used to collect data for the defined scope:

A certain amount of data particularly concerning Ethics is collected by the Ethics Department using the "*Country reporting*" intranet system, also used to collect Human Resources data (see, in this respect, the HR data reporting methodology described on page 193).

The other data are collected from the departments concerned (Communications, Sustainable Development and Public Affair Department, Human Resources Department, Purchasing Department, International Product Safety Assessment Department).

7 Stock market information and share capital

L'Oréal is a French limited company listed on the Paris stock market. This chapter sets out the information relating to its share capital and the main details of its legal form and its Articles of Association. All the information on the L'Oréal share and L'Oréal share market are also included in this chapter.

7.1. Information relating to the Company

7.1.1. Legal form

L'Oréal is incorporated in France as a "*société anonyme*".

7.1.2. Law governing the Issuer

French law.

7.1.3. 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 marketing of the products made in the Group's factories. L'Oréal wholly owns the vast majority of its subsidiaries. In the other subsidiaries, minority interests are not material. It also has substantial investments in non-consolidated companies, details of which are set out on pages 140 to 144 and pages 169 to 173.

7.1.4. 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."

7.1.5. 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/or 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, under 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."

7.1.6. Company registration number

632 012 100 Paris Trade and Companies Registry.

7.1.7. 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.

7.1.8. General Management (Article 11 of the Articles of Association)

"1. In accordance with legal provisions, the General Management of the Company is assumed, under its responsibility, either by the Chairman of the Board of Directors, or by another natural person appointed by the Board of Directors and bearing the title of Chief Executive Officer.

The choice between these two modes of exercising General Management is made by the Board of Directors each time a Chairman of the Board of Directors or a Chief Executive Officer is appointed or has his tenure renewed. The Board of Directors must inform shareholders and third parties of this choice in accordance with the statutory provisions.

The choice of the Board of Directors concerning the mode of exercise of the General Management is made on the basis of a majority vote of the Directors present or represented.

Changing the mode of exercise of the General Management does not involve a modification of the Articles of Association.

2. Depending on the choice made by the Board of Directors in accordance with the provisions of § 1 above, the General Management is carried out either by the Chairman, or by a natural person, appointed by the Board of Directors and bearing the title of Chief Executive Officer.

3. The Chief Executive Officer is granted the most extensive powers to act in all circumstances on behalf of the Company. He exercises these powers within the limitations of the object of the Company, and subject to the powers expressly granted by law to Shareholders' Meetings.

The Chief Executive Officer represents the Company in its relations with third parties. The Company is bound even by actions of the Chief Executive Officer which are outside the object of the Company, unless the Company can prove that the third party was aware that the action was outside the object of the Company, or that the third party could not be unaware of this in view of the circumstances, it being stated however that the mere publication of the Articles of Association does not constitute such proof.

4. On the proposal of the Chief Executive Officer, whether this office is assumed by the Chairman of the Board of Directors or by another person, the Board of Directors may appoint one or more natural persons in charge of assisting the Chief Executive Officer, with the title of Deputy Chief Executive Officer.

In agreement with the Chief Executive Officer, the Board of Directors determines the extent and duration of the powers granted to the Deputy Chief Executive Officers."

7.1.9. 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."

7.1.10. Statutory 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 five percent (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 in the Company, or to redeem in whole or in part such shares.

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.

However, any shareholder who can prove at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name 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 shares have been registered in his name 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.

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."

7.1.11. 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.

7.1.12. Statutory share ownership threshold

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or 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, three-tenths, 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).

See also the complete text of the Company's Articles of Association on the www.loreal-finance.com internet site.

7.2. Information concerning the share capital

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

None.

7.2.2. Issued share capital and authorised unissued share capital

The share capital amounts to €120,596,816.40 as of December 31st, 2011. It is divided into 602,984,082 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 of shareholders 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 17th, 2012.

Authorisations in force					Authorisations proposed to the Annual General Meeting of April 17th, 2012		
Nature of the authorisation	Date of AGM (resolution no.)	Length (expiry date)	Maximum authorised amount	Use made of the authorisation in 2011	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 22nd, 2011 (9th)	26 months (June 22nd, 2013)	An increase in the share capital to €180,000,000	None			
Capital increase reserved for employees	April 22nd, 2011 (12th)	26 months (June 22nd, 2013)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 6,017,878 shares)	None			
Buyback by the Company of its own shares							
Buyback by the Company of its own shares (maximum authorised purchase price: €130)	April 22nd, 2011 (8th)	18 months (October 22nd, 2012)	10% of share capital on the date of the buybacks (*i.e.* 60,298,408 shares at December 31st, 2011)	None (Capital held by the Company at December 31st, 2011: 1.43% of the share capital)	9th	18 months	10% of share capital on the date of the buybacks (*i.e.* 60,298,408 shares at December 31st, 2011)
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 27th, 2010 (14th)	26 months (June 27th, 2012)	10% of share capital on the date of cancellation per 24-month period	None	10th	26 months (June 17th, 2014)	10% of share capital on the date of cancellation per 24-month period (*i.e.* 60,298,408 shares at December 31st, 2011)
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	April 27th, 2010 (14th)	26 months (June 27th, 2012)	500,000 shares	None	10th	26 months (June 17th, 2014)	500,000 shares
Stock options and free grants of shares							
Allocation of share purchase or subscription options (no discount with regard to exercise price)	April 22nd, 2011 (10th)	26 months (June 22nd, 2013)	0.6% of share capital on the date of the decision to allocate the options	1,470,000 share subscription options			
Free grant of existing shares or shares to be issued to employees	April 22nd, 2011 (11th)	26 months (June 22nd, 2013)	0.6% of share capital on the date of the decision to make the grant	1,038,000 shares			

At December 31st, 2011, 27,357,878 share subscription options were allocated. 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. Furthermore, 711,400 conditional shares had been granted to Group employees. These shares will be created when necessary and, where applicable, by capitalisation of reserves. Accordingly, the potential share capital of the Company amounts to €126,210,672 divided into 631,053,360 shares with a par value of €0.20 each.

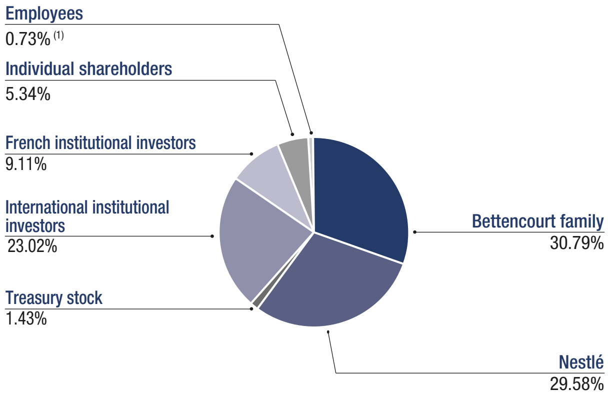
The Company has not issued any securities which grant indirect entitlement to shares in the capital.

7.2.3. 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
12.31.2006	-	-	-	€127,923,282	-	639,616,410
01.01 to 02.14.2007	Exercise of share subscription options	€250.00	€78,525.00	€127,923,532	1,250	639,617,660
02.14.2007	Cancellation of shares	-€2,698,150.00	-	€125,225,382	-13,490,750	626,126,910
02.15 to 08.30.2007	Exercise of share subscription options	€11,290.00	€3,516,221.50	€125,236,672	56,450	626,183,360
08.30.2007	Cancellation of shares	-€1,645,020.00	-	€123,591,652	-8,225,100	617,958,260
08.30 to 12.31.2007	Exercise of share subscription options	€3,470.00	€1,090,637.00	€123,595,122	17,350	617,975,610
02.13.2008	Cancellation of shares	-€1,437,400.00	-	€122,157,722	-7,187,000	610,788,610
02.14 to 08.27.2008	Exercise of share subscription options	€6,920.00	€2,087,532.00	€122,164,642	34,600	610,823,210
08.28.2008	Cancellation of shares	-€1,682,080.00	-	€120,482,562	-8,410,400	602,412,810
08.29 to 12.31.2008	Exercise of share subscription options	€600.00	€185,572.50	€120,483,162	3,000	602,415,810
02.16.2009	Cancellation of shares	-€794,120.00		€119,689,042	-3,970,600	598,445,210
02.17 to 12.31.2009	Exercise of share subscription options	€105,440.00	€31,026,370.50	€119,794,482	527,200	598,972,410
01.01 to 04.26.2010	Exercise of share subscription options	€149,080.00	€44,316,558.00	€119,943,562	745,400	599,717,810
04.27.2010	Cancellation of shares	-€100,000.00	-	€119,843,562	-500,000	599,217,810
04.27 to 12.31.2010	Exercise of share subscription options	€354,955.00	€107,450,074.75	€120,198,517	1,774,775	600,992,585
01.01 to 05.30.2011	Exercise of share subscription options	€233,719.40	€71,517,702.03	€120,432,236.40	1,168,597	602,161,182
05.30.2011	Conditional grant of shares	€80.00	-	€120,432,316.40	400	602,161,582
05.31 to 12.31.2011	Exercise of share subscription options	€164,500.00	€51,578,602.50	€120,596,816.40	822,500	602,984,082

7.3. Shareholder structure

Shareholder structure at December 31st, 2011



(1) In the L'Oréal Company Savings Plan (PEE).

