2010 FINANCIAL STATEMENTS

Management Report of the Board of Directors
Annual Financial Report
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L'ORÉAL

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AUTORITÉ DES MARCHÉS FINANCIERS

AMF

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This Reference Document may be used in connection with a financial transaction if it is accompanied by an information memorandum approved by the AMF. The document has been prepared by the issuer and its signatories incur liability in this regard.

The L'Oréal Reference Document comprises two separate volumes:

- a general brochure "2010 Annual Report",
- the 2010 Annual Financial Report, plus additional information as required by law,

available prior to the Annual General Meeting convened for Friday, April 22nd, 2011.

This is a free translation into English of the L'Oréal 2010 Annual Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

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1 2010 Consolidated Financial Statements*

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

1.1. Consolidated profit and loss accounts

€ millions	Notes	2010	2009	2008
Net sales	3	**19,495.8**	**17,472.6**	**17,541.8**
Cost of sales		-5,696.5	-5,161.6	-5,187.2
Gross profit		**13,799.3**	**12,311.0**	**12,354.6**
Research and development		-664.7	-609.2	-587.5
Advertising and promotion		-6,029.1	-5,388.7	-5,269.1
Selling, general and administrative expenses		-4,048.6	-3,735.5	-3,773.4
Operating profit		**3,056.9**	**2,577.6**	**2,724.6**
Other income and expenses	7	-153.2	-277.6	-156.3
Operational profit		**2,903.7**	**2,299.9**	**2,568.3**
Finance costs on gross debt		-43.8	-92.0	-208.8
Finance income on cash and cash equivalents		17.2	16.0	34.6
Finance costs, net		**-26.6**	**-76.0**	**-174.2**
Other financial income (expenses)	8	-9.0	-13.0	-7.2
Sanofi-Aventis dividends		283.8	260.1	244.7
Profit before tax and non-controlling interests		**3,151.9**	**2,471.0**	**2,631.6**
Income tax	9	-909.9	-676.1	-680.7
Net profit		**2,242.0**	**1,794.9**	**1,950.9**
attributable to:				
- owners of the company		2,239.7	1,792.2	1,948.3
- non-controlling interests		2.3	2.7	2.6
Earnings per share attributable to owners of the company (euros)	10	3.82	3.07	3.31
Diluted earnings per share attributable to owners of the company (euros)	10	3.79	3.07	3.30
Earnings per share attributable to owners of the company excluding non-recurring items (euros)	10	4.04	3.42	3.50
Diluted earnings per share attributable to owners of the company excluding non-recurring items (euros)	10	4.01	3.42	3.49

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

€ millions	2010	2009	2008
Consolidated net profit for the period	**2,242.0**	**1,794.9**	**1,950.9**
Financial assets available for sale	*-852.3*	*1,142.5*	*-2,083.9*
Cash flow hedges	*-8.0*	*-154.3*	*88.3*
Actuarial gains and losses	*-213.5*	*-142.9*	*-160.4*
Tax effect on items directly recognised in equity (1)	*92.0*	*61.4*	*78.6*
Cumulative translation adjustments	*463.3*	*6.5*	*-124.5*
Changes in gains and losses directly recognised in equity	**-518.5**	**913.2**	**-2,201.9**
Total net profit and gains and losses directly recognised in equity	**1,723.5**	**2,708.1**	**-251.0**
Attributable to:			
- owners of the company	1,721.2	2,705.4	-253.6
- non-controlling interests	2.3	2.7	2.6

(1) The tax effect is as follows:

€ millions	2010	2009	2008
Financial assets available for sale	14.6	-19.8	37.7
Cash flow hedges	1.1	39.6	-17.4
Actuarial gains and losses	76.3	41.6	58.3
Total	**92.0**	**61.4**	**78.6**

1.3. Consolidated balance sheets

Assets

€ millions	Notes	12.31.2010	12.31.2009	12.31.2008
Non-current assets		**17,048.2**	**17,350.4**	**16,380.3**
Goodwill	11	5,729.6	5,466.0	5,532.5
Other intangible assets	12	2,177.5	2,042.4	2,038.2
Tangible assets	14	2,677.5	2,599.0	2,753.3
Non-current financial assets	15	5,837.5	6,672.2	5,557.4
Deferred tax assets	9	626.1	570.8	498.9
Current assets		**6,996.3**	**5,941.1**	**6,526.5**
Inventories	16	1,810.1	1,476.7	1,635.5
Trade accounts receivable	17	2,685.3	2,443.3	2,694.6
Other current assets	18	846.0	732.8	985.8
Current tax assets		104.5	115.2	133.6
Cash and cash equivalents	19	1,550.4	1,173.1	1,077.1
Total		**24,044.5**	**23,291.5**	**22,906.9**

Equity & Liabilities

€ millions	Notes	12.31.2010	12.31.2009	12.31.2008
Equity	20	**14,865.8**	**13,598.3**	**11,562.5**
Share capital		120.2	119.8	120.5
Additional paid-in capital		1,148.3	996.5	965.5
Other reserves		11,107.1	10,141.3	9,232.1
Items directly recognised in equity		1,188.1	2,169.9	1,263.2
Cumulative translation adjustments		-89.6	-552.9	-559.4
Treasury stock		-850.9	-1,071.6	-1,410.6
Net profit attributable to owners of the company		2,239.7	1,792.2	1,948.3
Equity attributable to owners of the company		**14,862.9**	**13,595.2**	**11,559.6**
Non-controlling interests		2.9	3.1	2.8
Non-current liabilities		**2,596.6**	**4,306.6**	**3,978.0**
Provisions for employee retirement obligations and related benefits	21	1,129.0	1,021.4	961.6
Provisions for liabilities and charges	22	181.3	125.6	111.4
Deferred tax liabilities	9	462.0	418.0	398.4
Non-current borrowings and debt	23	824.3	2,741.6	2,506.6
Current liabilities		**6,582.1**	**5,386.5**	**7,366.4**
Trade accounts payable		3,153.5	2,603.1	2,656.6
Provisions for liabilities and charges	22	536.9	510.0	431.1
Other current liabilities	25	1,958.1	1,750.5	1,848.4
Income tax		166.6	133.2	159.7
Current borrowings and debt	23	767.0	389.7	2,270.6
Total		**24,044.5**	**23,291.5**	**22,906.9**

1.4. Consolidated statements of changes in equity

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2008	583,140,468	120.5	965.5	11,180.4	1,263.2	-1,410.6	-559.4	11,559.6	2.8	11,562.5
Consolidated net profit for the period				1,792.2				1,792.2	2.7	1,794.9
Financial assets available for sale					*1,122.7*			*1,122.7*		*1,122.7*
Cash flow hedges					*-114.7*			*-114.7*		*-114.7*
Actuarial gains and losses					*-101.3*			*-101.3*		*-101.3*
Cumulative translation adjustments							*6.5*	*6.5*		*6.5*
Change in gains and losses directly recognised in equity					906.7		6.5	913.2		913.2
Total net profit and gains and losses directly recognised in equity				1,792.2	906.7		6.5	2,705.4	2.7	2,708.1
Capital increase	527,200	0.1	31.0					31.1		31.1
Cancellation of treasury stock		-0.8		-271.5		272.3				
Dividends paid (not paid on treasury stock)				-839.7				-839.7	-2.4	-842.1
Share-based payment				76.7				76.7		76.7
Net changes in treasury stock	1,067,992			-1.7		66.7		65.0		65.0
Other movements				-2.9				-2.9		-2.9
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*
Actuarial gains and losses					*-137.3*			*-137.3*		*-137.3*
Cumulative translation adjustments							*463.3*	*463.3*		*463.3*
Change in gains and losses directly recognised in equity					-981.8		463.3	-518.5		-518.5
Total net profit and gains and losses directly recognised 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**

1.5. Consolidated statements of cash flows

€ millions	Notes	2010	2009	2008
Cash flows from operating activities				
Net profit attributable to owners of the company		2,239.7	1,792.2	1,948.3
Non-controlling interests		2.3	2.7	2.6
Elimination of expenses and income with no impact on cash flows:				
♦ depreciation, amortisation and provisions		734.2	834.0	706.1
♦ changes in deferred taxes	9.1	110.0	51.7	6.6
♦ share-based payment	20.3	84.8	76.7	85.9
♦ capital gains and losses on disposals of assets		0.1	0.9	-3.6
Gross cash flow		**3,171.1**	**2,758.2**	**2,745.9**
Changes in working capital	27	132.5	466.3	-148.8
Net cash provided by operating activities (A)		**3,303.6**	**3,224.5**	**2,597.1**
Cash flows from investing activities				
Investments in tangible and intangible assets		-677.9	-628.0	-745.9
Disposal of tangible and intangible assets		18.3	27.5	9.2
Changes in other financial assets (including investments in non-consolidated companies)		2.3	36.7	-9.4
Effect of changes in the scope of consolidation	28	-160.7	-160.2	-1,299.1
Net cash (used in) from investing activities (B)		**-818.0**	**-723.9**	**-2,045.2**
Cash flows from financing activities				
Dividends paid		-921.6	-851.5	-849.2
Capital increase of the Parent Company		152.3	31.1	2.3
Disposal (acquisition) of treasury stock		184.0	65.0	-912.6
Purchase of non-controlling interests		-8.7	-	-
Issuance (repayment) of short-term loans		-132.6	-1,886.0	1,262.5
Issuance of long-term borrowings		4.0	350.3	1.1
Repayment of long-term borrowings		-1,462.5	-98.4	-62.8
Net cash (used in) from financing activities (C)		**-2,185.1**	**-2,389.4**	**-558.7**
Net effect of changes in exchange rates and fair value (D)		76.9	-15.3	-2.8
Change in cash and cash equivalents (A+B+C+D)		**377.4**	**96.0**	**-9.6**
Cash and cash equivalents at beginning of the year (E)		**1,173.1**	**1,077.1**	**1,086.7**
Cash and cash equivalents at end of the year (A+B+C+D+E)	19	**1,550.4**	**1,173.1**	**1,077.1**

Income taxes paid amount to €713.3 million, €613.9 million and €823.6 million respectively for the years 2010, 2009 and 2008.

Interest paid amounts to €46.6 million, €105.0 million and €209.4 million respectively for the years 2010, 2009 and 2008.

Dividends received amount to €283.8 million, €260.1 million and €244.7 million respectively for the years 2010, 2009 and 2008, and are included within gross cash flow.

1.6. 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 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of December 31st, 2010.

On February 10th, 2011, the Board of Directors closed the consolidated financial statements at December 31st, 2010. The financial statements will not become final until they have been approved by the Annual General Meeting of Shareholders to be held on April 22nd, 2011.

The Group has not applied any standards or interpretations whose application is not yet compulsory in 2010.

Revised IFRS 3 and IAS 27 are applied to business combinations for which the acquisition date is on or 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 income, 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 income and no longer treated as an adjustment to goodwill;
- any previous interest held in the acquiree prior to the date of control was obtained is now remeasured at its acquisition-date fair value, with the corresponding gain or loss on remeasurement taken to income.

The changes resulting from IFRS 3 did not have a material impact on the financial statements since the acquisitions carried out in 2010 all involved acquisitions of 100% interests.

The Group may also be concerned by IFRS 9 "Financial instruments - Phase 1: classification and measurement", applicable as from January 1st, 2013. This new standard has not yet been adopted by the European Union.

Other standards or amendments of published standards effective January 1st, 2010 do not have any impact for the Group.

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 consolidated by the full consolidation method.

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

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 profit and loss account.

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 profit and loss account;
- 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 the profit and loss account at the date on which the transactions hedged are completed. Any remaining hedge ineffectiveness is recognised directly in the profit and loss account.

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. Profit and loss accounts 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 profit and loss account other than at the time of the disposal of the company.

1.3.3. Valuation of goodwill in foreign currencies

Goodwill generated on foreign companies is considered to form part of 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 profit and loss account of 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, in accordance with standard IAS 38:

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

In view of the very large number of development projects and 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 profit and loss account for the financial year in which they are incurred.

1.8. Selling, general and administrative expenses

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

1.9. 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 corresponding 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 profit and loss account (note 1.3).

1.10. Operating profit

Operating profit consists of gross profit, after deducting 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 Economique 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 tangible and intangible assets, impairment of assets, restructuring costs, and clearly identified, non-recurring items relating to operational income and expenses 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 tangible and intangible assets, impairment of assets, and restructuring costs.

1.13. Finance costs

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

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 recover them due to expected taxable profit during the period in which they can be used.

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 2010 and 2009 and 8.5% for 2008, 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.

1.15.2. Other intangible assets

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

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

Two approaches have been adopted to date:

- **premium-based approach:** this method involves estimating the part of future 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 amortized 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 evaluated on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The amortization period applicable to patents corresponds to the period during which they enjoy legal protection. Formulas, which are not protected by legal means, are amortized 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 methods do not meet the definition of a separable intangible asset and were reclassified under *Goodwill* on the transition to IFRS standards on January 1st, 2004.

1.16. Tangible assets

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

Significant capital assets financed through capital leases, which 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 a tangible asset are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Tangible assets 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 tangible assets	3-10 years

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

In view of their nature, tangible assets are considered to have zero value at the end of the 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 a significant or prolonged impairment, this loss is recorded in the profit and loss account.

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 or the “first in, first out” (FIFO) 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 debt 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 at the date of acquisition of less than three months.

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 directly through equity on the line *Items directly recognised in equity*.

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 profit and loss account 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 profit and loss account 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 profit and loss account 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 the vested rights of employees.

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 profit and loss account 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 assets calculated on the basis of a standard return on long-term investments;
- the impact of any change to existing schemes on previous years or of any new schemes.

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

The obligations and the fair value of 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 profit and loss account.

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 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 interest rate curves at the closing date, allowing for the spread corresponding to the Group's risk class.

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 exchange rate 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 stock 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. 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.

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.

The cost of these new acquisitions amounts to approximately €200.5 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €123.0 and €57.9 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.

2.2. 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 and €20.4 million, respectively.

2.3. 2008

In November 2007, L'Oréal signed an agreement to acquire 100% of the Turkish haircare products company Canan. Founded in 1981, Canan had sales of €28 million in 2007, mainly through its brand Ipek, ranked no. 4 in the mass-market haircare segment in Turkey. The acquisition was finalised in January 2008 and Canan has been fully consolidated since January 1st, 2008.

Early January 2008, L'Oréal USA acquired 100% of Columbia Beauty Supply. The acquisition of Columbia Beauty Supply follows that of Beauty Alliance and Maly's West by L'Oréal USA in April and July 2007. Established in four states of the south-east United States, Columbia Beauty Supply had sales of about $60 million in 2007 and has been fully consolidated since January 4th, 2008.

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

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

The acquisition was finalised on June 30th, 2008 and YSL Beauté has been fully consolidated since that date.

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

The main items of the acquisition balance sheet of YSL Beauté at June 30th, 2008, taken into account in the final purchase price allocation, are as follows:

€ millions	
Non-current assets [(1)]	141.8
Current assets	318.6
Non-current liabilities	-83.8
Current liabilities	-279.9
Total net equity acquired	**96.7**

(1) Of which €32.0 million of intangible assets resulting from the acquisition. The €1,014.0 million in goodwill has been allocated to the YSL Cash-Generating Unit for €579.0 million, with the balance allocated between the various Luxury Products Division CGUs on the basis of expected synergies. In 2010, the reclassification of the Roger & Gallet business to the Active Cosmetics Division led to the allocation of the corresponding goodwill for €37.5 million.

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

The acquisition of CollaGenex by Galderma was carried out in two phases (step acquisition). The first phase consisted of a cash tender offer for all outstanding shares of CollaGenex common stock at a price of $16.60 per share. In the second phase, the tender offer was followed by a merger between CollaGenex and Galderma Acquisition Inc., a wholly owned subsidiary of Galderma Laboratories. Holders of the outstanding shares of CollaGenex common stock not tendered to the offer were offered the same per share price as that paid in the tender offer, in cash.

The tender offer expired on April 4th, 2008. A total of approximately 21 million shares of CollaGenex common stock had been tendered at that date, representing around 97% of the outstanding shares of CollaGenex.

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

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

This company has been consolidated by the proportional method since April 10th, 2008.

In May 2008, the L'Oréal Group and 3 Suisses International finalised an agreement pursuant to which L'Oréal acquired the 50% stake in Le Club des Créateurs de Beauté held by 3 Suisses International.

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

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

The company is mainly established in France and Japan.

It has been fully consolidated since June 1st, 2008.

The cost of these acquisitions excluding YSL Beauté amounts to approximately €238.0 million. The total amount of goodwill and other intangible assets resulting from these acquisitions excluding YSL Beauté was €113.8 million and €125.2 million, respectively, after the definitive allocation of the CollaGenex purchase price.

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;
- **Luxury Products Division:** products sold in selective retail outlets, *i.e.* department stores, perfumeries, travel retail and the Group's own boutiques;
- **Active Cosmetics Division:** dermocosmetic skincare products sold in pharmacies and specialist sections of drugstores.

The *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 50 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.

The 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*.

As of January 1st, 2010, Divisions and geographic areas have been reclassified as follows:

- the Roger & Gallet business has been transferred from the Luxury Products Division to the Active Cosmetics Division;
- 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 has become the New Markets Zone with the following changes:

- Australia, India and New Zealand, previously allocated to 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.

Data for 2009 and 2008 have been restated accordingly.

€ millions 2010	Sales	Operating profit	Operational assets (1)	Investments in tangible 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
Luxury Products	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 and tangible assets, trade accounts receivable and inventories.

€ millions 2009	Sales	Operating profit	Operational assets (1)	Investments in tangible 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
Luxury Products (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**

€ millions 2008	Sales	Operating profit	Operational assets (1)	Investments in tangible and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,471.7	518.8	2,506.4	64.6	95.1
Consumer Products (3)	8,426.0	1,566.4	5,545.5	369.1	354.5
Luxury Products (2)	4,145.7	762.9	3,922.2	153.2	189.0
Active Cosmetics (2)	1,313.3	262.7	866.5	33.1	48.2
Other cosmetics (3)	2.4	-0.4	-	-	-
Cosmetics Divisions total	**16,358.9**	**3,110.3**	**12,840.6**	**620.0**	**686.7**
Non-allocated		-501.9	380.6	79.2	78.8
Cosmetics branch	**16,358.9**	**2,608.4**	**13,221.1**	**699.2**	**765.4**
The Body Shop branch	**756.0**	**36.2**	**1,028.3**	**40.6**	**42.1**
Dermatology branch	**426.9**	**80.0**	**518.9**	**18.9**	**36.2**
Group	**17,541.8**	**2,724.6**	**14,768.3**	**758.7**	**843.8**

(1) Operational assets mainly include goodwill, intangible and tangible assets, trade accounts receivable and inventories.
(2) After reclassification of the Roger & Gallet business from the Luxury Products Division to the Active Cosmetics Division.
(3) After reclassification of the "distance selling" business under the Consumer Products Division.

Operational assets can be reconciled to the 2010, 2009 and 2008 balance sheets as follows:

€ millions	2010	2009	2008
Operational assets	**15,212.0**	**14,119.3**	**14,768.3**
Non-current financial assets	5,837.5	6,672.2	5,557.4
Deferred tax assets	626.1	570.8	498.9
Other current assets	818.5	756.1	1,005.2
Cash and cash equivalent	1,550.4	1,173.1	1,077.1
Non-allocated assets	**8,832.5**	**9,172.2**	**8,138.6**
Total assets	**24,044.5**	**23,291.5**	**22,906.9**

3.2. Information by geographic Zone - Group

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

3.2.1. Consolidated net sales by geographic Zone

	2010		Growth (%)		2009 [1]		2008 [1]	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,801.7	40.0%	2.9%	1.7%	7,582.7	43.4%	7,961.4	45.4%
attributable to France	2,323.9	11.9%	3.8%	3.8%	2,238.2	12.8%	2,294.6	13.1%
North America	4,818.7	24.7%	12.7%	6.1%	4,274.4	24.5%	4,172.8	23.8%
New Markets	6,875.4	35.3%	22.4%	11.2%	5,615.5	32.1%	5,407.6	30.8%
Group	**19,495.8**	**100.0%**	**11.6%**	**6.0%**	**17,472.6**	**100.0%**	**17,541.8**	**100.0%**

(1) After reclassification of the YSL Beauté Travel Retail business.

3.2.2. Cosmetics net sales by geographic Zone

	2010		Growth (%)		2009 [1]		2008 [1]	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,181.0	39.6%	2.6%	1.6%	6,998.1	43.0%	7,358.2	45.0%
attributable to France	2,264.9	12.5%	4.2%	4.2%	2,174.6	13.4%	2,237.3	13.7%
North America	4,291.5	23.7%	12.5%	5.9%	3,813.3	23.5%	3,744.7	22.9%
New Markets	6,666.6	36.8%	22.4%	11.2%	5,445.8	33.5%	5,256.0	32.1%
Asia, Pacific	3,192.2	17.6%	22.9%	11.2%	2,597.9	16.0%	2,259.0	13.8%
Eastern Europe	1,398.9	7.7%	15.3%	8.1%	1,212.8	7.5%	1,380.3	8.4%
Latin America	1,517.7	8.4%	32.6%	17.4%	1,144.8	7.0%	1,157.3	7.1%
Africa, Middle East	557.8	3.1%	13.8%	4.1%	490.2	3.0%	459.5	2.8%
Cosmetics branch	**18,139.1**	**100.0%**	**11.6%**	**6.0%**	**16,257.2**	**100.0%**	**16,358.9**	**100.0%**

(1) After reclassification of the YSL Beauté Travel Retail business.

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

€ millions	2010	2009 [1]	2008 [1]
Western Europe	1,552.0	1,472.2	1,630.5
North America	708.5	554.8	594.2
New Markets	1,124.8	893.8	885.6
Cosmetics Divisions total	**3,385.3**	**2,920.8**	**3,110.3**
Non-allocated	-512.9	-482.0	-501.9
Cosmetics branch	**2,872.4**	**2,438.8**	**2,608.4**

(1) After reclassification of the YSL Beauté Travel Retail business.

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

€ millions	2010		2009 [1]		2008 [1]	
	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets
Western Europe	7,743.9	215.2	7,585.5	254.8	7,959.1	311.4
North America	3,981.2	167.8	3,606.9	153.1	3,861.8	197.4
New Markets	3,090.8	202.0	2,555.3	139.7	2,566.9	170.7
Non-allocated	396.1	106.1	371.6	53.2	380.6	79.2
Group	**15,212.0**	**691.1**	**14,119.3**	**600.8**	**14,768.3**	**758.7**

(1) After reclassification of the YSL Beauté Travel Retail business.

NOTE 4 Personnel costs and number of employees

4.1. Number of employees [1]

	12.31.2010	12.31.2009	12.31.2008
Western Europe	29,542	29,439	30,956
North America	14,811	14,127	15,305
New Markets	22,266	21,077	21,401
Total	**66,619**	**64,643**	**67,662**

(1) Including companies consolidated by the proportional method and excluding temporary employees of The Body Shop.

4.2. Personnel costs

€ millions	2010	2009	2008
Personnel costs (including welfare contributions)	3,764.9	3,517.1	3,429.4

Personnel costs include remuneration linked to stock options and taxes on remuneration.

4.3. Compensation of Directors and management

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

€ millions	2010	2009	2008
Directors' fees	1.0	1.1	1.0
Salaries and benefits including employer welfare contributions	24.3	23.3	23.8
Employee retirement obligation charges	9.2	6.5	9.4
Stock option charges	28.4	30.0	32.5

The number of executives who were members of the Management Committee was 13 at December 31st, 2010, December 31st, 2009 and December 31st, 2008.

NOTE 5 Depreciation and amortisation expense

Depreciation and amortisation of tangible and intangible assets included in operating expenses amount to €767.7 million, €780.8 million and €704.5 million, respectively, for 2010, 2009 and 2008.

NOTE 6 Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	2010	2009	2008
Change in time value	-17.0	-17.8	-33.2
Other foreign exchange gains and losses	-115.0	105.9	91.4
Total	**-132.0**	**88.1**	**58.2**

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 profit and loss account under other foreign exchange gains and losses for a negative €0.4 million in 2010, a negative €1.3 million in 2009 and a positive €0.8 million in 2008.

These amounts are allocated to the appropriate operating expense items as follows:

€ millions	2010	2009	2008
Cost of sales	-118.1	70.8	52.9
Research and development	11.1	2.7	-6.2
Advertising and promotion	-15.9	5.0	5.4
Selling, general and administrative expenses	-9.1	9.6	6.1
Foreign exchange gains and losses	**-132.0**	**88.1**	**58.2**

NOTE 7 Other operational income and expenses

This item breaks down as follows:

€ millions	2010	2009	2008
Capital gains and losses on disposals of tangible and intangible assets	0.3	-0.9	3.6
Impairment of tangible and intangible assets (1)	-56.4	-53.8	-23.6
Restructuring costs (2)	-17.9	-222.9	-136.3
Other (3)	-79.2	-	-
Total	**-153.2**	**-277.6**	**-156.3**

(1) These impairment charges mainly relate to:
- *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;*
- *in 2008, the Biomedic brand for €11.3 million as well as Yue Sai goodwill for €10.9 million.*

(2) Including:
- *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 Luxury Products Division in various countries for €45 million; the next phase of the reorganisation of the L'Oréal USA subsidiary for €42 million; and the reorganisation and streamlining of central and regional structures of The Body Shop for €18 million;*
- *in 2008, the industrial reorganisation in Europe with the transfer of the Llantrisant factory in the process of being finalised (United Kingdom) and the closure of the Biotherm factory in Monaco for €71 million; the streamlining of product distribution and national YSL Beauté structures for €36.2 million; the reorganisation of the L'Oréal USA subsidiary for €19.8 million; and the streamlining of CollaGenex structures following its purchase by Galderma for €5 million;*

(3) 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	2010	2009	2008
Other financial income	7.5	0.7	1.1
Other financial expenses	-16.5	-13.7	-8.3
Total	**-9.0**	**-13.0**	**-7.2**

NOTE 9 Income tax

9.1. Detailed breakdown of income tax

€ millions	2010	2009	2008
Current tax	799.9	624.5	674.1
Deferred tax	110.0	51.6	6.6
Income tax	**909.9**	**676.1**	**680.7**

9.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2010	2009	2008
Profit before tax and non-controlling interests	**3,151.9**	**2,471.0**	**2,631.6**
Theoretical tax rate	30.13%	29.83%	29.81%
Expected tax charge	**949.7**	**737.0**	**784.5**
Impact of permanent differences	93.1	82.6	75.3
Impact of tax rate differences	-107.7	-91.4	-100.4
Change in unrecognised deferred taxes	-18.5	-8.8	5.6
Other (1)	-6.7	-43.3	-84.3
Group tax charge	**909.9**	**676.1**	**680.7**

(1) Including tax credits, withholding taxes on distribution, 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 distribution 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, 2007	**466.0**
Balance of deferred tax liabilities at December 31st, 2007	**-471.5**
Profit and loss impact	-6.6
Translation differences	28.8
Other effects (1)	83.6
Balance of deferred tax assets at December 31st, 2008	**498.9**
Balance of deferred tax liabilities at December 31st, 2008	**-398.4**
Profit and loss 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**
Profit and loss 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**

(1) Including mainly the tax effect on actuarial gains and losses recognised in equity.

Deferred tax assets and liabilities recorded in the balance sheet may be broken as follows:

€ millions	12.31.2010		12.31.2009		12.31.2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	599.0	371.9	540.9	313.2	470.2	313.3
Deferred tax liabilities on Sanofi-Aventis restatement		90.1		104.8		85.1
Tax credits and tax loss carry-forwards	27.1		29.9		28.7	
Deferred tax total	**626.1**	**462.0**	**570.8**	**418.0**	**498.9**	**398.4**

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€313.2 million, €297.4 million and €190.2 million, respectively, at the end of 2010, 2009 and 2008) and provisions for liabilities and charges (€197.9 million, €180.5 million and €133.2 million, respectively, at the end of 2010, 2009 and 2008).

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 €80.9 million at December 31st, 2010 compared with €91.0 million at December 31st, 2009 and €111.6 million at December 31st, 2008.

NOTE 10 Earnings attributable to owners of the company excluding non-recurring items – Earnings per share

10.1. Reconciliation with net profit

Earnings attributable to owners of the company excluding non-recurring items reconcile as follows with earnings attributable to owners of the company:

€ millions	2010	2009	2008
Earnings attributable to owners of the company	**2,239.7**	**1,792.2**	**1,948.3**
Capital gains and losses on tangible and intangible asset disposals	-0.3	0.9	-3.6
Tangible and intangible assets impairment	56.4	53.8	23.6
Restructuring costs	17.9	222.9	136.3
Other	79.2	-	-
Tax effect on non-recurring items	-22.0	-73.1	-40.8
Non-controlling interests	-	-	-0.2
Earnings attributable to owners of the company excluding non-recurring items	**2,370.9**	**1,996.7**	**2,063.6**

10.2. Earnings per share

The tables below set out earnings per share attributable to owners of the company:

2010	Earnings 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	Earnings 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**

2008	Earnings attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to the company (€)
Earnings per share	1,948.3	588,812,611	3.31
Stock options	-	2,107,467	
Diluted earnings per share	**1,948.3**	**590,920,078**	**3.30**

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:

2010	Earnings attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring 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	Earnings attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring 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**

2008	Earnings attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	2,063.6	588,812,611	3.50
Stock options	-	2,107,467	
Diluted earnings per share excluding non-recurring items	**2,063.6**	**590,920,078**	**3.49**

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:

	2010	2009	2008
Stock option plans	14,858,900	35,994,200	20,425,450

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 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
Luxury Products 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 Luxury Products 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 totalling €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
Luxury Products 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 Luxury Products 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 Luxury Products), on SoftSheen Carson for €19.6 million, and on Sanoflore €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.

€ millions 2008	12.31.2007	Acquisitions/ Disposals	Other movements	12.31.2008
L'Oréal Professionnel/Kérastase	326.9		7.3	334.2
Matrix	263.1		9.1	272.2
Redken/PureOlogy	398.3	13.2	17.3	428.8
Professional Products Total	**988.2**	**13.2**	**33.7**	**1,035.2**
L'Oréal Paris	738.5	12.0	5.9	756.4
Maybelline/Garnier	959.8	11.1	32.6	1,003.5
SoftSheen Carson	68.4		4.3	72.6
Other (1)	1.9	32.2	1.4	35.5
Consumer Products Total	**1,768.6**	**55.3**	**44.2**	**1,868.0**
Lancôme	559.6	205.0	8.4	773.0
Shu Uemura	102.2		28.3	130.6
YSL Beauté (2)		545.2	5.8	551.0
Perfumes	159.7	176.0	0.2	335.9
Other	31.1	54.0	-9.9	75.3
Luxury Products Total	**852.6**	**980.1**	**32.9**	**1,865.6**
Vichy/Dermablend (2)	226.5	37.5	2.5	266.4
Other	139.6		3.2	142.8
Active Cosmetics Total	**366.1**	**37.5**	**5.7**	**409.3**
Other (1)	5.4	3.8		9.2
The Body Shop	**363.6**	**7.0**	**-78.5**	**292.1**
Dermatology		**46.5**	**6.6**	**53.1**
Group Total	**4,344.4**	**1,143.5**	**44.6**	**5,532.5**

(1) After reclassification of the "distance selling" business under the Consumer Products Division.
(2) After reclassification of the Roger & Gallet business from the Luxury Products Division to the Active Cosmetics Division.

2008 acquisitions mainly relate to YSL Beauté and CollaGenex for €1,064.2 million. The provisional goodwill totalling €1,017.6 million resulting from the acquisition of YSL Beauté has been allocated to the YSL Beauté Cash-Generating Unit for €545.2 million and to the Roger & Gallet Cash-Generating Unit for €37.5 million, with the remainder allocated among the various Cash-Generating Units of the Luxury Products Division on the basis of expected synergies. No disposals took place during 2008. Other movements consist mainly of a positive impact of changes in exchange rates for €55.5 million, partly offset by an impairment loss of €10.9 million on Yue Sai (included in the "Other" line of Luxury Products).

Accumulated impairment losses relating to SoftSheen Carson and Yue Sai amount to €64.8 million and €11.8 million, respectively, at December 31st, 2008.

NOTE 12 Other intangible assets

€ 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.

€ millions 2008	12.31.2007	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2008
Brands with an indefinite life span (2)	1,228.6			26.3	-81.0	1,174.0
Amortisable brands and product ranges	52.1	0.4		7.3	2.4	62.1
Licences and patents	478.7	6.3	-1.1	89.6	34.8	608.2
Other	627.1	71.1	-8.5	54.8	0.4	745.0
Gross value	**2,386.6**	**77.8**	**-9.6**	**178.0**	**-43.4**	**2,589.2**
Brands with an indefinite life span (3)	14.6	11.3			2.0	27.9
Amortisable brands and products ranges	22.8	4.5			2.4	29.6
Licences and patents	156.9	26.4	-1.1	0.3	6.3	188.8
Other	233.2	69.6	-8.5	17.0	-6.5	304.8
Amortisation and provisions	**427.4**	**111.7**	**-9.6**	**17.3**	**4.2**	**551.1**
Other intangible assets - net	**1,959.2**	**-34.0**	**-**	**160.7**	**-47.7**	**2,038.2**

(1) This item consists mainly of changes in the scope of consolidation resulting from CollaGenex, Roger & Gallet (YSL) and Canan.
(2) At December 31st, 2008, brands with an indefinite life span consist mainly of The Body Shop (€437.1 million), Matrix (€267.1 million), Kiehl's (€120.0 million) and Shu Uemura (€109.3 million).
(3) An impairment loss was recorded in the period against the Biomedic brand for €11.3 million.

Other movements mainly consisted of changes in exchange rates over the period.

Accumulated impairment losses amount to €11.3 million on Biomedic and €16.6 million on Yue Sai at December 31st, 2008.

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 (in %) International without USA	Discount rate (in %) USA
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
2008 Test			
Maybelline/Garnier	1,003.5	8.5	8.9
Lancôme	773.0	8.5	8.9
L'Oréal Paris	756.4	8.5	8.9
The Body Shop	729.2	8.9	(1)
Matrix	539.3	8.5	8.9
Redken	487.8	8.5	8.9

(1) No specific rate was used to discount the YSL Beauté and The Body Shop Cash-Generating Units as the related USD flows were not material.
(2) After reclassification of the Roger & Gallet business from the Luxury Products Division to the Active Cosmetics Division.

At December 31st, 2010, the impact of a 1-point increase in the discount rate on all Cash-Generating Units would be an impairment loss of €31 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 €19 million.

NOTE 14 Tangible assets

€ 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 tangible assets and 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
Other tangible assets	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**
Tangible assets - 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 tangible assets and 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 tangible assets	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**
Tangible assets - 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.

€ millions 2008	12.31.2007	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements [1]	12.31.2008
Land and buildings	1,536.9	31.2	-15.5	-31.8	87.7	1,608.5
Machinery and equipment	2,260.1	149.0	-131.5	-21.4	203.7	2,459.8
Point-of-sales advertising: stands and displays	883.5	261.8	-100.3	-32.8	69.3	1,081.5
Other tangible assets and assets-in-progress	1,165.0	239.1	-82.5	-3.2	-157.0	1,161.4
Gross value	**5,845.5**	**681.1**	**-329.8**	**-89.2**	**203.7**	**6,311.2**
Land and buildings	764.1	73.5	-14.0	-11.9	8.1	819.8
Machinery and equipment	1,366.9	218.6	-129.2	-8.0	77.3	1,525.5
Point-of-sales advertising: stands and displays	510.7	212.3	-100.1	-21.8	36.2	637.3
Other tangible assets	552.6	101.0	-81.5	-7.0	10.3	575.4
Depreciation and provisions	**3,194.3**	**605.4**	**-324.8**	**-48.8**	**131.8**	**3,557.9**
Tangible assets - net	**2,651.2**	**75.7**	**-5.1**	**-40.4**	**71.9**	**2,753.3**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items.

Tangible assets include capital lease contracts for the following amounts:

€ millions	12.31.2010	12.31.2009	12.31.2008
Land and buildings	112.8	112.6	111.1
Machinery and equipment	3.0	5.5	6.4
Other tangible assets and assets-in-progress	16.7	20.9	20.9
Gross value	**132.5**	**139.0**	**138.4**
Depreciation	58.1	62.3	56.7
Net value	**74.4**	**76.7**	**81.7**

NOTE 15 Non-current financial assets

€ millions	12.31.2010		12.31.2009		12.31.2008	
	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Financial assets available for sale						
♦ Sanofi-Aventis (1)	5,657.2	4,033.5	6,509.6	4,033.5	5,367.5	4,033.5
♦ Unlisted securities (2)	3.5	4.3	4.1	4.9	4.8	5.7
Financial assets at amortised cost						
Non-current loans and receivables	176.8	182.8	158.5	168.9	185.1	194.8
Total	**5,837.5**	**4,220.6**	**6,672.2**	**4,207.3**	**5,557.4**	**4,234.0**

(1) L'Oréal's stake in Sanofi-Aventis was 9.02% at December 31st, 2010. The carrying amount at December 31st, 2008, December 31st, 2009 and December 31st, 2010 (€5,367.5 million, €6,509.6 million and €5,657.2 million, respectively) corresponds to the market value of the shares based on the closing price at December 31st, 2008, 2009 and 2010 (€45.40, €55.06 and €47.85, 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	12.31.2010	12.31.2009	12.31.2008
Finished products and consumables	1,606.0	1,326.4	1,479.9
Raw materials, packaging and semi-finished products	416.3	357.1	372.7
Gross value	**2,022.3**	**1,683.5**	**1,852.6**
Valuation allowance	212.2	206.8	217.1
Inventories – net	**1,810.1**	**1,476.7**	**1,635.5**

NOTE 17 Trade accounts receivable

€ millions	12.31.2010	12.31.2009	12.31.2008
Gross value	2,733.4	2,493.5	2,739.9
Valuation allowance	48.1	50.2	45.3
Net value	**2,685.3**	**2,443.3**	**2,694.6**

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 limited level of the allowance (2% of gross receivables).

NOTE 18 Other current assets

€ millions	12.31.2010	12.31.2009	12.31.2008
Tax and employee-related receivables (excluding income tax)	310.9	268.3	256.7
Prepaid expenses	208.9	168.1	139.6
Derivatives	83.2	65.4	267.1
Other current assets	243.0	231.0	322.4
Total	**846.0**	**732.8**	**985.8**

NOTE 19 Cash and cash equivalents

	12.31.2010		12.31.2009		12.31.2008	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	523.6	522.9	83.3	82.9	82.8	82.7
Bank accounts and other cash and cash equivalents	1,026.8	1,026.8	1,089.8	1,089.8	994.3	994.3
Total	**1,550.4**	**1,549.7**	**1,173.1**	**1,172.7**	**1,077.1**	**1,077.0**

Marketable securities consist mainly of money-market SICAV investment funds and unit trusts (on which the return is based on EONIA) and short-term investments. Marketable securities are considered as *Financial assets available for sale*. At December 31st, 2010, they consisted solely of investments in euro zone government bonds through mutual funds.

