

## **L'OREAL**

### **STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES**

**(Year ended December 31, 2007)**

**PricewaterhouseCoopers Audit**

63 rue de Villiers  
92208 Neuilly sur Seine Cedex

**Deloitte & Associés**

185 avenue Charles de Gaulle  
92524 Neuilly sur Seine Cedex

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**(Year ended December 31, 2007)**

## **L'OREAL**

14 rue Royale  
75008 Paris

*This is a free translation into English of the Statutory Auditors' special report on regulated agreements and regulated commitments issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and regulated commitments should be read in conjunction with, and 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.*

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.

#### **Regulated agreements and commitments with third parties relating to the year ended December 31, 2007, and up to the date of this report**

In accordance with Article L. 225-40 of the French Commercial Code (*Code de commerce*), we have been advised of the following agreements and commitments that received the prior authorization of the Board of Directors up to the date of this report.

Our responsibility does not include identifying any undisclosed agreements or commitments. We are required to report to shareholders, based on the information provided, on the main terms and conditions of the agreements and commitments that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article R. 225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

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We carried out our work in accordance with the professional standards applicable in France. These standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

Board of Directors meeting of February 13, 2008

a) Nature and purpose

Agreement providing for the termination benefits of the Managing Director.

b) Terms and conditions

The Board of Directors meeting of February 13, 2008 authorized an agreement to be entered into between your Company and Jean-Paul Agon, stipulating that:

- in the event of non-renewal or removal from his corporate office, except for gross misconduct or gross negligence, Mr Jean-Paul Agon will be entitled to an indemnity for termination of his corporate office equal to 3 months' remuneration (solely his fixed remuneration) per year of performance of the corporate office of Chief Executive Officer, as from 2006 inclusive, and limited to a maximum of 12 months of the fixed part of the last remuneration received in respect of his corporate office, subject to fulfillment of performance conditions.

This indemnity will be added to the indemnities payable, where applicable, in the event of subsequent termination of his resumed employment contract calculated on the basis of the applicable collective bargaining agreement.

- in the event of retirement at the company's request or voluntary retirement which takes place at the time of termination of his corporate office or thereafter, Mr Jean-Paul Agon will be entitled to a departure or retirement indemnity determined in accordance with the same terms and conditions as those applicable to a senior manager of L'Oréal, namely, on the basis of his length of service, an amount of 6 months' average remuneration (fixed + variable portions) over the 12 months prior to the month of his departure.

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

This indemnity may not be lower than the departure or retirement indemnity to which he would be entitled pursuant to his resumed employment contract, and will not be received cumulatively with either such a departure or retirement indemnity or with an indemnity due to non-renewal or removal from his corporate office.

The performance conditions mentioned above and decided on by the Board of Directors are assessed as follows: one-half will be based on the rate of growth in L'Oréal's consolidated sales as compared to the market growth rate while the other-half will be based on the change in earnings per share (diluted net earnings per share excluding non-recurrent items, after minority interests); both these conditions will be assessed for the last four financial years prior to the year in which the corporate office ends.

Depending on the level of fulfillment of such conditions, the amount of each component of the indemnity will be reduced or may even amount to zero.

Were an event to occur which would be likely to lead to a significant reduction in earnings per share during the financial year, then the Board of Directors would reserve the right to include the year then in progress in the four years taken into account in order to calculate the performance condition.

Regulated agreements and commitments approved in prior years which remained in force during the year and up to the date of this report

Pursuant to the French Commercial Code, we were informed that the following agreement approved in prior years remained in force during the past year and up to the date of this report.

Board of Directors meeting of April 25, 2006

a) Nature and purpose

Granting Jean-Paul Agon the same status as a senior executive during his term of office, in particular for the purpose of pension and employee benefits, so that he can continue to enjoy the same benefits as those received before his appointment as corporate officer.

b) Terms and conditions

As of the date hereof, this scheme provides entitlement to the payment of a life annuity (with a surviving spouse pension and, under certain conditions, an orphan pension) as well as benefits in the event of temporary disability, definitive disability or death.

Neuilly-sur-Seine, February 27, 2008

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Etienne Boris

Etienne Jacquemin