7.3.1. 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 the sections on *Changes in allocation of the share capital and voting rights and shareholders' agreements relating to shares in the Company's share capital* below).

7.3.2. 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:

	12.31.2009				12.31.2010				12.31.2011			
	Number of shares	% of capital	% of voting rights (3)	% of voting rights (4)	Number of shares	% of capital	% of voting rights (3)	% of voting rights (4)	Number of shares	% of capital	% of voting rights (3)	% of voting rights (4)
Bettencourt family (1) (2)	185,661,879	31.00	31.00	31.75	185,661,879	30.89	30.89	31.49	185,661,879	30.79	30.79	31.24
Nestlé S.A. (2)	178,381,021	29.78	29.78	30.51	178,381,021	29.68	29.68	30.25	178,381,021	29.58	29.58	30.01
Company Savings Plan	4,307,998	0.72	0.72	0.74	4,260,700	0.71	0.71	0.72	4,404,950	0.73	0.73	0.74
Public	216,384,762	36.12	36.12	37.00	221,352,303	36.83	36.83	37.54	225,938,573	37.47	37.47	38.01
Treasury stock	14,236,750	2.38			11,336,682	1.89			8,597,659	1.43		
Total	**598,972,410**	**100.00**	**97.62**	**100.00**	**600,992,585**	**100.00**	**98.11**	**100.00**	**602,984,082**	**100.00**	**98.57**	**100.00**

(1) Including 185,654,833 L'Oréal shares held in absolute or beneficial ownership by Téthys, a French "Société par actions simplifiée" (simplified joint-stock company) of which Mrs. Liliane Bettencourt holds almost all the shares and attached voting rights in beneficial ownership. Mrs. Françoise Bettencourt Meyers holds 76,441,389 L'Oréal shares in bare ownership, the beneficial ownership of which is held by Téthys of which she is the Chairwoman.

(2) The Bettencourt family and Nestlé S.A. act in concert (see shareholders' agreements relating to shares in the Company's share capital hereafter).

(3) Calculated in accordance with Article 223-11 of the General Regulation of the Autorité des Marchés Financiers.

(4) 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, 2011, the members of the Executive Committee 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 paragraph 2.2.1.2. on pages 30 to 42.

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, 2011, the Company held, on this basis, 8,597,659 of its own shares (1.43% of the share capital), which, if they were to be valued at their purchase price, would represent €644.4 million. 5,166,554 of these shares were allocated to covering the stock option plans for the purchase of shares allocated to employees and corporate officers of Group companies that have not yet expired and 1,038,000 to a plan for the conditional grant of shares to employees.

7.3.3. Employee share ownership

The employees of the Company and its affiliates held 4,404,950 shares as at December 31st, 2011, that is 0.73% of the share capital, through the Company Savings Plan (PEE).

At that date, this stake in the capital is held by 9,649 employees participating in the Group Company Savings Plan.

7.3.4. Disclosures to the Company of legal thresholds crossed

During 2011, the Company was not informed of any crossing of the legal thresholds with regard to the holding of its shares or voting rights.

7.3.5. 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:

7.3.5.1. 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 transaction.

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.

7.3.5.2. Board of Directors

The memorandum of 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 on the Board of Directors of L'Oréal of a committee called the *Strategy and Implementation* Committee 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.

7.3.5.3. Term

Unless otherwise stipulated, the memorandum of 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.

7.3.5.4. Concerted action between the parties

The parties declared that they would act in concert for a period of five years from April 29th, 2004 onwards.

On April 9th, 2009, the Bettencourt family and Nestlé published the following press release:

"On February 3rd, 2004, the Bettencourt family and Nestlé signed an agreement organising their relationship and the management of their stakes within the L'Oréal Company.

The agreement is public and remains unchanged. It foresees the non-transferability of their respective stakes in the capital of L'Oréal until April 29th, 2009, the other clauses (in particular, limitation on the shareholding, pre-emption, escrow, prohibition on constituting a concert party with any third party, composition of the Board of Directors and of the Strategy and Implementation Committee) continue to be effective until the expiry date mentioned in the 2004 deed.

The Bettencourt family and Nestlé will continue on acting in concert with regard to the L'Oréal Company beyond April 29th, 2009."

7.3.6. Buyback by the Company of its own shares

7.3.6.1. Information concerning share buybacks during the 2011 financial year

In 2011, the Company did not buy back any of its own shares. It did not therefore make any use of the authorisation voted by the Annual General Meetings of April 27th, 2010 and April 22nd, 2011.

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 27th, 2010 (13th resolution)	April 22nd, 2011 (8th resolution)
Expiry date of the authorisation	October 27th, 2011	October 22nd, 2012
Maximum amount of authorised buybacks	10% of capital on the date of the share buybacks (*i.e.* at 12.31.2010 60,099,258 shares), for a maximum amount of €7,812.9 million	10% of capital on the date of the share buybacks (*i.e.* at 12.31.2011 60,298,408 shares), for a maximum amount of €7,838.8 million
Maximum purchase price per share	€130	€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)	None	None
Purpose of buybacks	Not applicable	Not applicable
Period of buybacks made	Not applicable	Not applicable
Number of shares purchased	None	None
Average purchase price per share	None	None
Use of shares purchased	Not applicable	Not applicable

7.3.6.2. Transactions carried out by L'Oréal with respect to its shares in 2011

Percentage of share capital held by the Company directly and indirectly at December 31st, 2011:	1.43%
Including:	
♦ those intended to cover existing share purchase option plans	0.86%
♦ those intended to cover conditional shares	0.17%
♦ those intended for cancellation	0.00%
Number of shares cancelled during the last 24 months:	500,000
Number of shares held in the portfolio at 12.31.2011:	8,597,659
Net book value of the portfolio at 12.31.2011:	€644.4 million
Market portfolio value at 12.31.2011:	€693.8 million

	Total gross transactions	
	Purchases	Sales/Transfers (1)
Number of shares	None	2,739,023
Average transaction price	Not applicable	
Average exercise price		€76.22
Amounts	None	€208.8 million

(1) Exercise of stock options for the purchase of shares granted to employees and corporate officers of Group companies.

There is no open purchase or sale position at December 31st, 2011.

7.3.6.3. 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 would 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 transfer within the scope of employee share ownership programmes and their allocation to free grants of shares and/or share purchase options for the benefit of employees and corporate officers of the Group;
- 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 €7,838.8 million, it being specified that the Company may never at any time hold over 10% of its own share capital.

These shares could be acquired by any means, on one or more occasions, on the stock market or over the counter, including through purchases of blocks of shares.

7.3.7. Presentation of the stock option plans for the purchase or subscription of shares and plan for the Conditional Grant of Shares to Employees

Policy

For several years, L'Oréal has set up stock option plans in favour of its employees and corporate officers in an international context.

It pursues a dual objective:

- motivating and associating those who make big contributions to future development in the Group's results;
- increasing solidarity and helping to instil a Group spirit among its managers by seeking to foster their loyalty over time.

In 2009, L'Oréal enlarged its policy by introducing a mechanism for the conditional grant of shares to employees.

The objective is:

- to provide a long-term incentive offering greater motivation to all those who only received stock options occasionally or in limited numbers;
- to reach out to a broader population of potential beneficiaries, particularly internationally, in a context of increased competition with regard to talents.

In 2010, this policy remained unchanged, and was applied to an even larger number of beneficiaries.

In 2011, L'Oréal decided to make plans for the conditional grant of shares to employees the primary tool for its long-term incentive policy by extending the grants of such shares to the Group's main senior managers who were previously motivated only through stock options.

Except for the Chairman and Chief Executive Officer who received stock options only, the main senior managers of L'Oréal, including the members of the Executive Committee, received a mix of stock options and conditional grants of shares in order to encourage their entrepreneurial spirit and reward their medium and long-term performance.

Other eligible employees are stimulated by conditional grants of shares only.

The decision with regard to each individual grant is, in every case, contingent on the quality of the performance rendered at the time of implementation of the plan.

According to the eligibility criteria linked to the position held by the beneficiary and the size of the entity or the country in which the beneficiary works, in a concern for equity on an international scale, these grants are made every year, every two years or every three years.

Since 2009, the plans are proposed by the General Management to the Board of Directors after publication of the financial statements for the previous financial year, in accordance with the AFEP-MEDEF recommendation.

The General Management and the Board of Directors stress the importance that is given in this way to bringing together the interests of the beneficiaries of stock options and conditional grants of shares and those of the shareholders themselves.

The employees and corporate officers who are the beneficiaries share with the shareholders the same confidence in the strong steady growth of the Company with a medium and long-term vision. This is why stock options are granted for a period of 10 years including a 5-year lock-up period, and conditional grants of shares for a period of 4 years followed by a 2-year waiting period for France during which these shares cannot be sold.

In all, nearly 2,800 employees (*i.e.* approximately 14% of the senior managers throughout the world) benefit from at least one currently existing stock option plan or plan for the conditional grant of shares.

The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside" information.

The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of Ethics which is attached to the regulations for the stock option plans or the plans for the conditional grant of shares from which they benefit and to comply with the provisions thereof.