Unrealised gains recorded at period-end amount to €0.7 million compared with €0.4 million and €0.1 million in 2009 and in 2008.

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

The share capital consists of 600,992,585 shares with a par value of €0.20 at December 31st, 2010, following the decision made by the Board of Directors on April 27th, 2010 to cancel 500,000 shares and the exercise of subscription options for 2,520,175 shares.

The share capital consists of 598,972,410 shares with a par value of €0.20 at December 31st, 2009, following the decision made by the Board of Directors on February 16th, 2009 to cancel 3,970,600 shares and the exercise of subscription options for 527,200 shares.

The share capital consists of 602,415,810 shares with a par value of €0.20 at December 31st, 2008, following the decision made by the Board of Directors on February 13th and August 28th, 2008 to cancel respectively 7,187,000 and 8,410,400 shares and the exercise of subscription options for 37,600 shares.

20.2. Treasury stock

Shares acquired under the L'Oréal share buyback programme authorised by the Annual General Meeting of Shareholders are deducted from consolidated equity. Capital gains or losses relating to these shares are also recorded in equity net of tax.

a) 2010

The change in the number of shares in 2010 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At January 1st, 2010	**598,972,410**	**-14,236,750**	**584,735,660**
Cancelled shares	-500,000	500,000	-
Exercised options	2,520,175	2,400,068	4,920,243
Treasury stock purchased	-		
At December 31st, 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 January 1st, 2010	-	**14,236,750**	**14,236,750**	**1,071.6**
Cancelled shares		-500,000	-500,000	-37.9
Exercised options		-2,400,068	-2,400,068	-182.8
Treasury stock purchased		-	-	-
At December 31st, 2010	-	**11,336,682**	**11,336,682**	**850.9**
€ millions	-	**850.9**	**850.9**	

b) 2009

The change in the number of shares in 2009 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At January 1st, 2009	**602,415,810**	**-19,275,342**	**583,140,468**
Cancelled shares	-3,970,600	3,970,600	-
Exercised options	527,200	1,064,242	1,591,442
Treasury stock purchased	-	3,750	3,750
At December 31st, 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 January 1st, 2009	**3,808,000**	**15,467,342**	**19,275,342**	**1,410.6**
Cancelled shares	-3,808,000	-162,600	-3,970,600	-272.3
Exercised options		-1,064,242	-1,064,242	-66.5
Treasury stock purchased		-3,750	-3,750	-0.3
At December 31st, 2009	**-**	**14,236,750**	**14,236,750**	**1,071.6**
€ millions	**-**	**1,071.6**	**1,071.6**	

c) 2008

The change in the number of shares in 2008 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At January 1st, 2008	**617,975,610**	**-22,664,937**	**595,310,673**
Cancelled shares	-15,597,400	15,597,400	-
Exercised options	37,600	579,195	616,795
Treasury stock purchased	-	-12,787,000	-12,787,000
At December 31st, 2008	**602,415,810**	**-19,275,342**	**583,140,468**

The change in treasury stock in 2008 is as follows:

In shares	Buyback programme	Allocated to stock options plans	Total	*€ millions*
At January 1st, 2008	**6,281,000**	**16,383,937**	**22,664,937**	**1,787.2**
Cancelled shares	-15,260,000	-337,400	-15,597,400	-1,288.9
Exercised options		-579,195	-579,195	-32.1
Treasury stock purchased	12,787,000	-	12,787,000	944.4
At December 31st, 2008	**3,808,000**	**15,467,342**	**19,275,342**	**1,410.6**
€ millions	**259.6**	**1,151.0**	**1,410.6**	

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, 2010.

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	1,591,550	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	1,838,000	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	1,106,500	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	2,482,150	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	3,582,175	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,546,879	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	5,250,250	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,896,600	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,650,000	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	4,200,000	04.28.2015	04.27.2020	80.03

All plans have a 5-year exercise period and no performance-related conditions, except the April 27th, 2010 and March 25, 2009 plans for members of the Executive Committee. The performance conditions associated with these plans concern:

- for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2011, 2012, 2013 and 2014 fiscal years (2010 plan) and for the 2010, 2011, 2012 and 2013 fiscal years (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.* sum of the 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.

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
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%
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
Expected volatility	21.5%	21.00%	21.50%	23.67%	18.70%	17.00%	21.00%	20.50%	22.52%	23.00%	31.95%	23.53%
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%
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
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
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

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 2008, 2009 and 2010 is set out below:

	12.31.2010		12.31.2009		12.31.2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Number of options not exercised at beginning of period	40,051,000	70.86	39,166,092	72.39	40,825,387	71.96
♦ Options granted	4,200,000	80.03	3,650,000	50.11	-	
♦ Options exercised	-4,920,243	68.40	-1,591,442	59.87	-616,795	55.38
♦ Options expired	-2,034,253		-1,173,650		-1,042,500	
Number of options not exercised at end of period	37,296,504	71.55	40,051,000	70.86	39,166,092	72.39
Of which:						
- number of exercisable options at end of period	18,299,654	67.61	19,083,150	71.32	15,759,342	74.88
- expired options at end of period	326,750		571,000		1,215,250	

The average weighted share price amounted to €80.47 million, €60.37 million and €72.56 million, respectively, for 2010, 2009 and 2008.

The total charge recorded in 2010, 2009 and 2008 amounted to €76.5 million, €74.5 million and €85.9 million, respectively.

2) Free shares

On April 27th, 2010 and March 25, 2009, the Board of Directors decided to grant respectively 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:

- 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 (2010 plan) and for the 2010, 2011 and 2012 fiscal years (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 8.64% and 8.47% of the share value at the grant date for the 2010 and 2009 plans.

On the basis of these assumptions, the fair values for the 2010 and 2009 plans amount to €66.78 and €40.23 respectively for French residents, and to €73.73 and €44.55 respectively, for non-residents, compared to a share price of €80.50 and €50.94, respectively.

The expense recorded in 2010 and 2009 amounted to €8.4 million and €2.2 million, respectively.

20.4. Items directly recognised in equity

The following tables indicate movements in these items:

€ millions	12.31.2010	12.31.2009	12.31.2008
Financial assets available for sale			
Reserve at beginning of period	2,476.4	1,334.0	3,417.9
Changes in fair value over period	-852.3	1,142.5	-2,074.2
Impairment loss recorded in profit and loss	-	-	-
Changes in fair value recorded in profit and loss on disposal	-	-0.1	-9.7
Reserve at end of period	**1,624.1**	**2,476.4**	**1,334.0**

€ millions	12.31.2010	12.31.2009	12.31.2008
Cash flow hedges - foreign exchange			
Reserve at beginning of period	8.1	162.0	72.7
Change in fair value over period	-151.5	-7.2	178.6
Changes in fair value recorded in profit and loss	143.6	-146.7	-89.3
Reserve at end of period	**0.2**	**8.1**	**162.0**

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 euro against all Group currencies would have had an impact of +€174.3 million (-€176.9 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2008.

A 10% increase (decrease) 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.

A 10% increase (decrease) in the USD against the main Group currencies (CHF, MXN) would have had an impact of -€15.1 million (+€19.8 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2008.

€ millions	12.31.2010	12.31.2009	12.31.2008
Cash flow hedges - interest rates			
Reserve at beginning of period	-1.6	-1.3	-0.3
Changes in fair value over period	-0.7	-0.8	-1.0
Changes in fair value recorded in profit and loss	0.6	0.5	-
Reserve at end of period	**-1.7**	**-1.6**	**-1.3**

€ millions	12.31.2010	12.31.2009	12.31.2008
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-410.5	-267.6	-107.2
Actuarial gains/(losses) over the period	-215.7	-140.9	-160.4
Impact of asset ceiling	2.2	-2.0	-
Reserve at end of period	**-624.0**	**-410.5**	**-267.6**

€ millions	12.31.2010	12.31.2009	12.31.2008
Total items directly recognised in equity			
Gross reserve	998.6	2,072.4	1,227.1
Associated tax effect	189.5	97.5	36.1
Reserve net of tax	**1,188.1**	**2,169.9**	**1,263.2**

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 profit and loss account 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 for 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 vested rights of employees.

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. This replaces the previously applied 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:

	12.31.2010	12.31.2009	12.31.2008
Discount rate	4.6%	5.3%	5.8%
Salary increase	4.7%	4.9%	4.8%
Expected long-term return on assets	5.7%	5.9%	6.2%

	12.31.2010			12.31.2009			12.31.2008		
	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate
Expected rate of health care inflation	5.5%	3.6%	2016	6.3%	4.1%	2016	7.0%	4.8%	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 %	2010	2009	2008
Weighted average (all countries)	**4.6%**	**5.3%**	**5.8%**
of which:			
Euro zone	4.4%	5.2%	5.9%
United States	5.0%	5.8%	6.3%
United Kingdom	5.5%	5.8%	6.3%

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €185 million for the Euro zone, €51 million for the United States and €29 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 %	2010	2009	2008
Weighted average (all countries)	**5.7%**	**5.9%**	**6.2%**
of which:			
Euro zone	5.6%	6.0%	6.4%
United States	6.8%	6.8%	6.8%
United Kingdom	6.0%	6.1%	6.6%

A 50 basis point decrease in the expected return would decrease the assets as well as the expected return on plan assets by -€5.3 million for the Euro zone, -€1.8 million for the United States and -€1.4 million for the United Kingdom.

The breakdown of plan assets relating to retirement schemes is as follows:

In %	12.31.2010	12.31.2009	12.31.2008
Equity securities (1)	38.2%	36.3%	31.8%
Bonds	50.0%	53.2%	50.7%
Property assets (2)	4.4%	5.2%	6.3%
Monetary instruments	2.1%	1.1%	5.3%
Other	5.3%	4.2%	5.9%
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 assigned to the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The variations during 2010, 2009 and 2008 are set out below:

€ millions	Present value of defined benefit obligations	Plan assets	Unrecognised plan amendments	Net provisions
Balance at December 31st, 2007	**2,370.1**	**-1,508.2**	**-5.1**	**856.7**
Service cost	90.7			90.7
Interest cost	121.0			121.0
Expected return on assets		-94.5		-94.5
Past service cost: new plans/plan amendments	-18.2		-0.2	-18.4
Curtailments	-4.7			-4.7
Settlements	-6.2	6.2		-0.0
Benefits paid	-100.7	81.9		-18.8
Contribution paid	4.3	-177.7		-173.4
Actuarial gains and losses	-207.6	373.3		165.7
Translation differences	-31.6	29.9	0.3	-1.4
Other movements	71.3	-32.6		38.7
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
Contribution 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		0.0
Benefits paid	-139.8	105.2		-34.6
Contribution 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**

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	12.31.2010	12.31.2009	12.31.2008
Present value of defined benefit obligations that are wholly or partly funded	2,625.4	2,279.5	2,029.1
Fair value of plan assets	1,907.6	1,585.0	1,321.7
Net position of defined benefit obligations that are wholly or partly funded	717.8	694.5	699.3
Present value of defined benefit obligations that are wholly unfunded	423.4	321.0	259.2

The retirement expense charged to the profit and loss account is recorded within personnel expenses under operational profit and can be analysed as follows:

€ millions	2010	2009	2008
Service cost	99.0	87.2	90.7
Interest cost	135.2	127.6	121.0
Expected return on plan assets	-102.9	-89.5	-94.5
Amortisation of actuarial gains and losses	-	-	1.1
New plans/plan amendments	-3.1	-0.6	-18.4
Curtailments	-1.0	-3.0	-0.7
Settlements	-	-0.2	-0.2
Total	**127.2**	**121.5**	**99.0**

Contributions to defined contribution plans recognised as an expense in 2010, 2009 and 2008 amounted to €310.6 million, €301.0 million and €295.8 million, respectively.

A change of one percentage point in medical cost inflation has the following impact:

	Increase of 1%	Decrease of 1%
Impact on the defined benefit obligation	18.82	-14.87
Impact on current service cost and interest costs	2.74	- 1.51

The defined benefit obligation, the fair value of plan assets and the actuarial gains (losses) generated for the current year and the four previous years are as follows:

€ millions	12.31.2010	12.31.2009	12.31.2008	12.31.2007	12.31.2006
Defined benefit obligation	3,048.8	2,600.5	2,288.4	2,370.1	2,532.1
Plan assets	-1,907.6	-1,585.0	-1,321.7	-1,508.2	-1,440.7
(Surplus)/Deficit	**1,141.2**	**1,015.5**	**966.7**	**861.9**	**1,091.4**
Experience adjustments generated on the obligation	-5.6	-33.0	12.1	44.3	-43.3
Experience adjustments generated on plan assets	-30.2	81.0	-373.3	-50.9	32.0

NOTE 22 Provisions for liabilities and charges

22.1. Closing balances

€ millions	12.31.2010	12.31.2009	12.31.2008
Non-current provisions for liabilities and charges	**181.3**	**125.6**	**111.4**
Provisions for restructuring		0.4	0.8
Other non-current provisions (1)	181.3	125.2	110.6
Current provisions for liabilities and charges	**536.9**	**510.0**	**431.1**
Provisions for restructuring	90.6	179.8	124.3
Provisions for product returns	209.4	174.6	162.9
Other non-current provisions (1) (2)	236.9	155.6	143.9
Total	**718.2**	**635.6**	**542.5**

(1) This item includes provisions for tax risks and litigation, industrial 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.
In 2010, notifications of complaints were sent to the Group's subsidiaries in Germany, the Netherlands, Spain and Switzerland. The cases are currently being examined and the subsidiaries will be putting forward appropriate arguments to defend their position. For Italy, a decision was handed down by the national competition authority on December 15th, 2010, against which an appeal is in process.
The Group had set aside provisions for €79.2 million in 2010 in respect of potential fines resulting from these investigations, based on a preliminary analysis. Taking into account the provisions already recognised (mainly in France), total provisions for competition disputes amounted to €91.3 million at December 31st, 2010.
Other requests for information have also been sent and investigations launched in other European countries, although no notification of complaints had been received in these countries at December 31st, 2010.

22.2 Changes in provisions for liabilities and charges during the period

€ 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

The change in this caption in 2008 can be analysed as follows:

€ millions	12.31.2006	12.31.2007	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Other (1)	12.31.2008
Provisions for restructuring	20.3	10.6	120.8	-6.6	-0.1	0.4	125.1
Provisions for product returns	123.1	139.1	74.4	-67.0	-4.8	21.2	162.9
Other provisions for liabilities and charges	282.7	284.5	82.8	-60.6	-53.9	1.7	254.5
Total	**426.1**	**434.2**	**278.0**	**-134.2**	**-58.8**	**23.3**	**542.5**

(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	120.8	-6.6	-0.1
♦ Operating profit	141.9	-114.2	-21.4
♦ Financial (income)/expense	0.3	-0.4	-
♦ Income tax	15.0	-13.0	-37.3

NOTE 23 Borrowings and debt

The Group finances itself through medium-term bank loans, the issue of short-term paper in France, and the issue of short-term commercial paper in the United States. None of the Group's loan agreements contain an early repayment clause linked to financial ratios (covenants).

23.1. Debt by type

	12.31.2010		12.31.2009		12.31.2008	
€ millions	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	71.1	-	115.5	-	1,896.2
MLT bank loans	751.2	563.0	2,664.4	100.0	2,414.6	71.5
Debt on capital lease contracts	53.2	10.9	57.4	11.1	69.3	13.2
Overdrafts	-	47.9	-	36.0	-	63.6
Other borrowings and debt	19.9	74.1	19.8	127.1	22.7	226.1
Total	**824.3**	**767.0**	**2,741.6**	**389.7**	**2,506.6**	**2,270.6**

23.2. Debt by maturity date

€ millions	12.31.2010	12.31.2009	12.31.2008
Under 1 year	767.0	389.7	2,270.6
1 to 5 years	796.1	2,709.3	2,463.6
Over 5 years	28.2	32.3	43.0
Total	**1,591.3**	**3,131.3**	**4 777.2**

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.

At the end of 2008, expected interest payments totalled around €113.6 million for 2009, €174.7 million for the period 2010-2013 and €0.9 million after 2013.

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 renewed at maturity.

23.3. Debt by currency (after allowing for currency hedging instruments)

€ millions	12.31.2010	12.31.2009	12.31.2008
Euro (EUR)	1,122.8	2,579.0	3,812.9
US dollar (USD)	127.2	158.5	552.5
Swiss franc (CHF)	79.4	61.9	-
Yen (JPY)	64.4	71.5	90.2
Mexican peso (MXN)	38.3	35.4	-
Yuan (CNY)	29.7	41.5	51.0
Other	129.4	183.5	270.6
Total	**1,591.3**	**3,131.3**	**4,777.2**

23.4. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

€ millions	12.31.2010	12.31.2009	12.31.2008
Floating rate	1,517.3	3,052.2	4,677.4
Fixed rate	74.0	79.1	99.8
Total	**1,591.3**	**3,131.3**	**4,777.2**

23.5. Effective interest rates

Effective debt interest rates after allowing for hedging instruments were 3.26% in 2008, 0.21% in 2009 and 0.21% in 2010 for short-term paper, and 4.48% in 2008, 1.02% in 2009 and 1.15% in 2010 for bank loans.

23.6. Average debt interest rates

Average interest rates on debt after allowing for hedging instruments were 4.77% in 2008, 1.63% in 2009 and 0.99% in 2010 for the euro and 2.91% in 2008, 0.53% in 2009 and 0.36% in 2010 for the US dollar.

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 interest rate 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.

At December 31st, 2010, the fair value of borrowings and debt amounts to €1,591.8 million (€3,131.7 million at end-2009, €4,777.8 million at end-2008).

23.8. Debt covered by collateral

There is no significant debt covered by collateral at December 31st, 2010, 2009 or 2008.

23.9. Confirmed credit lines

At December 31st, 2010, L'Oréal and its subsidiaries had €2,387 million of confirmed undrawn credit lines, compared with €2,425 million at December 31st, 2009 and €2,461 million at December 31st, 2008.

Credit lines fall due as follows:

- €87 million in less than one year;
- €2,300 million between one year and five 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 settlement flows. Exchange rate derivatives are negotiated by Régéfi (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when required by local regulations. Such operations are supervised by Régéfi.

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	12.31.2010	12.31.2009	12.31.2008	12.31.2010	12.31.2009	12.31.2008
Currency futures						
Purchase of EUR against foreign currencies	**1,595.9**	**1,500.1**	**1,320.0**	**-51.9**	**-17.1**	**89.1**
EUR/RUB	301.8	2.8	162.6	-5.8	-0.1	29.9
EUR/CHF	255.8	228.8	120.9	-14.9	-3.7	-6.4
EUR/USD	170.2	298.1	233.5	-2.3	4.7	3.6
EUR/CNY	85.4	107.9	87.9	-2.7	1.6	-2.5
EUR/BRL	84.0	89.3	33.1	-5.6	-7.2	7.5
EUR/CAD	79.3	97.8	67.8	-2.0	-2.4	7.5
EUR/MXN	78.3	74.2	41.8	-1.1	0.8	7.5
EUR/HKD	72.3	71.4	41.1	0.0	0.5	-0.5
EUR/JPY	64.1	69.0	82.3	-1.0	1.6	-0.6
EUR/AUD	60.8	64.0	54.7	-5.6	-4.2	6.1
EUR/Western European currencies	17.0	115.4	122.8	-2.5	-0.5	18.8
EUR/Eastern European currencies	100.6	99.9	99.6	-0.1	-1.0	8.4
EUR/Asia Pacific currencies	116.5	102.7	90.7	-4.5	-3.4	5.4
EUR/Other currencies	109.8	78.8	81.2	-3.8	-3.8	4.4
Purchase of USD against foreign currencies	**247.4**	**191.4**	**116.4**	**-9.7**	**-6.0**	**12.2**
USD/Latin American currencies	119.5	80.4	66.7	-3.8	-2.9	8.0
USD/Asia Pacific currencies	72.3	50.0	49.7	-4.0	-0.7	4.2
USD/Other currencies	55.6	61.0	0.0	-1.9	-2.4	0.0
Sale of USD against foreign currencies	**0.0**	**140.4**	**79.5**	**0.0**	**7.5**	**4.0**
Sale of USD against CHF	0.0	140.4	74.8	0.0	7.5	4.2
USD/Other currencies	0.0	0.0	4.7	0.0	0.0	-0.2
Other currency pairs	232.9	173.0	161.7	-1.7	0.8	-4.9
Currency futures total	**2,076.2**	**2,004.9**	**1,677.6**	**-63.3**	**-14.8**	**100.4**
Currency options						
EUR/USD	122.8	0.0	250.8	8.0	0.0	6.6
EUR/GBP	82.3	65.0	120.5	4.5	2.1	18.3
EUR/Other currencies	222.7	17.4	351.0	11.0	0.3	42.2
Other currency pairs	30.3	16.2	216.2	1.0	0.4	25.4
Currency options total	**458.1**	**98.6**	**938.5**	**24.5**	**2.8**	**92.5**
of which total call options	458.2	98.6	1,346.2	24.5	2.8	104.6
of which total put options	-0.1	0.0	-407.7	0.0	0.0	-12.1
Total	**2,534.3**	**2,103.5**	**2,616.1**	**-38.8**	**-12.0**	**192.9**

The put options total 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	2010	2009	2008
Fair value hedges [1]	-18.7	3.8	21.5
Cash flow hedges	-20.1	-15.8	171.4
Net foreign investment hedges	-	-	-
Total	**-38.8**	**-12.0**	**192.9**

(1) *Fair value hedges relate to currency risks on operating receivables and payables as well as on financial debt.*

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. Such 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	12.31.2010	12.31.2009	12.31.2008	12.31.2010	12.31.2009	12.31.2008
Cash flow hedges						
Fixed-rate borrower interest rate swaps						
EUR Euribor/fixed rate	14.3	15.2	18.6	-1.7	-1.8	-1.3
USD Libor/fixed rate	-	-	-	-	-	-
Purchase of caps						
USD Libor	-	-	288.5	-	-	-
Fair value hedges						
Floating-rate borrower interest rate swaps						
EUR Euribor/fixed rate	-	-	69.8	0.0	-	2.2
Total	**14.3**	**15.2**	**376.9**	**-1.7**	**-1.8**	**0.9**

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											
	12.31.2010				12.31.2009				12.31.2008			
€ 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	3.4	4.1	11.2	18.6
Purchase of caps					-	-	-	-	288.5			288.5
Fair value hedges												
Floating-rate borrower interest-rate swaps	-	-	-	-	-	-	-		69.8	-	-	69.8
Total	**1.0**	**4.6**	**8.7**	**14.3**	**0.9**	**4.3**	**10.0**	**15.2**	**361.7**	**4.1**	**11.2**	**376.9**

24.3. Sensitivity to changes in interest rates

An increase of 100 basis points in interest rates would have a direct positive impact of €0.5 million on the Group's financial expense at December 31st, 2010, compared with a negative impact of €18.6 million at December 31st, 2009 and a negative impact of €36.0 million at December 31st, 2008, after allowing for cash, cash equivalents and derivatives, and assuming that total net debt 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 €1.3 million at December 31st, 2010 compared with €1.2 million at December 31st, 2009 and €2.5 million at December 31st, 2008.

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 evaluated on the basis of its short-term debt which includes maturities of medium-term bank loans totalling €563 million in 2011 and outstanding amounts on its short-term paper programme totalling €71.1 million. If these bank facilities were not renewed, the Group has confirmed credit lines of €2,387 million at December 31st, 2010. 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, 2010, cash was invested exclusively in euro-zone government bonds through mutual funds (note 19).

At December 31st, 2010, the Group holds 118,227,307 Sanofi-Aventis 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.

If the share price were to fall significantly below €34.12 (the initial cost of the Sanofi-Aventis 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 the profit and loss account.

At December 31st, 2009, the Group held 118,227,307 Sanofi-Aventis 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.

At December 31st, 2008, the Group held 118,227,307 Sanofi-Aventis shares for an amount of €5,367.5 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €45.40 on December 31st, 2008 would have an impact of plus or minus €536.8 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: inputs that are observable for the asset or liability;
- level 3: inputs for the asset or liability that are based on unobservable market data.

The following table provides an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

€ 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-Aventis 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-Aventis 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**

€ millions

December 31st, 2008	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		266.2		266.2
Interest rate derivatives		0.9		0.9
Sanofi-Aventis shares	5,367.5			5,367.5
Marketable securities	82.8			82.8
Total assets at fair value	**5,450.3**	**267.1**		**5,717.4**
Liabilities at fair value				
Foreign exchange derivatives		98.5		98.5
Interest rate derivatives				
Total liabilities at fair value		**98.5**		**98.5**

NOTE 25 Other current liabilities

€ millions	12.31.2010	12.31.2009	12.31.2008
Tax and employee-related payables (excluding income tax)	986.8	918.2	903.1
Credit balances on trade receivables	582.2	525.3	543.1
Fixed asset payables	121.2	78.1	159.1
Derivatives	117.1	81.7	98.5
Other current liabilities	150.8	147.2	144.7
Total	**1,958.1**	**1,750.5**	**1,848.4**

NOTE 26 Off-balance sheet commitments

26.1. Operating lease commitments

These amount to €1,764.3 million at December 31st, 2010 compared with €1,776.2 million at December 31st, 2009 and €1,914.9 million at December 31st, 2008, of which:

- €376.6 million is due in under one year at December 31st, 2010 compared with €351.3 million at December 31st, 2009 and €368.2 million at December 31st, 2008;
- €975.9 million is due in 1 to 5 years at December 31st, 2010 compared with €933.4 million at December 31st, 2009 and €1,024.1 million at December 31st, 2008;
- €411.8 million is due in over 5 years at December 31st, 2010 compared with €491.5 million at December 31st, 2009 and €522.6 million at December 31st, 2008.

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	12.31.2010	12.31.2009	12.31.2008
Commitments given (1)	109.5	117.7	107.4
Commitments on Dermatology contracts	48.5	31.3	32.7
Commitments received	45.8	33.7	36.5
Capital expenditure orders	220.8	168.0	243.7
Firm purchase commitments in the context of logistics supply contracts	461.8	400.9	406.2

(1) These consist mainly of commitments given to governmental bodies or commitments concerning loans granted to third parties who are partners of the Group, and the net commitment toward the L'Oréal Foundation for its long-term action program.

The takeover bid launched by Galderma Holding BV on Q-Med is detailed in note 31.

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 like to have a material impact on the earnings, financial position, assets or operations of the L'Oréal Company and Group.

26.4. Environmental risks

The Group carefully follows regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial position, results or assets of the Group.

NOTE 27 Changes in working capital

This caption amounts to €132.5 million, €466.3 million and a negative €148.8 million, respectively, for 2010, 2009 and 2008, and can be analysed as follows:

€ millions	2010	2009	2008
Inventories	-217.0	169.6	-22.3
Trade accounts receivable	-90.6	312.3	-8.0
Trade accounts payable	415.8	-89.3	-8.5
Other receivables and payables	24.3	73.7	-110.0
Total	**132.5**	**466.3**	**-148.8**

NOTE 28 Impact of changes in the scope of consolidation in the cash flow statement

In 2010, this item mainly related to the acquisitions of Essie Cosmetics and American distributors.

In 2009, this item mainly related to the acquisitions of American distributors and of non-controlling interests in Shu Uemura.

In 2008, this item mainly related to the acquisitions of Canan, CollaGenex; Columbia Beauty Supply, Le Club des Créateurs de Beauté and YSL Beauté.

NOTE 29 Transactions with related parties

29.1. Joint ventures

Transactions with companies consolidated on a proportional basis are as follows:

€ millions	2010	2009	2008
Sales of goods and services	0.9	0.8	3.2
Financial expenses and income	0.8	1.4	3.4

The following receivables and payables are recorded on the balance sheet for the related parties:

€ millions	12.31.2010	12.31.2009	12.31.2008
Operating receivables	2.7	1.5	1.5
Operating payables	0.2	0.3	0.5
Financial receivables	80.6	94.8	72.9

29.2. Related parties with a significant influence on the Group

No significant transactions have been concluded with a member of senior management or a shareholder with a significant influence on the Group.

29.3. Associates

No significant transactions took place with an associate in 2010, 2009 or 2008.

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 2010	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit
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
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

€ millions 2008	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit
Galderma	226.3	423.6	319.4	48.3	426.9	-346.9	80.0
Innéov	6.2	0.3	10.8	0.1	27.8	-28.3	-0.5

NOTE 30 Fees accruing to auditors and members of their networks payable by the Group

€ millions excl. VAT	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Amount		%		Amount		%	
	2010	2009	2010	2009	2010	2009	2010	2009
Audit								
Statutory audit	5.5	5.5	65%	85%	5.7	5.3	88%	81%
L'Oréal	1.0	1.0	11%	15%	1.0	0.9	15%	14%
Fully consolidated subsidiaries	4.5	4.5	54%	70%	4.7	4.4	73%	67%
Other related assignments	2.4	0.7	29%	11%	0.4	0.9	7%	14%
L'Oréal	0.1	0.0	1%	0%	0.1	0.4	2%	6%
Fully consolidated subsidiaries	2.3	0.7	28%	10%	0.3	0.5	5%	8%
Audit sub-total	**7.9**	**6.2**	**94%**	**95%**	**6.1**	**6.2**	**95%**	**95%**
Other services								
Other services (legal, tax, employee-related, other)	0.5	0.3	6%	5%	0.3	0.3	5%	5%
Total	**8.4**	**6.5**	**100%**	**100%**	**6.4**	**6.5**	**100%**	**100%**

NOTE 31 Subsequent events

On December 13th, 2010, Galderma Holding AB, a wholly owned subsidiary of Galderma Pharma S.A. (itself 50%-owned by L'Oréal 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™ 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 SEK 1.5 billion and adjusted operating profit of SEK 287 million.

The initial acceptance period for the offer started on January 4th and ended on February 7th, 2011.

The offer was SEK 75.00 in cash for each share, with the exception of shares owned by Q-Med founder Bengt Agerup, who has made a binding and unconditional commitment to sell its 47.5% ownership interest and voting rights in Q-Med to Galderma Holding AB at a price of SEK 58.94 per share in cash. An earn-out clause stipulates that the total price can under no circumstances exceed SEK 74.96 in cash per share.

On February 10th, 2011, Galderma extended its offer for 15 days and raised it to SEK 79.00 per share.

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.

1.7. Consolidated companies at December 31st, 2010

1.7.1. Companies consolidated by the full consolidation method (1)

Companies	Head Office	% interest	% control (2)
Areca & Cie	France	100.00	
Avenamite S.A.	Spain	100.00	
Beauté Créateurs	France	100.00	
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	
Cosmétique Active (Suisse) S.A.	Switzerland	100.00	
Egyptelor LLC	Egypt	100.00	
Elebelle (Pty) Ltd	South Africa	100.00	
Episkin	France	100.00	
Episkin Biomatériaux	France	100.00	
Erwiton S.A.	Uruguay	100.00	
Exclusive Signatures International	France	100.00	
Fapagau & Cie	France	100.00	
Faprogi	France	100.00	
Finval	France	100.00	
Frabel S.A. de C.V.	Mexico	100.00	
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	

(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.

Companies	Head Office	% interest	% control (2)
La Roche-Posay Laboratoire Pharmaceutique	France	99.98	
Laboratoire Bioexigence	France	100.00	
Laboratoire Garnier & Cie	France	100.00	
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 Cosmetic Versand Verwaltungs GmbH	Germany	100.00	
Le Club des Créateurs Cosmeticversand Gmbh & Co	Germany	100.00	
Le Club des Créateurs de Beauté	Belgium	100.00	
Le Club des Créateurs de Beauté Taiwan Co Ltd	Taiwan	100.00	
Lehoux et Jacque	France	100.00	
L'Oréal Adria d.o.o.	Croatia	100.00	
L'Oréal Argentina S.A.	Argentina	100.00	
L'Oréal Australia Pty Ltd	Australia	100.00	
L'Oréal Balkan d.o.o.	Serbia	100.00	
L'Oréal Baltic SIA	Latvia	100.00	
L'Oréal Belgilux S.A.	Belgium	100.00	
L'Oréal Brasil Comercial de Cosméticos Ltda	Brazil	100.00	
L'Oréal Bulgaria EOOD	Bulgaria	100.00	
L'Oréal Canada, Inc.	Canada	100.00	
L'Oréal Ceska Republika s.r.o	Czech Republic	100.00	
L'Oréal Chile S.A.	Chile	100.00	
L'Oréal (China) Co Ltd	China	100.00	
L'Oréal Colombia S.A.	Colombia	100.00	
L'Oréal Cosmetics Industry SAE	Egypt	100.00	
L'Oréal Danmark A/S	Denmark	100.00	
L'Oréal Deutschland GmbH	Germany	100.00	
L'Oréal Egypt LLC	Egypt	100.00	
L'Oréal España S.A.	Spain	100.00	
L'Oréal Finland Oy	Finland	100.00	
L'Oréal Guatemala S.A.	Guatemala	100.00	
L'Oréal Hellas S.A.	Greece	100.00	
L'Oréal Hong Kong Ltd	Hong-Kong	100.00	
L'Oréal India Pvt Ltd	India	100.00	
L'Oréal Investments B.V.	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	96.53	
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	

(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.

Companies	Head Office	% interest	% control [(2)]
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	
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 Produits de Luxe Suisse S.A.	Switzerland	100.00	
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany	100.00	
L'Oréal Produktion Deutschland GmbH & Co Kg	Germany	100.00	
L'Oréal Romania SRL	Romania	100.00	
L'Oréal Saipo Industriale S.p.A	Italy	100.00	
L'Oréal Singapore Pte Ltd	Singapore	100.00	
L'Oréal Slovenija Kozmetika d.o.o	Slovenia	100.00	
L'Oréal Slovensko s.r.o	Slovakia	100.00	
L'Oréal South Africa Holdings Pty Ltd	South Africa	100.00	
L'Oréal Suisse S.A.	Switzerland	100.00	
L'Oréal Sverige AB	Sweden	100.00	
L'Oréal Taiwan Co Ltd	Taiwan	100.00	
L'Oréal Thailand Ltd	Thailand	100.00	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	Turkey	100.00	
L'Oréal UK Ltd	United Kingdom	100.00	
L'Oréal Ukraine	Ukraine	100.00	
L'Oréal Uruguay S.A.	Uruguay	100.00	
L'Oréal USA, Inc. (as a group)	United States	100.00	
L'Oréal Venezuela, C.A.	Venezuela	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	Chine	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	
Banque de Réalisations de Gestion et de Financement (Regefi)	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.

Companies	Head Office	% interest	% control [(2)]
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	99.52	
Socex de Expansao Mercantil em Cosmeticos Ltda	Brazil	99.00	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche Posay	France	99.98	
Sofamo	Monaco	100.00	
Soprocos	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	
The Body Shop (as a group)	United Kingdom	100.00	
Venprobel	Venezuela	100.00	
Viktor & Rolf Parfums	France	100.00	
Yichang Tianmei International Cosmetics Co Ltd	China	100.00	
YSL Beauté	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 Suisse	Switzerland	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.

1.7.2. Companies consolidated by the proportional method

Companies	Head Office	% interest	% control [(2)]
Galderma Argentina S.A.	Argentina	50.00 [(1)]	
Galderma Australia Pty Ltd	Australia	50.00 [(1)]	
Galderma Belgilux N.V.	Belgium	50.00 [(1)]	
Galderma Brasil Limitada	Brazil	50.00 [(1)]	
Galderma Canada Inc.	Canada	50.00 [(1)]	
Galderma Colombia S.A.	Colombia	50.00 [(1)]	
Galderma Hellas Trade of Pharmaceuticals Products S.A.	Greece	50.00 [(1)]	
Galderma 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 Peru Laboratorios S.A.	Peru	50.00 [(1)]	
Galderma Pharma S.A.	Switzerland	50.00 [(1)]	
Galderma Philippines Inc.	Philippines	50.00 [(1)]	
Galderma Polska Sp. z.o.o.	Poland	50.00 [(1)]	
Galderma Production Canada Inc.	Canada	50.00 [(1)]	
Galderma Research & Development	France	50.00 [(1)]	
Galderma Research and Development Inc.	United States	50.00 [(1)]	
Galderma S.A.	Switzerland	50.00 [(1)]	
Galderma Singapore Pvt Ltd	Singapore	50.00 [(1)]	
Galderma (UK) Ltd	United Kingdom	50.00 [(1)]	
Galderma Uruguay	Uruguay	50.00 [(1)]	
Innéov Adria d.o.o. for trade and services	Croatia	50.00 [(1)]	
Innéov Argentina S.A.	Argentina	50.00 [(1)]	
Innéov Belgique	Belgium	50.00 [(1)]	
Innéov Brasil Nutricosmeticos Ltda	Brazil	50.00 [(1)]	
Innéov Canada, Inc.	Canada	50.00 [(1)]	
Innéov Chile S.A.	Chile	50.00 [(1)]	
Innéov CZ s.r.o.	Czech Republic	50.00 [(1)]	
Innéov d.o.o.	Slovenia	50.00 [(1)]	
Innéov Deutschland GmbH	Germany	50.00 [(1)]	
Innéov España S.A.	Spain	50.00 [(1)]	
Innéov France	France	50.00 [(1)]	
Innéov Hellas A.E.	Greece	50.00 [(1)]	
Innéov Italia S.p.A.	Italy	50.00 [(1)]	
Innéov Mexico S.A. de C.V.	Mexico	50.00 [(1)]	
Innéov 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)]	

(1) Companies jointly owned with Nestlé.
(2) Equivalent to the percentage interest unless otherwise indicated.

Companies	Head Office	% interest	% control [2]
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]	

(1) Companies jointly owned with Nestlé.
(2) Equivalent to the percentage interest unless otherwise indicated.

2 2010 Management Report of the Board of Directors*

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

This Management Report reviews the activity of the Company and its Group in 2010. The Chairman's Report is attached to this Report (cf chapter 3) and supplements it with regard to all the topics concerned. The Board of Directors describes in a separate Report (cf chapter 5) the reasons for the draft resolutions submitted to the vote of the shareholders at the Annual General Meeting.