7.3.8. Stock option plans to purchase or subscribe to L'Oréal parent company shares

7.3.8.1. Authorisation of the Ordinary and Extraordinary General Meeting of April 22nd, 2011

The Ordinary and Extraordinary General Meeting of April 22nd, 2011 gave the Board of Directors the authorisation to grant options to purchase existing shares of the Company or to subscribe for new shares to employees or certain corporate officers of the Company and its French or foreign affiliates under the conditions of Article L. 225-180 of the French Commercial Code.

This authorisation was granted for a period of twenty-six months.

The total number of options that may be granted may not grant entitlement to subscribe for or purchase a total number of shares representing more than 0.6% of the share capital on the date of the Board of Directors' decision.

The purchase price or subscription price for the shares is set by the Board of Directors, without any discount, on the day the options are granted.

The stock options must be exercised within a maximum time period of ten years as from the date on which they are granted.

The mechanism for the allocation of stock options complies with the AFEP-MEDEF Code of Corporate Governance of April 2010 and in particular:

- any grants to the corporate officers will be decided by the Board of Directors after assessment of their performance;
- exercise by the corporate officers of all the options will be linked to performance conditions to be met that are set by the Board;
- 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 paragraph 2.3.3 page 56;
- a corporate officer may not be granted stock options at the time of his departure.

Furthermore, the value of the stock options granted to the corporate officers during a given financial year together with the value of the free shares granted to the corporate officers during the same financial year may not represent over 10% of the total value of all the stock options allocated and free shares granted during such financial year. The value of the stock options and the value of the shares mean the estimated fair value used to prepare the Company's consolidated financial statements under IFRS.

7.3.8.2. Stock options granted in 2011 (Share Subscription Option Plan of April 22nd, 2011)

The share capital as of April 22nd, 2011 consisted of 601,788,112 shares, which offered the possibility to distribute approximately 3,610,728 options within the scope of the authorisation of April 22nd, 2011.

At its meeting on April 22nd, 2011, the Board of Directors allocated 1,470,000 share subscription options at a unit price of €83.19, namely a price equal to 100% of the average of the closing share prices on the NYSE-Euronext Paris market for the twenty trading days before the date of their allocation to 89 beneficiaries. The fair unit value of these options amounts to €18.58.

It was decided to make the exercise of these options subject to achievement of performance conditions taking into consideration:

- for half the amount, growth in cosmetics sales as compared to a panel of competitors;
- and for the other half growth in the Group's consolidated operating profit;

calculated at the end of the lock-up period on the basis of the arithmetical mean for the four full financial years from 2012 to 2015. The number of stock options that may be exercised will depend on the level of performance achieved. For reasons of confidentiality, the various levels of performance required were communicated precisely to the beneficiaries but may not be made public.

7.3.8.3. Currently existing L'Oréal parent company share purchase or subscription options (1)

The main features of the plans that existed at December 31st, 2011 are included in the tables set out hereafter:

AGM authorisation date	06.01.1999	06.01.1999	05.22.2003	05.22.2003	05.22.2003	05.22.2003	05.22.2003
Date of Board of Directors' meeting	**03.26.2002**	**09.04.2002**	**12.03.2003 (2)**	**03.24.2004**	**12.01.2004**	**06.29.2005**	**11.30.2005 (4)**
Total number of beneficiaries	410	394	693	257	274	3	771
Total number of shares that may be subscribed or purchased,	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000	400,000	6,000,000
Of which may be subscribed or purchased by the corporate officers (3)							
- Sir Lindsay Owen-Jones *- Mr. Jean-Paul Agon*	0	0	1,000,000	0	1,000,000	0	1,000,000
Start date for exercise of the options	03.27.2007	09.05.2007	12.04.2008	03.25.2009	12.02.2009	06.30.2010	12.01.2010
Date of expiry	03.26.2012	09.04.2012	12.03.2013	03.24.2014	12.01.2014	06.29.2015	11.30.2015
Subscription or purchase price (in euros)	81.65 (A)	76.88 (A)	63.02 (S) 71.90 (A)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S) 62.94 (A)
Number of stock options exercised at 12.31.2011	873,950	1,093,000	1,444,850	1,081,807	1,785,390	0	1,849,921
Of which shares subscribed	*0*	*0*	*868,350*	*1,081,807*	*1,785,390*	*0*	*1,316,075*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	370,500	293,000	606,500	144,500	171,000	0	280,500
Number of option shares remaining to be subscribed or purchased at year-end	1,255,550	1,114,000	2,948,650	773,693	2,043,610	400,000	3,869,579

AGM authorisation date	04.25.2006	04.25.2006	04.24.2007	04.24.2007	04.16.2009	04.22.2011
Date of Board of Directors' meeting	**04.25.2006**	**12.01.2006**	**11.30.2007**	**03.25.2009**	**04.27.2010**	**04.22.2011**
Total number of beneficiaries	1	788	839	634	815	89
Total number of shares that may be subscribed or purchased	2,000,000	5,500,000	4,000,000	3,650,000	4,200,000	1,470,000
Of which may be subscribed or purchased by the corporate officers(3)						
- Sir Lindsay Owen-Jones	*2,000,000*					
- Mr. Jean-Paul Agon		*500,000*	*350,000*	*0*	*400,000*	*200,000 (5)*
Start date for exercise of the options	04.26.2011	12.02.2011	12.01.2012	03.26.2014	04.28.2015	04.23.2016
Date of expiry	04.25.2016	12.01.2016	11.30.2017	03.25.2019	04.27.2020	04.22.2021
Subscription or purchase price *(in euros)*	72.60 (S)	78.06 (S)	91.66 (S)	50.11 (S)	80.03 (S)	83.19 (S)
Number of stock options exercised at 12.31.2011	0	183,000	0	0	0	0
Of which shares subscribed	*0*	*183,000*	*0*	*0*	*0*	*0*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	0	271,250	175,900	59,500	11,000	0
Number of option shares remaining to be subscribed or purchased at year-end	2,000,000	5,045,750	3,824,100	3,590,500	4,189,000	1,470,000

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

(2) 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.

(3) This is the number of stock options granted to the corporate officers during their terms of office within the scope of each of the above-mentioned plans. Mr. Jean-Paul Agon has been a corporate officer since April 2006.

(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.
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.

(5) The Board of Directors' meeting of April 22nd, 2011 allocated 400,000 share subscription options to Mr. Jean-Paul Agon. Mr. Agon waived the right to 200,000 of such options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors at its meeting on April 22nd, 2011.

Outstanding options granted by the Board of Directors within the scope of the authorisations voted by the Annual General Meetings and not yet exercised were 32,524,432 options at December 31st, 2011, at an average price of €72.02, namely 5.39% of the shares making up the share capital at such date.

7.3.8.4. Stock options to purchase or subscribe for shares granted to employees other than corporate officers of L'Oréal or exercised by them during the 2011 financial year

	Total number of options granted/ shares subscribed or purchased	Weighted average price	Plan of 03.28.2001 (A)	Plan of 09.18.2001 (A)	Plan of 10.08.2001 (A)	Plan of 03.26.2002 (S)	Plan of 09.04.2002 (S)	Plan of 12.03.2003 (A)	Plan of 12.03.2003 (S)	Plan of 03.24.2004 (S)	Plan of 12.01.2004 (S)	Plan of 11.30.2005 (A)	Plan of 11.30.2005 (S)	Plan of 04.22.2011 (S)
Options **granted** by L'Oréal parent company **to the ten employees**(1) **to whom the largest number of stock options was granted**	460,000	€83.19												460,000
Options held with regard to L'Oréal parent company **exercised by the ten employees**(1) who have thus purchased or subscribed **for the largest number of options**	638,000	€70.89	75,000	75,000	12,500	80,000	80,000	30,000	67,500	76,000	52,500	38,750	50,750	

(1) Employees other than corporate officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

7.3.9. Plan for the Conditional Grant of Shares to Employees

7.3.9.1. Authorisation of the Ordinary and Extraordinary General Meeting of April 22nd, 2011

The Ordinary and Extraordinary General Meeting of April 22nd, 2011 gave the Board of Directors the authorisation to carry out free grants of existing shares and/or shares to be issued of the Company to employees and corporate officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code.

This authorisation was granted for a period of twenty-six months.

The total number of shares that may be granted may not represent more than 0.6% of the share capital on the date of the Board of Directors' decision.

The free grant of shares is performance-related.

The mechanism for the Conditional Grant of Shares to employees complies with the AFEP-MEDEF Code of Corporate governance of April 2010 and in particular:

- any conditional grants of shares to the corporate officers will be decided by the Board of Directors after assessment of their performance;
- the final acquisition of all or part of the shares will be linked to performance conditions to be met that are set by the Board;
- the corporate officers will be obliged to retain 50% of the shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties;
- a corporate officer may not be granted any shares at the time of his departure.

Furthermore, the value of the stock options granted to the corporate officers during a given financial year together with the value of the free shares granted to the corporate officers during the same financial year may not represent over 10% of the total value of all the stock options allocated and free shares granted during such financial year. The value of the stock options and the value of the shares mean the estimated fair value used to prepare the Company's consolidated financial statements under IFRS.