2.1. The Group's Business Activities in 2010

2.1.1. Overview of the results for 2010

2010 sales: 19.5 billion euros (+11.6% based on reported figures, +5.6% like-for-like)

Operating profit: +18.6%

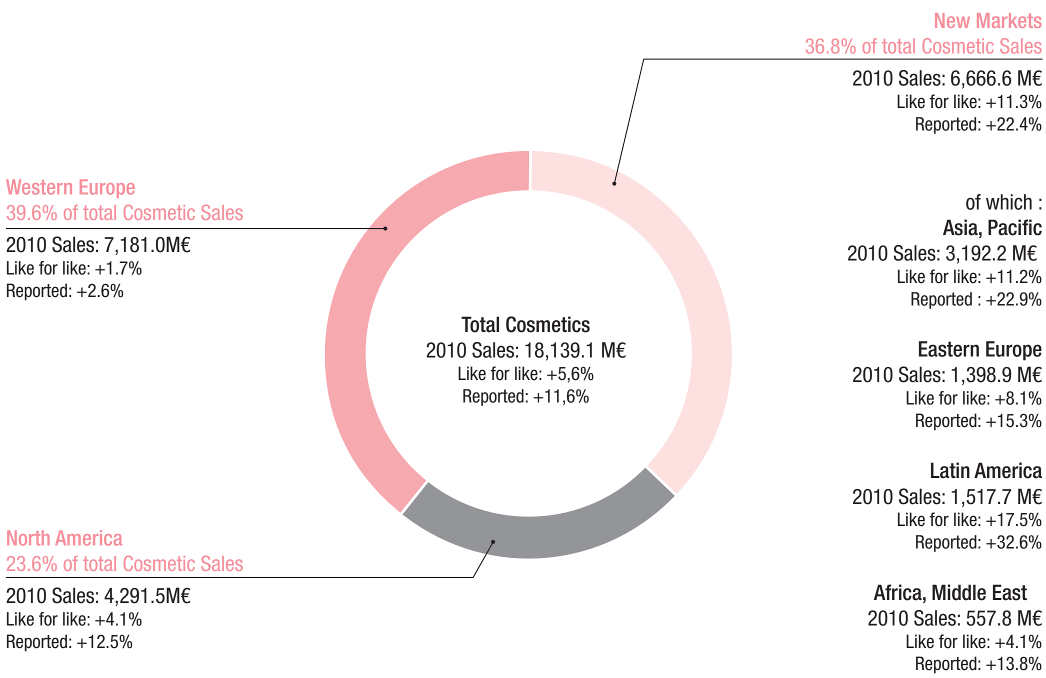
Net earnings per share*: +17.2%

Increase in dividend: +20% at 1.80 euro per share**

2.1.2. Consolidated net sales

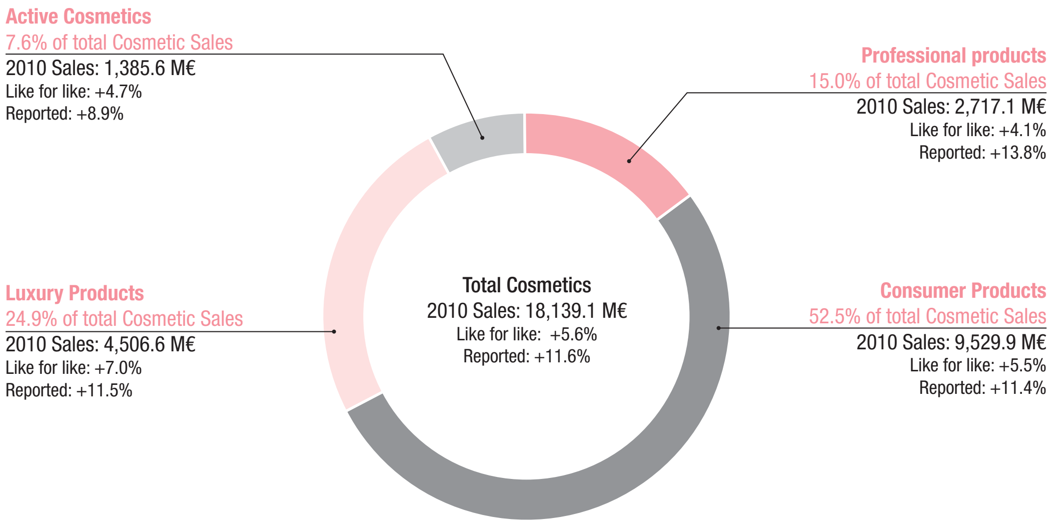
Like-for-like, *i.e.* based on a comparable structure and identical exchange rates, the sales growth of the L'Oréal Group was +5.6%. The net impact of changes in consolidation amounted to +0.4%. Currency fluctuations had a positive impact of +5.6%. Growth at constant exchange rates was +6.0%. Based on reported figures, the Group's sales, at December 31st, 2010, amounted to 19.496 billion euros, an increase of +11.6%.

2010 comestic sales by geographic Zone (1)



* *Diluted net earnings per share based on net profit excluding non-recurring items attribuable to the Group*
** *Proposed at the Annual General Meeting of April 22nd 2011.*
(1) *On January 1st, 2010, the Divisions and geographic Zones were reclassified as stated below. All figures for earlier periods have been restated to allow for these changes.*
The Travel Retail business of YSL Beauté, which was previously recorded 100% under Western Europe, has now been broken down between the Western Europe, North America and New Markets Zones.
The Rest of the World Zone has become the New Markets Zone with the following distribution:
Australia, India and New Zealand, which were previously in the Africa, Orient, Pacific Zone have been included in the Asia Zone which has become the Asia, Pacific Zone. The Africa, Orient, Pacific Zone has become the Africa, Middle East Zone

2010 cosmetics sales by operational Division (2)



(2) The Roger & Gallet activity has been transferred from the Luxury Products Division to the Active Cosmetics Division.

Professional Products

In a hairdressing market which picked up slightly, **the Professional Products Division** achieved growth in 2010 of +4.1% like-for-like, and +13.8% based on reported figures. Its initiatives, rolled out through a portfolio of highly complementary brands, enabled the conversion of more than 35,000 new salons. More than ever before, the Division is asserting its role as the unchallenged leader in this channel.

- In 2010, the initiatives introduced in technical products brought decisive success. In hair colourants, Inoa by L'Oréal Professionnel is a worldwide success, both in recruiting consumers and hairdressers and winning their loyalty. Repositioned at a more accessible price per application, SoColor by Matrix is conquering many salons in Europe, while Wonderbrown, a colourant for dark hair, is expanding in the United States. In textures, Optistraight by Matrix and Dulcia Advanced perm by L'Oréal Professionnel are winning over Asia.
- In the West, X-Tenso Moisturist by L'Oréal Professionnel is driving the worldwide development of "Brazilian straightening". Haircare is growing, supported by innovative launches: Kérastase Chronologiste, a luxury haircare line with caviar, L'Oréal Professionnel Fiberceutic with intracylane and Colourist Solutions by Pureology. L'Oréal Professionnel and Matrix are driving the Division's growth; Kérastase is gradually accelerating, while Redken is strengthening its leadership in the United States.
- In Western Europe, the Division is winning market share, with significant growth in Germany, the United Kingdom, Sweden and France. In North America, 2010 saw a return to growth for Matrix, and dynamic growth for Mizani and Pureology.

  The acquisition of two distributors, CB Sullivan and Peel's, has completed the SalonCentric network. The New Markets are dynamic, with strong growth rates in India, China, Indonesia, and also in the Middle East and Brazil, where L'Oréal Professionnel is helping to build the professional markets of the future by opening its first institute for the training of young hairdressers.

Consumer Products

The Consumer Products Division recorded growth of +5.5% like-for-like and +11.4% based on reported figures. It is winning market share in North America and the New Markets. The dynamism of the make-up market, the number one category in this Division, stimulated growth across all Zones. All the brands are growing, and above all Maybelline which achieved growth of +13.3% like-for-like.

- L'Oréal Paris had a good year in haircare with strong growth in Latin America, the United States and Asia. In skincare, Youth Code achieved good scores. In make-up, Volume Million Lashes mascara proved to be a worldwide success.

  Garnier is strengthening its leadership in the facial skin cleanser segment for young people with the launch of Pure Active Exfo-Brusher. The brand is continuing its progress in the new category of deodorants: it is consolidating the positions it has won in Latin America and in Eastern Europe, and is moving into Western Europe.

  Maybelline is growing strongly in all regions. It became the make-up market leader in the United States thanks to the success of Falsies mascara and Instant Age Rewind The Eraser foundation.

- In Asia, the tinted skincare line BB Cream is proving highly successful. Finally, the Division is making considerable progress in the men's skincare category, particularly in Western Europe where Men Expert is now number 1 in the market, and in Asia where the Garnier Men launch complements the L'Oréal Paris Men Expert range.

  In Western Europe, in a sluggish market, the Division advanced thanks to make-up, haircare and deodorants, particularly in the United Kingdom, Germany and Scandinavia.

  In North America, in a market which was also stable, the Division significantly improved its positions with market share gains in make-up, hair colourants, haircare and styling.

The New Markets are being galvanised by powerful regional initiatives: in Brazil and Argentina, thanks to L'Oréal Paris haircare and Garnier deodorants, and in China, India, Indonesia and the Philippines thanks to L'Oréal Paris haircare, make-up, and L'Oréal Paris and Garnier men's skincare.

Luxury Products

The Luxury Products Division recorded growth of +7% like-for-like and +11.5% based on reported figures. In the context of an upturn in the selective market, the Division posted sell-out growth in line with the market trend. It thus consolidated its worldwide positions, and particularly its leadership in Travel Retail. Its major core brands delivered good performances.

- Lancôme returned to strong growth, bolstered by the success of its skincare lines, particularly Génifique, but also by the launch of Teint Miracle foundation, the product of ten years of research, which won the Prix d'Excellence Marie-Claire. The fragrance Trésor by Lancôme is growing strongly, thanks to a new advertising campaign and the launch of Trésor in Love. Yves Saint Laurent is experiencing a renaissance, with double-digit growth: the brand has had a string of successes in fragrances - L'Homme Yves Saint Laurent, La Nuit de L'Homme, the relaunch of Opium and the arrival of Belle d'Opium – and is making a strong comeback in make-up with the launch of Rouge Pur Couture. Giorgio Armani had a very good year, driven by the success of the new women's fragrance Acqua di Gioia, not forgetting Giorgio Armani Cosmetics, with Eyes to kill Excess mascara proving a hit with consumers. Lastly, Kiehl's achieved an exceptional breakthrough in 2010 on all continents.

- In Western Europe, the Division is clearly number one, and sales are in line with the market trend. Its momentum is boosted by France, Germany, the United Kingdom and the Scandinavian countries. The good performances of the Yves Saint Laurent, Kiehl's and Ralph Lauren brands are also worth noting.

  In North America, the situation is more contrasting, yet the Yves Saint Laurent, Kiehl's and Viktor & Rolf brands are posting strong sales growth. Ralph Lauren showed outstanding performance with The Big Pony Collection.

  In the New Markets, the Division is growing faster than the market: in Asia, thanks to the dynamism of Travel Retail, China, and the good performances of Lancôme, Kiehl's, Giorgio Armani and Shu Uemura; and in Eastern Europe, where the Division is continuing to make conquests.

Active cosmetics

The annual sales of the **Active Cosmetics Division** grew by +4.7% like-for-like and +8.9% based on reported figures. All the brands and all the Zones achieved growth. Across the world, the Division confirmed its position as number one in dermocosmetics.

- La Roche-Posay achieved double-digit growth, thanks in particular to Redermic[+], and is winning market share everywhere.

  Vichy saw the success of the LiftActiv franchise confirmed in the anti-ageing market on all continents, and particularly in China.

  Launched at the end of the year in Western Europe, NutriExtra bodycare has been very well received. This initiative is enabling the brand to reinforce its position in bodycare, which is a very strategic segment for pharmacies.

  Thanks to a dynamic last quarter in hair products, Innéov strengthened its leadership in Western Europe and achieved a spectacular breakthrough in Brazil.

  SkinCeuticals recorded very strong growth, thanks to its roll-out in European markets, and the opening up of China, Canada and Brazil. The integration of Roger & Gallet into the Division is extremely encouraging, and internationalisation has begun in Western Europe and Brazil.

  All the Zones ended the year with positive growth, and this was particularly clear in Western Europe. The Division is accelerating in the New Markets. Latin America produced a good performance, thanks in particular to Brazil.

Multi-Division summary by geographic Zone

Western Europe

With performances of +1.7% like-for-like, and +2.6% based on reported figures, the Group's growth was very slightly faster than the market trend, particularly in the United Kingdom, Germany, Sweden and France, and in Travel Retail. All Divisions recorded positive growth.

North America

2010 brought significant growth, far exceeding the market growth trend, at +4.1% like-for-like and +12.5% based on reported figures. The Consumer Products Division produced a very strong performance, thanks in particular to the excellent results of Maybelline. The Luxury Products Division continued the recovery which began at the end of 2009.

The Professional Products Division had a very good year thanks to the success of Inoa.

New Markets

With growth of +11.3% like-for-like, and +22.4% based on reported figures, the group is growing twice as fast as the market. The main driving forces are Asia and Latin America.

Asia, Pacific: Over the full year, the group recorded +11.2% growth in this Zone like-for-like, +22.9% based on reported figures, and +13.2% excluding Japan, like-for-like. The group is continuing to win market share, particularly in India, the Philippines, Indonesia, and also in South Korea and Taiwan.

With another year of double-digit growth, L'Oréal China, driven by the dynamism of its Men's lines, make-up, and haircare initiatives, continued to win market share, and exceeded the 1 billion euros of sales mark, thus becoming the group's number three cosmetics subsidiary.

Eastern Europe: Growth remains sustained, at +8.1% like-for-like and +15.3% based on reported figures, despite the highly contrasting market situations in different countries. Ukraine and Russia are the most dynamic countries, particularly thanks to make-up, Garnier, and the continuing advances of the Luxury Products Division.

Latin America: Sales advanced by +17.5% like-for-like and +32.6% based on reported figures. All the major countries in this Zone are growing, particularly Brazil and Argentina. Mexico has returned to growth. The Consumer Products Division is the driving force of this expansion, through haircare and deodorants.

Africa, Middle East: Sales grew by +4.1% like-for-like and +13.8% based on reported figures, with contrasting trends. While the situation remains difficult in South Africa and Turkey, Lebanon and Morocco recorded strong growth.

The Body Shop sales

The Body Shop ended the year at 754.9 M€ with like-for-like growth at –1.1%. Retail sales are at -2.6%. The Body Shop had a year of contrasting performances, with trends differing between the developed countries and the New Markets. 2010 was a year of transition for The Body Shop, which completed its strategic reorganisation. The brand is stepping up its militant approach to innovation, with launches including Natrulift, a firming skincare line with organic pomegranate, Dreams Unlimited, a fragrance with Community Fair Trade Ecuadorean alcohol and also Rainforest, an eco-conscious haircare range. The Body Shop is accelerating its expansion into the New Markets, particularly in Eastern Europe, Asia, and India where the brand has doubled the number of its stores. The brand has also extended its distribution into new channels, such as the Internet and Travel Retail, to increase its reach and its visibility. Lastly, the actions taken on the operational front continue to deliver: The Body Shop is steadily improving its profitability. At the end of 2010, The Body Shop has a total of 2,605 stores.

Galderma sales

Galderma achieved record sales of 601.7 M€ (Group share, i.e. 50%), with a like-for-like increase of +16.1% and +23.0% based on reported figures, re-enforcing its position as a worldwide leader in dermatology. The Company recorded double-digit growth in all regions across the world.

Sell-out is growing twice as fast as the market.

Strategic prescription brands Epiduo (acne), Oracea (rosacea), Clobex (scalp psoriasis), Metvix (skin cancer), Rozex/Metro (rosacea) and Loceryl (onychomycosis) have all shown excellent results. Galderma also significantly expanded its presence in the corrective and aesthetic dermatology segment. The Company continued to successfully launch Azzalure (a botulinum toxin type A developed for use in aesthetic medicine) in several European countries and broadened its product portfolio with the pre-launch of Emervel, a hyaluronic acid dermal filler range.

2.1.3. Results

Operating profitability and Consolidated profit and loss account

	2009		2010	
	€ millions	% sales	€ millions	% sales
Sales	**17,473**	**100%**	**19,496**	**100%**
Cost of sales	-5,162	29.5%	-5,697	29.2%
Gross profit	**12,311**	**70.5%**	**13,799**	**70.8%**
Research and development expenses	-609	3.5%	-665	3.4%
Advertising and promotion expenses	-5,389	30.8%	-6,029	30.9%
Selling, general and administrative expenses	-3,736	21.4%	-4,049	20.8%
Operating profit	**2,578**	**14.8%**	**3,057**	**15.7%**

Gross margin increased by +12.1% and came out at 70.8% of sales, compared with 70.5% in 2009, representing an improvement of 30 basis points. Several factors had a favourable impact, including: the significant improvement in manufacturing cost, achieved in particular through strong growth in volumes and good performances in purchasing, better inventory management which led to a reduction in provisions for obsolete and slow-moving inventories, the reduction in physical distribution costs.

On the other hand, two factors had an unfavourable impact on this item: the impact of changes in monetary parities, the moderate increase in promotional offers to customers, which are deducted from sales.

Research and development expenses increased by +9.1% based on reported figures (+8.9% like-for-like) and represented 3.4% of sales.

Advertising and promotion expenses came out at 30.9% of sales.

Selling, general and administrative expenses grew significantly less rapidly than sales, at +2.7% based on a comparable structure and identical exchange rates. They improved by 60 basis points compared with 2009.

Overall, operating profit grew by +18.6% and came out at 3,057 million euros, that is 15.7% of sales, an improvement of 90 basis points compared with 2009.

Operating profit by branch and Division

	2009		2010	
	€ millions	% sales	€ millions	% sales
By operational Division				
Professional Products	477	20.0%	552	20.3%
Consumer Products	1,577	18.4%	1,765	18.5%
Luxury Products (1)	612	15.1%	791	17.5%
Active Cosmetics (1)	255	20.0%	278	20.1%
Cosmetics Divisions total	**2,921**	**18.0%**	**3,385**	**18.7%**
Non-allocated (2)	-482	-3.0%	-513	-2.8%
Cosmetics branch total	**2,439**	**15.0%**	**2,872**	**15.8%**
The Body Shop	54	7.4%	65	8.7%
Dermatology branch (3)	**85**	**17.4%**	**119**	**19.8%**
Group	**2,578**	**14.8%**	**3,057**	**15.7%**

(1) At January 1st, 2010, Roger & Gallet was transferred from the Luxury Products Division to the Active Cosmetics Division. Figures for 2009 have been adjusted to allow for this change.
(2) Non-allocated = Central group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total cosmetics sales.
(3) Group share, i.e. 50%.

2

All the Divisions achieved growth in their operating profitability, particularly the Luxury Products Division, whose operating profit increased from 15.1% to 17.5%.

There were also substantial improvements at the following levels:

- non-allocated expenses, which declined to 2.8% of sales;
- The Body Shop, which continued its recovery with profitability at 8.7%;
- Galderma, whose operating profitability continued to grow at 19.8%.

Profitability by geographic Zone

	2009		2010	
Operating profit	€ millions	% sales	€ millions	% sales
Western Europe	1,472	21.0%	1,552	21.6%
North America	555	14.5%	709	16.5%
New Markets	894	16.4%	1,125	16.9%
Cosmetics Zones total (1)	**2,921**	**18.0%**	**3,385**	**18.7%**

(1) Previously non-allocated.
At January 1st, 2010: The Travel Retail sales of YSL Beauté, previously included under Western Europe, have been allocated to the different zones.
The Rest of the World Zone has become the New Markets Zone.
Figures for 2009 have been adjusted to allow for these changes.

There was an improvement in profitability in all Zones.

Net earnings per share (2): €4.01

€ millions	2009	2010
Operating profit	**2,578**	**3,057**
Finance costs	-89	-36
Sanofi-Aventis dividends	260	284
Pre-tax profit excluding non-recurring items	**2,749**	**3,305**
Income tax excluding non-recurring items	-749	-932
Minority interests	-2.7	-2.3
Net profit excluding non-recurring items after minority interests (1)	**1,997**	**2,371**
EPS (2) (€)	**3.42**	**4.01**
Diluted average number of shares	**583,797,566**	**591,392,449**

(1) Net profit excluding non-recurring items after minority interests does not include capital gains and losses on disposals of long-term assets, impairment of assets, restructuring costs, and in 2010 competition litigation, associated tax effects or minority interests.
(2) Diluted net earnings per share excluding non-recurring items after minority interests.

Finance costs amounted to 35.6 million euros, representing a sharp reduction, mainly because of the very significant decrease in net debt.

Dividends received from Sanofi-Aventis amounted to 284 million euros, up by +9.1%.

Tax amounted to 932 million euros, representing a rate of 28.2%, slightly above the 2009 rate which was 27.3%.

Net profit excluding non-recurring items after minority interests totalled 2,371 million euros, up by +18.7%.

Net earnings per share, at 4.01 euros, increased by +17.2%.

Net profit excluding non-recurring items after minority interests: €2,371 million.

€ millions	2009	2010	Evolution
Net profit excluding non-recurring items after minority interests	1,997	2,371	
Non-recurring items net of tax	-205	-131	
Net profit after minority interests	**1,792**	**2,240**	**+25%**
Diluted earnings per share *(€)*	3.07	3.79	

Excluding non-recurring items, which amounted to a charge, net of tax, of 131 million euros, net profit amounted to 2,240 million euros, an increase of +25%.

Cash flow Statement, Balance sheet and Debt

Gross cash flow amounted to 3,171 million euros, up by +15% compared with 2009.

There was a very positive change in the working capital requirement, which decreased in 2010, for the second consecutive year, by 132 million euros.

Capital expenditure continued to be contained, at 3.5% of sales.

After dividend payment and purchases of investments, and allowing for the exercise of options, the residual cash flow comes out at 1,891 million euros.

The balance sheet, whose structure was already robust, has been strengthened, with shareholders' equity representing 62% of total assets.

Net financial debt (current and non current financial debts-cash flow) amounted to 41 million euros, representing 0.3% of shareholders' equity.

Proposed dividend at the Annual General Meeting of April 22nd, 2011

The Board of Directors has decided to propose that the Annual General Meeting of shareholders of April 22nd, 2011 should approve a dividend of 1.80 euro per share, an increase of +20% compared with the dividend paid in 2010. This dividend will be paid on May 4th, 2011 (ex-dividend date: April 29th at 0:00 am).

2.1.4. Prospects

L'Oréal's performances in 2010 confirm the relevance of the strategic directions taken at the end of 2008: accessible innovation, new categories of products, accelerated globalisation of our brands, and an increase in the investments in Research and in advertising and promotion expenses. 2010 is also a year of a strong increase in profit; the actions undertaken over the last two years with regard to operational efficiency continue to bear fruit. Ready to seize all strategic opportunities and carried along by the ambition of attracting a billion new consumers, L'Oréal is turning a new page of its history: universalisation and beauty for everyone.

2.1.5. Research and Innovation

L'Oréal's commitment to innovation has not changed: putting on the market beauty products that give consumers something extra. The consumer is at the centre of Research & Innovation's mission and organisation. The ability to innovate for New Markets relies on in-depth knowledge of the needs and preference criteria of consumers, be they Chinese, Indian or Brazilian… Innovation must be conceived where they are to be found in all their diversity: start from a person's beauty habits in the context of local use and dream up then develop innovative products by delivering progress in terms of quality and performance. The group is continuing to invest in new scientific and technological territories, enriching them with a global dimension.

See the chapter on Research and Innovation in Volume 1 on pages 22 to 27.

2.1.6. Production and Technology

L'Oréal's industrial production model has proved to be productive, extremely responsive, and particularly adapted to an objective of accelerated growth on the New Markets.

The Operations staff are going all out to achieve the objective of doubling the number of consumers, and they are ready to assume their role at three levels: optimisation of industrial and logistics costs, risk management, contribution to value creation. Operations contribute to value creation, in particularly by providing assistance right from the beginning of the development of an "accessible innovation" strategy aimed at adjusting the product offering to the actual needs of consumers in each market.

See also the chapter on Operations in Volume 1 on pages 74 to 77.

2.1.7. Sustainable development

The group strives to fulfil the new expectations of their surrounding society and all its stakeholders in a greatly changing world, in particular in large emerging countries. The roadmap in terms of sustainable development aims at meeting ambitious economic and social targets: launching on the market innovative products which enable consumers to adopt conduct that is beneficial to their personal well-being but also to the environment and biodiversity.

L'Oréal believes that sustainable development is everyone's affair, and accordingly that everyone must take a share of responsibility in order to advance together towards solutions that combine economic growth and a favourable evolution of all ecosystems.

See the chapter on Commitments in Volume 1 on pages 16 to 19 and pages 27, 40, 48, 56, 62, 65 and 76 and the Group's Sustainable Development Report at www.loreal.com.

2.1.8. Significant events that have occurred since the beginning of 2011

On December 13th 2010, Galderma, a pharmaceutical company owned 50/50 by L'Oréal and Nestlé, announced the launch an offer for the Swedish company Q-Med specialising in corrective and aesthetic dermatology. This acquisition should enable Galderma to speed up its development on the extremely dynamic segment of corrective and aesthetic dermatology. Having received the support of 77.79% of the shareholders of Q-Med, Galderma communicated on February 10th, that its offer was extended for 15 days and had been increased to SEK 79 per share (see note 31 on page 57).

Sir Lindsay Owen-Jones informed the Appointments and Governance Committee, at its meeting on February 9th, 2011, and then the Board of Directors, at its meeting on February 10th, 2011, that he wished to complete the transfer of responsibilities to his successor before his 65th birthday on March 17th, 2011, as planned from the outset and announced at the Annual General Meeting in 2005. The Board of Directors voted unanimously in favour of appointing Mr Jean-Paul Agon as Chairman and CEO of L'Oréal.

2.2. Report on the Parent Company financial statements

2.2.1. Net sales

Net sales (€ millions)	2010	2009	Change as a %
1st quarter	580.5	532.7	8.97%
2nd quarter	558.9	549.4	1.73%
3rd quarter	542.8	475.3	14.20%
4th quarter	548.8	493.7	11.16%
Total	**2,231.0**	**2,051.1**	**8.77%**

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

2.2.2. L'Oréal Parent Company balance sheet and profit and loss account

The balance sheet and profit and loss account of the L'Oréal Parent Company are presented on pages 142 and 143 of this document.

At December 31st, 2010, total assets amounted to €11,246.3 million, compared to €11,324.6 million at December 31st, 2009.

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

At December 31st, 2010, the share capital consisted of 600,992,585 shares with a par value of €0.2 each.

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

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

The royalties received for the use of patents and trademarks are included in the *Other revenue* item while those with respect to technology are included in the *Sales* item. A certain proportion of the above amounts are taxed at a reduced rate.

The profit and loss account shows net profit of €1,995.3 million compared with €1,841.8 million at December 31st, 2009.

The increase in net profit between 2009 and 2010 can be accounted for principally by:

- the improvement in net financial income by €187.9 million related to the increase in income from investments and the decrease in interest expense;
- an unfavourable change in exceptional items (down by -€36.2 million).

Net profit amounts to €1,995.3 million for 2010:

- after reversal of the provision for capital expenditure set aside in 2005 with regard to the 2004 financial year amounting to €3.5 million, which is exempt from income tax at the end of the statutory 5-year period;
- after setting aside, pursuant to the French ordinance of October 21st, 1986 with regard to mandatory employee profit sharing;
  - a reserve for the benefit of employees amounting to €20.0 million, for which a provision was booked in 2009 for €20.5 million,
  - and a provision of €21.7 million booked for employee profit sharing for 2010;
- after setting aside the provision for capital expenditure, including the transfer made by subsidiaries in favour of L'Oréal Parent Company, pursuant to the provisions with regard to mandatory employee profit-sharing, for an amount of €5.7 million, compared with €5.3 million in 2009.

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

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 SA at 2010 year-end is as follows:

€ million	2009	2010
Trade accounts payable not yet due	**140.7**	**170.7**
including:		
♦ at 30 days	84.9	95.6
♦ between 30 days and 45 days	55.1	75.1
♦ more than 45 days	0.7	-
Outstanding Trade accounts payable	**4.5**	**4.6**

2.2.3. Subsidiaries and holdings

Details of subsidiaries and holdings as well as the main changes and thresholds crossed during the 2010 financial year are set out in the notes to this Report on pages 58 to 63, page 107 and pages 163 to 167.

2.3. Risk factors

The Group's Internal Control system is aimed at preventing and managing risks, particularly those of an economic, legal and financial nature to which the Company and its subsidiaries are exposed inside and outside France. However, no guarantee of a total absence of risk can ever be provided.

2.3.1. Business risks

Image and reputation

The Company's reputation and its brand image may be compromised at any time in a globalised world where 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 unit, whose global task is to prevent, manage and limit the consequences of undesirable events on the Company. Likewise, the deployment of the Ethics Charter throughout the whole Group aims at reinforcing the spreading of the rules of good conduct which ensure L'Oréal's integrity and strengthen its ethics. The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee.

Product quality and safety

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

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

Faced with the questions that civil society may ask regarding certain substances and their effects on health and the environment, L'Oréal's position may be summed up in three points:

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

Seasonal nature of the business

The pace of sales may, in certain cases, and for specific products, be linked to climate conditions, such as for example suncare products. The products and brands sought after by consumers as gifts are reliant on a strong concentration of sales at year-end and during holiday periods. This is the case in particular for 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.

Geographic presence and overall economic situation

L'Oréal is present in over 130 countries with 60% of its sales being generated outside Western Europe. Global growth in the cosmetics markets has led us to develop our activities in countries of the "New Markets" Zone, which represent 37% of our cosmetic sales. The breakdown and changes in L'Oréal's sales are given in Volume 1 on page 14.

Besides the currency risks mentioned in note 24.1. *Hedging of currency risk* on pages 49 to 51 and in paragraph 2.3.7. of this document, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.

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

Natural disasters

The Group's presence at over 210 sites throughout the world exposes it 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.

Distribution network

To sell its products, L'Oréal uses independent distribution channels, except for a limited number of stores which are owned by the Company. The concentration or disappearance of distribution chains and changes in the regulations with regard to selective distribution could have an impact on the development of the Group's brands in the country or countries concerned.

The presence of the Group's brands in all types of distribution outlets helps to attenuate any potential negative effect.

Competition

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

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

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.

Although the Group has introduced a process for the oversight of these transactions (setting-up of multidisciplinary teams for the preparation of projects and "due diligence" work), they 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.

Information systems

The day-to-day management of activities which notably include production and distribution, invoicing, reporting and consolidation operations as well as exchanges of internal data and access to internal information, relies on the proper functioning of all the technical infrastructures and IT applications. The risk of a malfunction or breakdown in these systems for exogenous or endogenous reasons cannot be precluded.

In order to minimise the impact that this type of occurrence could have, the Information Systems Department has introduced strict rules with regard to data back-ups, protection, access and security with regard to both computer hardware and software applications. These measures are described in the Report of the Chairman on Internal Control in paragraph 3.5.4.2. *Monitoring process for the organisation of the accounting and finance functions* on page 132.

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 section on "The Internal Control organisation and environment" of the Report of the Chairman of the Board of Directors on page 128.

2.3.2. Legal risks

Intellectual property: trademarks and models

L'Oréal is the owner of the major intangible assets on behalf of the Group's companies, to which it grants licences in exchange for the payment of royalties. Thus, L'Oréal is the owner of most of its brands, which are a strategic asset for the Group, in particular the 23 major international brands described in its 2010 Annual Report, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used by the Luxury Products Division, primarily the Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor & Rolf and Diesel brands.

The trademark name, the products themselves and the models may be infringed or counterfeited by economic players wishing to illegally and illegitimately claim the benefits of their reputation.

Special care is given to the protection of the trademarks and models belonging to L'Oréal, and is entrusted to a special section of the Group's Legal Department, which has responsibility for registering trademarks in all countries. This department also keeps a close watch on the market and launches the necessary action against infringers and counterfeiters.

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

Before any trademark and model registration, prior rights searches are conducted.

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

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

Industrial property: patents

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

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

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 our industrial sector in order to prevent the 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. Preparation of the registration files for the substances used by L'Oréal is currently in progress. 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 which requires adaptations to be made to a lot of processes.

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.

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 46 of this document).

A provision is set aside 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.

2.3.3. Industrial and environmental risks

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 38 factories, each specialising in a specific type of technology.

Production

Products must be made available on the market on fixed dates to meet launch deadlines and customer demand, in order to enable new product ranges to be listed by distribution in a cosmetics market that requires companies to be more and more responsive.

Therefore, a major production stoppage in an industrial facility could have an adverse effect on the achievement of commercial objectives.

In order to prevent this risk, business continuity plans for production exist at each of the industrial units. They aim at anticipating the unavailability of industrial facilities as far as possible and at restarting activities as quickly as possible.

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).

Environment, Health and Safety (EHS)

The cosmetic industry has a limited environmental risk profile. However, as is the case for any production and distribution 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 for production or storage, handling operations liable to cause accidents involving bodily injury, waste water treatment etc.). The main risk faced 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.

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 by all the production sites and all the distribution centres every month.

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 116 manufacturing sites, of which only one is 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.

EHS risk map and audits

Within the scope of this EHS policy, the SHAP (Safety Hazard Assessment Procedure) is a hazard prevention programme based on the assessment of risks by employees at grassroots level under the responsibility of the Factory Manager. This programme contributes to identifying the dangers overall and for each workstation and assessing the corresponding risks. The SHAP method thus makes it possible to prepare a risk mapping for each factory. This method enables the level of risks to be evaluated and the necessary means of control to be put in place. Generally applied throughout all the Group's industrial sites, it is supported by dialogue between persons in charge, thus contributing to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly depending on changes at sites and experience on the ground. EHS audits are conducted every three or four years in each factory and centre and the site risk map is reviewed within the scope of this audit. In 2010, an EHS risk audit was carried out at 10 factories and 9 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.

2.3.4. 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 52).

2.3.5. Customer risk

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

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 2.3.8 *Insurance*.

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 19% 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 36 of this document. It does not exceed 2% of gross accounts receivable.

2.3.6. 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 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 €2,387 million. Their terms are less than 1 year for €87 million and ranging from 1 to 5 years for €2,300 million (see note 23.9. *Confirmed Credit lines* on page 49).

These credit lines are not subject to any conditionality clause based on financial criteria. Furthermore, the Group uses the financial markets, on a very regular basis, to meet liquidity needs through the use of short-term papers in France and short- term commercial paper in the United States (see notes 23.1. *Debt by type* and 23.2. *Debt by maturity date* on page 48 and note 24.5. *Liquidity risk* on page 52).

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

- A1+, awarded in November 2010 by Standard & Poor's;
- Prime 1, awarded in July 2010 by Moody's; and
- F1+, awarded in July 2010 by FitchRatings.

These ratings are unchanged compared to those assigned in 2009.

2.3.7. Financial and market risks

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

Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings. The Group mainly refinances at floating rates, as mentioned in note 23.4. *Breakdown of fixed rate and floating rate debt* on page 49. 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 49 of this document.

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 51 and 52 of this document.

Currency risk

Due to its international presence, L'Oréal is naturally exposed to currency variations. The fluctuations between the main currencies may therefore have an impact on the Group's results, at the time of translation into Euro of the non-Euro financial statements of subsidiaries, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows involving the purchase and sale of items and products are carried out between different countries. Procurement by subsidiaries is mainly made in the currency of the supplier's country.

In order to limit currency risk, the Group 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 49 to 51 of this document.

The breakdown of consolidated sales for 2010 by currency is specified in Volume 1, page 14.

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 41. 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 23.

Equity risk

L'Oréal does not invest its cash in shares. For L'Oréal, the main equity risk lies in the 9.02% stake that it holds in the capital of Sanofi-Aventis, as described in note 15 *Non-current financial assets* on page 35 of this document.

If the Sanofi Aventis share price were to fall below the initial share price significantly or on a prolonged basis, this would potentially expose L'Oréal to impairing its assets through the profit and loss account as explained in note 24.6. *Shareholding risk* on page 52.

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 may 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 42 of this document). Furthermore, the Group adopts a conservative policy for the choice of insurers and custodians for these assets (see counterparty risk).

Risk relating to the impairment of intangible assets

As stated in the above paragraph 2.3.2. relating to legal risks, L'Oréal's brands are a strategic asset for the Group (see *Consolidated balance sheet* on page 6) as described in note 1.15 *Intangible assets* on page 12.

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. Any variance between the recoverable value of the goodwill or the brand subject to the impairment test and its net book value would lead to an impairment loss in respect of the asset, recorded in the profit and loss account. The amounts for 2010 are provided in note 7 *Other operational income and expenses* on page 24 and in note 13 *Impairment tests on intangible assets* on page 33 of this document.

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. We nevertheless estimate 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 mentioned in the Report of the Chairman in paragraph 3.5.2.1. on page 128 makes it possible to reinforce these measures.

2.3.8. Insurance

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.

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.

2.4. Organisation of the Board of Directors

This subject is dealt with in the Report of the Chairman of the Board of Directors with, in particular, the decision to re-combine the offices of Chairman and Chief Executive Officer decided by the Board at its meeting on February 10th, 2011 (cf chapter 3).

All the information on offices and directorships held by directors over the last five years are described in the Chairman's Report, on pages 114 *et seq.*

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

2.5.1. Remuneration of the members of the Board of Directors

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

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

The attendance fees are divided between the directors as follows:

- *an equal share allocated to each director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings;*
- *an additional share for Review Committee members."*

For 2010, 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 €7,500 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 €7,500 for the Chairman of each of these Committees; an amount of €20,000 for each director who is a member of the Audit Committee and an additional amount of €20,000 for its Chairman.

A total amount of €1,010,000 was distributed to directors at the beginning of 2011 in respect of the 2010 financial year, for a total of five meetings as compared to six in 2009, according to the following breakdown:

In euros	2009: Total 6 meetings	2010: Total 5 meetings
Mr. Jean-Paul Agon	60,000	55,000
Mr. Werner Bauer	60,000	55,000
Mrs. Liliane Bettencourt	75,000	65,000
Mrs. Françoise Bettencourt Meyers	60,000	55,000
Mr. Peter Brabeck-Letmathe	85,000	85,000
Mr. Francisco Castañer Basco	95,000	90,000
Mr. Charles-Henri Filippi	100,000	95,000
Mr. Xavier Fontanet	50,000	55,000
Mr. Bernard Kasriel	105,000	100,000
Mr. Marc Ladreit de Lacharrière	55,000	55,000
Mr. Jean-Pierre Meyers	110,000	105,000
Sir Lindsay Owen-Jones	90,000	85,000
Mrs. Annette Roux	50,000	55,000
Mr. Louis Schweitzer	55,000	55,000

All the directors attended all the Board of Directors meetings except one who was absent at one Board meeting only.

2.5.2. Remuneration of the corporate officers

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

To ensure that the corporate officers appointed by the Board are offered remuneration and stock options that will attract them, motivate them, and foster their loyalty, the Board is guided in its reflections by two clear principles:

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

2.5.2.1. Remuneration of the Chief Executive Officer

On the proposal of the Remuneration Committee meeting of February 12th 2010, the fixed remuneration of the Chief Executive Officer was set by the Board of Directors on February 15th, 2010 at €2,100,000 on an annual basis for 2010.

The Human Resources and Remuneration Committee meeting of February 9th, 2011 reviewed the conditions of achievement of the objectives giving rise to the allocation of the variable part of remuneration for 2010.

The target objective was €2,100,000, representing 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, market share, operating profit, net earnings per share and cash flow;
- half on the basis of an assessment of the qualitative aspects of management: the appropriateness of strategic choices, prospects for products and markets, the quality of Research projects, renewal of structures, the quality of communication and the ability to generate team spirit.

On the proposal of the Human Resources and Remuneration Committee, the Board of Directors' meeting of February 10th, 2011 decided to allocate to Mr. Jean-Paul Agon a variable amount of remuneration of €1,680,000 in respect of 2010, *i.e.* 80% of the target objective.

For 2011, the Board of Directors' meeting of February 10th, 2011 set the fixed remuneration at a gross amount of €2,100,000 on an annual basis, an amount which remains unchanged compared to 2010. The appointment of Mr. Jean-Paul Agon as Chairman and Chief Executive Officer as from March 18th, 2011 does not lead to any increase in his remuneration in this respect. The Board has 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, the contribution before advertising and promotion expenses, net income 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.

Furthermore, in 2010, Mr. Jean-Paul Agon was allocated 400,000 stock options that the Board of Directors meeting of April 27th, 2010 granted him.

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

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

Mr. Jean-Paul Agon Chief Executive Officer *In euros*	2009 Amounts due	2009 Amounts paid	2010 Amounts due	2010 Amounts paid
Fixed remuneration	2,100,000	2,100,000	2,100,000	2,100,000
Variable remuneration*	1,.260,000	1,365,000	1,680,000	1,260,000
Exceptional remuneration	-	-	-	-
Attendance fees	60,000	60,000	55,000	60,000
Benefits in kind	-	-	-	
Total	**3,420,000**	**3,525,000**	**3,835,000**	**3,420,000**

** The variable remuneration for year N is paid in year N+1.*

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

In euros	2009	2010
Remuneration due in respect of the financial year	3,420,000	3,835,000
Valuation of stock options granted during the financial year (1)	0 (2)	6,868,000 (1)
Valuation of performance shares awarded during the financial year	0	0
Total	**3,420,000**	**10,703,000**

(1) Estimated fair value for the preparation of the Company's consolidated financial statements under IFRS.
(2) In 2009, Mr. Jean-Paul Agon declined the allocation of stock options that the Board of Directors had proposed to grant him.

2.5.2.2. Remuneration of the Chairman of the Board of Directors

The Board of Directors' meeting of February 15th, 2010 decided to maintain the fixed part of the Chairman's remuneration at a gross amount of €2,000,000 on an annual basis for the 2010 financial year until the end of his term of office as director renewable at the Annual General Meeting of April 27th, 2010.

As from that date, the Board meeting of February 15th, 2010 also set in advance the amount of the Chairman's fixed remuneration for the remainder of 2010, in accordance with the Chairman's wishes, at €1,000,000 on an annual basis including benefits in kind and decided that variable remuneration would no longer be payable.

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

For 2011, the Board decided to maintain the Chairman's fixed remuneration at its current amount, without any additional variable part, until March 17th, 2011, and the expiry of his duties as Chairman of the Board of Directors, *i.e.* €213,888 on a prorated basis.

As from March 18th, 2011, Sir Lindsay Owen-Jones will no longer receive any remuneration other than his attendance fees as a director.

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

Sir Lindsay Owen-Jones Chairman of the Board of Directors *In euros*	2009		2010	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	1,984,664	1,984,664	1,317,996	1,317,996
Variable remuneration*	0	975,000	0	0
Exceptional remuneration	-	-	-	-
Attendance fees	90,000	90,000	85,000	90,000
Benefits in kind	15,336	15,336	15,336	15,336
Total	**2,090,000**	**3,065,000**	**1,418,332**	**1,423,332**

** The variable remuneration for year N is paid in year N+1.*

The Chairman has not received any stock options since 2006.

2.5.3. Stock Options granted to the corporate officers

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 €)
03.28.2001	200,000	200,000	03.29.2006	03.28.2011	79.60 (A)
09.18.2001	300,000	300,000	09.19.2006	09.18.2011	77.60 (A)
10.08.2001	-	-	-	-	-
03.26.2002	-	-	-	-	-
09.04.2002	-	-	-	-	-
12.03.2003	500,000	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)

The stock options which have been 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)

The Board of Directors decided, within the scope of the Plans of November 30th, 2007 and April 27th, 2010, that Mr. Jean-Paul Agon, as a corporate officer, will retain a number of shares corresponding to 50% of the "balance of the shares resulting from the exercise of the stock options", in registered form, until the termination of his duties as Chief Executive Officer of L'Oréal.

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

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

In 2010, the Chief Executive Officer only received stock-options.

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

2.5.4. Stock Options exercised by the corporate officers

Neither Sir Lindsay Owen-Jones, nor Mr. Jean-Paul Agon exercised any stock options in 2010.

2.5.5. Commitments made with regard to the corporate officers

2.5.5.1. Commitments made with regard to the Chairman of the Board of Directors

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

	Employment contract		Supplementary pension scheme (2)		Indemnities or benefits due or which may become due as a result of termination or change of duties		Indemnities relating to a non-competition clause	
Corporate officer	Yes	No	Yes	No	Yes	No	Yes	No
Sir Lindsay Owen-Jones (1) Chairman of the Board		x	NA	NA		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.
(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.

2.5.5.2. Commitments made with regard to the 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 executives.

Mr. Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers, as described on page 103 of this Report under the heading Employee pension schemes in France – Defined *benefit scheme.*

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, 2011, the fixed remuneration amounts to €1,584,000 and variable remuneration to €1,320,000.

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 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.

	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]	
Corporate officer	Yes	No	Yes	No	Yes	No	Yes	No
Mr. Jean-Paul Agon [1] Chief Executive Officer	x		x			x	x	

(1) Mr. Agon has been a director since 2006. His tenure was renewed at the Annual General Meeting on April 27th, 2010.
(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 103.
(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.

2.5.6. Summary of trading by directors and corporate officers in L'Oréal shares in 2010

(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
Charles-Henri FILIPPI Director	May 7th, 2010	Acquisition	€73.71	€73,719.45

2.6. Information concerning the share capital

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

None.

2.6.2. Issued share capital and authorised unissued share capital

The share capital amounts to €120,198,517 as of December 31st, 2010. It is divided into 600,992,585 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 22nd, 2011.

Authorisations in force					Authorisations proposed to the Annual General Meeting of April 22nd, 2011		
Nature of the authorisation	**Date of AGM (resolution no.)**	**Length (expiry date)**	**Maximum authorised amount**	**Use made of the authorisation in 2010**	**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 16th, 2009 (11th)	26 months (June 16th, 2011)	An increase in the share capital to €175,000,000	None	9	26 months	An increase in the share capital to €180,000,000
Capital increase reserved for employees	April 16th, 2009 (14th)	26 months (June 16th, 2011)	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 5,984,452 shares)	None	12	26 months	1% of share capital at the date of the Annual General Meeting (*i.e.* a maximum of 6,013,772 shares at February 10th, 2011)
Buyback by the Company of its own shares							
Buyback by the Company of its own shares (maximum authorised purchase price: €130)	April 27th, 2010 (13th)	18 months (October 27th, 2011)	10% of share capital on the date of the buybacks (*i.e.* 60,099,258 shares at December 31st, 2010)	None (Capital held by the Company at December 31st, 2010: 1.89% of the share capital	8	18 months	10% of share capital on the date of the buybacks (*i.e.* 60,137,723 shares at February 10th, 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			None
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	500,000 shares			None
Stock options and free grants of shares							
Allocation of share purchase or subscription options (no discount with regard to exercise price)	April 16th, 2009 (12th)	26 months (June 16th, 2011)	2% of share capital on the date of the decision to allocate the options	4,200,000 share subscription options	10	26 months	0.6% of the share capital on the date of the decision to grant the options
Free grant of existing shares or shares to be issued to employees	April 16th, 2009 (13th)	26 months (June 16th, 2011)	0.2% of share capital on the date of the decision to make the grant	450,000 shares	11	26 months	0.6% of the share capital on the date of the decision to grant the options

At December 31st, 2010, 28,159,225 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. Accordingly, the potential share capital of the Company amounts to €125,830,362 divided into 629,151,810 shares with a par value of €0.20 each.

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

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

Date	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of the share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
12.31.2005	-	-	-	€131,753,932	-	658,769,660
01.01 to 04.24.2006	Exercise of share subscription options	€5,600	€1,683,395.00	€131,759,532	28,000	658,797,660
04.25.2006	Cancellation of shares	-€3,845,850	-	€127,913,682	-19,229,250	639,568,410
04.26 to 12.31.2006	Exercise of share subscription options	€9,600	€2,906,710.00	€127,923,282	48,000	639,616,410
01.01 to 02.14.2007	Exercise of share subscription options	€250	€78,525.00	€127,923,532	1,250	639,617,660
02.14.2007	Cancellation of shares	-€2,698,150	-	€125,225,382	-13,490,750	626,126,910
02.15 to 08.30.2007	Exercise of share subscription options	€11,290	€3,516,221.50	€125, 236,672	56,450	626,183,360
08.30.2007	Cancellation of shares	-€1,645,020	-	€123,591,652	-8,225,100	617,958,260
08.31 to 12.31.2007	Exercise of share subscription options	€3,470	€1,090,637.00	€123,595,122	17,350	617,975,610
02.13.2008	Cancellation of shares	-€1,437,400	-	€122,157,722	-7,187,000	610,788,610
02.14 to 08.27.2008	Exercise of share subscription options	€6,920	€2,087,532.00	€122,164,642	34,600	610,823,210
08.28.2008	Cancellation of shares	-€1,682,080	-	€120,482,562	-8,410,400	602,412,810
08.29 to 12.31.2008	Exercise of share subscription options	€600	€185,572.50	€120,483,162	3,000	602,415,810
02.16.2009	Cancellation of shares	-€794,120	-	€119,689,042	-3,970,600	598,445,210
02.17 to 12.31.2009	Exercise of share subscription options	€105,440	€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	-	€119,843,562	-500,000	599,217,810
04.27 to 12.31.2010	Exercise of share subscription options	€354,955	€107,450,074.75	€120,198,517	1,774,775	600,992,585

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

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

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

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

	12.31.2008				12.31.2009				12.31.2010			
	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	30.82	30.82	31.84	185,661,879	31.00	31.00	31.75	185,661,879	30.89	30.89	31.49
Nestlé S.A. (2)	178,381,021	29.61	29.61	30.59	178,381,021	29.78	29.78	30.51	178,381,021	29.68	29.68	30.25
Company savings plan	3,870,953	0.64	0.64	0.66	4,307,998	0.72	0.72	0.74	4,260,700	0.71	0.71	0.72
Public	215,226,615	35.73	35.73	36.91	216,384,762	36.12	36.12	37.00	221,352,303	36.83	36.83	37.54
Treasury stock	19,275,342	3.20			14,236,750	2.38			11,336,682	1.89		
Total	**602,415,810**	**100.00**	**96.80**	**100.00**	**598,972,410**	**100.00**	**97.62**	**100.00**	**600,992,585**	**100.00**	**98.11**	**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 is the Chairwoman and of which she 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 L'Oréal, the beneficial ownership of which is held by Téthys.
(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) At Annual General Meetings: it should be noted that, pursuant to the Articles of Association, each share grants entitlement to one vote at Annual General Meetings and that, pursuant to French law, shares of treasury stock are deprived of voting rights.

To the Company's knowledge, at December 31st, 2010, 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 the attachment to the Management Report in the section concerning the *Corporate officers* on pages 114 to 121 of this document.

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, 2010, the Company held, on this basis, 11,336,682 of its own shares (1.89% of the share capital), which, if they were to be valued at their purchase price, represented €850.9 million, 9,466,929 of these shares were allocated to covering the existing stock option plans for the purchase of shares allocated to employees and corporate officers of Group companies.

2.6.6. Employee share ownership

The employees of the Company and its affiliates held 4,260,700 shares as at December 31st, 2010, that is 0.71% of the share capital, through the Company savings plan (PEE).

At that date, this stake in the capital is held by 9,159 employees participating in the Group Company savings plan.

2.6.7. Disclosures to the Company of legal thresholds crossed

During 2010, the Company was not informed of any crossing of the legal thresholds with regard to the holding of its shares or voting rights.

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

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

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

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

Clause limiting the shareholding

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

Lock-up clause

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

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

a) The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the Company of its own shares, or the suspension or removal of the voting rights of a shareholder.

b) The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision *(avis de recevabilité)* and up until the day after the publication of the notice of results (*avis de résultat*).

c) In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe for new shares, in order to maintain their holding at the percentage existing prior to the said 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.

2.6.8.2. 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 of a Committee called the *Strategy and Sustainable Development* Committee on the Board of Directors of L'Oréal, which has six members, and is chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt family, two members proposed by Nestlé and one other independent director. The committee meets six times a year.

2.6.8.3. Term

Unless otherwise stipulated, the 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.

2.6.8.4. 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 setting up of the Strategy and Sustainable Development 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."

2.6.9. Buyback by the Company of its own shares

2.6.9.1. Information concerning share buybacks during the 2010 financial year

In 2010, 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 Meeting of April 27th, 2010.

At its meeting on April 27th, 2010, the Board of Directors proceeded to cancel 500,000 shares within the framework of the authorisation voted by the Annual General Meeting on the same day and falling within the scope of Article L. 225-208 of the French Commercial Code.

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 16th, 2009 (10th resolution)	April 27th, 2010 (13th resolution)
Expiry date of the authorisation	October 16th, 2010	October 27th, 2011
Maximum amount of authorised buybacks	10% of the capital on the date of the share buybacks (i.e. at 02.16.2009: 59,844,521 shares), for a maximum amount of €7,800 million	10% of the capital on the date of the share buybacks (i.e. at 02.15.2010: 59,897,241 shares), for a maximum amount of €7,800 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

2.6.9.2. Transactions carried out by L'Oréal with respect to its shares in 2010

Percentage of share capital held by the Company directly and indirectly at December 31st, 2010:	1.89%
Including:	
• those intended to cover existing share purchase option plans	1.89%
• those intended for cancellation	0.00%
Number of shares cancelled during the last 24 months:	4,470,600
Number of shares held in the portfolio at 12.31.2010:	11,336,682
Net book value of the portfolio at 12.31.2010:	€850.9 million
Market portfolio value at 12.31.2010:	€941.9 million

	Total gross transactions	
	Purchases	Sales/Transfers*
Number of shares	None	2,400,068
Average transaction price	Not applicable	
Average exercise price		€76.78
Amounts	None	€184.3 million

* *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, 2010.

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

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

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

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

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

The authorisation would concern up to 10% of the share capital for a maximum amount of €7,800 million, it being specified that the Company may never at any time hold over 10% of its own share capital. In light of the number of its own shares held by the Company at December 31st, 2010 representing 1.89% of the capital, i.e. 11,336,682 shares, the maximum percentage of share buybacks that could be made as at December 31st, 2010 amounts to 8.11%, i.e. an amount of €6,339.1 million on the basis of a maximum purchase price of €130 per share.

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

2.7. Employee and Environmental Information

2.7.1. Human Resources

The resumption of growth has made it possible to speed up substantially the recruitments of young graduates, the "talent pools", although these recruitments were maintained during the crisis. Rather than adopting a short-term policy, L'Oréal has always given preference to a long-term talent management policy. Furthermore, the integration of experienced employees was amplified. Moreover, international mobility opportunities were encouraged. In 2010, the number of expatriations increased, both because the demand for experienced profiles in countries in the "New Markets" Zone increased, but also because the Group capitalised on a scheme facilitating international experience for young employees. At the same time, the strong growth in the New Markets offers an increasing number of opportunities for local talents to have rapid access to positions of responsibility. Finally, the universal dimension of consumers and brands encourages a wide diversity in the teams; this brings greater creativity, increased performances and better understanding of consumers.

2.7.2. L'Oréal Parent Company employee information

2.7.2.1. Number of employees and number of persons hired

Total number of employees at 12.31.2010

L'Oréal had a total of 5,957 employees at December 31st, 2010. L'Oréal hired 307 persons on permanent contracts, 357 on fixed-term contracts and 273 on work and training contracts (175 apprenticeship contracts and 98 contracts offering professional experience). In addition, 300 persons were hired on a short-term basis during the holiday period or for a single season.

2010	Men	Women	All
Executives	1,360	1,686	3,046
Supervisors and technical staff	450	1,581	2,031
Administrative staff	114	209	323
Manual workers	169	103	272
Sales representatives	171	114	285
Total	**2,264**	**3,693**	**5,957**

The total number of Group employees (including all consolidated Group companies worldwide) was 66,619 as of December, 31st 2010 (see details in the Human Resources chapter in Volume 1 on page 70).

Difficulties in recruiting

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

Redundancies or dismissals

In 2010, there were no redundancies for economic reasons.

Out of a total of 5,957 employees, 26 were dismissed for personal reasons including 2 dismissals for physical incapacity.

Overtime

L'Oréal does not require its employees to work much overtime. The total number of hours of paid overtime in 2010 was 28,160 for a gross amount of €576,559, representing the equivalent of 15.41 persons, that is 0.25% of the total number of employees.

Temporary workers

Temporary workers at L'Oréal represent 2.78% of the total number of employees on average, for an average monthly total of 184 temporary workers and an average length of contract of 15.88 days.

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

No workforce reduction plan took place at L'Oréal in 2010.

2.7.2.2. Work organisation

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

Working week

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

Working week for part-time employees

Some employees across all categories have chosen to work part-time. Out of the total of 588 part-time employees, the great majority work for 4/5, primarily on the basis either of parental leave or absence on Wednesdays.

Reasons for absenteeism

Reasons for absenteeism	No of working days'absence	No of working days normally worked	% absenteeism
Sick leave	34,142	1,471,312	2.32%
Accidents in the workplace/on the way to work – occupational diseases	2,455	1,471,312	0.17%
Maternity leave – Adoption	23,030	1,471,312	1.57%
Family events	6,677	1,471,312	0.45%
Part-time work for health reasons	1,581	1,471,312	0.11%
Total	**67,885**	**1,471,312**	**4.61%**

% absenteeism:

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

2.7.2.3. Remuneration: trends and professional equality

Average monthly remuneration

Average monthly remuneration of ongoing employees

These are employees (excluding senior managers) on permanent contracts, who have been present for two consecutive years.

Employees who have changed category are compared in the category to which they belong during the second year.

	2009			2010			
In euros	Men	Women	All	Men	Women	All	Change
Executives	5,863	4,948	5,358	6,159	5,194	5,626	+ 5.0%
Supervisors and technical staff	2,924	2,887	2,895	3,019	2,986	2,994	+ 3.4%
Administrative staff	2,213	2,082	2,131	2,286	2,157	2,205	+ 3.5%
Manual workers	2,442	2,369	2,416	2,529	2,443	2,499	+ 3.4%
Sales representatives	4,032	3,497	3,815	4,181	3,697	3,985	+ 4.4%

Employer payroll contributions

Total employer payroll contributions for 2010 amounted to €160,747,698.

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

Incentives

The incentive system is governed by French law but is a non-mandatory system. It was set up as part of a Group agreement in France in 1988 and was renewed in 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.

At the time of the L'ORÉAL Centenary, an additional incentive payment representing a 5% increase in the total incentives was paid in April 2010.

Changes in gross incentive amounts paid in France for all companies covered

€ thousands	2006(1)	2007 (1)	2008(1)(2)	2009(1)(2)
Group in France	89,141	94,986	99,799	103,149
Of which the L'Oréal Parent Company represents	48,137	51,766	55,236	57,358

(1) Paid the following year.
(2) Amounts after the "forfait social" levy.

For an annual gross salary of:	The gross incentive amount for 2009 paid in 2010 represented:	Additional incentive payment for the Centenary	Total
€25,000	€6,694 i.e. 3.2 months	€372	€7,066 i.e. 3.4 months
€32,000	€7,539 i.e. 2.8 months	€422	€7,961 i.e. 3.0 months
€45,000	€9,109 i.e. 2.7 months	€514	€9,623 i.e. 2.6 months
€60,000	€10,919 i.e. 2.2 months	€619	€11,538 i.e. 2.3 months

Employee profit-sharing

Profit-sharing is a mandatory system under French Law, set up in 1968 for all profit-making companies with over 50 employees. The profit-sharing agreement was renewed in June 2009.

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

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

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 in France for all companies covered

€ thousands	2006(1)	2007(1)	2008(1)	2009(1)
Group in France	31,211	34,872	38,150	34,424
Of which the L'Oréal Parent Company represents	17,292	19,489	21,612	19,802

(1) Paid the following year.

Profit-sharing for 2009 paid in 2010 represented the equivalent of 0.8 month's salary.

L'Oréal Company savings plan and funds

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

- to invest profit-sharing amounts in a frozen current account on which L'Oréal will pay interest at the average rate of yield of bonds in private companies (TMOP) in accordance with Article 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 can receive incentive payments, on which an additional employer contribution of +25% is paid, and the other can receive employee profit-sharing and voluntary payments, on which no additional employer contribution is paid.

In 2010, the following amount net of CSG, CRDS and the *forfait social* levy was invested by the employees of L'Oréal in France in the fund which is 100%-composed of L'Oréal shares, "L'Oréal Intéressement": €41,067,035, plus the net amount of the additional incentive amount due to the Centenary of €2,130,564.

The employer contributions added to these payments were respectively €9,203,893 and €475,744 which, at the opening trading price for the L'Oréal share on the date of each of these employer contributions, namely €81.50 on April 23rd, 2010 for "L'Oréal Intéressement" and for the "supplément Centenaire", represented the equivalent of 118,769 L'Oréal shares. As the total net amount of incentives allocated in 2010 was €100,246,733, L'Oréal therefore proposed nearly 300,000 shares free-of-charge to its employees in France in 2010, in the form of this additional employer's contribution.

Company savings plan and frozen current account in process for all the companies concerned:

€ thousands	2008	2009	2010
Company savings plan and frozen current account + PERCO	496,447	650,968	716,189

At December 31st, 2010, 50% of the savings of L'Oréal employees were invested in L'Oréal shares, and 9,159 Group employees in France were shareholders of L'Oréal through the savings plan.

Incentive schemes worldwide

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

Since 2001, L'Oréal has implemented, outside France, a worldwide incentive scheme that is related to the results of its subsidiaries (WPS – Worldwide Profit Sharing program). Compliance with the principles of the programme is ensured by a Corporate Coordination Committee, while it is implemented locally.

Within the scope of the WPS 2009, L'Oréal paid out €33.7 million in 2010, which represents approximately 1.81 weeks' salary on average for each employee (for all subsidiaries combined).

Professional equality

Undertakings to promote professional gender equality

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

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

Professional equality is also dealt with in a report reviewed each year as part of the compulsory annual salary negotiation process. This report, drawn up in accordance with the requirements of Article L. 2323-57 of the French Labour Code, considers the respective position of men and women with regard to hiring, training, promotion, qualifications and classification, effective remuneration and working conditions for each professional category (executives, supervisors, administrative staff, manual workers and sales representatives).

In 2008, all the trade union organisations signed a Company-level agreement with regard to professional equality between men and women, and management reasserted its desire to:

- comply with the principle of equal treatment between men and women;
- make sure that maternity and parental leave are situations which should not adversely affect the career progression of men and women in the Company.

Thus, by offering a guarantee with regard to a change in remuneration, L'Oréal makes sure that maternity, adoption and parental leave do not have a negative impact on the increase in the remuneration of female employees.

For employees who are fathers of new-born children, L'Oréal undertakes to pay an additional allowance to the daily allowances paid by the French Social Security scheme when they take paternity leave, which makes it possible to maintain the entire base salary of these employees for the 11 calendar days of the paternity leave (18 days for multiple births).

In 2010, 86 employees took paid paternity leave.

L'Oréal rounded out its parental policy with the inauguration of two new inter-company day nurseries, thus increasing the number of such structures to seven (including 4 which are dedicated to L'Oréal Parent Company) thus offering 94 cots to Group employees, 64 of which are reserved for L'Oréal Parent Company employees.

2.7.2.4. Professional relations and list of collective agreements

Professional relations

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

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

Composition of Central Works Council by category

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

Number of elected representatives by category	2010
Executives	2
Supervisors and technical staff/ Sales representatives	1
Administrative staff/Manual workers	1

Number of meetings of the Central Works Council and its commissions: 7.

List of collective agreements

Employment of Older Workers

L'Oréal is attentive to career evolution and changes in the working conditions of its employees and endeavours to develop a Human Resources management policy that is suited to each period of professional life, whatever the employee's age.

Through the signature on December 3rd, 2009 of a Company-level agreement with regard to the employment of older workers, L'Oréal intends to continue with this approach.

L'Oréal's ambition is to promote a global, proactive Human Resources management policy promoting continued employment for all its employees and particularly older workers.

Within this framework, L'Oréal offers the possibility to benefit from the following in particular:

- a collective professional assessment (or an individual assessment if this is more appropriate) for employees with over 15 years' professional experience;
- the possibility for employees recognized for their job skills to hold the responsibilities of mentors for newly hired employees if they wish;
- home working if this is possible in their jobs;
- an adjustment in working time as from 55 years of age, subject to compatibility with the work organisation of which the employee is a part. This adjustment may be financed by taking early retirement leave on a part-time basis;

- financing a "time capital" as from 45 years of age, in addition to the employee's early retirement leave or his/her investments of days in the time savings account to adjust the end of the employee's professional career or increase his/her financial capacity at the time of retirement.

Dates of signature and subject matter of the agreements signed in the Company

Provident schemes

- Supplemental agreement 3 to the supplemental agreement signed on December 17th, 2007 applicable to Executives and similar employees of L'Oréal who fall within the scope of Articles 4 and 4 bis of the AGIRC agreement of March 14th, 1947 (updating of the contributions at October 1st, 2010).
- Supplemental agreement 3 to the supplemental agreement signed on December 17th, 2007 applicable to the employees of L'Oréal who fall within the scope of Article 36 of Appendix I to the AGIRC agreement of March 14th, 1947 (updating of the contributions at October 1st, 2010).

2.7.2.5. Occupational health and safety

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

In 2010, 78 meetings of the CHSCTs (health, safety and working conditions committees) were held, in the 13 such committees that exist at L'Oréal.

Six occupational doctors are present on all the Company's sites and 6,692 medical examinations were conducted in 2010 (medical examinations upon hiring, return to work after sick leave or regular medical examinations).

In 2010, there were 30 lost-time accidents.

Measures taken to improve safety

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

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

2.7.2.6. Training

Percentage of total salaries allocated to continuing education in 2010

Amount allocated to training (€ thousands)	14,119
% of total salaries	4%

Number of persons receiving training in 2010: 4,556 *i.e.* 76% of the total number of employees at 12.31.2010.

Number of training units in 2010: 11,881 *i.e.* 2.5 units of training on average per person trained.

Number of hours of training in 2010: 124,914 hours.

Number of employees who made use of the Individual Training Entitlement (Droit Individuel à la Formation - "DIF"): 202.

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

2.7.2.7. Employment and job opportunities for disabled workers

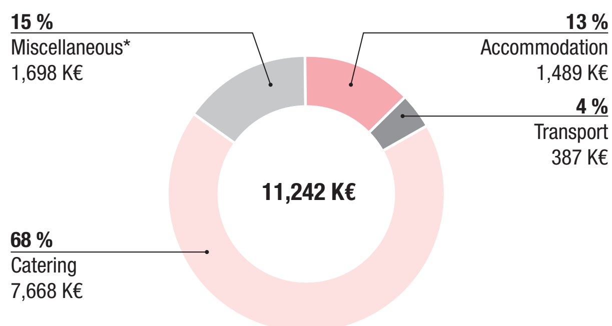
The number of disabled workers was 162 at December 31st, 2010, as compared with 145 persons at December 31th, 2009. L'Oréal subcontracts (to special workshops for disabled workers) and occupational therapy centres.

Since 2008, L'Oréal organises awards known as "Initiatives for the Disabled" which reward operational entities for their concrete actions in favour of the Disabled focused around four major topics: recruitment and continued employment of disabled persons, partnerships with companies employing heavily disabled employees (from what is known as "the protected sector"), actions to raise awareness with regard to disabilities and the accessibility of premises and information.

These awards, presented every two years in the presence of the General Management, make it possible to showcase and share the formidable work carried out by a large number of teams in the Group and contribute in this manner to changing the representations.

2.7.2.8. Welfare

Breakdown of the Company's expenses:



* On the basis of the same scope of consolidation as in 2009, and including the cost of protective clothing for employees, this amount would be 2,021€.

Payment to the L'Oréal Parent Company Central Works Council and to the three works councils at its establishments: €1,538 thousand.

2.7.2.9. Amount of subcontracting

€ thousands	2010
Subcontracting purchases	5,315
Special contract work	270,078

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

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

The Chief Executive Officer of L'Oréal has given the Ethics Officer the task of making sure that human rights are strictly respected.

L'Oréal refers to the Fundamental Conventions of the International Labour Organisation (ILO) which cover freedom of association, the elimination of forced labour, the abolition of child labour and the elimination of discrimination in respect of employment. L'Oréal wants to contribute to abolition of child labour and forced labour and particular attention is paid to these subjects. L'Oréal has chosen to set a minimum age of 16 for all its staff, a minimum age limit which is higher than that provided for in the Fundamental Conventions of the International Labour Organisation. L'Oréal respects the right of its employees to join the associations they choose and encourages a constructive dialogue. The struggle against discrimination is one of the priorities of L'Oréal's diversity policy.

L'Oréal also wishes its business partners to share and enforce these values.

This is why the Group makes sure that human rights are respected throughout its logistics chain. All L'Oréal's suppliers and subcontractors are asked to comply with the Group's General Purchasing Conditions, which require them to respect the Fundamental Conventions of the International Labour Organisation and comply with local legislation in particular with regard to minimum wages, working time and health and safety. Besides L'Oréal's vast programme of audits with regard to supplier and subcontractor labour standards, the Group has also decided to carry out independent audits in all its factories and distribution centres.

L'Oréal's values are laid down in the Ethics Charter, which is available on the www.loreal.com website.

2.7.2.10. Territorial impact on employment and regional development

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

Over the past three years on all these sites, L'Oréal has hired 1,768 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 2nd, 2010, 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 157 young people to benefit from recruitment interviews that led to 49 recruitments.

L'Oréal will have to pay an amount of €18,983 thousand for the territorial economic contribution (CET) – which replaces business tax - in respect of the 2010 financial year.

2.7.2.11. Relations with educational establishments and associations

Educational establishments

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

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

In 2010, 640 students joined L'Oréal under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

556 young people on work and training contracts (313 apprenticeship contracts and 243 contracts offering professional experience) were present in the Group in France at December 31st, 2010, 273 of whom worked at the L'Oréal Parent Company.

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

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

L'Oréal will have to pay an amount of €1,764 thousand in apprenticeship tax.

Environmental defence associations

L'Oréal has undertaken to reduce its greenhouse gas emissions, its water consumption and its waste by 50%, over the period 2005-2015. L'Oréal actively contributes to environmental protection through its commitments in associations or companies 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.

2.7.2.12. Regional development and local populations

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

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

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

In the internal 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 office) which demonstrates its commitment, mobilisation and involvement in the community in which it operates. Awards are made to the best local initiatives conducted each year in partnership with local authorities, local residents and schools in the fields of solidarity, education or the environment.

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

For further details on the Group's Sustainable Development strategy, as well as our commitments, results and challenges, please visit our dedicated website at www.developpementdurable.loreal.com (French-language version) or www.sustainabledevelopment.loreal.com (English-language version).

2.7.3. 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 the sentiment of belonging among its managers by seeking to foster their loyalty over time.

In 2009, L'Oréal decided to enlarge its policy by introducing a mechanism for the conditional grant of shares to employees (ACAS).

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.

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.

L'Oréal's main senior managers throughout the world are exclusively rewarded through stock options in order to encourage an entrepreneurial spirit. The other eligible employees are rewarded by a mix of stock options and conditional grants of shares, or solely by conditional grants of shares, depending on their position in the organisation. 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.

Since 2009, the plans are now 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 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 2,600 employees (*i.e.* approximately 13% 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 "privileged" information. The beneficiaries of stock options and conditional grants of shares undertake to read the code of ethics of the stock exchange 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.

2.7.4. Stock option plans to purchase or subscribe to L'Oréal Parent Company shares

2.7.4.1. Authorisation of the Ordinary and Extraordinary General Meeting of April 16th, 2009

The Ordinary and Extraordinary General Meeting of April 16th, 2009 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 2% of the share capital on the date of the Board of Directors' decision.

The 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.

In accordance with the recommendations of the AFEP-MEDEF Code of Corporate Governance of December 2008:

- any grants to the corporate officers will be decided by the Board of Directors after assessment of their performance;
- the number of options granted to the corporate officers may not represent more than 10% of the total number of options granted by the Board for this 26-month period;
- 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 the Management Report of the Board of Directors;
- a corporate officer may not be granted stock options at the time of his departure.

2.7.4.2. Stock options granted in 2010 (Share Subscription Option Plan of April 27th, 2010)

The share capital as of April 27th, 2010 consisted of 599,217,810 shares, which offered the possibility to distribute approximately 11,984,356 options within the scope of the authorisation of April 16th, 2009.

At its meeting on April 27th, 2010, the Board of Directors granted 4,200,000 options at a unit price of €80.03, namely a price equal to 100% of the average of the opening share prices for the twenty trading days before the date of their allocation to 815 beneficiaries. The fair unit value of these options amounts to €17.17.

It was decided to make the exercise of the options granted to the Chief Executive Officer and the other members of the Executive Committee subject to achievement of performance conditions taking into consideration:

- for half the amount, the growth in comparable cosmetics sales as compared to the market growth rate;
- and for half the amount, the ratio between the contribution before advertising and promotion expenses (operating profit + advertising and promotion expenses) and reported cosmetics sales, calculated at the end of the lock-up period on the basis of the average for the four full financial years from 2011 to 2014.

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.

2.7.4.3. Currently existing L'Oréal Parent Company share purchase or subscription options[1]

The main features of the plans that existed at December 31st, 2010 are included in the tables set out hereafter:

AGM authorisation date	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	05.22.2003	05.22.2003	05.22.2003
Date of Board of Directors' meeting	03.28.2001	09.18.2001	10.08.2001	03.26.2002	09.04.2002	12.03.2003[(2)]	03.24.2004	12.01.2004
Total number of beneficiaries	521	441	109	410	394	693	257	274
Total number of shares that may be subscribed or purchased	2,500,000	2,500,000	225,000	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000
Of which may be subscribed or purchased by the corporate officers [(3)]*:*								
Sir Lindsay Owen-Jones	200,000	300,000	0	0	0	1,000,000	0	1,000,000
Mr. Jean-Paul Agon								
Start date for exercise of the options	03.29.2006	09.19.2006	10.09.2006	03.27.2007	09.05.2007	12.04.2008	03.25.2009	12.02.2009
Date of expiry	03.28.2011	09.18.2011	10.08.2011	03.26.2012	09.04.2012	12.03.2013	03.24.2014	12.01.2014
Subscription or purchase price *(in euros)*	79.60 (A)	77.60 (A)	76.50 (A)	81.65 (A)	76.88 (A)	63.02 (S) 71.90 (A)	64.69 (S)	55.54 (S)
Number of stock options exercised at 12.31.2010	899,200	678,500	56,700	543,450	771,500	981,950	758,000	1,364,350
Of which shares subscribed	*0*	*0*	*0*	*0*	*0*	*619,450*	*758,000*	*1,364,350*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	401,500	443,000	48,250	358,500	272,000	588,500	135,500	153,500
Number of shares remaining to be subscribed or purchased at year-end	1,199,300	1,378,500	120,050	1,598,050	1,456,500	3,429,550	1,106,500	2,482,150

AGM authorisation date	05.22.2003	05.22.2003	04.25.2006	04.25.2006	04.24.2007	04.24.2007	04.16.2009
Date of Board of Directors' meeting	06.29.2005	11.30.2005[(4)]	04.25.2006	12.01.2006	11.30.2007	03.25.2009	04.27.2010
Total number of beneficiaries	3	771	1	788	839	634	815
Total number of shares that may be subscribed or purchased	400,000	6,000,000	2,000,000	5,500,000	4,000,000	3,650,000	4,200,000
Of which may be subscribed or purchased by the corporate officers [(3)]*:*							
Sir Lindsay Owen-Jones	0	1,000,000	2,000,000				
Mr. Jean-Paul Agon				500,000	350,000	0	400,000
Start date for exercise of the options	06.30.2010	12.01.2010	04.26.2011	12.02.2011	12.01.2012	03.26.2014	04.28.2015
Date of expiry	06.29.2015	11.30.2015	04.25.2016	12.01.2016	11.30.2017	03.25.2019	04.27.2020
Subscription or purchase price *(in euros)*	60.17 (S)	61.37 (S) 62.94 (A)	72.60 (S)	78.06 (S)	91.66 (S)	50.11 (S)	80.03 (S)
Number of stock options exercised at 12.31.2010	0	637,946	0	47,000	0	0	0
Of which shares subscribed	*0*	*454,725*	*0*	*47,000*	*0*	*0*	*0*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	0	233,000	0	202,750	103,400	0	0
Number of shares remaining to be subscribed or purchased at year-end	400,000	5,129,054	2,000,000	5,250,250	3,896,600	3,650,000	4,200,000

(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.

(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.

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 37,296,504 options at December 31st, 2010, at an average price of €71.55, namely 6.21% of the shares making up the share capital at such date, including 6,750,000 options, at an average price of €69.98, granted to the corporate officers during their term of office.

2.7.4.4. Stock options to purchase or subscribe for shares granted to employees other than corporate officers of L'Oréal or exercised by them during the 2010 financial year

	Total number of options granted/ shares subscribed or purchased	Weighted average price	Plan of 09/28/2000 (A)	Plan of 09/04/2002 (A)	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 04/27/2010 (S)
Options **granted** by the L'Oréal Parent Company **to the ten employees(*) to whom the largest number of stock options was granted**	940,000	€80.03	-	-	-	-	-	-	-	-	940,000
Options held with regard to the L'Oréal Parent Company **exercised by the ten employees(*)** who have thus **purchased or subscribed for the largest number of options**	497,500	€63.85	55,000	60,000	12,500	55,000	35,000	215,000	19,500	45,500	-

(*) employees other than corporate officers of L'Oréal S.A. or employees of companies included in the scope of grant of the stock options.

2.7.5. Plan for the Conditional Grant of Shares to Employees

2.7.5.1. Authorisation of the Ordinary and Extraordinary General Meeting of April 16th, 2009

The Ordinary and Extraordinary General Meeting of April 16th, 2009 gave the Board of Directors the authorisation to carry out free grants of existing shares or shares to be issued of the Company to employees 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 0.2% of the share capital on the date of the Board of Directors' decision.

In accordance with the Board of Directors' Report on the draft resolution submitted to the Extraordinary General Meeting of April 16th, 2009, the corporate officers and the members of the Executive Committee do not receive such grants of shares.

The free grant of shares is performance-related.