7.3.9.2. Conditional Grants of Shares to Employees in 2011 (Plan of April 22nd, 2011)

The share capital at April 22nd, 2011 consisted of 601,788,112 shares, which gave the possibility to distribute 3,610,728 shares within the scope of the authorisation of April 22nd, 2011.

The Board of Directors used this authorisation at its meeting of April 22nd, 2011, by granting 1,038,000 free shares to 1,991 beneficiaries, the fair unit value of these shares amounting to €70.36 for French tax and social security residents and €77.67 for non-residents.

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Vesting of the shares is subject to a dual condition of:

- presence: the shares granted will only finally vest after a period of 4 years at the end of which the beneficiary must still be an employee of the Group (save the exceptions provided for by law or the Plan regulations);
- performance:
  - vesting of all or part of 50% of the shares granted will depend on the growth in comparable cosmetics sales for financial years 2012, 2013 and 2014 as compared to that of a panel of competitors;
  - vesting of all or part of 50% of the shares granted will depend on growth in the Group's consolidated operating profit over the same period.

The calculation will be made on the basis of the arithmetical mean of the performances for the 2012, 2013 and 2014 financial years.

For reasons of confidentiality, the various levels of performance required were communicated precisely to the beneficiaries but may not be made public.

The final vesting of the first 200 conditional shares granted is not subject to fulfilment of the performance conditions except for the members of the Executive Committee.

At the end of the vesting period, beneficiaries who are French residents at the date of grant of the shares will be obliged to retain the shares that have vested for an additional period of 2 years during which these shares are non-transferable.

The Board of Directors' meeting of April 22nd, 2011 did not conditionally grant any shares to the corporate officer.

7.3.9.3. Existing conditional grants of shares to employees

Date of authorisation by the Extraordinary General Meeting	04.24.2007	04.16.2009	04.22.2011
Date of grant by the Board of Directors	**03.25.2009**	**04.27.2010**	**04.22.2011**
Total number of shares conditionally granted	**270,000**	**450,000**	**1,038,000**
Of which the ten employees other than corporate officers granted the largest number of shares	*5,000*	*6,000*	*92,000*
Number of beneficiaries	752	1,418	1,991
Performance conditions:	♦ 50% growth in sales as compared to growth in the cosmetics market; ♦ 50% ratio of operating profit as compared to reported cosmetic sales.	♦ 25% growth in sales as compared to growth in the cosmetics market; ♦ 75% ratio of operating profit as compared to reported cosmetic sales.	♦ 50% growth in cosmetics sales as compared to that of a panel of competitors; ♦ 50% growth in the L'Oréal Group's consolidated operating profit.
Date of final vesting for French residents at the date of grant	03.25.2013	04.27.2014	04.22.2015
Date of final vesting for non-French residents at the date of grant	03.25.2013	04.27.2014	04.22.2015
End of the waiting period for French residents at the date of grant	03.25.2015	04.27.2016	04.22.2017

7.3.9.4. Shares granted to the ten employees other than corporate officers to whom the largest number of shares have been granted

The total number of shares granted in 2011, to the ten employees other than corporate officers who received the largest number of shares amounts to 92,000 shares.

7.4. L'Oréal share market

7.4.1. The L'Oréal share

7.4.1.1. Information on the L'Oréal share

Isin code: FR0000120321.

Loyalty bonus code:

- Dividend +10% in 2012: FR0011149590;
- Dividend +10% in 2013: FR0010970285;
- Dividend +10% in 2014: FR0011147487.

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).

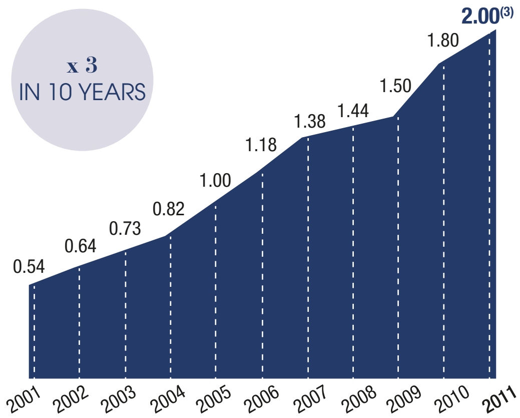
Unsponsored *American Depositary Receipts* are freely traded in the United States through certain banks operating in the United States.

7.4.1.2. Stock market data

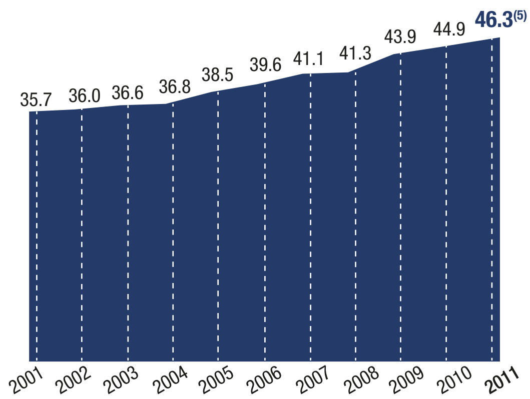
Price at December 31st, 2011	€80.70
High	€91.24 at July 8th, 2011
Low	€68.83 at September 23rd, 2011
Annual share price increase at December 31st, 2011	
♦ L'Oréal	-2.86%
♦ CAC 40	-16.95%
♦ Euronext 100	-14.18%
♦ DJ Euro Stoxx 50	-17.05%
Market capitalisation at December 31st, 2011	€48.66 billion(1)
At December 31st, 2011, the L'Oréal share weighed:	
♦ in the CAC 40	3.33%
♦ in the Euronext 100	3.38%
♦ in the DJ Euro Stoxx 50	1.44%

7.4.1.3. Dynamic shareholder return policy

- €4.32 (2) net earnings per share
- €2.00 (3) dividend per share
- A regular increase in the dividend per share *(in euro)*:



- Share of profits dedicated to dividends (4).



(1) *On the number of shares at December 31st, 2011; i.e. 602,984,082 shares.*
(2) *Diluted net earnings per share based on net profit excluding non-recurring items after minority interests.*
(3) *Dividend proposed to the Annual General Meeting of April 17th, 2012.*
(4) *Dividend distribution rate based on diluted net profit excluding non-recurring items per share. Taking into account Sanofi not consolidated on this period.*
(5) *Based on the dividend proposed to the Annual General Meeting of April 17th, 2012.*

7.4.2. L'Oréal share market

7.4.2.1. Trading volumes and change in the price of the Company's share

According to NYSE-Euronext data, the only stock market for which reliable retrospective statistics could be collected.

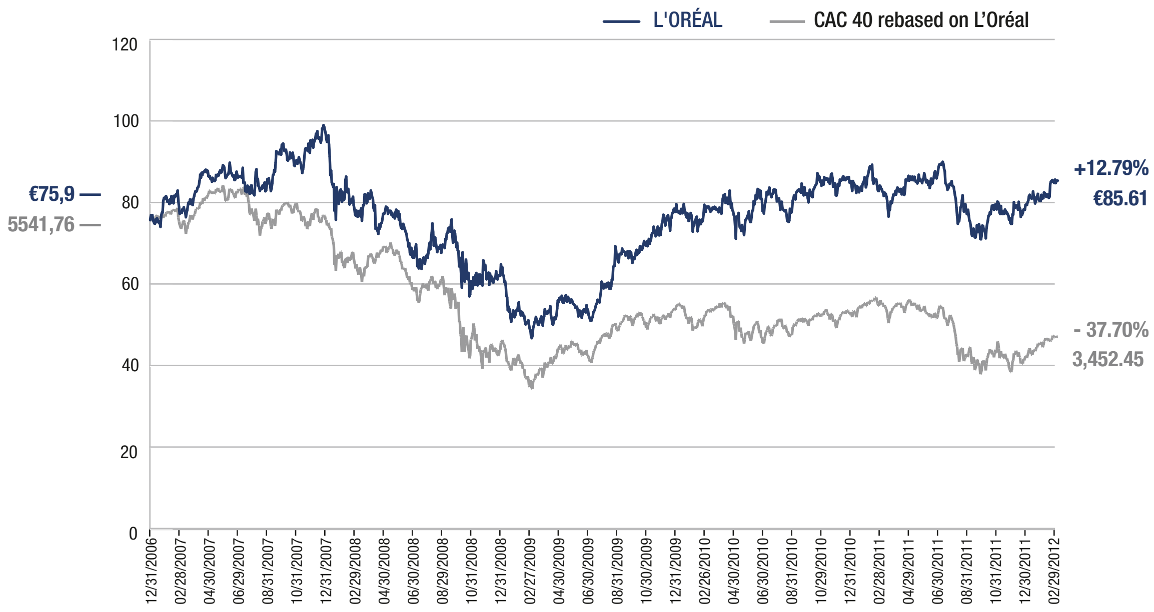
	Price in €			Average daily trading volume (€ millions)
Date	High	Low	Average	
2009				
January	65.40	50.00	56.95	83.78
February	56.00	50.00	52.66	72.18
March	52.50	46.00	50.30	75.75
April	55.61	49.29	52.62	83.90
May	58.50	54.48	56.45	61.83
June	57.05	51.85	54.10	54.33
July	62.68	50.72	54.44	50.99
August	71.00	58.51	61.48	67.78
September	69.05	65.01	67.52	71.02
October	71.46	64.50	68.28	58.35
November	74.75	68.69	72.19	61.16
December	79.32	72.64	76.37	60.77