2.7.5.2. Conditional Grants of Shares to Employees in 2010 (Plan of April 27th, 2010)

Within the scope of the authorisation of April 16th, 2009, the number of conditional grants of shares that could be made amounted to 1,198,435 shares on April 27th, 2010.

The Board of Directors used this authorisation at its meeting of April 27th, 2010, by granting 450,000 free shares to 1,418 beneficiaries, the fair unit value of these shares amounting to €66.78, for French residents and €73.73 for non-residents.

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 provided for by the Plan regulations);

- of performance:
  - vesting of all or part of 25% of the shares granted will depend on the growth in comparable sales for financial years 2011, 2012, 2013 as compared to growth in the cosmetics market,
  - vesting of all or part of 75% of the shares granted will depend on the ratio, over the same period, of operating profit as compared to reported cosmetics sales.

The calculation will be made on the basis of the arithmetical mean of the performances for the 2011, 2012 and 2013 financial years. For reasons of confidentiality, the various levels of performance required were communicated precisely to the beneficiaries but may not be made public.

At the end of the vesting period, beneficiaries who are French residents at the date of grant of the shares shall be obliged to retain the shares that have vested for an additional period of 2 years during which these shares are non-transferable.

2.7.5.3. Existing conditional grants of shares to employees

Date of authorisation by the Extraordinary General Meeting	04/24/2007	04/16/2009
Date of grant by the Board of Directors	03/25/2009	04/27/2010
Total number of shares conditionally granted	270,000	450,000
Of which the ten employees other than corporate officers granted the largest number of shares	*5,000*	*6,000*
Number of beneficiaries	752	1,418
Performance conditions:	♦ 50% growth in comparable sales as compared to growth in the cosmetics market; ♦ 50% ratio of operating profit as compared to reported cosmetic sales.	♦ 25% growth in comparable sales as compared to growth in the cosmetics market; ♦ 75% ratio of operating profit as compared to reported cosmetic sales.
Date of final vesting for French residents at the date of grant	03/25/2013	04/27/2014
Date of final vesting for non-French residents at the date of grant	03/25/2013	04/27/2014
End of the waiting period for French residents at the date of grant	03/25/2015	04/27/2016

2.7.5.4. Shares granted to the ten employees other than corporate officers to whom the largest number of shares have been granted

The largest number of shares granted is 600 shares. 23 beneficiaries received 600 shares.

Accordingly, the total number of shares granted in 2010, to the ten employees other than corporate officers who received the largest number of shares amounts to 6,000 shares.

2.7.6. Employee retirement obligations and additional benefits

All over the world, 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.

Employee pension schemes in France

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

Defined benefit scheme

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

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

This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, the payment to the beneficiary's spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the Company at the date of the end of his/her career at L'Oréal, and limited to a maximum of 25 years. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday and less all salaries paid under an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 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 grants entitlement to payment to the beneficiary retiree, after having ended his/her career with the Company, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years, 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 ½% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the salaries of the three years used for the calculation basis. Around 120 Senior Managers (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 an amendment agreement applicable as from January 1st, 2009.

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

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

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

	12.31.2008	12.31.2009	12.31.2010
Number of members	11,157	11,806	11,967
Total net contributions	€6,949,480	€7,497,479	€8,027,527

Pre-retirement arrangements

L'Oréal pays particular attention to the retirement conditions of its employees and pre-retirement arrangements that have been in force at L'Oréal 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 (C.F.C.): 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, continue to receive their remuneration (within the limit of €9,047/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-hour working week agreement and the Time Savings Account (*Compte Epargne Temps* – C.E.T), enables an employee who has saved 3 days' leave per year each year under the C.E.T., to benefit from the possibility to terminate his/her activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave.
- Retirement Indemnities: the more favourable of the following two schedules is applied: the L'Oréal schedule and that of the French National Collective Bargaining Agreement for the Chemical Industries.

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from one month's salary for five years' service, to 7.5 months' salary for 40 years' service.

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

	12.31.2008			12.31.2009			12.31.2010		
	M	W	Total	M	W	Total	M	W	Total
Early retirement leave	60	117	177	77	109	186	49	102	151
Compulsory retirement on the Company's initiative			27			37			25
Voluntary retirement			247			187			234

(Source: HR France statistics: 2008, 2009 and 2010.)

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 and based on estimated calculations of the final salary.

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

€ millions	12.31.2008	12.31.2009	12.31.2010
Provision for pension commitments in consolidated balance sheet liabilities	448.6	585.9	687.8

(Source: HR France statistics 2008, 2009 and 2010.

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 euros per event.

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

In euros	12.31.2008	12.31.2009	12.31.2010
Net employee benefit contributions	8,718,317	9,340,489	9,530,000[(1)]

(1) Estimated.

Minimum guaranteed Lump Sum Death Benefits

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

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

Healthcare expenses

The employees of the L'Oréal Parent Company and its French subsidiaries benefit from additional schemes covering healthcare costs.

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

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

The healthcare expenses scheme is compulsory for all the employees of L'Oréal and its French subsidiaries.

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

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

Pension and Employee Benefit schemes outside France

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

This policy provides for general principles in the following areas: definition and implementation of schemes, relations with employees, financing and cost of the schemes, and management of the schemes. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. The Supervisory Committee works in collaboration with the Operational 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 law and regulations as well as the practices of the companies in each country.

In many countries, L'Oréal participates in establishing additional retirement benefits for its employees through a whole series of defined benefit schemes and/or defined contribution schemes (e.g. United States, the Netherlands, Belgium, Canada, and Latin American countries). In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Germany, 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, is regularly reviewed by the Supervisory Committee.

2.7.7. Environmental information

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

The environmental impact of the activities of the L'Oréal Parent Company is very limited. In 2010, it consisted mainly of the following (annual data):

2010	Total
Transportable waste *(tonnes)*	2,837
Recycled waste *(tonnes)*	2,797
Recycling ratio *(%)*	98.6
Direct CO_2 *(tonnes)*	5,904
SO_2 *(tonnes)*	0.095
Discharges to soil	0
Water consumption *(m3)*	126,490
Electricity *(MWh)*	54,449
Gas *(MWh)*	35,394
Fuel oil *(MWh)*	288
Energy consumption *(MWh)*	93,674

Note: The reporting scope includes 5 administrative offices and 1 distribution centre.

The Group data are provided in the "Commitments" chapter of Volume 1 (pages 18 to 19). With regard to all the Group's factories and distribution centres (excluding recent acquisitions), the main data are as follows:

2010	Total
Transportable waste *(tonnes)*	135,228
Recycled waste *(tonnes)*	129,912
Recycling ratio *(%)*	96.1
Direct CO_2 *(tonnes)*	79,938
SO_2 *(tonnes)*	7.1
Discharges to soil	0
Water consumption *(m3)*	2,955,554
Electricity *(MWh)*	373,801
Gas *(MWh)*	373,592
Fuel oil *(MWh)*	17,887
Energy consumption *(MWh)*	798,726

The transportable waste is directly related to the activities at the site. For a factory, for example, these consist 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.

This environmental information is part of a broader sustainable development policy, in which L'Oréal participates. This policy involves reassertion of the values of integrity, social responsibility and respect for people and the environment. Concrete, measurable actions are conducted by L'Oréal as part of this policy and it has in particular set major environmental objectives for its factories and distribution centres. L'Oréal is also seeking to make progress with this policy by sharing and reinforcing the Company's principles of social responsibility.

All the information relating to these actions is set out in the Group's Sustainable Development Report available online at www.loreal.com.

The Board of Directors

2.8. Annexe: Subsidiaries and holdings

Investments (main changes including shareholding threshold changes)

Headings (€ thousands)	Situation at 12.31.2009 Amount	%	Acquisitions Amount	%	Subscriptions Amount	%	Sales Amount	%	Situation at 12.31.2010 Amount	%
Beauté Créateurs France	25,385.1	100.00	5,474.7	100.00					30,859.8	100.00
Beautytech International	131,239.0	100.00					131,239.0	100.00 (2)	0.0	0.00
Boucheron Parfums	0.0	0.01					0.0	100.00	0.0	0.00
Cosmetique Active Belgilux	3,423.5	86.71					3,423.5	86.71 (3)	0.0	0.00
L'Oréal Belgilux	18,303.8	99.99			41,567.1 (3)				59,870.9	98.93
L'Oréal China	214,494.2	100.00			131,239.0	100.00 (2)			345,733.2	100.00
L'Oréal Cosmetics Industry S.A.E. (Egypt)	0.0	0.00			853.8	99.99			853.8	99.99
L'Oréal Hellas	18,228.8	83.49			4,857.9	2.24 (2)			23,086.7	85.73
L'Oréal Italia	161,803.8	100.00			64,665.0	100.00 (2)			226,468.8	100.00
L'Oréal Kazakhstan	500.0	100.00			-78.2	100.00			421.8	100.00
L'Oréal Nederland	3,686.0	100.00			15,182.7	100.00			18,868.7	100.00
L'Oréal New Zealand	623.9	100.00			5,486.0	100.00 (2)			6,109.9	100.00
L'Oréal Pakistan	116.1	99.99			3,882.1	99.99			3,998.2	99.99
L'Oréal Polska	38,210.4	100.00					37,502.9	100.00	707.5	100.00
L'Oréal Produits de Luxe Belgilux	2,885.3	99.97			35,258.3	99.97	38,143.6	99.97 (3)	-0.0	0.00
L'Oréal Taiwan	40,942.5	100.00					23,061.0	100.00	17,881.5	100.00
L'Oréal Turkye Kozmetik Sanayi	22,206.9	99.99			21,758.1	99.99			43,965.0	99.99
L'Oréal UK Ltd	41,149.4	99.99			98,201.4	99.99			139,350.8	99.99
Par-Bleue	1.5	99.00	0.0	1.00			1.5	100.00 (1)	-0.0	0.00
P.T. Yasulor Indonesia	40,854.1	99.98			16,138.0	99.98			56,992.1	99.98
YSL Beauté Aebe Grèce	4,857.9	100.00					4,857.9	100.00 (2)	0.0	0.00
YSL Beauté Benelux	50,441.0	100.00					50,441.0	100.00 (2)	0.0	0.00
YSL Beauté Italia	64,665.0	100.00					64,665.0	100.00 (2)	0.0	0.00
YSL Beauté Limited	98,203.0	100.00					98,203.0	100.00 (2)	0.0	0.00
YSL Beauté Middle East	8,638.7	83.38	8,457.0	16.62					17,095.7	100.00
YSL Beauté (NZ) Limited	5,486.0	100.00					5,486.0	100.00 (2)	0.0	0.00
Total	**996,345.9**		**13,931.7**		**439,011.1**		**457,024.4**		**992,264.4**	

(1) Transfer of all the assets and liabilities (to the Company's sole shareholder).
(2) Merger.
(3) Pooling.

2.9. Annexe: Five-year financial summary

L'Oréal Parent Company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2006	2007	2008	2009	2010
I. Financial position at financial year-end					
a) Share capital	127.9	123.6	120.5	119.8	120.2
b) Number of shares	639,616,410	617,975,610	602,415,810	598,972,410	600,992,585 (1)
c) Number of convertible bonds	0	0	0	0	0
II. Overall results of operations					
a) Net pre-tax sales	2, 003.4	2,073.8	2,115.2	2,051.1	2,231.0
b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and profit sharing reserve)	1,484.4	2,841.7	1,713.4	1,766.3	2,048.4
c) Income tax	-54.5	-68.7	-143.4	-114.9	-104.6
d) Net profit	1,690.3	2,822.4	1,552.1	1,841.8	1,995.3
e) Amount of distributed profits	738.8	842.9	861.8	898.9	1,082.5 (2)
III. Results of operations per share					
a) Profit after tax and profit sharing, but before depreciation, amortisation and provisions	2.38	4.68	3.05	3.11	3.55
b) Net profit	2.64	4.57	2.58	3.07	3.32
c) Dividend paid on each share (not including tax credit)	1.18	1.38	1.44	1.50	1.80 (2)
IV. Personnel					
a) Number of employees	5,793	5,862	5,848	5,855	5,957
b) Total salaries	345.4	370.3	381.1	403.8	426.7
c) Amount paid for welfare benefits (social security, provident schemes, etc)	142.3	158.7	159.3	172.8	182.5

(1) The share capital comprises 600,992,585 shares with a par value of €0.2, following the cancellation of 500,000 shares of treasury stock held by the Company as of April 27th, 2010 and the subscription of 2,520,175 shares of treasury stock by means of exercise of stock options.
(2) The dividend will be proposed to the Annual General Meeting of April 22nd, 2011.

3 2010 Report of the Chairman of the Board of Directors of L'Oréal

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

3.1. Summary of the principles

3.1.1. The French Commercial Code

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

"The Chairman of the Board of Directors gives an account, in a Report attached to the Report mentioned in Articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26, of the Board's composition and 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."

In accordance with paragraph 9 of Article L. 255-37 of the French Commercial Code, it is specified that the information provided for in Article L. 225-100-3 also of the French Commercial Code is published in the Management Report.

Pursuant to this same Article, the Board of Directors of L'Oréal approved this report at its meeting of February 10th 2011.

3.1.2. AFEP-MEDEF Code

The Board of Directors considers that the recommendations of the AFEP-MEDEF Code of Corporate Governance for listed companies of December 2008 fall within the Company's approach to corporate governance. Accordingly, this is the code referred to by the Company to prepare this Report of the Chairman, approved by the Board at its meeting on Thursday February 10th, 2011.

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

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

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

3.2.1. Method of general management chosen

Sir Lindsay Owen-Jones informed the Appointments and Governance Committee, at its meeting on February 9th, 2011, and then the Board of Directors, at its meeting on February 10th, 2011, that he wished to complete the transfer of responsibilities to his successor before his 65th birthday on March 17th 2011, as planned from the outset and announced at the Annual General Meeting in 2005.

The Board of Directors recorded this proposition, and took the view that the environment was indeed once again favourable for the reunification of the roles of Chairman of the Board of Directors and Chief Executive Officer. On the proposal of the Appointments and Governance Committee, the Board of Directors voted unanimously and with acclamation in favour of appointing Mr Jean-Paul Agon as Chairman and CEO of L'Oréal.

3.2.2. Independence of Directors

At the end of 2010, the Board of L'Oréal reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria provided for in the AFEP-MEDEF Code.

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

L'Oréal's directors come from different backgrounds. They complement one another due to their different professional experience and their skills; 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. 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 Review Committees.

The Board of Directors of L'Oréal comprises 14 members, including 3 female members: the Chairman and the Chief Executive Officer, six directors appointed from the majority shareholders, three of whom are appointed from Mrs. Bettencourt's family group and three from Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent directors: 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.

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

3.2.3. Members of the Board of Directors

3.2.3.1. Staggering of renewal of terms of office

The Annual General Meeting of April 2010 renewed the tenure of six directors for a term of one year, two years or three years. These terms are in line with the Company's Articles of Association. In this respect, the Board of Directors wanted to apply the AFEP-MEDEF Code of Corporate Governance of December 2008 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"*. To avoid renewing the terms of office of too many directors at the same Annual General Meeting of L'Oréal, it was thus decided to vary the length of the terms of office to make it possible to find a harmonious pace of renewals. This possibility to provide for terms of office that are equal or less than four years is provided for in the Company's Articles of Association, amended for this purpose in a resolution adopted by the Annual General Meeting in April 2009. The terms of office of two directors, Mr. Francisco Castañer Basco and Mr. Charles Henri Filippi, who had volunteered, were renewed in 2010, for a period of two years and one year respectively. In 2011, it is proposed that the tenure of Mr. Filippi be renewed for a period of four years.

3.2.3.2. Renewal of the tenure as director of Sir Lindsay Owen-Jones in 2010

Sir Lindsay Owen-Jones is a British national and joined L'Oréal in 1969.He began his career in France then successively held the positions of Chief Executive Officer of L'Oréal's Italian subsidiary from 1978 to 1981 and President (CEO) of L'Oréal USA from 1981 to 1984. He was appointed as Director and Chief Executive Officer of L'Oréal in 1984 and then Chairman and Chief Executive Officer in 1988. Since April 25th 2006, he has been the non-executive Chairman of the Group.

Sir Lindsay Owen-Jones is also Chairman of the Fondation d'Entreprise L'Oréal and a Director of Sanofi-Aventis and Ferrari (Italy).

The 2010 Annual General Meeting renewed the tenure as director of Sir Lindsay Owen-Jones for a term of four years. This term of office will end at the close of the Annual General Meeting to be held in 2014 to approve the financial statements for the previous financial year.

3.2.3.3. Renewal of the tenure as director of Mr. Jean-Paul Agon in 2010

Jean-Paul Agon joined L'Oréal in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Managing Director of the Asia Zone, President and CEO of L'Oréal USA, Jean-Paul Agon was appointed as Deputy Chief Executive Officer of L'Oréal in 2005 and then Chief Executive Officer in April 2006. A Director of L'Oréal since 2006, he is also a Director of the Fondation d'Entreprise L'Oréal. He was appointed as a director of Air Liquide in 2010.

The 2010 Annual General Meeting renewed the tenure as director of Jean-Paul Agon for a term of four years. This term of office will end at the close of the Annual General Meeting to be held in 2014 to approve the financial statements for the previous financial year.

3.2.3.4. Renewal of the tenure as director of Mr. Francisco Castañer Basco in 2010

Francisco Castañer Basco is a Spanish national. With the Nestlé group from 1964 to 2009, he was appointed General Manager in 1997. A Director of L'Oréal since 1998, his tenure was renewed in 2006. He is also a Director and Vice-Chairman of Alcon (Switzerland). He has a very wide variety of skills and, as an Audit Committee member since 1999, his advice is always extremely useful; he is a Director who is very present.

The 2010 Annual General Meeting renewed the tenure as director of Francisco Castañer Basco for a term of two years. This term of office will end at the close of the Annual General Meeting to be held in 2012 to approve the financial statements for the previous financial year.

3.2.3.5. Renewal of the tenure as director of Mr. Charles Henri Filippi in 2010

Charles Henri Filippi was from 1979 to 1987 in French government service, then from 1987 to 2008 with CCF, which became HSBC France in 2000. He was appointed Chief Executive Officer of CCF in 1995, member of the Executive Committee of HSBC from 2001 to 2004, Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Chairman of Octagones, Alfina and Citigroup for France (since January 2011), 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 Nexity. He is an available, skilled, independent Director, free of interests. Chairman of L'Oréal's Audit Committee, he harmoniously completes the Board's expertise in the financial field.

The 2010 Annual General Meeting renewed the tenure as director of Charles Henri Filippi for a term of one year. This term of office will end at the close of the Annual General Meeting to be held in 2011 to approve the financial statements for the previous financial year.

3.2.3.6. Renewal of the tenure as director of Mr. Xavier Fontanet in 2010

Xavier Fontanet was appointed as Chief Operating Officer of Essilor in 1991, then Vice-Chairman and Chief Operating Officer in 1995 and Chairman and Chief Executive Officer in 1996; he has been Chairman of the Board of Directors since January 1st 2010. Essilor is a remarkable success, in countries where L'Oréal is also present and this represents an opportunity for very useful exchanges of views on the Board of L'Oréal. Xavier Fontanet has been a Director of L'Oréal since 2002, his term of office was renewed in 2006, and he is also a Director of Crédit Agricole S.A. and the Fonds Stratégique d'Investissement (FSI).

The 2010 Annual General Meeting renewed the tenure as director of Xavier Fontanet for a term of four years. This term of office will end at the close of the Annual General Meeting to be held in 2014 to approve the financial statements for the previous financial year.

3.2.3.7. Renewal of the tenure as director of Mr. Marc Ladreit de Lacharrière in 2010

Marc Ladreit de Lacharrière is a member of the Institut de France. He worked at L'Oréal from 1976 to 1991 and is former Vice-President in Charge of Administration and Finance, and former Deputy Chief Executive Officer Group Executive Vice-President from 1984 to 1991. He is the Chairman and Chief Executive Officer of Fimalac, Chairman of Fitch (USA) and has been a Director of L'Oréal since 1984; his term of office was renewed in 2006. Marc Ladreit de Lacharrière is also a Director of the Fondation d'Entreprise L'Oréal, Renault and Casino. In addition to his success in a large number of fields, he is a free spirit who contributes a lot to the Board's debates, with an independent view of L'Oréal.

The 2010 Annual General Meeting renewed the tenure as director of Marc Ladreit de Lacharrière for a term of four years. This term of office will end at the close of the Annual General Meeting to be held in 2014 to approve the financial statements for the previous financial year.

3.2.3.8. Presentation of all the directors

A detailed list of the offices and directorships held in any company, in 2010 and during the last five years, by each of the corporate officers and directors, is set out hereafter:

3.3. Corporate officers and directors

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

Sir Lindsay Owen-Jones		Expiry date of term of office
Director since 1984 Chairman of the Board Chairman of the Strategy and Sustainable Development Committee Professional address: L'Oréal - 41 rue Martre – 92117 Clichy cedex – France Holds 3,029,005 L'Oréal shares		2014
Other corporate offices and directorships held		
French companies		
Alba Plus SASU	Chairman	
Sanofi-Aventis S.A	Director	
Foreign companies		
Ferrari S.p.A. (Italy)	Director (*Amministratore*)	
L'Oréal U.K. Ltd (United Kingdom)	*Chairman & Director*	
L'Oréal USA Inc. (United States)	*Chairman & Director*	
Other		
Fondation d'Entreprise L'Oréal	Chairman of the Board Director	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
L'Air Liquide S.A.	Vice-Chairman of the Supervisory Board Vice-Chairman of the Board of Directors	May 2006 May 2009
L'Oréal S.A.	Chief Executive Officer	April 2006
Foreign company		
Galderma Pharma (Switzerland)	Director	May 2006

Jean-Paul Agon		Expiry date of term of office
Director since 2006 Chief Executive Officer Professional address: L'Oréal - 41 rue Martre – 92117 Clichy cedex – France Holds 11,500 L'Oréal shares		2014
Other corporate offices and directorships held		
French company		
L'Air Liquide S.A.	Director (since May 5th 2010)	
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Chairman of the Board (since April 9th 2010) Director	
L'Oréal USA Inc. (United States)	Director	
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director	
Other		
Fondation d'Entreprise L'Oréal	Director	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
L'Oréal S.A.	Deputy Chief Executive Officer	April 2006
Foreign company		
Galderma Pharma S.A. (Switzerland)	Chairman of the Board	May 2008

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

Peter Brabeck-Letmathe		Expiry date of term of office
Director since 1997 Vice-Chairman of the Board of Directors Member of the Strategy and Sustainable Development Committee Member of the Appointments and Governance Committee and the Human Resources and Remuneration Committee Holds 27,500 L'Oréal shares		2013
Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé 55 CH 1800 Vevey - Switzerland	Chairman of the Board	
Other corporate office and directorships held		
Foreign companies		
Credit Suisse Group (Switzerland)	Vice-Chairman of the Board Director	
Delta Topco Limited (Jersey)	Director	
Uprona (Canada) Ltd (Canada)	Director and Chairman	
Exxon Mobil (United States)	Director (since May 26th 2010)	
Nestlé Health Science S.A. in Lutry (Switzerland)	Director and Chairman of the Board (since December 2nd 2010)	
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 companies		
Alcon, Inc (Switzerland)	Vice-Chairman of the Board	May 2006
Dreyer's Grand Ice Cream Holdings, Inc (United States)	Vice-Chairman of the Board	March 2006
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

Liliane Bettencourt		Expiry date of term of office
Director since 1995 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 and185,654,833 L'Oréal shares held in absolute ownership or beneficial ownership by Téthys, a company of which Mrs. Bettencourt is the Chairwoman and of which she holds almost all the shares and attached voting rights in beneficial ownership		2011
Other corporate offices and directorships held		
French companies		
Clymene SAS	Chairwoman	
Eugène Schueller SARL	Managing Director	
Téthys SAS	Chairwoman Chairwoman of the Supervisory Board Chairwoman of the Strategy Committee	
Other		
Fondation Bettencourt Schueller	Chairwoman	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Gespral S.A.	Chairwoman of the Board	July 2007

Françoise Bettencourt Meyers		Expiry date of term of office
Director since 1997 Professional address: Téthys - 27-29 rue des Poissonniers – 92200 Neuilly sur Seine – France Holds 283 L'Oréal shares in absolute ownership and 76,441,389 shares in bare ownership		2013
Other corporate offices and directorships held		
French companies		
Société Immobilière Sebor SAS	Chairwoman	
Téthys SAS	Member of the Supervisory Board	
Other		
Fondation Bettencourt Schueller	Director	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Gespral SA	Director	July 2007

Werner J. Bauer		Expiry date of term of office
Director since 2005 Holds 2,165 L'Oréal shares		2012
Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland) Professional address: Avenue Nestlé 55 CH 1800 Vevey - Switzerland	Executive Vice-President	
Other corporate offices and directorships held		
Foreign companies		
Life Ventures S.A. (Switzerland)	Director Chairman of the Board	
Nestlé Deutschland AG (Germany)	Member of the Supervisory Board Chairman of the Supervisory Board	
Nutrition-Wellness Venture AG (Switzerland)	Director Chairman of the Board	
Sofinol S.A. (Switzerland)	Director Chairman	
Uprona Ltd. (Canada)	Director	
Nestlé Institute of Health Sciences S.A (Ecublens, Switzerland)	Director and Chairman of the Board (since December 1st 2010)	
Nestlé Health Science S.A. (Lutry, Switzerland)	Director (since December 2nd 2010)	
Other		
Cereal Partners Worldwide (Switzerland)	Member of the Supervisory Board	
Bertelsmann Foundation (Germany)	Member of the Board of Trustees	
Bertelsmann Verwaltungs-Gesselschaft (BVG)	Member	
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

Francisco Castañer Basco		Expiry date of term of office
Director since 1998 Member of the Audit Committee Member of the Strategy and Sustainable Development Committee Holds 3,500 L'Oréal shares		2012
Main corporate office held outside L'Oréal		
Offices held as representative of Nestlé S.A. Professional address: Avenue Nestlé 55 CH 1800 Vevey - Switzerland		
Other corporate offices and directorships held		
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Director	
Nestlé España	Director and Chairman of the Board	
Uprona Ltd. (Canada)	Director	
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
Nestlé S.A. (Switzerland)	Executive Vice-President	December 2009
Galderma Pharma S.A. (Switzerland)	Chairman of the Board	April 2010

Charles-Henri Filippi		Expiry date of term of office
Chairman of the Audit Committee Director since 2007 Holds 1,000 L'Oréal shares		**2011**
Main corporate office held outside L'Oréal		
Octagones (parent company) and Alfina (subsidiary) Professional address: 20, rue Quentin-Bauchart 75008 Paris – France	Chairman	
Other corporate offices and directorships held		
French companies		
Euris	Member of the Supervisory Board	
France Telecom	Director	
Nexity	Observer	
Piasa S.A.	Director	
Citigroup for France	Chairman (since January 1st 2011)	
Other		
ADIE (Association pour le Droit à l'Initiative Economique)	Director (since March 23rd 2010)	
Centre National d'Art et de Culture Georges Pompidou	Director	
Association des Amis de l'Opéra Comique	Chairman	
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
HSBC Asset Management Holding	Director	June 2006
HSBC France	Chief Executive Officer Chairman of the Board	September 2007 December 2008
HSBC Private Bank France	Chairman of the Supervisory Board	June 2007
CVC Capital Partners ("CVC")	*Senior Advisor*	December 2010
Foreign companies		
HSBC Bank plc (United Kingdom)	Director	December 2008
HSBC Private Banking Holdings (Suisse) S.A.	Director	
HSBC Holdings plc (United Kingdom)	Group Managing Director Member of Group Management Board	September 2007
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
Director since 2002 Holds 1,050 L'Oréal shares		2014
Main corporate office held outside L'Oréal		
Essilor International S.A. Professional address: 147, rue de Paris 94227 Charenton Cedex – France	Chairman of the Board of Directors	
Other corporate offices and directorships held		
French companies		
Crédit Agricole S.A.	Director	
Fonds Stratégiques d'Investissement S.A.	Director	
Foreign companies		
Essilor Amico (L.L.C) (United Arab Emirates)	Director	
Nikon Essilor Co. Ltd (Japan)	Director	
Nikon and Essilor International Joint Research Center Co Ltd	Chairman and Director (since February 9th 2009)	
Other		
Association Nationale des Sociétés par Actions	Permanent representative of Essilor International and Director on the Board of Directors (since June 18th 2010)	
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
Foreign companies		
Essilor of America Inc. (United States)	Director	March 2010
Transitions Optical Inc. (United States)	Director	May 2010
EOA Holding Co. Inc. (United States)	Chairman Director	October 2010
Shanghai Essilor Optical Company Ltd (China)	Director	April 2010
Transitions Optical Holding B.V. (Netherlands)	Director	May 2010
Essilor Manufacturing India PVT Ltd (India)	Director	June 2010
Essilor India PVT Ltd (India)	Director	June 2010

Bernard Kasriel		Expiry date of term of office
Director since 2004 Member of the Strategy and Sustainable Development Committee Chairman of the Appointments and Governance Committee and the Human Resources and Remuneration Committee Holds 1,525 L'Oréal shares		2012
Main corporate office held outside L'Oréal		
LBO France Professional address: 148, rue de l'Université 75007 Paris – France	Partner	
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
Foreign companies		
Blue Circle North America (United States)	Director	December 2006
Lafarge North America (United States)	Director	November 2006
Lafarge Roofing GmbH (Germany)	Aufsichtsratsvorsitzender (Member of the Supervisory Board)	July 2006
Sabelfi (Belgium)	Director	May 2006
Sonoco Products Company (United States)	Director	February 2007

Marc Ladreit de Lacharrière Director since 1984 Holds 40,040 L'Oréal shares		Expiry date of term of office 2014
Main corporate office held outside L'Oréal		
F. Marc de Lacharrière (Fimalac) Professional address: 97, rue de Lille – 75007 Paris – France	Chairman and Chief Executive Officer	
Other corporate offices and directorships held		
French companies		
Agence France Museums	Chairman of the Board	
Casino	Director	
Fimalac Participations	Managing Director	
Gilbert Coullier Productions SAS	Director	
Groupe Marc de Lacharrière	Chairman of the Management Board	
Renault S.A.	Director	
Renault SAS	Director	
Foreign companies		
Fitch Group (United States)	Chairman	
Fitch (United States) Ratings	Chairman	
Other		
Comité National des Conseillers du Commerce Extérieur de la France	Honorary Chairman	
Conseil Artistique des Musées Nationaux	Member	
Fondation d'Entreprise Culture et Diversité	Member	
Fondation Bettencourt Schueller	Member	
Fondation d'Entreprise L'Oréal	Director	
Fondation des Sciences Politiques	Member	
Institut de France	Member	
Musée des Arts Décoratifs	Member	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Groupe Marc de Lacharrière	Managing Director	December 2006
Foreign companies		
Algorithmics (Canada)	Director	2009
Fitch Group Holdings (United States)	Chairman	2006
Other		
Banque de France	Member of the Consultative Council	2008

Annette Roux Director since 2007 Holds 1,000 L'Oréal shares		Expiry date of term of office 2011
Main corporate office held outside L'Oréal		
Bénéteau S.A. (1) (3) Professional address: Les Embruns 16, boulevard de la Mer – 85800 Saint-Gilles-Croix-de-Vie France	Vice-Chairperson of the Supervisory Board	
Other corporate offices and directorships held		
French companies		
Beri 21 S.A.	Chairperson of the Supervisory Board	
Construction Navale Bordeaux S.A.S (since May 12th 2010 – ex S.A.)(3)	Director	
O'Hara S.A. (3)	Director	
SPBI S.A. (since January 19th 2010 – ex SAS) (2) (3)	Director	
Foreign company		
Bénéteau España (3)	Director	

Other		
Fondation d'Entreprise Bénéteau	Chairperson	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Caisse Régionale de Crédit Maritime Mutuel de Vendée "La Vendéenne" SC	Director	December 2006
Beri 3000 S.A.	Chairperson and Chief Executive Officer	August 2010
Other		
Fédération des Industries Nautiques	Chairperson	March 2009

(1) Company listed on compartment B of Eurolist.
(2) Chantiers Bénéteau S.A. and Chantiers Jeanneau S.A. were merged into SPBI SAS on January 31st 2009.
(3) Companies controlled by Beri 21 S.A.

Louis Schweitzer		**Expiry date of term of office**
Director since 2005 **Professional address: Renault - Bât. Pierre Dreyfus - 8-10 avenue Emile Zola** **92109 Boulogne-Billancourt Cedex – France** **Holds 2,000 L'Oréal shares**		**2013**
Other corporate offices and directorships held		
French companies		
BNP Paribas	Director	
Veolia Environnement	Director Vice-Chairman of the Board (since November 27th 2009)	
Foreign companies		
AB Volvo (Sweden)	Chairman of the Board (since January 15th 2010)	
Allianz AG (Germany)	Member of the Consultative Council	
AstraZeneca (United Kingdom)	Director Chairman of the Board	
Other		
Comité des Salons	Chairman	
Festival d'Avignon	Chairman	
Fondation Nationale des Sciences Politiques	Member of the Board	
Institut Français des Relations Internationales	Member of the Board	
Musée du Quai Branly	Director	
Société des Amis du Musée du Quai Branly	Chairman	
Maison de la Culture MC93	Chairman (since February 25th 2008)	
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
Renault	Chairman of the Board	April 2009
Le Monde (Impa, Imsa, sem)	Chairman of the Supervisory Board	December 2010
Foreign companies		
Philips (Netherlands)	Vice-Chairman of the Supervisory Board	April 2008
Other		
Banque de France	Member of the Consultative Council	
Le Cercle de l'Orchestre de Paris	Chairman of the Board	June 2008
Musée du Louvre	Member of the Board	May 2008

3

Other information required 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)

Point 3.2.2. of the Report of the Chairman (on page 111) reviews the situation of each of the directors with regard to the independence criteria provided for in the AFEP-MEDEF Code. The method of organisation and *modus operandi* adopted by the Board would allow it, where applicable, to prevent any wrongful exercise of control by a shareholder, in particular due to the presence of six independent directors on the Board of Directors. See also point 2.6.8. of the Management Report (page 90) which concerns agreements relating to shares in the Company's share capital.

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

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

3.4. Information on Board Meetings: best practices

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

A Strategy and Sustainable Development Committee and a Human Resources and Remuneration Committee

The importance of the roles entrusted to the Board Committees led the Board to clarify the extent of their tasks at the end of 2010 by completing the name of two of such Committees and the Internal Rules were updated according. The Board's work is described in detail below and on pages 124 *et seq.*

The Strategy and Sustainable Development Committee

In relation with the strategic orientations that it studies and approves, the Board supplements its role by ensuring 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. The Committee's work is described below.

The Human Resources and Remuneration Committee

The Committee's role is 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.

A responsible Board of Directors

The Board took cognizance of the latest 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.

Furthermore, the Board noted that the legal and regulatory provisions with regard to the prevention of potential conflicts of interest in the decisions it makes are properly complied with and applied. No potential conflict of interest has been identified, and in accordance with the European Regulation, a chapter is devoted to this issue in this report, after the presentation of the directors, on page 122.

Assiduous attendance at meetings by Directors

In 2010, the Board held 5 meetings, with an average attendance rate of 98.5%.

Allocation of the attendance fees, which is made on the basis of attendance at Board Meetings and presence on the various Board Committees, is described in the chapter in the Management Report on the remuneration of the corporate officers, on pages 81 *et seq.*

Work focused on business activities and strategy

In 2010, 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.

Board Committees that are committed to their roles

Furthermore, the Board considered that the way Board Committees function is satisfactory and the preparatory work increasingly substantial and more and more detailed.

New topics are examined by the Committees, in particular in the field of risk management and control for the Audit Committee. A description of the main work by each Committee is set out below; it makes it possible to identify the main subjects subsequently addressed at Board Meetings.

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

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 judgement in 2010. This freedom of judgement 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. It takes a more wide-ranging look at strategy in accordance with the wishes of directors who feel that they have a better knowledge of businesses, markets and competition. The Board regularly assesses the various strategic challenges faced by the Group and takes the necessary decisions.

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

In 2010, the Board considered that it received regular information on the Group's activities; at the end of the year, the directors expressed new wishes in this respect and made proposals of topics to be put on the agenda for their meetings in 2011.

The Board, in conjunction with General Management, has contributed to setting up a Stock Market Code of Ethics within the Group. On the basis of the legal provisions, regulations and recommendations, this code points out that confidential information must only be passed on and used for professional purposes. Confidential information is precise information of a non-public nature, which, if made public, could have a significant influence on the share price. Such confidential information may, in particular, fall into one of three main categories: strategic, linked to the definition and application of the Group's growth strategy; recurring, linked to the annual schedule for production and publication of annual and interim financial statements, regular releases or periodic meetings 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 confidential information must proceed with the greatest caution when trading in or enabling others to trade in L'Oréal shares, and emphasises that any misconduct in this area may result in criminal proceedings. The Internal Rules of the Board point out specifically that a director, who has permanent insider status, is requested to refrain from trading in L'Oréal shares in certain periods and when he has access to confidential information, as a result of his particular functions.

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

3.4.2. Summary of trading by the corporate officers in L'Oréal shares in 2010

See the Management Report, page 86.

3.4.3. The Internal Rules of the Board of Directors

The Board conducts its work in accordance with Internal Rules (published in section 3.6. on pages 134 *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.

These Rules were initially updated in 2006, when the Board decided to separate the roles of Chairman and Chief Executive Officer, in the context of which it appeared appropriate to specify the duties and roles of each of them.

The Internal Rules were again updated in 2008, notably after the split-up of the Management and Remuneration Committee and the creation by the Board of two new review committees: the Remuneration Committee and the Appointments Committee.

The Internal Rules were also amended at the end of 2009 to incorporate the new recommendations made by the AFEP-MEDEF Code of Corporate Governance for listed companies of December 2008, particularly with regard to the *modus operandi* of the Board Committees, and also the provisions of the 8th European Directive on statutory audits of accounts and the Audit Committee.

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 share during certain specific periods.

See the full text of the Internal Rules, on pages 134 *et seq.*

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

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

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

3.4.5. Committees of the Board of Directors that actively prepare for its meetings and for the decisions to be made by it

The Board's discussions and decisions are assisted by the preparatory work performed by its Review Committees, which report to it after each of their meetings. The Committees were again given responsibility by the Board for preparing its deliberations in 2010. The membership of these Committees is set out in the introduction to the Reference Document (Volume 1, page 11); their remits are set out in the Internal Rules of the Board of Directors, and their work in 2010 is described in detail in this report.

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.

3.4.5.1. 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 in progress. It ensures that the main financial balances are preserved. Within this framework, the Committee reviews the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences, acquisition opportunities, and financial transactions liable to significantly change the balance sheet structure. The Committee 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.

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

The Strategy and Sustainable Development Committee met four times in 2010. Besides an ongoing, attentive review of the business activities of L'Oréal and an analysis of the market context and competitors, the Committee monitored the changes in economic conditions on the exit from the financial crisis after placing on record in 2009 the strategic decisions taken at a very early stage to deal with a delicate economic climate. It also noted the economic uncertainties that continued to exist throughout the world. Furthermore, the Committee also studied proposed acquisitions.