	Price in €			Average daily trading volume (€ millions)
Date	High	Low	Average	
2010				
January	80.22	75.60	77.92	61.59
February	77.97	71.90	75.53	84.15
March	80.51	76.62	78.68	66.52
April	83.76	76.82	80.25	97.75
May	79.50	70.90	75.18	126.83
June	84.28	74.50	79.78	97.77
July	85.00	77.49	81.64	85.50
August	83.38	75.03	78.48	81.90
September	84.89	78.53	82.62	82.97
October	88.00	80.10	83.91	74.16
November	87.91	81.66	85.34	54.33
December	86.93	81.90	85.40	57.26

	Price in €			Average daily trading volume (€ millions)
Date	High	Low	Average	
2011				
January	86.95	82.27	84.30	70.07
February	90.00	82.14	86.14	93.47
March	85.37	76.64	81.33	76.43
April	86.83	81.56	84.01	65.73
May	87.48	84.64	85.93	93.32
June	89.56	83.58	86.23	72.33
July	91.24	82.10	86.32	80.18
August	84.95	71.00	78.63	102.92
September	76.17	68.83	73.27	105.28
October	81.84	70.73	77.64	76.56
November	80.32	74.15	77.35	71.32
December	80.96	76.73	78.97	56.07

	Price in €			Average daily trading volume (€ millions)
Date	High	Low	Average	
2012				
January	83.47	79.22	81.39	57.75
February	86.12	80.93	83.94	73.93

Change in the L'Oréal share price compared to the CAC 40 index from January 1st, 2007 to February 29th, 2012



7.4.2.2. 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 before 01/01/2005).

7.4.2.2.1. 5-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
12.31.2006	Purchase of 198 shares at €75.90	15,028.20		198
05.03.2007	Dividend: €1.18 per share		233.64	198
	Reinvestment: purchase of 3 shares at €86.67	260.01		201
04.30.2008	Dividend: €1.38 per share		277.38	201
	Reinvestment: purchase of 4 shares at €76.21	304.84		205
04.24.2009	Dividend: €1.44 per share		295.20	205
	Reinvestment: purchase of 6 shares at €52.015	312.09		211
05.05.2010	Dividend: €1.50 per share		316.50	211
	Reinvestment: purchase of 5 shares at €76.77	383.85		216
05.04.2011	Dividend: €1.80 per share		388.80	216
	Reinvestment: purchase of 5 shares at €85.79	428.95		221
Total		**16,717.94**	**1,511.52**	
Total net investment		**15,206.42**		

Portfolio value at 12.31.2011 (221 shares at €80.70): €17,834.70.

7

The initial capital has thus been multiplied by 1.19 over 5 years (5-year inflation rate = 9.4% - Source: INSEE) and the final capital is 1.17 times the total net investment.

The Total Shareholder Return of the investment is thus 3.26% per year (assuming that the shares are sold on December 31st, 2011, excluding tax on capital gains).

Over the same period, the CAC 40 index fell by -7.14% per year (1).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7.4.2.2.2. 10-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
12.31.2001	Purchase of 185 shares, at €80.90	14,966.50		185
06.04.2002	Dividend: €0.54 per share, excluding tax credit		99.90	185
	Reinvestment: purchase of 2 shares at €74.95	149.90		187
05.27.2003	Dividend: €0.64 per share, excluding tax credit		119.68	187
	Reinvestment: purchase of 2 shares at €61.10	122.20		189
05.14.2004	Dividend: €0.73 per share, excluding tax credit		137.97	189
	Reinvestment: purchase of 3 shares at €63.65	190.95		192
05.11.2005	Dividend: €0.82 per share		157.44	192
	Reinvestment: purchase of 3 shares at €56.50	169.50		195
05.10.2006	Dividend: €1.00 per share		195.00	195
	Reinvestment: purchase of 3 shares at €72.65	217.95		198
05.03.2007	Dividend: €1.18 per share		233.64	198
	Reinvestment: purchase of 3 shares at €86.67	260.01		201
04.30.2008	Dividend: €1.38 per share		277.38	201
	Reinvestment: purchase of 4 shares at €76.21	304.84		205
04.24.2009	Dividend: €1.44 per share		295.20	205
	Reinvestment: purchase of 6 shares at €52.015	312.09		211
05.05.2010	Dividend: €1.50 per share		316.50	211
	Reinvestment: purchase of 5 shares at €76.77	383.85		216
05.04.2011	Dividend: €1.80 per share		388.80	216
	Reinvestment: purchase of 5 shares at €85.79	428.95		221
Total		**17,506.74**	**2,221.51**	
Total net investment		**15,285.23**		

Portfolio value at 12.31.2011 (221 shares at €80.70): €17,834.70.

The initial capital has thus been multiplied by 1.19 over 10 years (10-year inflation rate = 19.4% - Source: INSEE) and the final capital is 1.17 times the total net investment.

The Total Shareholder Return of the investment is thus: 1.57% per year (assuming that the shares are sold on December 31st, 2011, excluding tax on capital gains).

Over the same period, the CAC 40 index fell by -0.40% per year (1).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

(1) *Reinvested dividends; source: Datastream.*

7.4.2.2.3. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons and share attribution rights

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1991	Purchase of 131 shares at €114.49	14,998.19		131
06.26.1992	Dividend: €1.28057 per share, excluding tax credit		167.75	131
	Reinvestment: purchase of 2 shares at €140.25	280.51		133
06.25.1993	Dividend: €1.46351 per share, excluding tax credit		194.65	133
	Reinvestment: purchase of 2 shares at €167.69	335.38		135
06.28.1994	Dividend: €1.64645 per share, excluding tax credit		222.27	135
	Reinvestment: purchase of 2 shares at €167.69	335,38		137
06.28.1995	Dividend: €1.85988 per share, excluding tax credit		254.80	137
	Reinvestment: purchase of 2 shares at €185.84	371.68		139
06.28.1996	Dividend: €2.02757 per share, excluding tax credit		281.83	139
	Reinvestment: purchase of 2 shares at €260.54	521.08		141
07.01.1996	Issue of bonus shares (1 for 10)			155
07.31.1996	Compensation for 1 unused share attribution right at €22.85668 per right		22.86	155
	Reinvestment: purchase of 1 share at €236.91	236.91		156
07.01.1997	Dividend: €2.13429 per share, excluding tax credit		332.95	156
	Reinvestment: purchase of 1 share at €393.93	393.93		157
06.12.1998	Dividend: €2.43918 per share, excluding tax credit		382.95	157
	Reinvestment: purchase of 1 share at €473.05	473.05		158
06.15.1999	Dividend: €2.82031 per share, excluding tax credit		445.61	158
	Reinvestment: purchase of 1 share at €586.50	586.50		159
06.15.2000	Dividend: €3.40 per share, excluding tax credit		540.60	159
	Reinvestment: purchase of 1 share at €825.00	825.00		160
07.03.2000	Ten-for-one share split			1,600
06.08.2001	Dividend: €0.44 per share, excluding tax credit		704.00	1,600
	Reinvestment: purchase of 10 shares at €78.15	781.50		1,610
06.04.2002	Dividend: €0.54 per share, excluding tax credit		869.40	1,610
	Reinvestment: purchase of 12 shares at €74.95	899.40		1,622
05.27.2003	Dividend: €0.64 per share, excluding tax credit		1,038.08	1,622
	Reinvestment: purchase of 17 shares at €61.10	1,038.70		1,639
05.14.2004	Dividend: €0.73 per share, excluding tax credit		1,196.47	1,639
	Reinvestment: purchase of 19 shares at €63.65	1,209.35		1,658
05.11.2005	Dividend: €0.82 per share		1,359.56	1,658
	Reinvestment: purchase of 25 shares at €56.50	1,412.50		1,683
05.10.2006	Dividend: €1.00 per share		1,683.00	1,683
	Reinvestment: purchase of 24 shares at €72.65	1,743.60		1,707
05.03.2007	Dividend: €1.18 per share		2,014.26	1,707
	Reinvestment: purchase of 24 shares at €86.67	2,080.08		1,731
04.30.2008	Dividend: €1.38 per share		2,388.78	1,731
	Reinvestment: purchase of 32 shares at €76.21	2,438.72		1,763
04.24.2009	Dividend: €1.44 per share		2,538.72	1,763
	Reinvestment: purchase of 49 shares at €52.015	2,548.74		1,812
05.05.2010	Dividend: €1.50 per share		2,718.00	1,812
	Reinvestment: purchase of 36 shares at €76.77	2,763.72		1,848
05.04.2011	Dividend: €1.80 per share		3,326.40	1,848
	Reinvestment: purchase of 39 shares at €85.79	3,345.81		1,887
Total		**39,619.72**	**22,682.94**	
Total net investment		**16,936.78**		

Portfolio value at 12.31.2011 (1,887 shares at €80.70): €152,280.90.

The initial capital has thus been multiplied by 10.15 over 20 years (20-year inflation rate = 38.8% - Source: INSEE) and the final capital is 8.99 times the total net investment.

7

The Total Shareholder Return of the investment is thus 12.15% per year (assuming that the shares are sold on December 31st, 2011, excluding tax on capital gains).