The Committee reported to the Board on all its work.

3.4.5.2. 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.

Three directors are members of the Committee: Mr. Charles-Henri Filippi, an independent director who has recognised financial expertise and who has been the Chairman of the Committee since April 2008, Mr. Jean-Pierre Meyers and Mr. Francisco Castañer Basco, both of whom have been members of the Committee since it was created in 1999. In eleven years' practice, the two latter directors have acquired good knowledge of the Group's accounting and financial procedures. These three directors participate actively in Committee meetings, with complete freedom of judgement and in the interest of all the shareholders.

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

The Audit Committee met five times in 2010. The necessary accounting and financial documents, particularly within the scope of the closing of the annual financial statements and the review of the interim financial statements, were provided to it prior to the meetings concerned.

In 2010, the Committee interviewed the Vice-President of the Administration and Finance Division, the Executive Vice-President Research & Innovation, the Chief Operating Officer, the Director of Economic Affairs, the Head of the Legal Department, the Director of the Internal Control Department, the Director of Internal Audit and the Director of Organisation and Information Systems.

The Statutory Auditors attend the Committee's meetings.

The Committee considered that the work by the Internal Audit Department and the Internal Control process put in place, which it reviewed on several occasions particularly with regard to the risk aspects, are continuing to improve in quality.

At the time of the closing of the annual and interim financial statements, the Committee analysed in detail the changes in the main items of the profit and loss account and balance sheet.

After reviewing the AMF's Report on the functioning of audit committees within the framework of the application of the 8th Directive on statutory audits of accounts, the Committee noted that its work is carried out in accordance with the AMF's recommendations.

In 2010, the Committee examined for the first time the conditions of the management of industrial and environmental risks and those relating to quality and safety in the design of the Company's products. It noted that the systems and processes that are in place, which are based on a sound methodology, are complete and satisfactory.

Finally, 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.

At the end of the year, the Committee met with the Statutory Auditors outside the presence of management. At the beginning of year, the Committee had finalised, according to a formal evaluation process, the interviews with the Statutory Auditors that had begun in 2009 in relation with the renewal of their term of office by the Annual General Meeting in 2010.

The Committee reported to the Board on all its work.

3.4.5.3. 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 corporate 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 corporate 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 decision with regard to the updating of its Internal Rules.

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

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

The Appointments and Governance Committee met three times in 2010. At a time when their tenure as director was submitted for renewal, the Committee reviewed the conditions for separating the duties of Chairman of the Board of Directors and those of Chief Executive Officer. Considering that this situation gives satisfaction in light of the economic environment, the Committee proposed to the Board that this separation of duties should be continued, and the Board discussed this issue.

Furthermore, the Committee proposed to the Board to review the situation of each of the directors on a case-by-case basis with regard to their independence according to the criteria set out in the AFEP-MEDEF Code. In the 2010 Reference Document, the independent directors clearly qualify for such status, in light of the criteria adopted by the Board.

The Committee also confirmed its desire to find a harmonious pace of renewals of tenures of directors and made proposals to the Board in this respect in relation with the Annual General Meeting in April 2010.

Finally, the Committee looked at the changes in the Executive Committee and the talent pool for future appointments and gave its opinion on a potential succession plan.

The Committee reported to the Board on all its work.

3.4.5.4. 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.

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

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

The Human Resources and Remuneration Committee met four times in 2010. In connection with the proposal made to renew the term of office of the Chief Executive Officer, the Committee proposed to the Board of Directors, and the Board accepted, to maintain the suspension of his employment contract and the related consequences.

After the closing of the accounts, the Committee made proposals to the Board of Directors with regard to the remuneration of the corporate officers and with regard to the implementation of a stock option plan and a plan for the conditional grant of shares to employees for a large number of people. The Board accepted the Committee's proposals, particularly with regard to the performance conditions to be met by the Chief Executive Officer (who must also retain part of the shares resulting from the stock options he exercises) and the Executive Committee members.

The Committee also looked at the question of the allocation of attendance fees and whether it would be appropriate to make a change in the policy for allocating such fees.

The Committee reported to the Board on all its work.

3.4.6. Remuneration of the corporate officers

The principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers are set out in full in the Management Report of the Board of Directors, pages 81 *et seq.*:

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

The stock options and free grant of shares are dealt with in full in the Management Report, pages 84 *et seq.*

- **Authorisation granted to the Board of Directors in 2009 to grant share purchase and/or subscription options.**
- **Currently existing L'Oréal Parent Company share purchase or subscription option plans.**

- Stock options granted to employees other than corporate officers of L'Oréal or exercised by them.
- Stock options exercised by the corporate officers appointed by the Board.
- Stock options granted to the corporate officers appointed by the Board.
- Authorisation granted to the Board of Directors in 2009 to make free grants of shares.
- Free grant of shares to employees.

3.4.7. Financial rating

The L'Oréal Group is rated by the credit rating agencies Standard & Poor's, Moody's and Fitch Ratings, which respectively gave it the following short-term credit ratings: A1+ (Standard & Poor's – November 2010), Prime 1 (Moody's – July 2010) and F1+ (Fitch ratings – July 2010). These ratings are unchanged as compared with 2009.

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

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

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

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

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

3.5.1. Definition and objectives of Internal Control

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

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

By contributing to preventing and managing the risks to which the Group is exposed, the Internal Control system enables the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's businesses. However, no absolute guarantee can be given that these objectives will be met.

3.5.2. Components of the system

3.5.2.1. The Internal Control organisation and environment

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

The Group's values

L'Oréal has built up its business on the basis of strong values that have guided its development and contributed to establishing its reputation: integrity, loyalty, confidence and transparency, together with respect for the individual and diversity.

L'Oréal's Code of Business Ethics exists in 43 different languages. 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. 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 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 Chief Executive Officer questions with regard to ethics directly. They moreover are now able to contact the Director of Ethics through the L'Oreal Open Talk site which offers a secure information reporting mechanism.

The network of Ethics Correspondents; whose role is in particular to assist the Country Heads to ensure compliance with the Code of Business Ethics is continuing to expand and now amounts to 93% of the employees in the world with 17 new appointments in 2010.

The ethics training campaign is continuing. A training module on ethics is now included in the seminar attended by all newly hired executives. Ethics modules have been incorporated into the 9 existing training programmes intended in particular for Country Heads, Factory Managers, Purchasers, Recruiters and other categories of senior management.

A practical tool for ethical risk assessment and analysis has been made available to the Group's entities. It is rolled out to Country Heads.

Responsibilities

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 approved 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.

The Supply Chain Department, which is part of the Operations Division, continued to put in place organisations and processes aimed at managing product and information flows. The implementation of tools, dashboards and leadership initiatives has been strengthened in each geographic Zone.

The reorganisation and pooling of all categories of purchases within the Operations Division since 2008 were carried out as the result of a strong willingness to reinforce our relationships with suppliers and increase compliance with our purchasing conditions in order to gain better command over the entire purchasing processes.

Human Resources policy

The quality and skills of male and female employees are key components of the Internal Control system. Human Resources policy within L'Oréal is defined by the constant search for excellence in recruitment and by the development of talent within the Group, so as to ensure that it has the required level of skills in all areas. These activities also form part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation. Management Development Centres offer technical training and personal development programmes, including helping employees with integration or management; such programs are tailored to different job profiles and aimed at providing mastery of different skills in all areas of activity.

Information systems

Strategic choices in terms of systems are determined by the Administration and Finance Division, which is responsible in particular for implementation of a single ERP (Enterprise Resource Planning), management software application for the great majority of commercial subsidiaries, and which issues instructions regarding system 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 onboard all these principles and standards, the key points have been summarised in the "Fundamentals of Internal Control".

This guide is a reference framework for the Group's operational activities, and is presented in the form of an information sheet for each area. Each information sheet refers to the detailed Charters, Codes and standards of the Group. The information sheets 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.

3.5.2.2. Communication of information inside the Group

Sharing of information

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

The other means of internal communication

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.

3.5.2.3. Risk management

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity. These risks have been identified in the chapter on *Risk factors* on pages 75 *et seq.* of the Management Report and the systems put in place to better anticipate and handle risks are mentioned. In addition, the Internal Rules of the Board of Directors specify the role played by the Audit Committee which "must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its routine and exceptional operations".

An analysis of the main accounting and financial risks in relation to subsidiaries' processes has made it possible to identify the improvements required in terms of Internal Control. These topics were assigned to a Working Group with responsibility for updating Group standards in the above fields (see *Management standards* in paragraph 3.5.4.2. hereafter).

Risk mapping

A risk mapping project concerning all L'Oréal's activities was initiated in 2010. This process of identification and analysis of the significant risks will enhance the knowledge of the Group's risks by formalising and consolidating the work already achieved to date.

3.5.2.4. Control activities

The measures recommended by the Group

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

- In the area of Human Resources, the requirements 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 legal area, the Legal Charter reaffirms the obligation to comply with local legislation and notably sets out the internal principles for signature on behalf of the Company, the general and specific rules relating to contracts, trademark law, intellectual property law, Company law and competition law. The Insurance Charter issues a reminder that the Group mainly uses integrated worldwide programmes to cover all its entities against third party liability, damage to property and operating losses resulting from an insured event.
- In the Insurance field, the Group's choice is to only have recourse to first-rate insurers. 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 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 for their safety policy.
- In the area of purchasing, the Purchasing Code of Ethics provides guidelines for the behaviour to be followed with regard to the management of suppliers. The standard for "Management of suppliers" and tender procedures specify the conditions for competitive tendering and for the registration of the main suppliers. The general terms of purchase are used as the framework for transactions

with suppliers. The "Purchase Commitments and Order Management" standard, which requires an approval prior to commitment, is aimed at facilitating and strengthening control of the spending and investments of Group entities.

- In the area of the Supply Chain, the main assignments consist in defining and applying the sales planning process, customer demand management, 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 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 123 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, financial control and information systems, the control activities are described in the paragraph relating to accounting and financial Internal Control (page 132).

3.5.2.5. Ongoing supervision of the Internal Control system

The supervision carried out by the Functional Divisions

Through their network of specialists or via regular audits, the Functional Divisions review the functioning of their respective areas of responsibility: in this way, the Purchasing Department is responsible for the oversight with regard to suppliers and their working conditions, the 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 44 assignments in 2010. These audits concerned 29 commercial entities representing approximately 31% of the Group's sales and 5 factories; the audited factories represent around 18% of the worldwide production in units. Furthermore, 10 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 5 such assignments in 2010.

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.

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.

3.5.3. 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 3.6.3.1 on page 136 of this document.

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

The Audit Committee's work with regard to accounting and financial information is described in paragraph 3.5.4.2 *Audit Committee* of this report.

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

The task of this department is to coordinate the work decided by the Internal Control Committee with the experts in each area. The updating of the standards mentioned in paragraphs 3.5.2.3 *Risk management* and 3.5.4.2 *Management standards* 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 3.5.2.5 above), 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 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

The Divisions 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.

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

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

3.5.4.1. Definition, scope and objectives

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

The Internal Control system with regard to accounting and financial aspects aims to ensure:

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

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

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

Organisation of the Finance Divisions

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

In the Administration and Finance Division, the preparation of the Group's consolidated results is the responsibility of the Economic Affairs Department. The presence 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 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 provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.

Management standards

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

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

Organisation and security of information systems

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

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

The Framework Security Policy in line with the ISO 27002 standard is formally laid down and distributed to all Group entities together with a methodology guide and a self-diagnosis tool. This policy is supplemented by a charter containing rules providing for the proper use of workstations.

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 for the entities.

The reporting and consolidation system, used by all entities, ensures the consistency and reliability of figures at the level of each subsidiary through blocking controls that operate before the financial data is uploaded to Group level. In this regard, the operating profit and loss account by destination, which is common to both management and general accounting, contributes to strengthening the control of accounts in the financial statements through the use of 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, 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 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 3.4.5. entitled *Committees of the Board of Directors that actively prepare for its meetings and for the decisions to be made by* it on page 124 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 on the Audit Committee published by the AMF on July 22nd 2010.

3.5.4.3. Processes used to prepare accounting and financial information

Operational processes contributing to accounting figures

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

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

Closing of the accounts, consolidation and Management Reporting information

The accounts closing process is governed by precise instructions and is based on a detailed time schedule circulated to all the subsidiaries to make sure that deadlines are met and the financial statements are prepared in a consistent manner. For the preparation of the consolidated financial statements, validation procedures apply to each stage of the process of reporting and processing information. 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;
- standards are correctly applied, in particular the rules for setting aside provisions for liabilities;
- the consolidated published accounting and financial data is harmonised and properly determined and 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 an audit at year-end, by the external auditors. Twice a year, the Managing Director and the Finance Director of each consolidated subsidiary make a joint commitment as to the quality, reliability and completeness of the financial information by jointly signing a representation letter.

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

The Chairman of the Board of Directors

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

Preamble

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

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

3.6.1. Duties and authority of the Board of Directors

3.6.1.1. Board of Directors

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

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

The Board of Directors 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.

3.6.1.2. Chairman of the Board of Directors

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

The Chairman of the Board of Directors organises and oversees the Board's work and reports thereon to the Shareholders' Annual General Meeting.

The Chairman is actively involved in defining the Company's growth strategy and encourages and strengthens, *inter alia*, links between the Company and the main market players.

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

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

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

3.6.1.3. Form of general management

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

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

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

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

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

3.6.1.4. Powers of general management

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

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

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

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

3.6.2. Modus operandi of the Board of Directors

3.6.2.1. Convening the Board

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

3.6.2.2. Informing directors

All the documents that are necessary to inform the directors about the agenda and about any questions submitted to the Board for review are enclosed with the notice convening the meeting or are sent or provided to them within a reasonable period of time, prior to the meeting.

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

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.

3.6.2.3. Board Meetings

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

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

3.6.2.4. Participation by videoconference or telecommunication facilities

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

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

- the closing of the Parent Company financial statements and the consolidated financial statements;
- the preparation of the Management Report, including the Group Management Report;
- the technical characteristics of the videoconference facilities must enable the uninterrupted broadcasting of the debates;
- before the deliberations begin, a check must be carried out to ensure the absence of all third parties, microphones and all other items that could compromise the confidential nature of the deliberations.

3.6.2.5. Minutes

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

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

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

3.6.3. Review Committees

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

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

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

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

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 3.6.1.4. of these rules.

3.6.3.1. Audit Committee

3.6.3.1.1. 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.

3.6.3.1.2. Work organisation

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

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

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

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

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

To carry out its mission, 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.

3.6.3.1.3. 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.

3.6.3.2. Appointments and Governance Committee

3.6.3.2.1. 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.

3.6.3.2.2. 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.

3.6.3.2.3. Activity report

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

3.6.3.3. The Human Resources and Remuneration Committee

3.6.3.3.1. 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.

3.6.3.3.2. 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.

3.6.3.3.3. Activity report

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

3.6.3.4. The Strategy and Sustainable Development Committee

3.6.3.4.1. 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.

3.6.3.4.2. 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.

3.6.3.4.3. Activity report

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

3.6.4. Rights and obligations of directors

3.6.4.1. Awareness of and compliance with regulatory texts

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

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

3.6.4.2. Respect for the interests of the Company

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

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

3.6.4.3. Obligation of diligence

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

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

Each Board member undertakes to be diligent:

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

3.6.4.4. Training of directors

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

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

3.6.4.5. Obligation of reserve and confidentiality

The directors undertake not to express themselves individually other than in the internal deliberations of the Board on questions raised at Board Meetings.

Outside the Company, only collegial expression is possible, particularly in the form of releases intended to provide the markets with information.

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

3.6.4.6. Rules governing insider trading

3.6.4.6.1. Principles

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

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

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

3.6.4.6.2. Periods of abstention

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.

3.6.4.6.3. Insider trading

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

3.6.4.6.4. Obligation of declaring trading in the securities of the Company

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

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

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

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

3.6.4.7. Holding of a minimum number of shares

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

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

3.6.5. Remuneration of the corporate officers

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

The attendance fees are divided between the directors as follows:

- an equal share allocated to each director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings;
- an additional share for Review Committee members, which amount is doubled for the Committee's Chairman.

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

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

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

3.6.7. Amendments to the internal rules

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

4 2010 Parent Company Financial Statements *

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

4.1. Compared profit and loss accounts

€ millions	Notes	12.31.2010	12.31.2009	12.31.2008
Operating revenue		**2,400.8**	**2,197.2**	**2,238.3**
Sales	2	2,231.0	2,051.1	2,115.2
Reversals of provisions and transfers of charges		35.4	24.4	20.9
Other revenue	3	134.4	121.7	102.2
Operating expenses		**-2,293.8**	**-2,102.8**	**-2,116.5**
Purchases and change in inventories		-185.6	-187.2	-218.3
Other purchases and external charges		-1,191.3	-1,085.3	-1,133.9
Taxes and similar payments		-96.3	-70.8	-75.7
Personnel costs	4	-609.1	-576.6	-540.4
Depreciation, amortisation and charges to provisions	5	-134.4	-106.3	-81.9
Other charges		-77.1	-76.6	-66.3
Operating profit		**107.0**	**94.4**	**121.8**
Net financial revenues	6	1,913.9	1,597.1	1,511.8
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	28.7	106.9	-225.5
Exchange gains and losses		-58.7	-8.0	9.2
Net financial income		**1,883.9**	**1,696.0**	**1,295.5**
Profit before tax and exceptional items		**1,990.9**	**1,790.4**	**1,417.3**
Exceptional items	**7**	**-79.0**	**-42.8**	**13.0**
Employee profit-sharing		-21.2	-20.7	-21.6
Income tax	8	104.6	114.9	143.4
Net profit		**1,995.3**	**1,841.8**	**1,552.1**

4.2. Compared balance sheets

Assets

€ millions	Notes	12.31.2010	12.31.2009	12.31.2008
(net amounts)				
Intangible assets	11	545.4	496.6	450.9
Tangible assets	12	278.8	251.9	242.3
Financial assets	14	8,814.9	8,872.8	9,197.3
Non-current assets		**9,639.1**	**9,621.3**	**9,890.5**
Inventories		34.7	26.7	32.3
Prepayments to suppliers		26.2	19.3	14.7
Trade accounts receivable	18	323.9	299.9	335.8
Other current assets	18	167.9	165.5	171.8
Marketable securities	16	861.0	1,053.0	983.0
Cash and cash equivalents		157.9	105.3	213.8
Current assets		**1,571.6**	**1,669.7**	**1,751.4**
Prepaid expenses		25.9	21.0	19.4
Unrealised exchange losses	22	9.8	12.6	8.0
Total assets		**11,246.3**	**11,324.6**	**11,669.3**

Shareholders' equity and liabilities

€ millions	Notes	12.31.2010	12.31.2009	12.31.2008
Share capital		120.2	119.8	120.5
Additional paid-in capital		1,148.3	996.5	965.5
Reserves and retained earnings		5,632.3	4,706.4	4,261.2
Net profit		1,995.3	1,841.8	1,552.1
Regulated provisions		66.5	60.2	53.8
Shareholders' equity		**8,962.6**	**7,724.7**	**6,953.1**
Provisions for liabilities and charges	**19**	**221.1**	**179.4**	**130.9**
Borrowings and debts	20	1,384.5	2,831.9	3,966.2
Trade accounts payable	21	379.6	330.9	334.7
Other current liabilities	21	292.5	251.7	270.3
Other liabilities		**2,056.6**	**3,414.5**	**4,571.2**
Unrealised exchange gains	22	6.0	6.0	14.1
Total shareholders' equity and liabilities		**11,246.3**	**11,324.6**	**11,669.3**

4.3. Changes in shareholders' equity

The share capital of €120,198,517 comprises 600,992,585 shares with a par value of €0.2 each following transactions carried out in 2010:

- cancellation of 500,000 treasury shares;
- subscription to 2,520,175 shares following the exercise of options.

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, 2007 before appropriation of net profit	**123.6**	**963.2**	**46.0**	**3,491.9**	**2,822.4**	**51.8**	**7,498.9**
Changes in share capital	-3.1	2.3	-0.6	-1,281.4			-1,282.8
Appropriation of 2007 net profit				2,005.3	-2,005.3		0.0
Dividends paid for 2007					-817.1		-817.1
2008 net profit					1,552.1		1,552.1
Other movements during the period						2.0	2.0
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**

Reserves include an amount of €20.1 million in 2010 corresponding to unpaid dividends on treasury shares, compared with €22.0 million in 2009 and €25.8 million in 2008.

Regulated provisions consist mainly of the provision for investments which amounted to €18.4 million at December 31st, 2010, compared with €16.2 million at December 31st, 2009 and €13.7 million at December 31st, 2008. In 2010, a charge of €5.7 million was made to the provision for investments in respect of employee profit-sharing for 2010 (€5.3 million in 2009 and €3.8 million in 2008). This provision includes the transfer to the Company of some of the provisions set aside by our subsidiaries under a Group agreement. In 2010, an amount of €3.5 million set aside to the provision in 2005 was reversed (compared with €2.8 million in 2009 and €5.4 million in 2008).

Accelerated tax-driven depreciation at December 31st, 2010 amounted to €47.6 million compared with €44.0 million at December 31st, 2009 and €40.1 million at December 31st, 2008.

Details of share subscription option and free share plans are provided in note 17 and in the Management Report.

4.4. Statements of cash flows

€ millions	Notes	12.31.2010	12.31.2009	12.31.2008
Operating activities				
Net profit		**1,995.3**	**1,841.8**	**1,552.1**
Depreciation and amortisation		93.4	84.7	60.4
Charges to provisions (net of reversals)		43.0	-75.0	204.2
Gains and losses on disposals of non-current assets		13.6	-0.2	0.0
Gross cash flow		**2,145.3**	**1,851.3**	**1,816.7**
Changes in working capital	25	41.5	30.1	-48.7
Net cash provided by operating activities		**2,186.8**	**1,881.4**	**1,768.0**
Investing activities				
Investments in non-current assets		-211.3	-90.1	-2,191.7
Changes in other financial assets	26	194.7	-19.9	9.2
Disposals of non-current assets		51.6	3.8	0.4
Net cash from (used in) investing activities		**35.0**	**-106.2**	**-2,182.1**
Financing activities				
Capital increase		152.2	31.1	2.3
Dividends paid		-878.8	-839.7	-817.1
Changes in financial debt		-1,452.0	-1,122.8	710.7
Net cash from (used in) financing activities		**-2,178.6**	**-1,931.4**	**-104.1**
Cash acquired or sold in the period (complete transfer of assets and liabilities)		1.9	48.4	
Change in cash and cash equivalents		**45.1**	**-107.8**	**-518.2**
Cash and cash equivalents at beginning of year		104.7	212.5	730.7
Cash and cash equivalents at end of year	**27**	**149.8**	**104.7**	**212.5**

4.5. Notes to the Parent Company financial statements

The following notes form an integral part of the Parent Company financial statements.

The financial statements are presented in millions of euros, while the figures in the table detailing subsidiaries and affiliates are expressed in thousands of euros.

Detailed list of notes

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.

French National Accounting Board (*Conseil National de la Comptabilité*) recommendation no. 2008-17 issued on November 6th, 2008 and regarding the accounting treatment of stock purchase and stock subscription option plans, was applied in the 2008 financial statements. Its application led to the reclassification of treasury stock allocated to the November 30th, 2005 stock purchase option plan from *Financial assets* to *Marketable securities* for its net book value at November 17th, 2008 (€99.8 million).

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.

For stock option plans prior to 2000, a provision for impairment was recorded to reflect the difference between the acquisition price of the shares and the price at which the options may be exercised by the beneficiaries. Since January 1st, 2000, no discount has been granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no provision for impairment is required. However, a provision for impairment is recognised in the event of a decline in the market price, representing the difference between the book value of the treasury stock and the average share price in the month preceding the balance sheet date.

1.11. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised to cover probable outflows of resources to the benefit of third parties, without receipt of equivalent consideration by the Company. They relate mainly to industrial and commercial contingencies and litigation (legal actions, product returns) and to tax and employee-related contingencies.

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

1.12. Accounting for foreign currency transactions and hedging of exchange rate risks

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are 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 P & L impact of such hedges 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 pensions, early retirement and other benefit schemes for employees and retired employees in accordance with local legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefit schemes.

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	12.31.2010	12.31.2009	12.31.2008
Goods	834.2	781.5	878.6
Raw materials, packaging	0.0	8.0	23.2
Services (1)	1,185.1	1,053.0	1,026.2
Rentals	41.6	39.0	37.7
Other revenues from ancillary activities	170.1	169.6	149.5
Total	**2,231.0**	**2,051.1**	**2,115.2**

(1) Mainly concerns invoicing of technological assistance.

The Company generated €1,272.0 million of its sales in France in 2010, compared with €1,214.7 million in 2009 and €1,300.5 million in 2008.

NOTE 3 Other revenue

This account mainly includes trademark royalties.

NOTE 4 Average headcount

Average headcount is broken down as follows:

	2010	2009	2008
Executives	3,046	2,853	2,744
Supervisors	2,031	2,062	2,114
Administrative staff	323	356	386
Blue-collar workers	272	275	291
Sales representatives	285	309	313
Total	**5,957**	**5,855**	**5,848**
of which apprentices	170	148	152
External temporary staff	184	146	160

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions are broken down as follows:

€ millions	12.31.2010	12.31.2009	12.31.2008
Depreciation and amortisation	59.3	60.4	60.4
Impairment of non-current assets (1)	48.5	21.6	-
Impairment of current assets	1.9	3.6	3.3
Provisions for liabilities and charges	24.7	20.7	18.2
Total	**134.4**	**106.3**	**81.9**

(1) Of which Sanoflore €22.1 million, Yue Sai €11.9 million and SoftSheen Carson €14.5 million in 2010.

NOTE 6 Net financial income

Net financial income amounts to €1,913.9 million in 2010 (€1,597.1 million in 2009 and €1,511.8 million in 2008), and mainly includes the following items:

€ millions	12.31.2010	12.31.2009	12.31.2008
Dividends received	1,951.3	1,655.4	1,604.9
Revenues on other receivables and marketable securities	1.1	1.6	20.3
Interest expense on loans	-23.8	-59.1	-176.4
Losses settled at the level of partnership entities (SNCs)	-9.8	-2.6	-3.0
Redemption of perpetual loan	-	-	71.8
Other items not broken down	-4.9	1.8	-5.8
Total	**1,913.9**	**1,597.1**	**1,511.8**

In 2008, L'Oréal redeemed the perpetual loan taken out in 1992 which fell due in 2007.

The *Net (charges to)/reversals of provisions and transfers of charges* caption amounts to €28.7 million in 2010 compared with net reversals of €106.9 million in 2009 and net charges of €225.5 million in 2008. The caption mainly includes:

€ millions	12.31.2010	12.31.2009	12.31.2008
Net charges to (-)/reversals of (+) provisions for impairment of financial assets (excluding treasury stock)	4.6	-29.9	-6.2
Net charges to (-)/reversals of (+) provisions for impairment of treasury stock	22.1	179.4	-205.3
Net charges to (-)/reversals of (+) provisions for liabilities and charges relating to financial items	10.6	-23.3	-4.1
Net charges to (-)/reversals of (+) provisions for impairment of other financial assets	-8.5	-18.0	-9.9
Other movements not broken down	-0.1	-1.3	-
Total	**28.7**	**106.9**	**-225.5**

NOTE 7 Exceptional items

In 2008, 2009 and 2010, 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	12.31.2010	12.31.2009	12.31.2008
Tax on profit before tax and exceptional items	90.0	95.2	118.2
Tax on exceptional items and employee profit-sharing	14.6	11.3	6.7
Other	-	8.4	18.5
Income tax	**104.6**	**114.9**	**143.4**

The tax income booked by L'Oréal S.A. takes account of savings of €117.9 million resulting from tax consolidation (€128.5 million in 2009 and €136.6 million in 2008). 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 €50.2 million in net profit for 2010, mainly reflecting the net charge to regulated provisions along with tax credits on research, corporate sponsorship activities and employee profit-sharing.

NOTE 9 Increases or reductions in future tax liabilities

	12.31.2008		12.31.2009		Changes		12.31.2010	
€ millions	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences								
Regulated provisions	-	15.1	-	17.0	7.0	8.4	-	18.4
Temporarily non-deductible charges	101.4	-	58.6	-	26.4	40.5	44.4	-
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	2.1	-	-	2.3	6.4	5.4	-	1.3
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 the social contribution of 3.3% which increases income tax at both statutory and reduced tax rates.

NOTE 10 Research costs

Amounts invested in Research activities in 2010 totalled €596.0 million compared with €537.5 million in 2009 and €515.8 million in 2008.

NOTE 11 Intangible assets

€ millions	12.31.2008	12.31.2009	Acquisitions/ Charges	Disposals/ Reversals	Other movements	12.31.2010
Patents and trademarks	346.9	348.7	30.7	-	-	379.4
Business goodwill	47.7	113.3	-	-	-	113.3
Software	133.2	152.4	21.2	-7.9	9.7	175.4
Other intangible assets	78.9	78.9	49.4	-	-	128.3
Intangible assets in progress	12.8	16.1	20.9	-0.6	-9.7	26.7
Gross value	**619.5**	**709.4**	**122.2**	**-8.5**	**0.0**	**823.1**
Patents and trademarks	35.1	37.5	2.7	-	-	40.2
Business goodwill	0.3	0.3	-	-	-	0.3
Software	84.0	101.7	18.1	-7.0	-	112.8
Other intangible assets	29.9	32.4	2.6	-	-	35.0
Amortisation	**149.3**	**171.9**	**23.4**	**-7.0**	**-**	**188.3**
Patents and trademarks	15.8	22.7	11.9	-	-	34.6
Other intangible assets	3.5	18.2	36.6	-	-	54.8
Provisions	**19.3**	**40.9**	**48.5**	**-**	**-**	**89.4**
Net book value	**450.9**	**496.6**	**50.3**	**-1.5**	**0.0**	**545.4**

In 2010, the increase in the *Patents and trademarks* and *Other intangible assets* captions mainly results 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	12.31.2008	12.31.2009	Acquisitions/ Charges	Disposals/ Reversals	Other movements	12.31.2010
Land	62.5	62.8	-	-2.3	-	60.5
Buildings	387.9	393.5	5.0	-9.9	4.4	393.0
Industrial machinery and equipment	172.3	176.5	7.8	-3.4	1.1	182.0
Other tangible assets	85.2	84.5	6.7	-3.5	1.6	89.3
Tangible assets in progress	12.8	41.8	44.5	-	-7.1	79.2
Advances and prepayments	0.9	0.3	1.6	-	-	1.9
Gross value	**721.6**	**759.4**	**65.6**	**-19.1**	**0.0**	**805.9**
Buildings	278.9	296.5	18.2	-9.6	-	305.1
Industrial machinery and equipment	137.6	145.1	10.5	-2.7	-	152.9
Other tangible assets	62.8	65.3	7.2	-3.4	-	69.1
Depreciation	**479.3**	**506.9**	**35.9**	**-15.7**	**-**	**527.1**
Land	-	0.6	-	-0.6	-	-
Provisions	-	0.6	-	-0.6	-	-
Net book value	**242.3**	**251.9**	**29.7**	**-2.8**	**0.0**	**278.8**

Depreciation and amortisation recognised in 2010 against tangible and intangible assets included:

- a charge of €45.4 million on a straight-line basis;
- a charge of €13.9 million on a declining-balance basis; and
- a non-material charge in respect of exceptional depreciation and amortisation.

NOTE 13 Non-current assets held under finance leases

€ millions	Non-current assets held under finance leases at 12.31.2010				Balance sheet total including non-current assets held under finance leases		
		Depreciation [2]					
Balance sheet captions	Cost on initial recognition [1]	Period	Accumulated	Net book value	Gross value	Depreciation	Net book value
Land and buildings	43.5	-1.7	-19.3	24.2	497.0	-324.4	172.6
Industrial machinery and equipment	-	-	-	-	182.0	-152.9	29.1
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**
Total at 12.31.2008	**34.2**	**-1.2**	**-16.3**	**17.9**	**656.9**	**-432.8**	**224.1**

(1) Value of the assets at the date of signature of the leases.
(2) Depreciation charge for year and accumulated depreciation that would have been recognised for these assets had been purchased outright – Depreciation method used: straight-line 5% to 2%.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year-end				Residual purchase price under the lease
Balance sheet captions	Period	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	
Land and buildings	4.8	57.1	5.3	19.7	8.0	33.0	90.1
Industrial machinery and equipment	-	-	-	-	-	-	-
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**
Total at 12.31.2008	**4.0**	**58.6**	**3.9**	**16.6**	**11.4**	**31.9**	**1.4**

NOTE 14 Financial assets

€ millions	12.31.2008	12.31.2009	Acquisitions/ Subscriptions	Disposals/ Reductions	Other movements	12.31.2010
Investments	9,107.0	9,030.9	-	-38.2	34.3	9,027.0
Loans and other receivables	107.8	170.7	44.3	-55.4	-34.3	125.3
Treasury stock	259.4	-	-	-	-	-
Other	8.4	8.4	0.3	-0.3	-4.6	3.8
Gross value	**9,482.6**	**9,210.0**	**44.6**	**-93.9**	**-4.6**	**9,156.1**
Investments	270.0	302.7	25.8	-30.3	-	298.2
Loans and other receivables	10.6	29.8	13.1	-4.6	-	38.3
Treasury stock	-	-	-	-	-	-
Other	4.7	4.7	-	-	-	4.7
Provision for impairment	**285.3**	**337.2**	**38.9**	**-34.9**	**-**	**341.2**
Net book value	**9,197.3**	**8,872.8**	**5.7**	**-59.0**	**-4.6**	**8,814.9**

In accordance with CNC recommendation no. 2008-17 (note 1), 1,766,250 treasury shares previously classified as financial assets were reclassified within marketable securities in 2008 for a net book value of €99.8 million.

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

The data concerning related entities is as follows:

€ millions	12.31.2010	12.31.2009	12.31.2008
Financial assets	8,799.3	8,857.9	8,924.2
Trade accounts receivable	233.0	203.9	199.6
Other accounts receivable	6.0	4.3	3.2
Cash and cash equivalents	152.4	102.1	190.8
Borrowings	17.1	9.3	9.5
Trade accounts payable	78.5	64.0	71.7
Other payables	0.3	5.7	19.7
Financial expenses	10.2	2.6	9.4
Financial revenues	1,951.9	1,655.5	1,605.3

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	12.31.2010	12.31.2009	12.31.2008
L'Oréal shares	850.9	1,071.6	1,151.0
Financial instruments	2.9	4.1	23.0
Premiums paid on options	7.2	0.2	15.3
Gross value	**861.0**	**1,075.9**	**1,189.3**
L'Oréal shares	n/s	-22.9	-206.3
Financial instruments	-	-	-
Premiums paid on options	-	-	-
Provision for impairment	**n/s**	**-22.9**	**-206.3**
Net book value	**861.0**	**1,053.0**	**983.0**

The 11,336,682 L'Oréal shares of treasury stock held in connection with employee stock purchase option plans had a net value of €850.9 million at December 31st, 2010, after taking into account a net reversal of €22.1 million from the provision for impairment through profit and loss and a reversal of €0.1 million through equity corresponding to the shares cancelled (€1,048.7 million at December 31st, 2009 and €944.7 million at December 31st, 2008).

In 2010, stock options were exercised in respect of 2,400,068 shares and 500,000 shares were cancelled.

Stock purchase options expiring in 2010 represented a total of 2,199,403 shares or €177.4 million (gross and net basis).

In 2010, the total market value of treasury stock amounts 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.

In 2008, the total market value of treasury stock amounted to €956.8 million based on the average share price in December and to €963.6 million based on the closing share price on December 31st.

In accordance with CNC recommendation no. 2008-17 as described in note 1 on accounting principles, a total of 1,766,250 shares of treasury stock previously recognised in *Financial assets* were reclassified in 2008 within *Marketable securities* for a net book value of €99.8 million.

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, 2010.

Grant date	Number of options	Number of options not yet exercised	Exercise period From	Exercise period To	Exercise price
03.28.2001	2,500,000	1,199,300	03.29.2006	03.28.2011	79.60
09.18.2001	2,500,000	1,378,500	09.19.2006	09.18.2011	77.60
10.08.2001	225,000	120,050	10.09.2006	10.08.2011	76.50
03.26.2002	2,500,000	1,598,050	03.27.2007	03.26.2012	81.65
09.04.2002	2,500,000	1,456,500	09.05.2007	09.04.2012	76.88
12.03.2003	2,500,000	1,591,550	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	1,838,000	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	1,106,500	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	2,482,150	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	3,582,175	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,546,879	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	5,250,250	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,896,600	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,650,000	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	4,200,000	04.28.2015	04.27.2020	80.03

All plans have a 5-year exercise period and no performance-related conditions, except the April 27th, 2010 and March 25th, 2009 plans for members of the Executive Committee. The performance conditions associated with these plans concern:

- for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2011, 2012, 2013 and 2014 fiscal years (2010 plan) and for the 2010, 2011, 2012 and 2013 fiscal years (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.* 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.

The share price retained as the basis for calculating the 10% social contribution on the April 27th, 2010 plan was €17.17.

17.2 Free shares

On April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 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.

The performance conditions concern:

- 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 (2010 plan) and for the 2010, 2011 and 2012 fiscal years (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.

The share price retained as the basis for calculating the 10% social contribution on the April 27th, 2010 plan was €66.78 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	49.4	75.9	125.3	-43.0	82.3
Other financial assets	-	3.7	3.7	-	3.7
Trade accounts receivable	**326.5**	**-**	**326.5**	**-2.6**	**323.9**
Other current assets, of which	**167.9**	**-**	**167.9**	**-**	**167.9**
Tax and employee-related receivables	120.7	-	120.7	-	120.7
Receivable from Group and shareholders	4.4	-	4.4	-	4.4
Other receivables	42.8	-	42.8	-	42.8
Prepaid expenses	**25.9**	**-**	**25.9**	**-**	**25.9**

Accrual accounts included in receivables amounted to €15.9 million at December 31st, 2010 compared with €18.1 million at December 31st, 2009 and €16.6 million at December 31st, 2008.

NOTE 19 Provisions for liabilities and charges

€ millions	12.31.2008	12.31.2009	Charges	Reversals (provisions used)	Reversals (provisions not used)	12.31.2010
Provisions for litigation	16.1	5.8	1.2	0.1	0.1	6.8
Provisions for exchange losses	-	6.6	3.7	6.6	-	3.7
Provisions for charges	29.5	42.2	26.3	28.0	1.9	38.6
Other provisions for liabilities (1)	85.3	124.8	81.0	33.0	0.8	172.0
Total	**130.9**	**179.4**	**112.2**	**67.7**	**2.8**	**221.1**

(1) This caption notably includes provisions for tax risks and for industrial and commercial risks relating to operations (contracts, product returns) and employee-related liabilities.

The 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	24.7	18.1	2.2
Net financial income	29.0	39.6	-
Exceptional items	58.5	10.0	0.6
Income tax	-	-	-
Total	**112.2**	**67.7**	**2.8**

NOTE 20 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans, and by the issue of short-term commercial paper in France. The amount of the programme is €2,600 million. 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 €2,350.0 million at December 31st, 2010 (€2,387.5 million at December 31st, 2009 and €2,425.0 million at December 31st, 2008).

All borrowings and debt are denominated in euros and can be broken down as follows:

Breakdown by type of debt

€ millions	12.31.2010	12.31.2009	12.31.2008
Bonds	n/s	n/s	n/s
Borrowings and debt due to financial institutions	1,314.8	2,767.4	2,498.0
Perpetual loan	-	-	-
Commercial paper	-	-	1,406.0
Other borrowings and debt	61.7	63.8	61.6
Overdrafts	8.0	0.7	0.6
Total	**1,384.5**	**2,831.9**	**3,966.2**

Breakdown by maturity

€ millions	12.31.2010	12.31.2009	12.31.2008
Less than 1 year	591.8	125.4	1,510.8
1 to 5 years	791.4	2,705.2	2,454.1
More than 5 years	1.3	1.3	1.3
Total	**1,384.5**	**2,831.9**	**3,966.2**

The table below shows the main changes in this caption during the 2010 financial year:

€ millions	
Borrowings taken out	265.1
Borrowings repaid	1,714.6

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 1.15% in 2010, 1.02% in 2009 and 4.29% in 2008.

The average interest rate on borrowings and debt after taking into account hedging instruments was 0.97% in 2010, 1.62% in 2009 and 4.74% in 2008.

NOTE 21 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**379.6**	**-**	**379.6**
Other current liabilities, of which	**281.5**	**11.0**	**292.5**
Tax and employee-related payables	219.4	-	219.4
Payables related to non-current assets	23.6	11.0	34.6
Payable to Group and shareholders	n/s	-	n/s
Other payables	38.5	-	38.5

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	12.31.2010	12.31.2009	12.31.2008
Trade accounts payable	**202.3**	**182.3**	**164.5**
Payables related to non-current assets (1)	**25.9**	**5.6**	**4.1**
Tax and employee-related payables, of which	**138.3**	**128.0**	**117.4**
Provision for employee profit sharing	21.7	20.5	21.6
Provision for incentives	62.3	57.8	54.0
Other payables	**29.1**	**27.1**	**35.5**
Total	**395.6**	**343.0**	**321.5**

(1) Mainly concerning Essie in 2010.

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 gains			Unrealised exchange losses		
€ millions	12.31.2010	12.31.2009	12.31.2008	12.31.2010	12.31.2009	12.31.2008
Financial receivables	5.9	5.3	0.1	-	-	0.9
Trade accounts receivable	0.6	0.6	3.8	0.8	1.2	1.6
Borrowings and debt	-	0.2	0.4	0.2	-	-
Trade accounts payable	0.4	1.4	0.6	1.0	0.2	5.0
Other payables	-	-	-	1.1	0.4	0.6
Derivative financial instruments	2.9	5.1	3.1	2.9	4.2	6.0
Total	**9.8**	**12.6**	**8.0**	**6.0**	**6.0**	**14.1**

In accordance with the accounting principles described above, the overall foreign exchange position at December 31st, 2010 is an unrealised loss of €3.8 million arising mainly on the Venezuelan bolivar and partially offset by the US dollar. This loss was recognised through profit and loss. At December 31st, 2009, the overall foreign exchange position was an unrealised loss of €6.6 million compared with an unrealised gain of €6.1 million recognised through profit and loss at December 31st, 2008.

NOTE 23 Derivative financial instruments

Derivative financial instruments held to hedge exchange rate risks mainly consist of futures transactions and can be broken down as follows:

	Notional			Market value		
€ millions	12.31.2010	12.31.2009	12.31.2008	12.31.2010	12.31.2009	12.31.2008
Currency futures						
Purchase of EUR against foreign currencies						
EUR/RUB	288.6	0.4	2.1	-6.2	0.0	0.3
EUR/CNY	85.7	109.0	87.9	-2.9	1.3	-2.7
EUR/BRL	77.3	84.7	32.8	-5.5	-6.9	7.4
EUR/IDR	25.0	14.2	-	-0.9	-0.9	-
EUR/UAH	18.0	0.0	4.5	0.1	0.0	2.4
EUR/GBP	16.6	14.3	8.9	0.3	-	2.1
EUR/AUD	13.2	9.6	8.7	-1.1	-0.6	1.3
EUR/CAD	12.4	14.5	13.9	-0.4	-0.5	1.8
EUR/KZT	11.8	8.0	-	-0.1	-0.2	-
EUR/ZAR	9.3	4.0	0.0	-1.7	-0.5	0.0
EUR/MXN	5.8	5.5	3.9	-0.1	-0.1	0.8
EUR/CHF	5.8	4.3	3.7	-0.5	-0.1	-0.3
EUR/CLP	5.7	3.5	0.6	-0.4	0.0	0.1
EUR/ARS	5.4	0.0	0.8	-0.1	0.0	0.0
EUR/PLN	4.7	6.8	6.3	-0.1	-0.1	1.3
EUR/USD	-	29.6	-	-	-1.3	-
EUR/Other currencies	32.1	25.5	27.1	-1.0	-0.5	1.8
Sale of EUR against foreign currencies						
EUR/JPY	18.4	10.5	11.1	0.1	- 0.4	1.9
EUR/USD	11.8	-	37.7	-1.0	-	2.1
EUR/Other currencies	2.0	0.9	2.6	0.0	-	0.1
Purchase of USD against foreign currencies						
USD/BRL	55.6	43.6	25.8	-3.1	- 3.3	5.4
USD/ARS	30.9	-	20.2	0.1	-	3.6
USD/RUB	11.3	-	-	-0.3	-	-
USD/Other currencies	4.4	-	2.6	-0.1	-	1.5
Sale of USD against foreign currencies						
USD/CNY	32.6	16.0	24.3	0.0	- 0.3	- 0.5
USD/IDR	18.5	12.7	-	0.1	0.3	-
Other currency pairs						
ARS/BRL	35.6	-	11.5	0.9	0.0	-0.1
JPY/CNY	8.7	4.4	6.8	0.3	0.0	0.8
Other currencies	4.8	3.2	0.4	0.0	- 0.1	0.1
Currency futures total	**852.0**	**425.2**	**344.2**	**- 23.6**	**- 14.2**	**31.2**
Currency options						
USD/EUR	45.3	-	72.4	3.0	-	1.6
GBP/EUR	5.5	5.1	9.5	0.3	0.2	1.8
EUR/CNY	36.0	-	35.6	1.6	-	0.5
EUR/BRL	26.4	4.0	24.9	1.8	-	5.6
Other currencies/EUR	11.8	1.5	5.5	0.4	-	1.1
BRL/USD	-	-	3.5	-	-	0.7
Currency options total	**125.0**	**10.6**	**151.4**	**7.1**	**0.2**	**11.3**
Of which total call options	125.0	10.6	218.9	7.1	0.2	15.3
Of which total put options	-	-	- 67.5	-	-	- 4.0
Total instruments	**977.0**	**435.8**	**495.6**	**- 16.5**	**- 14.0**	**42.5**

Total put options correspond exclusively to the resale of previously purchased options when it appeared appropriate to replace them with other hedging instruments.

Derivative financial instruments held to hedge interest rate risks are as follows:

€ millions	Notional			Market value		
Interest rate derivatives	12.31.2010	12.31.2009	12.31.2008	12.31.2010	12.31.2009	12.31.2008
Floating-rate borrower interest rate swaps						
EUR Euribor/fixed rate	-	-	69.8	-	-	2.2
Fixed-rate borrower interest rate swaps						
EUR Euribor/fixed rate	-	-	2.5	-	-	n/s
Total	**-**	**-**	**72.3**	**-**	**-**	**2.2**

NOTE 24 Off-balance sheet commitments

24.1. Lease commitments

Operating lease commitments amount to €67.7 million due in less than one year, €177.3 million due between 1 and 5 years and €62.8 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	12.31.2010	12.31.2009	12.31.2008
Commitments granted in connection with employee retirement obligations and related benefits (1)	536.6	441.7	395.6
Commitments to buy out non-controlling interests	6.4	8.5	83.0
Guarantees given (2)	657.5	614.3	674.6
Guarantees received	10.1	9.4	7.6
Capital expenditure orders	44.8	70.5	100.3
Documentary credits	3.9	3.5	5.0

(1) The discount rate used to measure these commitments at December 31st, 2010 was 4.25% for plans providing for payment of capital and 4.50% for annuity plans, compared with, respectively, 5.00% and 5.25% at end-2009, and 5.75% and 6.00% at end-2008.
An agreement for the pooling of employee-related liabilities was put in place 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 €641.5 million at December 31st, 2010 on behalf of direct and indirect subsidiaries (€593.1 million at December 31st, 2009 and €666.8 million at December 31st, 2008). Seller's warranties are also included in this amount.

24.3. Contingent liabilities

In the course of its normal 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 €41.5 million at December 31st, 2010, €30.1 million at December 31st, 2009 and a negative €48.7 million at December 31st, 2008, and can be broken down as follows:

€ millions	12.31.2010	12.31.2009	12.31.2008
Inventories	-7.9	5.2	1.4
Receivables	-49.5	50.3	-53.7
Payables	98.9	-25.4	3.6
Total	**41.5**	**30.1**	**-48.7**

NOTE 26 Changes in other financial assets

This caption includes flows related to treasury stock in the year, classified in marketable securities.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents amount to €149.8 million at December 31st, 2010 compared with €104.7 million at December 31st, 2009 and €212.5 million at December 31st, 2008, and can be broken down as follows:

€ millions	12.31.2010	12.31.2009	12.31.2008
Cash	157.9	105.3	213.8
Accrued interest receivable	-0.1	-	-0.9
Bank overdrafts (note 20)	-8.0	-0.7	-0.6
Accrued interest payable	-	0.1	0.2
Total	**149.8**	**104.7**	**212.5**

NOTE 28 Other disclosures

Statutory audit fees for 2010 are not presented in the notes to the Parent Company financial statements but in note 30 of 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.

4.6. Annexe: table of subsidiaries and holdings at December 31st, 2010

4.6.1. Detailed information

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends booked during the financial year
				Gross	Net		
A. Main French subsidiaries (holdings of over 50%)							
Areca & Cie	35	1	99.78	35	35	113	316
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	62,391	100	75,670	75,670	14,280	12,507
Beauté Créateurs	612	-4,703	100	30,860	30,860	11,467	*
Beauté, Recherche et Industries	22,900	-12,115	100	20,311	20,311	4,312	*
Centrex	1,800	29	100	3,532	3,532	709	497
Chimex	1,958	33,576	100	21,501	21,501	4,300	2,156
Cosmétique Active France	24	19,301	61.97	130	130	13,853	6,353
Cosmétique Active International	19	19,014	80.43	15	15	11,744	*
Cosmétique Active Production	186	21,806	80.14	5,081	5,081	6,602	*
Episkin	9,402	0	100	9,402	9,402	260	173
Exclusive Signatures International	10	0	99.00	10	10	554	143
Fapagau & Cie	15	5,697	79.00	12	12	9,358	1,954
Faprogi	15	4,226	59.90	9	9	3,741	1,517
Finval	2	0	99.00	2	2	2,838	4,226
Gemey Maybelline Garnier	50	656	66.61	34	34	41,506	26,411
Gemey Paris-Maybelline New York	35	5,274	99.96	46	46	15,676	12,138
Goldys International	15	0	99.90	15	15	-3	*
Héléna Rubinstein	30	1	99.95	46,661	46,661	4,014	4,440
Holdial	1	0	98.00	1	1	335	1,935
L & J Ré	1,500	11,126	100	1,500	1,500	-1,881	*
La Roche-Posay Laboratoire Pharmaceutique	380	2,735	99.98	27,579	27,579	7,958	*
Laboratoire Bioexigence	37	-12	100	37	29	-0	*
Laboratoire Garnier & Cie	580	2	99.97	5,784	5,784	18,317	23,163
Laboratoires Innéov	325	-5,598	50.00	18,800	0	-1,587	*
Laboratoire Sanoflore	1,122	-2,340	100	5,197	0	622	*
Lancôme Parfums et Beauté & Cie	1,192	0	100	3,235	3,235	40,824	44,685
LaScad	18	0	99.17	18	18	45,999	41,021
Lehoux et Jacque	39	56	100	263	263	319	35
L'Oréal France	37	1	100	37	37	-8	*
L'Oréal Produits de Luxe France	84	56,209	68.55	1,457	1,457	11,817	6,205
L'Oréal Produits de Luxe International	98	75,253	77.36	76	76	40,916	23,507
Parfums Cacharel & Cie	1	-251	99.00	2	0	-321	*
Parfums Guy Laroche	332	5,416	100	1,656	1,656	106	51
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	30	9
Parfums Ralph Lauren	2	-461	99.00	2	0	-83	*

* *The SNCs (general partnership), GIEs (economic interest groupings) and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profits.*

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held Gross	Book value of shares held Net	Profit or loss in last financial year	Dividends booked during the financial year
Prestige & Collections International	32	3,952	81.67	3,823	3,823	15,866	14,670
Roger & Gallet	3,034	10,390	100	109,693	109,693	479	586
Sicôs & Cie	375	7,447	80.00	999	999	9,010	*
Société de Développement Artistique	2	0	99.00	2	2	-63	*
Soprocos	8,250	9,757	100	11,904	11,904	4,815	3,180
Soproréal	15	5,995	99.90	15	15	4,489	2,448
Sparlys	750	1,198	100	3,826	3,826	1,503	2,190
Viktor & Rolf Parfums	2	-57	99.00	1	1	73	*
YSL Beauté	130,786	-50,538	89.80	299,622	299,622	24,921	*
B. Main French investments (holdings of less than 50%)							
Galderma International	466	42,692	26.67	2	2	22,619	3,466
Innéov France	80	-4,061	n/s	n/s	n/s	-798	*
La Roche-Posay Dermato- Cosmétique	2	0	1	0	0	0	*
Sanofi-Aventis	2,621,491	**	9.02	423,887	423,887	**	283,746

* *The SNCs (general partnership), GIEs (economic interest groupings) and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profits.*

** *Sanofi-Aventis: - this information is not available;*
- at the balance sheet date, L'Oréal owns 118,227,307 shares. Their total stock market value at the price prevailing at 12/31/2010 is 5,657,176 thousand euros.

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held Gross	Book value of shares held Net	Profit or loss in last financial year	Dividends booked during the financial year
A. Main foreign subsidiaries (holdings of over 50%)							
Avenamite S.A. (Spain)	242	48	100	6,216	6,216	92	88
Beautycos International Co. Ltd (China)	52,482	30,227	73.46	46,195	46,195	9,016	
Beautylux International Cosmetics (Shanghai) China	5,629	-3,083	100	16,871	16,871	675	
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,846	2,816
Canan Kozmetik Sanayi Ve Ticaret A.S.	6,173	6,968	100	28,439	28,439	3,676	
Canan Tuketim Urunleri Pazarlama A.S.	1,149	-2,708	100	11,128	6,652	-418	
Cosmelor Ltd (Japan)	3,554	29,986	100	35,810	35,810	3,428	3,980
Cosmephil Holdings Corporation (Philippines)	171	-140	100	400	14	0	
Cosmétique Active Ireland Ltd (Ireland)	82	450	100	732	732	1,306	568
Cosmétique Active Suisse S.A. *****	32	17	100	4,645	4,645	-	4,064
Elebelle (Proprietary) Ltd (South Africa)	806	46,713	100	61,123	46,783	5,263	5,313
Egyptelor LLC	6	-2	99.80	7	7	66	
Erwiton S.A. (Uruguay)	739	2,243	100	17	17	7,025	5,670
Galderma Pharma S.A. (Switzerland)	15,694	50,640	50.00	10,124	10,124	39,719	70,849
Kosmepol Sp. z.o.o. (Poland)	38,844	32,917	99.73	48,965	48,965	1,807	
Lai Mei Cosmetics Int. Trading Shanghai Co. Ltd (China)	9,500	6,363	100	11,197	11,197	214	240
Le Club des Créateurs de Beauté (Belgium)	81	-44	100	3,821	36	-34	

For foreign subsidiaries and investments, the capital reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchange rates, while profits and losses have been translated at the average rate for 2010.
It's specified that the list of companies set out above is not exhaustive.

****** Lease of the business to L'Oréal Suisse (Switzerland) in 2010.*

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends booked during the financial year
				Gross	Net		
Le Club des Créateurs de Beauté Co. Ltd (Taiwan)	467	-1,936	100	328	0	146	
L'Oréal Adria d.o.o. (Croatia)	131	1,420	100	1,503	1,503	4,451	2,887
L'Oréal Argentina S.A.	13,081	4,630	100	81,068	35,154	11,641	4,489
L'Oréal Australia Pty Ltd	2,711	23,477	100	33,867	33,867	34,363	36,044
L'Oréal Balkan d.o.o. (Serbia)	1,241	-433	100	1,285	1,285	182	
L'Oréal Baltic SIA (Latvia)	387	2,528	100	529	529	578	
L'Oréal Belgilux S.A. (Belgium)	16,124	18,311	98.93	77,150	77,150	29,693	36,509
L'Oréal Bulgaria EOOD	102	2,109	100	102	102	2,174	2,024
L'Oréal Canada Inc.	3,979	17,517	100	146,517	146,517	70,349	41,352
L'Oréal Ceska Republika s.r.o (Czech Republik)	5,939	3,434	100	8,678	8,678	7,211	3,943
L'Oréal Chilie S.A.	20,888	13,075	100	43,784	43,784	22,462	10,766
L'Oréal China Co. Ltd	44,232	78,175	100	345,733	345,733	74,238	113,930
L'Oréal Colombia S.A.	1,931	2,996	94.00	6,395	6,395	2,227	1,915
L'Oréal Cosmetics Industry S.A.E	871	-32	99.99	854	854	-44	
L'Oréal Danmark A/S (Denmark)	270	5,604	100	8,336	8,336	8,971	8,676
L'Oréal Deutschland Gmbh (Germany)	12,647	282,472	100	76,855	76,855	176,615	138,900
L'Oréal Espana S.A. (Spain)	59,911	93,723	63.86	299,154	299,154	31,026	20,815
L'Oréal Finland Oy	673	15	100	1,280	1,280	11,284	10,403
L'Oréal Guatemala S.A.	1,044	390	100	2,162	2,162	536	565
L'Oréal Hellas S.A. (Greece)	5,736	7,772	85.73	23,573	23,573	11,394	14,152
L'Oréal Hong-Kong Ltd	3	70	99.97	604	604	86,708	47,888
L'Oréal India Private Ltd	49,919	-18,607	100	68,467	40,623	7,248	
L'Oréal Investments B.V. (The Netherlands)	18	0	100	18	18	0	
L'Oréal Israel Ltd	4,137	10,746	92.97	38,497	33,597	4,136	3,040
L'Oréal Italia Spa	1,680	69,865	100	226,469	226,469	63,333	70,478
L'Oréal Japan Ltd	370	-693	100	275	0	-109	
L'Oréal Kazakhstan Llp	379	321	100	422	422	5,397	1,483
L'Oréal Korea Ltd	1,991	976	100	20,794	20,794	23,154	7,455
L'Oréal Liban SAL	3,139	771	99.88	7,698	7,698	6,916	4,589
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,249	378	100	7,815	7,815	1,167	22
L'Oréal Malaysia SDN BHD	4,749	546	96.53	6,762	6,762	8,380	9,319
L'Oréal Mexico S.A. de C.V.	2,349	31,091	100	8,443	8,443	35,849	37,847
L'Oréal Middle East (United Arab Emirates)	2,752	334	100	37,284	37,284	17,715	19,474
L'Oréal Nederland B.V. (The Netherlands)	1,178	37	100	22,014	22,014	20,368	43,996
L'Oréal New Zealand Ltd	44	2,172	100	6,110	6,110	4,638	7,419
L'Oréal Norge A/S (Norway)	1,384	4,034	100	4,050	4,050	14,888	15,952
L'Oréal Osterreich GmbH (Austria)	2,915	854	100	3,818	3,818	12,314	12,830
L'Oréal Pakistan private Ltd	3,907	-1,235	100	3,998	3,998	-3,081	
L'Oréal Panama S.A.	159	1,474	100	168	168	5,412	7,564
L'Oréal Peru S.A. (Peru)	2,096	831	100	3,739	3,739	1,474	983

For foreign subsidiaries and investments, the capital reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchange rates, while profits and losses have been translated at the average rate for 2010.
It's specified that the list of companies set out above is not exhaustive.

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends booked during the financial year
				Gross	Net		
L'Oréal Philippines Inc.	2,062	-504	95.38	12,478	107	-825	
L'Oréal Polska Sp. Z.O.O. (Poland)	405	792	100	707	707	27,280	21,054
L'Oréal Portugal Lda	495	-1,175	100	6,459	6,459	21,346	19,136
L'Oréal Produits de Luxe Suisse S.A. *****	257	135	100	556	556	-	5,168
L'Oréal Romania SRL	2,187	539	100	5,883	5,883	3,551	4,065
L'Oréal Singapore Pte Ltd	1,165	159	100	18,991	18,991	4,560	4,738
L'Oréal Slovenija kosmetika d.o.o. (Slovenia)	465	1,982	100	856	856	2,060	1,146
L'Oréal Slovensko s.r.o. (Slovakia)	1,598	1,016	100	1,673	1,673	4,525	4,446
L'Oréal Suisse S.A.	193	101	100	116,776	116,776	23,492	18,965
L'Oréal Sverige AB (Sweden)	2,038	937	100	2,247	2,247	14,644	12,050
L'Oréal Taiwan Co. Ltd (Taiwan)	187	2,970	100	17,881	17,881	14,085	6,397
L'Oréal Thailand Ltd	3,992	1,813	100	5,238	5,238	7,615	5,870
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	38,242	-14,866	100	43,965	13,837	-13,314	
L'Oréal UK Ltd	121,150	-40,942	100	145,573	145,573	93,166	63,886
L'Oréal Ukraine	3,802	2,623	100	2,990	2,990	13,970	15,179
L'Oréal Uruguay S.A.	593	605	100	5,435	677	-128	
L'Oréal USA Inc. ****	4,402	2,262,969	100	3,569,657	3,569,657	275,201	284,427
L'Oréal Venezuela C.A.	1,733	1,230	100	12,502	3,961	339	
L'Oréal Vietnam Co. Ltd	2,963	-3,265	100	3,074	0	-1,385	
Masrelor LLC (Egypt)	1,945	-9	100	1,831	1,831	2	
Maybelline Suzhou Cosmetics Ltd (China)	53,652	-16,110	66.75	49,601	24,515	567	
Nihon L'Oréal KK (Japan)	138,845	71,029	100	415,182	359,812	18,752	
Parbel of Florida Inc. (USA)	40	-2,147	100	100,317	100,317	19,277	12,907
Procosa Productos de Beleza Ltda (Brazil)	102,462	105,491	100	170,243	170,243	77,987	73,206
P.T. L'Oréal Indonesia	1,510	1,443	99.00	2,305	2,305	1,270	
P.T. Yasulor Indonesia	20,021	10,617	99.98	56,992	32,188	543	
Scental Limited (Hong Kong)	5	165	100	8	8	0	
Seda Plastik Ve Boya San. Ith. Tic. Ldt. Sti	1,206	1,394	99.00	1,843	1,843	-22	
Sofamo (Monaco)	160	-40,044	99.97	1,851	0	-912	
The Body Shop International PLC ***	13,155	828,786	100	992,445	992,445	50,218	25,692
Venprobel (Venezuela)	20	-71	100	2,722	0	0	
YSL Beauté Hong Kong Ltd	0	1,386	100	6,405	6,405	0	
YSL Beauté Middle East fzco	5,717	7,072	100	17,096	17,096	7,135	1,075
YSL Beauté Vostok o.o.o. (Russia)	2,707	-4,015	99.48	2,802	0	-546	
YSL Beauté Singapore Pte ltd	280	1,461	100	336	336	0	
YSL Beauté Suisse S.A. *****	934	202	100	38,334	38,334	-	5,128
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 the average rate for 2010.
It's specified that the list of companies set out above is not exhaustive.
**** The Body Shop: Consolidated figures for the sub-group.*
***** Figures from the sub-consolidation of L'Oréal USA Inc.*
****** Lease of the business to L'Oréal Suisse (Switzerland) in 2010.*

4.6.2. Information relating to all subsidiaries and investments

	Subsidiaries		Investments	
	French	Foreign	French	Foreign
Book value of shares held:				
♦ gross restated	709,692	7,893,398	423,889	1
♦ net	685,257	7,619,641	423,889	1
Amount of loans and advances granted	67,066	45,634		
Amount of guarantees and security granted	18,165	639,043		
Amount of dividends booked	236,539	1,427,592	287,212	2

5 2011 Ordinary and Extraordinary General Meeting

5.1. Report of the Board of Directors on the Draft Resolutions

5.1.1. Ordinary Part

5.1.1.1. Approval of the annual financial statements, allocation of the Company's net income for 2010 and declaration of the dividend (first, second and third resolutions)

Having reviewed the reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- the Parent Company financial statements, with a profit and loss account which shows net income of €1,995,329,601.31 for 2010, compared with €1,841,772,283.85 at December 31st, 2009;
- the 2010 consolidated financial statements,

the main details of which are set out in the 2010 Annual Report, together with the main information included in the file for calling the Annual General Meeting on April 22nd, 2011.

The Board of Directors proposes to the Annual General Meeting a net dividend of €1.80 per share, representing an increase of 20% compared with the net dividend for 2009.

The dividend for the 2010 financial year would be paid to the shareholders on Wednesday May 4th, 2011.

5.1.1.2. Renewal of tenures as Director (fourth to sixth resolutions)

Three tenures as Director are due to expire at the close of this Annual General Meeting, they are submitted for renewal.

L'Oréal's Board of Directors

L'Oréal's Directors come from different backgrounds. They complement one another due to their different professional experience and their skills; 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 of a strategic nature.

The Appointments and Governance Committee has proposed to the Board of Directors that it reviews 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.

L'Oréal has a well-balanced Board comprising 14 members at February 10th, 2011: the Chairman and the Chief Executive Officer, six Directors appointed by the majority shareholders, three of whom are appointed by Mrs. 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: Mrs. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

It is proposed to maintain this balance, which is considered to be satisfactory by proposing to the Annual General Meeting to renew the tenures of the three Directors that are due to expire in 2011.

It is thus suggested to the Annual General Meeting that it renew the tenure as Directors of Mrs. Liliane Bettencourt, Mrs. Annette Roux and Mr. Charles-Henri Filippi for a term of four years.

Presentation of the Directors whose term of office is proposed for renewal

Liliane Bettencourt (88 years of age), 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 (68 years of age) became the head of the Benéteau 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 (58 years of age), who worked for the French government from 1979-1987, and then from 1987-2008 with the CCF bank, which became HSBC France in 2000. He was appointed Chief Executive Officer of CCF in 1995, member of the HSBC Group Executive Committee from 2001 to 2004, Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Chairman of Octagones and Alfina, Charles Henri Filippi has been a L'Oréal Director 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 was appointed as non-executive Chairman of Citigroup for France as from January 1st, 2011. 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 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 must refrain from participating in the corresponding deliberations* [(1)]. 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, he harmoniously and effectively supplements the Board's expertise in the field of finance.

For information purposes, if the Annual General Meeting votes in favour of the renewals proposed to it in 2011, the expiry dates of the terms of office of the 14 Directors of L'Oréal would be as follows:

	Expiry dates of terms of office			
Directors	2012	2013	2014	2015
Sir Lindsay Owen-Jones			X	
Mr. Jean-Paul Agon			X	
Mr. Jean-Pierre Meyers	X			
Mr. Peter Brabeck-Letmathe		X		
Mrs. Liliane Bettencourt				X
Mrs. Françoise Bettencourt-Meyers		X		
Mr. Werner J. Bauer	X			
Mr. Francisco Castañer Basco	X			
Mr. Charles-Henri Filippi				X
Mr. Xavier Fontanet			X	
Mr. Bernard Kasriel	X			
Mr. Marc Ladreit de Lacharrière			X	
Mrs. Annette Roux				X
Mr. Louis Schweitzer		X		
Number of renewals per year	4	3	4	3

5.1.1.3. Setting of the amount of attendance fees (seventh resolution)

Preparation and holding of Board Meetings and meetings of its Committees require increasing availability and growing investment by the Directors and lead the Board of Directors to propose an increase in the maximum authorised amount of attendance fees which will be allocated among the Directors in strict compliance with the rules set by the Internal Rules of the Board of Directors.

It is proposed that the Annual General Meeting set the maximum amount of the annual attendance fees allocated to the Board of Directors at €1,300,000, until it makes another decision in this respect. This authorisation would replace that given by the Annual General Meeting of April 26th, 2005, and not revised since that date, which set the maximum annual amount of attendance fees at €1,100,000.

5.1.1.4. Authorisation for the Company to buy back its own shares (eighth resolution)

It is proposed that you give the Board of Directors a new authorisation to buy back shares of the Company.

During 2010 and up until February 10th, 2011, the Board of Directors did not buy back any shares.

As the existing authorisation is due to expire in October 2011, 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 description of the authorisation put to your vote is set out in the paragraph entitled "Buyback by the Company of its own shares" of the 2010 Management Report.

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, 60,137,723 shares for a maximum amount of €7.8 billion at February 10th, 2011, it being stipulated that the Company may at no time hold over 10% of its own capital.

(1) See the Internal Rules of the Board of Directors, chapter 3 "Rights and obligations of directors", 3.6.4.2. "Respect for the interests of the Company" on page 139.

5.1.2. Extraordinary Part

5.1.2.1. Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or *via* the capitalisation of share premiums, reserves, profits or other amounts (ninth resolution)

It is proposed that the Annual General Meeting should give an authorisation to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or *via* the capitalisation of share premiums, reserves, profits or other amounts.

The total amount of the capital increases that may thus be carried out immediately and/or in future may not lead to the share capital, which currently amounts to €120,275,447, being increased to over €180,000,000, corresponding to a maximum increase of €59,724,553 compared to the current capital, *i.e.* an increase of 49.65% of the current capital.

No overallocation option is provided for.

The delegation of authority would be valid for a period of 26 months, as from the date of the Annual General Meeting.

5.1.2.2. Authorisation to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares to employees and corporate officers (tenth resolution)

It is proposed that the Annual General Meeting should give an authorisation to the Board of Directors to grant stock options to purchase and/or subscribe for shares.

Stock options bring the interests of their beneficiaries more closely into line with the interests of the shareholders themselves by having them share the same confidence in the strong and steady growth of the Company.

The aim is to give the Board of Directors the means to involve, motivate and foster loyalty particularly among corporate officers and employees with key responsibilities, including in particular the members of the Executive Committee who, through their abilities and their commitment, contribute the most to the Group's performance.

The total number of stock options that could be granted within the scope of this authorisation may not give entitlement to subscribe for or purchase a total number of shares representing more than 0.6% of the share capital at the date of the decision made by the Board of Directors.

The exercise price would be calculated as follows:

- the purchase price of the shares by the beneficiaries will be set without a discount, on the date when the stock options are granted; this price may not be lower than either the average of the closing trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date when the options are granted, or the average purchase price of the shares held by the Company pursuant to Articles L. 225-208 and L. 225-209 of the French Commercial Code;
- the subscription price of the shares by the beneficiaries would be set without a discount, on the date when the stock options are granted; this price may not be lower than the average of the closing trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date when the options are granted.

Except in special circumstances, the options will be granted each year, after publication of the financial statements for the previous financial year.

Any allocations of stock options will be decided by the Board of Directors, on the basis of the proposals of the Human Resources and Remuneration Committee, after assessment of their performance.

The quantities of options that may be exercised will depend on fulfilment of performance conditions.

These conditions will take into account:

- partly the growth in L'Oréal's sales as compared to a panel of competitors; and
- partly the growth in L'Oréal's operating profit.

The calculation will be based on the average for the full financial year of the lock-up period.

The value of the stock options granted to the corporate officers during a given financial year pursuant to the tenth resolution together with the value of the shares granted free-of-charge to corporate officers during such financial year pursuant to the eleventh resolution may not represent over 10% of the total value of all the stock options granted and shares granted free-of-charge during such financial year pursuant to these two resolutions. The value of the options and the value of the shares shall be the estimated fair value for preparation of the Company's consolidated financial statements under IFRS.

The corporate officers will be obliged to retain a certain number of the shares resulting from the exercise of the stock options in registered form until the termination of their duties. This has been set by the Board of Directors at a number of shares corresponding to 50% of the "*balance of the shares resulting from the exercise of the stock options*". The methods of calculation of this balance are described in the Management Report of the Board of Directors.

Corporate officers who are beneficiaries of stock options to purchase and/or subscribe for shares must not hedge their risks.

A corporate officer may not be granted stock options to purchase and/or subscribe for shares at the time of his departure.

These provisions are in line with the AFEP-MEDEF Code of Corporate Governance of December 2008 to which L'Oréal has chosen to refer.

If the Annual General Meeting votes in favour of this tenth resolution, any allocations of stock options for the purchase or subscription of shares will be decided by the Board of Directors on the basis of the proposals by the General Management examined by the Human Resources and Remuneration Committee.

This authorisation would be granted for a period limited to 26 months as from the date of the decisions made by the Annual General Meeting.

5.1.2.3. Authorisation to the Board of Directors to make free grants of existing shares and/or shares to be issued to employees and corporate officers (eleventh resolution)

It is proposed that the Annual General Meeting should authorise the Board of Directors to make, on one or more occasions, free grants of existing shares or shares to be issued, to employees and corporate officers of the Company and French or foreign affiliates as defined by Article L. 225-197-2 of the French Commercial Code, or certain categories of such employees or corporate officers.

Up until now, with regard to long-term incentives, the corporate officers and the employees holding key responsibilities including Executive Committee members were only rewarded through the granting of stock options. In order to develop a more balanced policy between the various instruments granted to motivate and foster loyalty among the employees and corporate officers, it is proposed that part of these stock options should be replaced in future by free grants of shares.

To accompany the change in this long-term incentive policy, the number of shares that could be granted free-of-charge pursuant to this authorisation may not represent over 0.6% of the share capital at the time of the Board of Directors' decision.

It is proposed to the Annual General Meeting that the free grant of shares to beneficiaries should become final and binding, subject to satisfaction of the other conditions set at the time of grant, for all or part of the shares granted:

1. either at the end of a minimum vesting period of four years, in such case without any minimum holding period;
2. or at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of final grant thereof.

The Board of Directors will have the possibility, in any case, to set longer vesting or holding periods than these minimum periods, including in the event that the minimum holding period is abolished, which will make it possible, in particular, to adapt to the various local constraints.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares and the performance conditions to be met for the final vesting of all or part of the shares.

These performance conditions will take into account:

- partly the growth in L'Oréal's sales as compared to a panel of competitors; and
- partly the growth in L'Oréal's operating profit.

The calculation will be based on the average for the full financial year of the lock-up period.

These performance conditions will apply to all the individual grants of more than 200 free shares per Plan, with the exception of those for the corporate officers and the Executive Committee, to which they will apply in full.

The free grant of shares may be carried out without any performance condition within the scope of a grant made (i) to all the employees and corporate officers of the Company and, where applicable, affiliates as defined by Article L. 3332-14 of the French Labour Code or Article 217 *quinquies* of the French Tax Code, or (ii) to employees and corporate officers of foreign companies subscribing to an increase in capital carried out pursuant to the twelfth resolution of the Annual General Meeting or participating in an employee share ownership transaction through the sale of existing shares or (iii) to employees who are not members of the Executive Committee for no more than 200 of the shares that are granted to them free-of-charge within the scope of each of the plans decided by the Board of Directors.

Except in specific circumstances, the free shares will be granted each year, after the publication of the financial statements for the previous financial year.

Any grants of shares to the corporate officers will be decided by the Board of Directors, on the basis of the proposals of the Human Resources and Remuneration Committee, after assessment of their performance.

The value of the stock options granted to the corporate officers during a given financial year pursuant to the tenth resolution together with the value of the shares granted free-of-charge to corporate officers during such financial year pursuant to the eleventh resolution may not represent over 10% of the total value of all the stock options granted and shares granted free-ofcharge during such financial year pursuant to these two resolutions. The value of the options and the value of the shares shall be the estimated fair value for preparation of the Company's consolidated financial statements under IFRS.

The corporate officers will be obliged to retain 50% of the shares granted free-of-charge that will be 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 shares free-of-charge at the time of his departure.

These provisions are in line with the AFEP-MEDEF Code of Corporate Governance of December 2008 to which L'Oréal has chosen to refer.

If the Annual General Meeting votes in favour of the eleventh resolution, any free grants of shares will be decided by the Board of Directors on the basis of the proposals by the General Management examined by the Human Resources and Remuneration Committee.

The authorisation requested of the Annual General Meeting would be granted for a period limited to 26 months as from the decision by the Annual General Meeting. This time limit would coincide with the end of the authorisation to grant stock options for the purchase and subscription of shares also put to the vote of the Annual General Meeting.

5.1.2.4. Corresponding authorisation for the purpose of carrying out a capital increase reserved for employees (twelfth resolution)

The delegation of authority granted to the Board of Directors to increase the share capital, and the authorisations to grant stock options to subscribe for shares and to make free grants of shares to be issued, give rise to a corresponding obligation to submit to the Annual General Meeting a draft resolution enabling a potential capital increase to be carried out reserved for employees.

In accordance with Article L. 3332-19 of the French Labour Code, the issue price may not be higher than the average of the trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period. It also may not be over 20% lower than this average, it being specified that the Board of Directors, or the person to whom it delegates, if it deems it appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account legal and tax regimes applicable in the countries of residence of the beneficiaries of the capital increase.

The Annual General Meeting is therefore asked to delegate to the Board of Directors the authority to decide to carry out this increase in capital for a period of 26 months and within the limit of 1% of the share capital, namely for information purposes at February 10th, 2011, an increase in share capital of a maximum amount of €1,202,754 through the issue of 6,013,772 new shares; it is specified that the amount of the increases in capital that may be carried out pursuant to the twelfth resolution will be deducted from the total ceiling for increases in capital provided for in the ninth resolution presented to this Annual General Meeting.

5.1.2.5. Powers for formalities (thirteenth resolution)

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

5.2. Draft Resolutions Ordinary and Extraordinary General Meeting of April 22nd, 2011

5.2.1. Ordinary Part

First resolution

Approval of the 2010 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 2010 Parent Company financial statements showing net income of €1,995,329,601.31 compared with €1,841,772,283.85 for 2009.

Second resolution

Approval of the 2010 consolidated financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the 2010 consolidated financial statements.