Over the same period, the CAC 40 index increased by +6.10% per year [1].

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7.4.2.3. 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.*

(1) Reinvested dividends; source: Datastream.

8 Annual General Meeting

This chapter presents the report of the Board of Directors on the draft resolutions which will be submitted to L'Oréal's Ordinary and Extraordinary General Meeting. This General Meeting will be held on April 17th, 2012 at the Palais des Congrès, in Paris.

The full text of the resolutions is set out in the 2nd part of this chapter.

8.1. Report of the Board of Directors on the Draft resolutions

8.1.1. Ordinary Part

8.1.1.1. Approval of the 2011 parent company financial statements, approval of the 2011 consolidated financial statements and allocation of the Company's net income for 2011 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 €2,169,772,192.21 for 2011, compared with €1,995,329,601.31 at December 31st, 2010;
- the 2011 consolidated financial statements;

the main details of which are set out in the present document together with the main information included in the file for calling the Annual General Meeting on April 17th, 2012.

Following the modification of the Articles of Association made in 2009, this Annual General Meeting will give rise to the first distribution of loyalty bonuses granted to shareholders, in the form of preferential dividend. This bonus aims at foster the loyalty of the shareholders with registered shares held for at least two years, and to participate to strengthen the stability of shareholder structure.

The Board of Directors proposes to the Annual General Meeting:

- a net dividend of €2.00 per share, representing an increase of 11% compared with the net dividend for 2010;
- a preferential dividend of €2.20 per share.

The preferential dividend will be granted to the shares held in registered form continuously from December 31st, 2009 to the date of payment of this dividend. The number of shares giving entitlement to such increase cannot exceed, for any one shareholder, 0.5% of share capital. The Board of Directors proposes to the Annual General Meeting that the ex dividend date, for both ordinary and preferential dividend, will be on Friday, April 27th, 2012 and the dividend will be paid to the shareholders on Thursday, May 3rd, 2012.

The amount of ordinary and preferential dividend is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code, unless the taxpayer elects for the fixed levy in final discharge provided for in Article 117 *quater* of the French Tax Code.

8.1.1.2 Tenures as Directors *[4th to 8th resolutions]*

The Board of Directors proposes to the Annual General Meeting the appointment of three new Directors as well as the renewal of two Directors which tenures as Directors expire at the close of this Annual General Meeting.

L'Oréal's Board of Directors

L'Oréal's Directors come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationality; they have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations and the preparation of its decisions.

1. Assessment of the independence of Directors

The Appointments and Governance Committee has proposed to the Board of Directors to review on a case-by-case basis the situation of each of the Directors with regard to their independence according to the criteria set out in the AFEP-MEDEF Code.

The Directors are independently minded. They have a duty of vigilance and exercise complete freedom of judgment. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its committees of which the roles have been enlarged in 2011. L'Oréal has a well-balanced Board comprising 14 members at February 13th, 2012: the Chairman and Chief Executive Officer, Jean-Paul Agon, the Honorary Chairman, Sir Lindsay Owen-Jones, six Directors appointed by the majority shareholders, three of whom are appointed by Bettencourt's family group and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent Directors: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

Mr. Ladreit de Lacharrière has been a Director of L'Oréal for over 12 years but its professional experience and his freedom of judgment, combined with a good knowledge of the Company, are key contributors to the decisions and work of the Board.

2. The Board of Directors reviewed the composition of the Board

a) On February 13th, 2012, the Appointments and Governance Committee noted the end of Mrs. Liliane Bettencourt's tenure as Director. Following the proposal by the Appointments and Governance Committee, the Board of Directors has decided to proceed with the cooptation of Jean-Victor Meyers, as Director, until the end of this Annual General Meeting which is called on to ratify such appointment, pursuant to Article L. 225-24 of the French Commercial Code.

   The Board of Directors expresses its profound gratitude to Mrs. Liliane Bettencourt for her active participation in the Board's meetings and for the heartfelt interest she has always demonstrated in the Board's work and that of its committees.

   The Board of Directors submits to the approval of the Annual General Meeting of shareholders, the appointment of Jean-Victor Meyers as Board Director, for a period of 4 years as of this Annual General Meeting.

b) The Appointments and Governance Committee noted the expiration of Mr. Werner Bauer and Mr. Francisco Castañer Basco's tenures as Directors, both top executives of Nestlé, who don't apply for re-appointment.

   The Board of Directors expressed its gratitude to Mr. Werner Bauer and Mr. Francisco Castañer Basco for their active participation in the Board's work and that of its committees.

   The Appointments and Governance Committee reviewed the application of two new Directors from Nestlé, reference shareholders of L'Oréal, and the Board of Directors has already decided to submit to the approval of the next Annual General Meeting of shareholders, the appointment of Mr. Paul Bulcke and Ms. Christiane Kuehne.

c) The reappointment of Mr. Bernard Kasriel and Mr. Jean-Pierre Meyers, whose tenures as Directors were due to expire in 2012, is submitted to the Annual General Meeting.

By no means, these changes would affect the level of independence of the Directors, as described on point 1.

3. Maintaining of the balance of the Board of Directors

It is therefore proposed to maintain this balance, which is considered to be satisfactory by proposing to the Annual General Meeting:

- the ratification of the appointment of Mr. Jean-Victor Meyers as Director until the end of this Annual General Meeting, appointment which has been decided by the Board of Directors;
- the appointment of Mr. Jean-Victor Meyers as Director, for a period of four years;
- the appointment of Mr. Paul Bulcke and Ms. Christiane Kuehne as Directors, for a period of four years;
- the renewal of tenures as Directors of Mr. Jean-Pierre Meyers and Mr. Bernard Kasriel, for a period of four years.

Presentation of the Directors whose term of office is proposed for appointment or renewal

- **Jean-Victor Meyers** (age: 25) studied economics and management, in France and in the United States. Over the last two years, in the context of his professional experience, Jean-Victor Meyers spent several months within L'Oréal Group's Divisions, in France and abroad. He is a member of the Supervisory Board of Téthys, the Bettencourt family holding company, since January 2011 and was co-opted to L'Oréal's Board of Directors on February 13th, 2012.
- **Paul Bulcke** (age: 57). Belgian. With Nestlé since 1979, he is Chief Executive Officer since 2008. Paul Bulcke possesses an international experience, more particularly in Europe, in North America and in Latin America. He is Board member of Nestlé and Roche Holding in Switzerland.
- **Christiane Kuehne** (age: 56). Swiss. With Nestlé since 1977, she heads the Food Strategic Business unit. Christiane Kuehne possesses an international experience, more particularly in Europe and in Asia.
- **Jean-Pierre Meyers** has been Board Director of L'Oréal since 1987, Vice-Chairman of the Board since 1994, member of the Strategy and Sustainable Development Committee, Audit Committee, Appointments and Governance Committee and Human Resources and Remuneration Committee. He is a member of the Supervisory Committee and General Manager of Téthys, Director of Nestlé and Vice-Chairman of the Board of Bettencourt Schueller Foundation.

  Mr. Jean-Pierre Meyers participates with a lot of commitment, serious and dedication not only to the work of the Board of Directors but also to those of its others committees. He is available and actively contributes to the quality of the debates in each committee, concerning the proposals made to the Board of Directors.
- **Bernard Kasriel** (age: 65) has been Board Director of L'Oréal since 2004. Chairman of the Human Resources and Remuneration Committee and Member of the Strategy and Sustainable Development Committee. He was previously Chief Executive Officer and Director of Lafarge and is currently Director of Arkema in France and Nucor in the United States.

  Very available, conscientious and free of judging, Mr. Bernard Kasriel is Chairman of the Human Resources and Remuneration Committee and member of the Strategy and Sustainable Development Committee. The missions and works of both these committees, in which Mr. Kasriel plays an active part, have been expanded at the end of 2010, and the number of members has increased.

For information purposes, if the Annual General Meeting votes in favor of the appointment and renewals proposed to it in 2012, the terms of office of the 14 Directors of L'Oréal would be as follows:

	Expiry dates of the terms of office			
Directors	**2013**	**2014**	**2015**	**2016**
Mr. Jean-Paul Agon		X		
Mr. Jean-Pierre Meyers				X
Mr. Peter Brabeck-Letmathe	X			
Ms. Françoise Bettencourt Meyers	X			
Mr. Paul Bulcke				X
Ms. Christiane Kuehne				X
Mr. Charles-Henri Filippi			X	
Mr. Xavier Fontanet		X		
Mr. Bernard Kasriel				X
Mr. Marc Ladreit de Lacharrière		X		
Mr. Jean-Victor Meyers				X
Sir Lindsay Owen-Jones		X		
Mr. Louis Schweitzer	X			
Ms. Annette Roux			X	
Number of renewal per year	**3**	**4**	**2**	**5**

8.1.1.3. Authorisation for the Company to buy back its own shares *[9th resolution]*

It is proposed that you give the Board of Directors a new authorisation to buy back shares of the Company.

During 2011 and up until February 13th, 2012, the Board of Directors did not buy back any shares.

As the existing authorisation is due to expire in October 2012, it is proposed that the Annual General Meeting give the Board a new authorisation which will enable it to resume its share buyback policy where applicable, depending on the opportunities that may arise, except during periods of public offers with regard to the Company's capital.