Third resolution

Allocation of the Company's net income for 2010 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 2010 financial year, amounting to €1,995,329,601.31 as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	-
An amount of will be allocated to the shareholders as a dividend (1)	€1,082,479,023.00
The balance that is will be allocated to the "Other reserves" item	€912,850,578.31

(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 February 10th, 2011, and will be adjusted to reflect the number of shares issued between that date and the date of payment of this dividend following the exercise of stock options with 2010 dividend rights.

The Annual General Meeting therefore declares a dividend to be paid for the financial year of €1.80 per share.

The ex dividend date will be Friday April 29th, 2011 and the dividend will be paid to the shareholders on Wednesday May 4th, 2011.

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:

	2007	2008	2009
Dividend per share	€1.38	€1.44	€1.50

Fourth resolution

Renewal of the tenure as Director of Mrs. Liliane Bettencourt

The Annual General Meeting renews the tenure as Director of Mrs. Liliane Bettencourt for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2015 to review the financial statements for the previous financial year.

Fifth resolution

Renewal of the tenure as Director of Mrs. Annette Roux

The Annual General Meeting renews the tenure as Director of Mrs. Annette Roux for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2015 to review the financial statements for the previous financial year.

Sixth resolution

Renewal of the tenure as Director of Mr. Charles-Henri Filippi

The Annual General Meeting renews the tenure as Director of Mr. Charles-Henri Filippi for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2015 to review the financial statements for the previous financial year.

Seventh resolution

Setting of the amount of attendance fees

The Annual General Meeting allocates a maximum total amount of €1,300,000 to the Board of Directors as annual attendance fees, until another decision is made by the Annual General Meeting.

Eighth 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 February 10th, 2011, 60,137,723 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 amounts 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;
- 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;
- stabilising the market through a liquidity agreement entered into with an investment services provider;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase of these shares may be carried out by any means, on one or more occasions, on or off the stock markets, including through the acquisition of blocks of shares.

These transactions may be carried out at any time, in accordance with the regulations in force at the time of the transactions concerned, except during periods of public offers with regard to the Company's capital.

The Annual General Meeting decides that this authorisation 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.

5.2.2. Extraordinary Part

Ninth resolution

Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or *via* the capitalisation of share premiums, reserves, profits or other amounts

The Annual General Meeting, having reviewed the report of the Board of Directors and in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code, in particular Article L. 225-129-2 of the French Commercial Code:

1. delegates to the Board of Directors the authority to decide on one or more increases in the share capital:

a) through the issue of ordinary shares of the Company,

b) and/or *via* the capitalisation of share premiums, reserves, profits or other amounts in the form of allocations of bonus shares or an increase in the par value of existing shares.

The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months as from the date of this meeting;

2. decides that the total amount of the capital increases that may thus be carried out may not lead to the share capital, which amounts to €120,275,447 as of February 10th, 2011, being increased to over €180,000,000;

3. decides, if the Board of Directors uses this delegation of authority within the scope of the share issues referred to in paragraph 1.a that:

a) the shareholders will have a preferential subscription right to the shares issued pursuant to this resolution, in proportion to the amount of their shares,

b) if subscriptions made by shareholders by way of right on the basis of the shares they hold and, where applicable, their subscriptions for excess shares, do not cover the full number of shares issued, the Board of Directors will be able to offer to the public all or part of the non-subscribed shares;

4. decides that, if the Board of Directors uses this delegation of authority within the scope of capitalisations of share premiums, reserves, profits or other amounts referred to in paragraph 1.b, where applicable, in accordance with the provisions of Article L. 225-130 of the French Commercial Code, the fractional share rights will not be negotiable or transferable and the corresponding shares will be sold; the amounts derived from the sale will be allocated to the holders of the rights within thirty days at the latest after entry in their account of the whole number of shares allocated;

5. records that this delegation renders ineffective any prior delegation for the same purpose.

Tenth resolution

Authorisation to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares to employees and corporate officers

The Annual General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors:

- authorises the Board of Directors to grant options to purchase existing shares and/or options to subscribe for new shares of L'Oréal, to employees or corporate officers of both L'Oréal or French or foreign companies or economic interest groupings that are directly or indirectly affiliated with it under the conditions of Article L. 225-180 of the French Commercial Code;
- sets at 26 months from the date of this General Meeting the period of validity of this authorisation which may be used on one or more occasions;
- decides that the total number of stock options thus granted may not give entitlement to subscribe for or purchase a total number of shares representing more than 0.6% of the share capital at the date of the decision made by the Board of Directors, it being specified that this maximum number of shares, either existing or to be issued, does not take into account the number of additional shares that may be issued due to an adjustment of the stock options under the conditions provided for by the French Commercial Code;
- decides that the value of the stock options granted to the corporate officers during a given financial year pursuant to this tenth resolution together with the value of the shares granted free-of-charge to corporate officers during such financial year pursuant to the eleventh resolution may not represent over 10% of the total value of all the stock options granted and the shares granted free-of-charge during such financial year pursuant to these two resolutions. The value of the options and the value of the shares shall be the estimated fair value for preparation of the Company's consolidated financial statements under IFRS;
- decides that the exercise of the options will be linked to performance conditions to be met, which will be set by the Board of Directors;
- decides that:
  - the purchase price of the shares by the beneficiaries will be set without a discount, on the date when the stock options are granted; this price may not be lower than either the average of the closing trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date when the options are granted, or the average purchase price of the shares held by the Company pursuant to Articles L. 225-208 and L. 225-209 of the French Commercial Code,
  - the subscription price of the shares by the beneficiaries would be set without a discount, on the date when the stock options are granted; this price may not be lower than the average of the closing trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date when the options are granted;
- decides that the options must be exercised within a maximum period of 10 years as from the date on which they are granted;
- decides that if the Company carries out financial transactions in particular affecting the capital after the allocation of the options, the Board of Directors will take the necessary steps to protect the interests of the beneficiaries of the options under the conditions provided for by the laws and regulations;
- records that this authorisation entails, in favour of the beneficiaries of options to subscribe for shares, express waiver by the shareholders of their preferential subscription rights to the shares that will be issued as and when the options are exercised;

- delegates full powers to the Board of Directors, with the possibility to further delegate to the Chief Executive Officer, to set the other terms and conditions for allocation of the options and their exercise, and notably to:

– provide for the possibility to temporarily suspend the exercise of options, in the event that any financial or securities transactions are carried out,

– deduct, if it deems it appropriate, the expenses incurred to increase the share capital from the amount of the share premiums related to these increases and deduct from this amount the sums required to raise the legal reserve to one-tenth of the new share capital after each capital increase;

- delegates full powers to the Board of Directors to implement this authorisation, with the possibility to further delegate in accordance with the conditions of the laws and regulations, and particularly to record the increases in the share capital resulting from the options which are exercised, to amend the Articles of Association accordingly, to carry out all actions and formalities or have them carried out, and more generally to do all that is necessary;

- records that this authorisation renders ineffective, as from the date hereof, any previous authorisation for the same purpose, to the extent of the unused part, if any.

Eleventh resolution

Authorisation to the Board of Directors to make free grants of existing shares and/or shares to be issued to employees and corporate officers

The Annual General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors, in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code:

- authorises the Board of Directors to make, on one or more occasions, to employees and corporate officers of the Company and of French and foreign affiliates as defined by Article L. 225-197-2 of the French Commercial Code or certain categories of such employees or corporate officers, free grants of existing shares or shares to be issued of L'Oréal;

- sets at 26 months as from the date of this meeting, the period of validity of this authorisation which may be used on one or more occasions;

- decides that the number of free shares thus granted may not represent more than 0.6% of the share capital at the date of the decision made by the Board of Directors, it being specified that this maximum number of shares, either existing or to be issued, does not take into account the number of additional shares that may be allocated due to an adjustment in the number of shares granted initially as the result of a transaction affecting the Company's capital;

- decides that the value of the stock options granted to the corporate officers during a given financial year pursuant to the tenth resolution together with the value of the shares granted free-of-charge to corporate officers during such financial year pursuant to the eleventh resolution may not represent over 10% of the total value of all the stock options granted and the shares granted free-of-charge during such financial year pursuant to these two resolutions. The value of the options and the value of the shares shall be the estimated fair value for preparation of the Company's consolidated financial statements under IFRS;

- decides that the Board of Directors will determine the identity of the beneficiaries of the grants, and the number of shares granted free-of-charge to each of them as well as the conditions to be met for the grant to become definitive, and in particular the performance conditions, it being specified that the grant of shares free-of-charge may be carried out without any performance condition within the scope of a grant made (i) to all the employees and corporate officers of L'Oréal and, where applicable, of its affiliates, as defined by Article L. 3332-14 of the French Labour Code or Article 217 *quinquies* of the French Tax Code, or (ii) to employees and corporate officers of foreign companies subscribing to an increase in capital carried out pursuant to the twelfth resolution of this Annual General Meeting or participating in an employee share ownership transaction through the sale of existing shares or (iii) to employees who are not members of the Executive Committee for at most 200 of the shares that are granted to them free-of-charge with the scope of each of the plans decided by the Board of Directors;

- decides that the grant of such shares to their beneficiaries will become final and binding, subject to satisfaction of the other conditions set at the time of grant, for all or part of the shares granted:

– either at the end of a minimum vesting period of four years, in such case without any minimum holding period,

– or at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of the final grant thereof;

- decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (*Code de la sécurité sociale*) and that such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code;

- authorises the Board of Directors to make, where applicable, during the vesting period, adjustments to the number of shares, related to any potential transactions with regard to the Company's capital within the meaning of Article L. 225-181 of the French Commercial Code, in order to preserve the rights of the beneficiaries;
- records that this authorisation automatically entails, in favour of the beneficiaries of shares granted free-of-charge, the waiver by the shareholders of their preferential subscription rights and the portion of the reserves which, where applicable, will be used in the event of the issue of new shares;
- delegates full powers to the Board, with the possibility to delegate within the legal limits, to implement this authorisation, it being specified that the Board of Directors will be able to provide for longer vesting and holding periods than the minimum periods provided for above.

Twelfth resolution

Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees

The Annual General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors, deciding under the quorum and majority requirements for extraordinary general meetings, and acting in accordance with the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code:

- delegates to the Board of Directors the authority to carry out, on one or more occasions, on its own decisions, in the proportions and at the times it may consider appropriate, the issue of shares or securities giving access to the Company's capital reserved for employees, and eligible former employees, of the Company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code, who are members of a Company savings scheme;
- decides to cancel the preferential subscription right of shareholders for the shares or securities giving access to the Company's capital, it being specified that the subscription of the shares or securities giving access to the Company's capital issued in accordance with this resolution may be carried through any employee investment fund or other collective body authorised by the regulations;
- sets the period of validity of this delegation at 26 months as from the date of this General Meeting, and records that this delegation renders ineffective any prior delegation for the same purpose, for the unused part thereof;
- decides to set at 1% of the share capital existing at the date of this General Meeting, the capital increase that could thus be completed (that is, for information purposes as at February 10th, 2011, an increase in the share capital by a maximum nominal amount of €1,202,754 through the issue of 6,013,772 new shares);
- decides that the amount of the increases in capital that may be carried out pursuant to this resolution will be deducted from the total ceiling for increases in capital provided for in the ninth resolution presented to this Annual General Meeting;
- decides that the subscription price may include a discount as compared with the average of the trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period. Such discount may not exceed 20% of this average, it being specified that the Board of Directors, or the person to whom it delegates, if it deems it appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account legal and tax regimes applicable in the countries of residence of the beneficiaries of the capital increase;
- decides, pursuant to Article L. 3332-21 of the French Labour Code, that the Board of Directors may provide for the free grant to the beneficiaries specified above, of shares that have already been issued or are to be issued, as an additional employer contribution that may be paid pursuant to the employee savings scheme regulations, and/or in respect of the discount, provided that taking into account their equivalent monetary value, assessed on the basis of the subscription price, it does not lead to the limits provided for in Articles L. 3332-11 and L.3332-19 of the French Labour Code being exceeded;
- decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions provided for by law, to implement this delegation of authority within the limits and under the conditions specified above in particular in order to:
  - set the conditions that must be met by the employees and eligible former employees to be able to subscribe, individually or through an employee investment fund, for the shares issued pursuant to this delegation,
  - decide on the list of the companies whose employees may benefit from the share issue,
  - decide on the amount to be issued, the features, where applicable, of the securities giving access to the Company's capital, the issue price, the dates of the subscription period and the terms and conditions of each share issue,
  - set the time period allotted to the beneficiaries to pay up their shares or securities and the payment terms,
  - set the date, even with retrospective effect, as of which the new shares will carry dividend rights,

– deduct, where applicable, the costs, taxes and fees of such issues from the amount of the share premiums and deduct, where applicable, from the amounts of the share premiums, the amounts required to increase the legal reserve to the level required by the French legislation and regulations in force,

– in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be appropriate or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

Thirteenth resolution

Powers for formalities

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

6 Additional information

6

6.1. General information relating to the Company

6.1.1. Share capital

See information on pages 87 to 92 of this Document.

6.1.2. Legal form

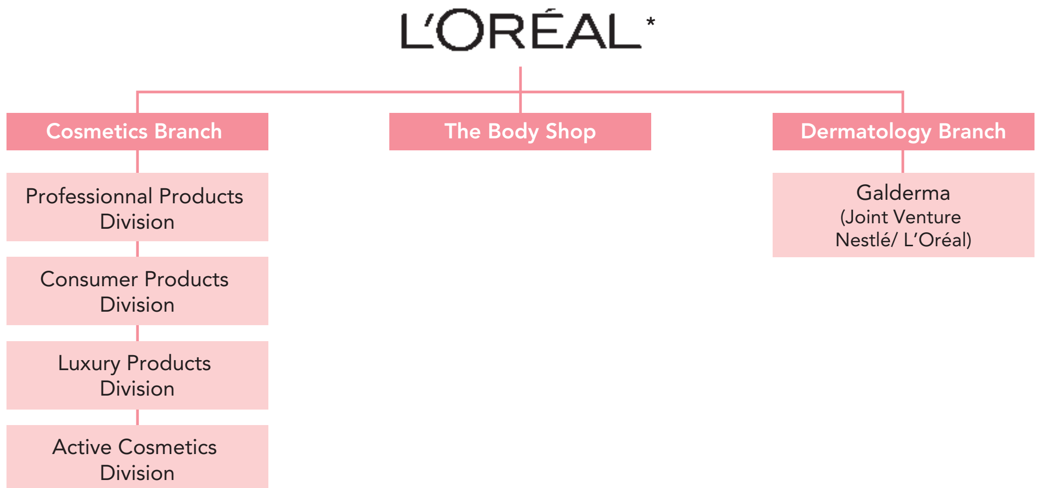
L'Oréal is incorporated in France as a "*société anonyme*".

6.1.3. Law governing the Issuer

French law.

6.1.4. Business activity

The L'Oréal Company, in addition to its role of strategic, scientific and industrial coordination of the Group on a global basis, also functions as a holding Company and performs a sales activity that is specific to France. Most of the subsidiaries have a role of development and marketing of the products made in the Group's factories. L'Oréal wholly owns the vast majority of its subsidiaries (see the organisation chart set out below). In the other subsidiaries, minority interests are not material. It also has substantial investments in non-consolidated companies (see pages 58 to 63 and pages 163 to 167).



* Almost all subsidiaries are directly attached to L'Oréal S.A. 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 58 to 63 and 163 to 167 respectively.

6.1.5. Date of Incorporation and term of the Company (Article 5 of the Articles of Association)

"The Company's term shall be ninety-nine years, which began to run on January 1st, 1963 and which shall thus expire on December 31st, 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association."

6.1.6. Purpose of the Company (extracts from Article 2 of the Articles of Association)

"The Company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows:

- the manufacturing and the sale of cosmetics products in general; of all devices intended for the same uses as the products listed above; of all household maintenance products; of all products and articles relating to feminine and child hygiene and to the embellishment of human beings; the demonstration and advertising of such products; the manufacturing of packaging articles;

- the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution;
- all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the Company's interest, in any form whatsoever;
- the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies, the contribution to pre-existing companies, the merger or the alliance with such companies."

6.1.7. Company registration number

632 012 100 Paris Trade and Companies Registry.

6.1.8. Consultation of documents relating to the Company

The Articles of Association, financial statements, reports and information for shareholders can be consulted at 41 rue Martre, 92117 Clichy, France, preferably by appointment. See also the www.loreal-finance.com website.

6.1.9. 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."

6.1.10. Fiscal year (Article 14 of the Articles of Association)

"Each fiscal year shall have a duration of twelve months, to begin on January 1st and to end on December 31st of each year."

6.1.11. 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.

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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."

6.1.12. Annual General Meetings

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection.

Since the Annual General Meeting of April 29th, 2004, double voting rights have been eliminated.

6.1.13. Statutory share ownership threshold

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or to a multiple of this percentage lower than 5%, is required to inform the Company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association). This provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, of thresholds relating to one-twentieth, one-tenth, three-twentieths, one-fifth, one-quarter, 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 Articles of Association on the www.loreal-finance.com internet site.

6.2. The L'Oréal share

6.2.1. Information on the L'Oréal share

Isin code: FR0000120321.

Loyalty bonus code:

- dividend +10% in 2012: FR0010833269
- dividend +10% in 2013: FR0010970285

Minimum lot: 1 share.

Par value: €0.2.

Trading on the spot market of the Paris Stock Exchange.

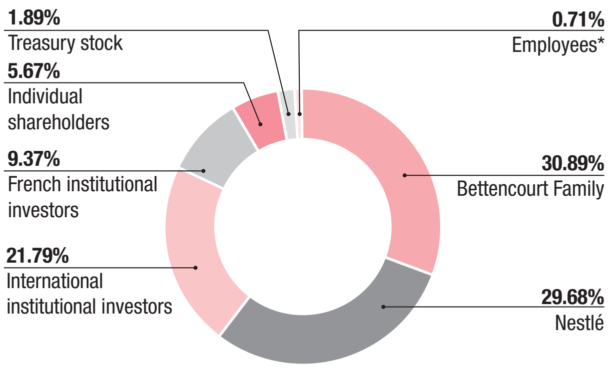
Eligible for the Deferred Settlement Service (SRD).

Unsponsored American Depositary Receipts are freely traded in the United States through certain banks operating in the United States.

6.2.2. Share price

Price at December 31st, 2010	€83.08
High	€88.00 at October 21st, 2010
Low	€70.90 at May 7th, 2010
Annual share price increase at December 31st, 2010	
• L'Oréal	+6.51%
• CAC 40	-3.34%
• Euronext 100	+1.03%
• DJ Euro Stoxx 50	-5.81%
Market capitalisation at December 31st, 2010	€49.93 billion
At December 31st, 2010, the L'Oréal share weighed:	
• in the CAC 40	2.86%
• in the Euronext 100	3.06%
• in the DJ Euro Stoxx 50	1.26%

Breakdown of share ownership as at December 31st, 2010



*In L'Oréal's employee saving plans.

6.3. L'Oréal share market

6.3.1. Trading volume 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	
2008				
January	99.26	74.25	86.62	205.43
February	87.89	77.87	81.85	135.27
March	82.73	75.56	78.72	137.87
April	85.19	72.47	77.70	154.00
May	79.65	76.26	77.81	102.11
June	78.70	66.00	73.06	110.42
July	70.38	60.62	66.51	118.92
August	75.10	66.27	69.99	95.28
September	78.50	67.24	71.84	149.52
October	70.80	53.32	63.39	183.47
November	67.90	57.78	62.10	109.40
December	64.80	58.26	61.86	81.26

	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

Change in the L'Oréal share price compared to the CAC 40 index from January 1st, 2007 to February 28th, 2011

6.3.2. Total Shareholder Return

Amongst the various economic and financial indicators used to measure shareholder value, L'Oréal has chosen to apply the criterion of Total Shareholder Return (TSR). This indicator takes into account not only the value of the share but also the dividend income received (excluding tax credits).

6.3.2.1. 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
12.31.2005	Purchase of 239 shares at €62.80	15,009.20		239
05.10.2006	Dividend: €1.00 per share		239.00	239
	Reinvestment: purchase of 4 shares at €72.65	290.60		243
05.03.2007	Dividend: €1.18 per share		286.74	243
	Reinvestment: purchase of 4 shares at €86.67	346.68		247
04.30.2008	Dividend: €1.38 per share		340.86	247
	Reinvestment: purchase of 5 shares at €76.21	381.05		252
04.24.2009	Dividend: €1.44 per share		362.88	252
	Reinvestment: purchase of 7 shares at €52.015	364.11		259
05.05.2010	Dividend: €1.50 per share		388.50	259
	Reinvestment: purchase of 6 shares at €76.77	460.62		265
Total		16,852.26	1,617.98	
Total net investment		**15,234.28**		

Portfolio value at 12.31.2010 (265 shares at €83.08): €22,016.20.

The initial capital has thus been multiplied by 1.47 over 5 years (5-year inflation rate = 7.8% - Source: INSEE) and the final capital is 1.45 times the total net investment.

The Total Shareholder Return of the investment is thus 7.76% per year (assuming that the shares are sold on December 31st, 2010, excluding tax on capital gains).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.3.2.2. 10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.2000	Purchase of 164 shares, at €91.30	14,973.20		164
06.08.2001	Dividend: €0.44 per share, excluding tax credit		72.16	164
	Reinvestment: purchase of 1 share at €78.15	78.15		165
06.04.2002	Dividend: €0.54 per share, excluding tax credit		89.10	165
	Reinvestment: purchase of 2 shares at €74.95	149.90		167
05.27.2003	Dividend: €0.64 per share, excluding tax credit		106.88	167
	Reinvestment: purchase of 2 shares at €61.10	122.20		169
05.14.2004	Dividend: €0.73 per share. excluding tax credit		123.37	169
	Reinvestment: purchase of 2 shares at €63.65	127.30		171
05.11.2005	Dividend: €0.82 per share		140.22	171
	Reinvestment: purchase of 3 shares at €56.50	169.50		174
05.10.2006	Dividend: €1.00 per share		174.00	174
	Reinvestment: purchase of 3 shares at €72.65	217.95		177
05.03.2007	Dividend: €1.18 per share		208.86	177
	Reinvestment: purchase of 3 shares at €86.67	260.01		180
04.30.2008	Dividend: €1.38 per share		248.40	180
	Reinvestment: purchase of 4 shares at €76.21	304.84		184
04.24.2009	Dividend: €1.44 per share		264.96	184
	Reinvestment: purchase of 6 shares at €52.015	312.09		190
05.05.2010	Dividend: €1.50 per share		285.00	190
	Reinvestment: purchase of 4 shares at €76.77	307.08		194
Total		17,022.22	1,712.95	
Total net investment		**15,309.27**		

Portfolio value at 12.31.2010 (194 shares at €83.08): €16,117.52.

The initial capital has thus been multiplied by 1.08 over 10 years (10-year inflation rate = 18.8% - Source: INSEE) and the final capital is 1.05 times the total net investment.

The Total Shareholder Return of the investment is thus: 0.52% per year (assuming that the shares are sold on December 31st, 2010, excluding tax on capital gains).

NOTE: any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.3.2.3. 20-year evolution of a portfolio of approximately €15.000 invested in L'Oréal shares with reinvestment of coupons and share attribution rights

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1990	Purchase of 209 shares. at €71.80	15,006.20		209
06.28.1991	Dividend: €1.06714 per share. excluding tax credit		223.03	209
	Reinvestment: purchase of 3 shares at €87.20	261.60		212
06.26.1992	Dividend: €1.28057 per share. excluding tax credit		271.48	212
	Reinvestment: purchase of 2 shares at €140.255	280.51		214
06.25.1993	Dividend: €1.46351 per share. excluding tax credit		313.19	214
	Reinvestment: purchase of 2 shares at €167.69	335.38		216
06.28.1994	Dividend: €1.64645 per share. excluding tax credit		355.63	216
	Reinvestment: purchase of 3 shares at €167.69	503.07		219
06.28.1995	Dividend: €1.85988 per share. excluding tax credit		407.31	219
	Reinvestment: purchase of 3 shares at €185.84	557.52		222
06.28.1996	Dividend: €2.02757 per share. excluding tax credit		450.12	222
	Reinvestment: purchase of 2 shares at €260.54	521.08		224
07.01.1996	Issue of bonus shares (1 for 10)			246
07.31.1996	Compensation for 4 unused share attribution rights at €22.85668 per right		91.43	246
	Reinvestment: purchase of 1 share at €236.91	236.91		247
07.01.1997	Dividend: €2.13429 per share. excluding tax credit		527.17	247
	Reinvestment: purchase of 2 shares at €393.93	787.86		249
06.12.1998	Dividend: €2.43918 per share. excluding tax credit		607.36	249
	Reinvestment: purchase of 2 shares at €473.05	946.10		251
06.15.1999	Dividend: €2.82031 per share. excluding tax credit		707.90	251
	Reinvestment: purchase of 2 shares at €586.50	1,173.00		253
06.15.2000	Dividend: €3.40 per share. excluding tax credit		860.20	253
	Reinvestment: purchase of 2 shares at €825.00	1,650.00		255
07.03.2000	Ten-for-one share split			2,550
06.08.2001	Dividend: €0.44 per share. excluding tax credit		1,122.00	2,550
	Reinvestment: purchase of 15 shares at €78.15	1,172.25		2,565
06.04.2002	Dividend: €0.54 per share. excluding tax credit		1,385.10	2,565
	Reinvestment: purchase of 19 shares at €74.95	1,424.05		2,584
05.27.2003	Dividend: €0.64 per share. excluding tax credit		1,653.76	2,584
	Reinvestment: purchase of 28 shares at €61.10	1,710.80		2,612
05.14.2004	Dividend: €0.73 per share. excluding tax credit		1,906.76	2,612
	Reinvestment: purchase of 30 shares at €63.65	1,909.50		2,642
05.11.2005	Dividend: €0.82 per share		2,166.44	2,642
	Reinvestment: purchase of 39 shares at €56.50	2,203.50		2,681
05.10.2006	Dividend: €1.00 per share		2,681.00	2,681
	Reinvestment: purchase of 37 shares at €72.65	2,688.05		2,718
05.03.2007	Dividend: €1.18 per share		3,207.24	2,718
	Reinvestment: purchase of 38 shares at €86.67	3,293.46		2,756
04.30.2008	Dividend: €1.38 per share		3,803.28	2,756
	Reinvestment: purchase of 50 shares at €76.21	3,810.50		2,806
04.24.2009	Dividend: €1.44 per share		4,040.64	2,806
	Reinvestment: purchase of 78 shares at €52.015	4,057.17		2,884
05.05.2010	Dividend: €1.50 per share		4,326.00	2,884
	Reinvestment: purchase of 57 shares at €76.77	4,375.89		2,941
Total		48,904.40	31,107.04	
Total net investment		**17,797.36**		

Portfolio value at 12.31.2010 (2,941 shares at €83.08): €244,338.28.

The initial capital has thus been multiplied by 16.28 over 20 years (20-year inflation rate = 38.7% - Source: INSEE) and the final capital is 13.73 times the total net investment.

The Total Shareholder Return of the investment is thus 14.61% per year (assuming that the shares are sold on December 31st, 2010, excluding tax on capital gains).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

6.3.3. Dividends

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the *Caisse des Dépôts et Consignations*.

6.4. Investment policy

L'Oréal is an industrial Company whose development is governed by three types of investment:

1. scientific investments and investments in equipment which are explained at length in several sections of the Annual Report (see, in particular, Volume 1, pages 74 and 84);
2. marketing investments which are made on an ongoing basis and inherent to the Group's activities, particularly in the cosmetics industry. In order to win new market shares, thorough research has to be conducted all over the world, and advertising and promotional expenses have to be incurred which are modulated depending on the familiarity of the brands and their competitive position;
3. financial investments which are strictly occasional. They reflect a strategy of moderate external growth which is implemented essentially with a view to exploiting long term opportunities.

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

Around a third of the Investments of approximately €680 million in 2010 concern production and physical distribution, while marketing investments, including moulds, POS and boutiques, account for 45%. The balance relates to Research and headquarters in different countries. IT investments spread over all these categories represented 15% of total investments. (See note 12 on page 31 and note 14 on page 34 of this document).

6.5. Information policy

L'Oréal is pursuing its policy of ongoing improvement in the quality of its financial information and its dialogue with its shareholders and with French and international investors.

In 2010, L'Oréal's Financial Communications Department took care to reinforce and enhance the information provided to shareholders and multiplied the opportunities for meetings and exchanges with the financial community.

Increasingly high-performing financial communication tools:

The Annual Report, the Reference Document and Letters to Shareholders were regularly improved by enriching their content and extending their circulation, particularly with the increase in the number of shareholders holding registered shares. A Shareholder Guide, republished in autumn 2010, is proposed to all those who want to learn more about the L'Oréal share and take part in the L'Oréal adventure.

Numerous shareholder events for a regular, 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 operating 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 seventh 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;
- for the second year 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;
- more and more shareholders are becoming interested in transferring their shares to registered form. A specific communication campaign was carried out in the autumn of 2010 about this method of shareholding and the preferential dividend proposed;
- 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. Themes such as the Annual General Meeting, digital communication, extra-financial communication, or development of the cosmetics market are covered during the meetings;
- the Investor Relations Department organises numerous meetings throughout the year with institutional investors in the main international financial market places.
- 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 2010 with in particular a totally interactive presentation of the activity report of the Operational Divisions.

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 (see also the shareholder pages in Volume 1, pages 80 and 81).

6.6. Recent events and prospects

See subsequent events in the consolidated financial statements page 57 and prospects page 72.

February 10th, 2011

2010 Annual Results news release: strong growth in sales and profit.

The full text of this news release is available online and can be consulted on the www.loreal-finance.com website.

Sir Lindsay Owen-Jones informed the Appointments and Governance Committee, at its meeting on February 9th, 2011, and then the Board of Directors, at its meeting on February 10th, 2011, that he wished to complete the transfer of responsibilities to his successor before his 65th birthday on March 17th 2011, as planned from the outset and announced at the Annual General Meeting in 2005. The Board of Directors voted unanimously in favour of appointing Mr Jean-Paul Agon as Chairman and CEO of L'Oréal.

February 25th, 2011

Galderma declares its offer for Q-Med unconditional and will acquire all tendered shares.

To the knowledge of the Company, at February 28th, 2011, no event has occurred that could have a significant impact on the financial or commercial situation of the Group since December 31st, 2010.

6.7. Auditors

		Current appointments		
2008, 2009 and 2010	**Date of first appointment**	**Date of appointment**	**Term of office**	**Expiry date**
Auditors				
PricewaterhouseCoopers Audit Auditor, member of the "Compagnie Régionale de Versailles", represented by Etienne Boris 63 rue de Villiers 92200 Neuilly-sur Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
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	AGM reviewing the financial statements for 2015 to be held in 2016
Substitute auditors				
Mr. Yves Nicolas 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Société BEAS sise 7, Villa Houssay 92524 Neuilly-sur-Seine Cedex	April 27th, 2010	April 27th, 2010	6 years	

6.8. Fees of Auditors and members of their networks charged to the Group

See note 30 to consolidated financial statements on page 57 of this document.

6.9. Historical financial information included by reference

In accordance with Article 28 of European Regulation EC No. 809-2004 of April 29th, 2004, this 2010 Reference Document contains the following information by reference:

- 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 Reference 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 Reference Document;
- the consolidated financial statements for the year ended December 31st, 2008, prepared in accordance with IFRS and the related Statutory Auditors' report presented on pages 4 to 57 and page 188 of Volume 2 of the 2008 Reference Document filed with the *Autorité des Marchés Financiers* on March 20th, 2009 under the number D. 09-0141, and also information extracted from the 2008 Management Report presented on pages 60 to 67 of Volume 2 of the Reference Document.

7 Statutory Auditors' reports and Declaration

* *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.*

7.1. Statutory Auditors' report on the financial statements

(Year ended December 31st, 2010)

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.

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2010, on:

- the audit of the accompanying financial statements of L'Oréal;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2010, and of the results of its operations for the year then ended in accordance with French accounting principles.

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.

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 favour, 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 purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Neuilly-sur-Seine, February 18th, 2011

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 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.

7.2. Statutory Auditors' report on the consolidated financial statements

(Year ended December 31st, 2010)

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.

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2010, on:

- the audit of the accompanying consolidated financial statements of L'Oréal;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements, based on our audit.

Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit 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, 2010 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Justification of our assessments

In accordance with the requirements of Article L. 823-9 of 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.

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, February 18th, 2011

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.

7.3. 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, 2010)

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, 2010.

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, February 18th, 2011

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. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.4. Statutory Auditors' special report on regulated agreements and commitments with third parties

(Annual General Meeting held to approve the financial statements for the year ended December 31st, 2010)

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, 2011, the fixed remuneration amounts to €1,584,000 and variable remuneration to €1,320,000;

– 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, February 18th, 2011

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 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.

7.5. Statutory Auditors' special report on the granting of share subscription and/or purchase options to employees and corporate officers

(Ordinary and Extraordinary Shareholders' Meeting of April 22nd, 2011 – Tenth resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Articles L. 225-177 and R. 225-144 of the French Commercial Code (*Code de commerce*), we have prepared this report on the granting of share subscription and/or purchase options to employees and corporate officers of L'Oréal and companies or economic interest groupings directly or indirectly affiliated with L'Oréal within the meaning of Article L. 225-180 of the French Commercial Code.

It is the responsibility of the Board of Directors to prepare a report on the reasons for the granting of share subscription and/or purchase options and the proposed terms and conditions for determining the subscription and/or purchase price. It is our responsibility to comment on the proposed terms and conditions for determining the subscription and/or purchase price.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying that the proposed terms and conditions for determining the subscription and/or purchase price are disclosed in the Board of Directors' report, that they comply with legal provisions with regards shareholder information and do not appear obviously inappropriate.

We have no comments to make on the proposed terms and conditions.

Neuilly-sur-Seine, February 18th, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Etienne Boris	David Dupont-Noel

7.6. Statutory Auditors' special report on the free granting of existing shares and/or shares to be issued to employees and corporate officers of the Company

(Ordinary and Extraordinary Shareholders' Meeting of April 22nd, 2011 – Eleventh resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Article L. 225-197-1 of the French Commercial Code (*Code de commerce*), we have prepared this report on the proposed free granting of existing shares and/or shares to be issued to employees and corporate officers of L'Oréal and affiliated companies within the meaning of Article L. 225-197-2 of the French Commercial Code, or to certain categories of employees and corporate officers.

Shareholders are requested to authorize the Board of Directors to grant, for no consideration and on one or more occasions, existing shares and/or shares to be issued. It is the responsibility of the Board of Directors to prepare a report on the transaction it wishes to perform. Our role, where necessary, is to comment on the information provided to the shareholders on the proposed transaction.

These are free translations into English of the Statutory Auditors' special reports issued in French and is provided solely for the convenience of English speaking readers. These reports should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France in relation to this engagement. These procedures consisted in verifying that the proposed terms and conditions presented in the Board of Directors' report comply with the relevant legal provisions.

We have no comments to make regarding the information provided in the Board of Directors' report relating to the proposed transaction.

Neuilly-sur-Seine, February 18th, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Etienne Boris	David Dupont-Noel

7.7. Statutory Auditors' special report on the capital increase reserved for employees of the Company

(Ordinary and Extraordinary Shareholders' Meeting of April 22nd, 2011 – Twelfth resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Articles L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby report to you on the proposal to delegate to the Board of Directors the authority to carry out, on one or more occasions, the issue of shares or securities giving access to the Company's capital with cancellation of preferential subscription rights. Such an increase would be reserved for employees and eligible former employees of the Company and affiliated companies, within the meaning of Article L. 225-180 of the French Commercial Code, who are members of a L'Oréal Group Company savings scheme.

The proposed capital increase is submitted to you for approval pursuant to Article L. 225-129-6 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code (*Code du travail*).

The total number of shares that may be issued, on one or more occasions, pursuant to this delegation of authority, cannot exceed 1% of the Company's share capital as of the date of this Annual General Meeting.

On the basis of its report, the Board of Directors is seeking a twenty-six month delegation of authority to carry out one or several capital increases and the cancellation of shareholders' preferential share subscription rights to the shares to be issued. Where appropriate, the Board of Directors will set the final terms and conditions of the capital increases.

It is the responsibility of the Board of Directors to prepare a report in accordance with Articles R. 225-113 and R. 225-114 of the French Commercial Code. Our role is to comment on the fair presentation of financial data taken from the accounts, on the proposed cancellation of preferential subscription rights and on certain other information concerning the issue presented in this report.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France in relation to this engagement. These procedures consisted in verifying the content of the Board of Directors' report in respect of this transaction and the terms and conditions for determining the share issue price.

Subject to the subsequent review of the terms and conditions of each capital increase that the Board of Directors may decide to carry out pursuant to this delegation of authority, we have no comment to make on the terms and conditions for determining the share issue price as set forth in the Board of Directors' report.

As the share issue price has not yet been set, we cannot comment on the final terms and conditions under which the capital increases would be carried out. As a result, we do not comment on the cancellation of your preferential share subscription rights which the Board of Directors has proposed.

In accordance with Article R. 225-116 of the French Commercial Code, we will prepare an additional report for each share capital increase that your Board of Directors may decide to carry out.

Neuilly-sur-Seine, February 18th, 2011

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Etienne Boris	David Dupont-Noel

These are free translations into English of the Statutory Auditors' special reports issued in French and is provided solely for the convenience of English speaking readers. These reports should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7.8. Person responsible for the Reference Document and the Annual Financial Report

Mr. Christian Mulliez, Executive Vice-President Administration and Finance, on the authority of L'Oréal's Chief Executive Officer, Mr. Jean-Paul Agon.

7.9. Declaration by the person responsible for the Reference Document and the Annual Financial Report

"I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Reference Document is, to the best of my knowledge, in accordance with the facts and that there is no omission likely to affect the fairness of the presentation.

I certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets and liabilities, financial position and profit or loss of the Company and all the other companies included in the scope of consolidation, and that the Management Report in chapter 2 of this present document includes a fair review of the development and performance of the business and the position of the Company and all the other companies included in the scope of consolidation, together with a description of the principal risks and uncertainties that they face.

I have obtained a letter of completion of audit from the Statutory Auditors in which they state that they have verified the information relating to the financial position and the financial statements set out in this Reference Document and have read the Reference Document in its entirety.

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 Reference 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 16th, 2011

On the authority of the Chief Executive Officer,

Christian Mulliez

Executive Vice-President Administration and Finance

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The two volumes listed below, together constitute the 2010 Reference Document of the L'Oréal Group, which has been filed with the *Autorités des Marchés Financiers*, in accordance with Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers*.

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In order to facilitate the reading of Annual Financial Report (*Rapport Financier Annuel*), the following table provides the page references of the main information required by Article L. 451-1-2 of the French Monetary and Financial Code.

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Reference Document table of concordance

In order to facilitate the reading of this Annual Report, filed as a Reference Document, the following table provides the page references of the main information required by the Annex 1 of Commission Regulation no. 809/2004.

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