The Company could buy back its own shares in the aim of:

- their cancellation;
- their cession through employee shareholding plans and their allocation to free grant of shares and/or share purchase options, to the benefit of employees and corporate officers of L'Oréal Group;
- market animation of the share;
- retaining them and subsequently using them as payment in connection with external growth operations.

The acquisition of these shares could be made by any ways, in one or several times, on the market or by mutual agreement, even by the acquisition of blocks of 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, namely, for information purposes, 60,298,408 shares for a maximum amount of €7.8 billion at December 31st, 2011, it being stipulated that the Company may at no time hold over 10% of its own capital.

8.1.2. Extraordinary Part

8.1.2.1. Authorisation for the Board of Directors to reduce share capital by cancelling shares purchased by the Company under Articles L. 225-208 and L. 225-209 of the French Commercial Code *[10th resolution]*

With regard to the authorisation given to the Board of Directors to cancel shares purchased by the Company under Article L. 225-209 of the French Commercial Code

The authorisation given to the Board of Directors in 2010 to cancel shares purchased by the Company under Article L. 225-209 of the French Commercial Code is due to expire.

A proposal is made to the Annual General Meeting that it should grant the Board a further authorisation enabling it to cancel shares, within the limits provided for by law.

This authorisation would be granted for a period of twenty-six months, as from the date of the Annual General Meeting of April 17th, 2012 and would render any prior authorisation ineffective.

With regard to the authorisation given to the Board of Directors to cancel shares purchased by the Company under Article L. 225-208 of the French Commercial Code

Certain share purchase options allocated in the past can no longer be exercised, for example as a result of the fact that the beneficiary of such share purchase options has left the Company.

The resolution providing for cancellation of the shares purchased by the Company under Article L. 225-209 of the French Commercial Code, as mentioned above, does not enable these shares to be cancelled, as the legal rules governing their cancellation are different.

The authorisation given to the Board of Directors in 2010 to cancel the corresponding shares, purchased by the Company under Article L. 225-208 of the French Commercial Code, is due to expire.

A proposal is made that, for a maximum of 500,000 shares, namely a maximum reduction in the share capital of €100,000, the shares corresponding to share purchase options that can no longer be exercised should be covered by the cancellation policy currently being conducted by the Board of Directors.

This authorisation would be valid for a period of twenty-six months, as from the date of the Annual General Meeting of April 17th, 2012 and would render any prior authorisation ineffective.

8.1.2.2. Amendments of the Articles of Association *[11th resolution]*

The amendments to the Articles of Association proposed by this resolution have become necessary in order to comply with the latest regulation.

It is proposed that the Annual General Meeting should decide to amend Article 10 of the Articles of Association, concerning the authority of the Board of Directors and of the Chairman of the Board, and also Article 12 of the Articles of Association, concerning the general rules regarding General Shareholders' Meeting.

1. Proposed amendment to Article 10

The proposed amendment to Article 10 is intended to bring the Articles of Associations in compliance with the legislation, regarding the role of the Chairman of the Board of Directors, as defined in Article L. 225-51 of the French Commercial Code.

2. Proposed amendment to Article 12

The proposed amendment to Article 12 paragraph 10 of the Articles of Association relates to the modus operandi of participation and voting at the General Shareholders' Meeting. It is proposed to remove the reference concerning the irrevocability of proxies and to include a provision concerning the use of electronic communication and signature.

This amendment to the Articles of Association, proposed in order to comply with the latest regulation, responds to a growing demand for simplify the shareholders' participation at the General Shareholders' Meeting.

8.1.2.3. Powers for formalities *[12th resolution]*

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

8.2. Draft resolutions Ordinary and Extraordinary General Meeting of April 17th, 2012

8.2.1. Ordinary Part

First resolution: Approval of the 2011 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 2011 parent company financial statements showing net income of €2,169,772,192.21 compared with €1,995,329,601.31 for 2010.

Second resolution: Approval of the 2011 consolidated financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the 2011 consolidated financial statements.

Third resolution: Allocation of the Company's net income for 2011 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 2011 financial year, amounting to €2,169,772,192.21 as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	-
Amount allocated to the shareholders as a dividend (1) (including preferential dividend)	€1,212,368,288.40
The balance that will be allocated to the "Other reserves" item	€957,403,903.81

(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 is calculated on the basis of the number of shares forming the capital at December 31st, 2011, and will be adjusted to reflect:

- the number of shares issued between January 1st, 2012 and the date of payment of this dividend following the exercise of stock options with 2011 dividend rights;
- the final number of eligible shares with a preferential dividend, taking into account the sales or the transfer to a bearer account between January 1st, 2012 and the date of payment of this dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid for the financial year of €2 per share, and a preferential dividend of €2.20 per share. The preferential dividend will be granted to the shares held in registered form continuously from December 31st, 2009 to the date of payment of this dividend. The number of shares giving entitlement to such increase cannot exceed, for any one shareholder, 0.5% of share capital. The ex dividend date, for both ordinary and preferential dividend, will be on Friday, April 27th, 2012 and the dividend will be paid to the shareholders on Thursday, May 3rd, 2012.

The amount of distributable income corresponding to the dividends on treasury shares held by the Company will be allocated to the *Other reserves* item. It is to be noted that, as the law currently stands, 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, given that no preferential dividend distribution has been made in respect of those years:

	2008	2009	2010
Ordinary Dividend per share	€1.44	€1.50	€1.80

Fourth resolution: Appointment of Mr. Jean-Victor Meyers as Director

The Annual General Meeting, having reviewed the report of the Board of Directors:

- ratifies the appointment of Mr. Jean-Victor Meyers as Director, until the end of this Annual General Meeting, appointment which has been decided by the Board of Directors;
- appoints Mr. Jean-Victor Meyers as Director for the statutory period of 4 years.

His tenure will expire during the Annual General Meeting to be held in 2016 to review the financial statements for the previous financial year.

Fifth resolution: Appointment of Mr. Paul Bulcke as Director

The Annual General Meeting, having reviewed the report of the Board of Directors, decides to appoint Mr. Paul Bulcke as Director for the statutory period of 4 years.

His tenure will expire during the Annual General Meeting to be held in 2016 to review the financial statements for the previous financial year.

Sixth resolution: Appointment of Ms. Christiane Kuehne as Director

The Annual General Meeting, having reviewed the report of the Board of Directors, decides to appoint Ms. Christiane Kuehne as Director for the statutory period of 4 years.

Her tenure will expire during theAnnual General Meeting to be held in 2016 to review the financial statements for the previous financial year.

Seventh resolution: Renewal of the tenure as Director of Mr. Jean-Pierre Meyers

The Annual General Meeting, having reviewed the report of the Board of Directors, renews the tenure of Mr. Jean-Pierre Meyers for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2016 to review the financial statements for the previous financial year.

Eighth resolution: Renewal of the tenure as Director of Mr. Bernard Kasriel

The Annual General Meeting, having reviewed the report of the Board of Directors, renews the tenure of Mr. Bernard Kasriel for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2016 to review the financial statements for the previous financial year.

Ninth resolution: Authorisation for the Company to buy back its own shares

The Annual General Meeting, having reviewed the report of the Board of Directors, authorises the Board of Directors, with the possibility for it to delegate to the Chief Executive Officer, to purchase shares of the Company, 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 December 31st, 2011, 60,298,408 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, the prices and numbers indicated above will be adjusted where applicable.

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, subject to the approval of tenth resolution hereafter;
- their allocation or sale to employees and corporate officers of the Company and affiliates, under the terms and conditions provided for by French or foreign law, and in particular within the scope of employee Profit Sharing schemes, share purchase options, free grants of shares or employee share ownership programmes as well as carrying out any transaction to cover the above-mentioned employee share ownership programmes;
- the market animation of the share 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 will expire at the end of a period of 18 months following this Annual General Meeting and renders ineffective as from the date hereof any prior authorisation for the same purpose.

The Board of Directors will have the possibility of allocating all the treasury shares currently held by the Company to any of these objectives under the conditions provided for in this share buyback programme. Full powers are granted to the Board of Directors, with the possibility for it to delegate, for the implementation of this resolution.

8.2.2. Extraordinary Part

Tenth resolution: Authorisation of the Board of Directors to reduce of share capital by cancelling shares purchased by the Company under Articles L. 225-209 and L. 225-208 of the French Commercial Code

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, in accordance with Article L. 225-209 of the French Commercial Code, to cancel, on one or more occasions, the shares held by the company pursuant to Article L. 225-209 of the French Commercial Code, within the limit of 10% of the capital as of the date of cancellation, per twenty-four month period;
- authorises the Board of Directors, in accordance with Articles L. 225-204 and L. 225-205 of the French Commercial Code, to cancel, on one or more occasions, a maximum of 500,000 shares purchased by the Company on the basis of Article

L. 225-208 of the French Commercial Code to coverstock options to purchase shares which currently correspond, or will correspond in future, to options that are no longer exercisable.

Full powers are given to the Board of Directors, with the possibility for it to delegate, to:

- reduce the share capital by cancelling shares;
- decide on the final amount of the reduction in the share capital;
- set the methods and record the completion of such reduction in the share capital;
- offset the difference between the book value of the shares cancelled and their par value against all reserves and available share premiums;
- amend the Articles of Association accordingly;
- and more generally, do all that is necessary to implement this resolution.

These authorisations are granted for a period of twenty-six months as from the date of this Annual General Meeting and render ineffective as of the date hereof any prior authorisation granted for the same purpose.

Eleventh resolution: Amendments to Articles of Association

The Annual General Meeting, having reviewed the report of the Board of Directors, decides:

- To amend **Article 10** of the Articles of Association as follow, by removing the provisions contained in the 2nd paragraph, now lapsed:

Current version	New version
"§ 2-The Chairman of the Board of Directors represents the Board of Directors. He organises and directs the deliberations of the Board, reports on these deliberations to the General Meeting and implements its decisions. He ensures that the various agencies of the Company are operating satisfactorily, and that Directors are in a position to carry out their duties."	*"§ 2-The Chairman of the Board of Directors organises and directs the deliberations of the Board, reports on these deliberations to the General Meeting and implements its decisions. He ensures that the various agencies of the Company are operating satisfactorily, and that Directors are in a position to carry out their duties."*

The other provisions of Article 10 remain unchanged.

- To amend **Article 12 paragraph 10** of the Articles of Association by removing the reference concerning the irrevocability of proxies and by including a provision concerning the use of electronic communication and signature, as follow:

Current version	New version
"Shareholders voting by mail or by proxy using the official form for this purpose, within the required time period are placed on equal footing with shareholders resent or represented. If the Board of Directors so decides when the meeting is called, the entry of data and the electronic signature of the form may be made directly on the website set up by the person centralising the Meeting documents by any process adopted by the Board of Directors that meets the conditions provided for in the forts sentence of the second paragraph of Article 1316-4 of he French Civil Code which may consist, in particular, of an identification code and a password. The proxy form or the vote cast in this manner prior to the Meeting by this electronic means, and the acknowledgement of receipt given, shall be considered as irrevocable written evidence that is enforceable with regard to all the parties involved, being specified that in the event of a sale of shares that takes place before the third working day prior to the Meeting at zero hour (Paris time), the Company shall invalidate or amend the proxy form or vote cast prior to such date and time accordingly, where applicable.	*"Shareholders voting by mail or by proxy using the official form for this purpose, within the required time period are placed on equal footing with shareholders resent or represented.* *The proxy given for the General Shareholders' Meeting is revocable in the same way than the one used for the designation of the proxy. Once the participating method has been chosen (vote by correspondence; vote by proxy given to the Chairman of Directors or to the proxy; vote by attending the General Shareholders' Meeting), the shareholder can not chose another one.* *If the Board of Directors so decides when the meeting is called, the shareholders may use a form of admission's request, of proxy or of vote by correspondence in electronic form; the used electronic signature must result from a reliable identification process which ensures its link with the vote's form to which it is related; it may consist, in particular, of an identification code and a password, or any other way provided or authorized by the legislation currently in force.* *As a result, the vote expressed before the General Shareholders' Meeting by this electronic method, and the acknowledgement of receipt given, shall be considered as irrevocable written evidence that is enforceable with regard to all the parties involved, being specified that in the event of a sale of shares*

Current version	New version
	that takes place before the third working day prior to the Meeting at zero hour (Paris time), the Company shall invalidate or amend the proxy form or vote cast prior to such date and time accordingly, where applicable.
(…)	*(…)*
A register of attendance is kept to which are appended as annexes the powers granted to the proxies, and the forms, if any, for voting by mail."	*A register of attendance is kept to which are appended as annexes the powers granted to the proxies, and the forms, if any, for voting by mail. The register of attendance, the proxies and the form of vote by correspondence are consulted in paper form, or where appropriate, in digitised or electronic form."*

The other provisions of Article 12 remain unchanged.

Twelfth 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.

8.3. Statutory Auditors' Special Report on the cancellation of shares purchased by the Company

(Ordinary and Extraordinary Shareholders' Meeting of April 17th, 2012 – tenth resolution)

In our capacity as Statutory Auditors of L'Oréal and pursuant to the provisions of Articles L. 225-204 and L. 225-209 of the French Commercial Code (Code de commerce) relating to capital decreases, in particular as concerns the cancellation of shares purchased by the Company, we hereby report to you on our assessment of the reasons for and the terms and conditions of the proposed share capital decreases.

We performed the procedures we deemed necessary in accordance with French professional standards applicable to this engagement. These procedures consisted in ensuring that the reasons for and the terms and conditions of the proposed capital decreases, which are not considered to affect shareholder equality, comply with the applicable legal provisions.

Cancellation of shares held by the Company within the scope of Article L. 225-214 of the French Commercial Code

The proposed capital decrease would take place through the cancellation by the Company of its own shares purchased in accordance with the conditions of Article L. 225-208 of the French Commercial Code.

Shareholders are asked to grant the Board of Directors full powers to cancel, on one or more occasions, a maximum of 500,000 shares purchased by the Company to cover share purchase options which currently correspond, or will correspond in the future, to options that are no longer exercisable. These powers would be exercisable for a period of twenty-six months from the Shareholders' Meeting of April 17th, 2012.

We have no matters to report on the reasons for or terms and conditions of the proposed share capital decrease, which would reduce the Company's share capital by a maximum of €100,000.

Cancellation of shares held by the Company within the scope of Article L. 225-209 of the French Commercial Code

Shareholders are also asked to grant the Board of Directors full powers to cancel, on one or more occasions, the shares acquired by the Company, within the limit of 10% of the capital as of the date of the cancellation, per twenty-four month period. These powers would be exercisable for a period of twenty-six months from the Shareholders' Meeting of April 17th, 2012, in accordance with Article L. 225-209 of the French Commercial Code. Under the ninth resolution, the Board of Directors is seeking an eighteen-month authorisation from the Shareholders' Meeting to perform this purchase.

We have no matters to report on the reasons for or terms and conditions of the proposed capital decrease, the implementation of which depends on the Shareholders' Meeting approving the purchase of the Company's shares, as proposed under the ninth resolution.

Neuilly-sur-Seine, March 2nd, 2012

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Etienne Boris	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' special report on the cancellation of shares purchased by the Company 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.

9 Appendix

9.1. Auditors

2009, 2010 and 2011	Date of first appointment	Date of appointment	Term of office	Expiry date
	Current appointments			
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	April 27th, 2010	6 years	AGM reviewing the financial statements for 2015 to be held in 2016
Deloitte & Associés Auditor, member of the "Compagnie Régionale de Versailles", represented by David Dupont Noel 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Substitute auditors				
Mr. Yves Nicolas 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Société BEAS 195 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 27th, 2010	April 27th, 2010	6 years	

9.1.1. Fees of Auditors and members of their networks charged to the Group

See note 30 to consolidated financial statements on page 139 of this present document.

9.2. Historical financial information included by reference

In accordance with Article 28 of European Regulation EC No. 809-2004 of April 29th, 2004, this 2011 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31st, 2010, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 4 to 63 and page 195 of Volume 2 of the 2010 Registration Document filed with the Autorité des Marchés Financiers on March 17th, 2011 under the number D. 11-0143, and also information extracted from the 2010 Management Report presented on pages 66 to 73 of Volume 2 of the Registration Document;
- the consolidated financial statements for the year ended December 31st, 2009, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 4 to 61 and page 190 of Volume 2 of the 2009 Registration Document filed with the Autorité des Marchés Financiers on March 22nd, 2010 under the number D. 10-0131, and also information extracted from the 2009 Management Report presented on pages 64 to 70 of Volume 2 of the Registration Document.

9.3. Person responsible for the Registration Document and the Annual Financial Report

Mr. Christian Mulliez, Executive Vice-President Administration and Finance, on the authority of L'Oréal's Chairman and Chief Executive Officer, Mr. Jean-Paul Agon.

9.4. Declaration by the person responsible for the Registration 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 Registration 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 elements of the Management Report included in this present document, as detailed in the table of concordance section 9.8. page 243, present 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 present document and have read the Registration Document in its entirety.

The Statutory Auditors prepared a report on the consolidated financial statements with regard to the financial year ended December 31st, 2009; this report is set out on page 190 of the 2009 Registration Document filed with the Autorité des Marchés Financiers on March 22nd, 2010 under the number D.10-0131 and contains a technical observation with regard to the changes in accounting methods and presentation of the financial statements."

Clichy, March 13th, 2012

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez

Executive Vice-President Administration and Finance

9.5. Table of contents

The 2011 Registration Document of the L'Oréal Group which has been filed with the *Autorité des Marchés Financiers* in accordance with the Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers.*

9.6. Registration Document table of concordance

In order to facilitate the reading of this Registration Document, the following table provides the page references of the main information required by the Annex 1 of European Regulation no. 809/2004/CE.

9.7. Annual Financial Report table of concordance

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 and by Article 222-3 of the General Regulation of the *Autorité des Marchés Financiers*.

9.8. Table of concordance of the Management Report

In order to review the elements of the Management Report, the following thematic table makes it possible to identify the main information provided for by Articles L. 225-100 et *seq.*, L. 232-1 and R. 225-102 et *seq.* of the French Commercial Code.

Headings of Management Report	Pages
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