

Property damage and interruption of operations

The Group has set up an integrated global programme to cover all the property (fixed assets and inventories) of all its subsidiaries. This programme also covers operating losses directly resulting from a business interruption and/or insured property loss or damage. The level of insurance cover has been selected to cover the maximum reasonably foreseeable loss, taking into account the scale of the prevention and protection measures implemented at the Group's manufacturing sites together with the business continuity plans.

As the capacity of the insurance market is limited for certain types of events, this programme includes aggregate sublimits, particularly in the event of natural disasters. This programme includes the performance, by the insurer's engineers, of loss prevention audits for the Group's locations. These audits form part of the Group's general safety management system.

Transport

The Group has set up a programme to cover the transportation of all its products. All subsidiaries subscribe to this programme, which ensures optimum transport insurance for all flows of goods.

Customer credit risk

Subsidiaries are encouraged to purchase credit insurance, with the assistance of the Group's insurance department and under terms and conditions negotiated by this department, in addition to their own credit management procedures, provided that such cover is compatible with their level of commercial activity and is available under financially acceptable conditions.

In a period of major economic slowdown, a reduction of commitments by major insurance companies could be noted on the credit insurance market as they may decide to reduce their cover of amounts receivable in certain countries. The insurance policies put in place in these countries could be affected by this trend.

Self-insurance

Through its reinsurance subsidiary, the Group carries risk retention levels that are not material at consolidated level, and these are applicable over and above local deductible amounts absorbed by the subsidiaries insured.

2.4. Organisation of the Board of Directors

This chapter is dealt with in the Report of the Chairman of the Board of Directors.

All the information on offices and directorships held by directors over the last five years are described in the Chairman's Report, on pages 109 *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 2009, the Board adopted for a full year: a fixed annual sum of €30,000; an amount of €5,000 for each Board meeting

which the director attends; an amount of €15,000 for each director who is a member of the Strategy and Implementation Committee and an additional amount of €15,000 for the Chairman of this Committee; an amount of €7,500 for each director who is a member of the Remuneration Committee

and the Appointments 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 €1,050,000 was distributed to directors at the beginning of 2010 in respect of the 2009 financial year, for a total of six meetings like in 2008, according to the following breakdown:

<i>In euros</i>	2008: total 6 meetings	2009: total 6 meetings
Mr. Jean-Paul Agon	60,000	60,000
Mr. Werner Bauer	60,000	60,000
Mrs. Liliane Bettencourt	70,000	75,000
Mrs. Françoise Bettencourt Meyers	60,000	60,000
Mr. Peter Brabeck-Letmathe	80,000	85,000
Mr. Francisco Castañer Basco	95,000	95,000
Mr. Charles-Henri Filippi	100,000	100,000
Mr. Xavier Fontanet	55,000	50,000
Mr. Bernard Kasriel	100,000	105,000
Mr. Marc Ladreit de Lacharrière	55,000	55,000
Mr. Jean-Pierre Meyers	110,000	110,000
Sir Lindsay Owen-Jones	90,000	90,000
Ms. Annette Roux	55,000	50,000
Mr. Louis Schweitzer	55,000	55,000

2.5.2. Remuneration of the corporate officers

At its meeting on February 15th, 2010, the Board decided to continue with the separation of the roles of Chairman and Chief Executive Officer, and to renew the duties of Sir Lindsay Owen-Jones as Chairman and Mr. Jean-Paul Agon as Chief Executive Officer at its meeting to be held at the close of the Annual General Meeting of April 27th, 2010, subject to renewal of their terms of office as directors.

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 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 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.

At the same time, the Remuneration Committee formulates proposals for the grant of stock options to the corporate officers appointed by the Board.

On February 11th, 2009, the Remuneration Committee made proposals to the Board, which reviewed and accepted them at its meeting on February 16th, 2009.

2.5.2.1. Remuneration of the Chief Executive Officer

The fixed remuneration of the Chief Executive Officer was set by the Board of Directors on February 16th, 2009 at €2,100,000 on an annual basis for 2009.

The Remuneration Committee meeting of February 12th, reviewed the conditions of achievement of the objectives giving rise to the allocation of the variable part of remuneration for 2009.

The target objective was €2,100,000, representing 100% of the fixed remuneration.

The performance assessment criteria had been set as follows:

- half on the basis of an assessment of the qualitative aspects of management such as 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;
- half based on quantitative objectives relating to the company's performance such as comparable growth in

sales, market share, operating profit, net earnings per share and cash flow.

On the recommendation of the Remuneration Committee, the Board decided to allocate to Mr. Jean-Paul Agon variable remuneration of €1,260,000 in respect of 2009, representing 60% of the target.

For 2010, the Board of Directors' meeting of February 15th, 2010 set the fixed part of remuneration at a gross amount of €2,100,000 on an annual basis, an amount which remains unchanged compared to 2009, and set the same target objective of a variable part that may represent 100% of the fixed part with performance assessment criteria equivalent to those for 2009. These provisions apply for the whole of 2010 in the event of renewal by the Board of Directors of the term of office of Mr. Jean-Paul Agon as Chief Executive Officer, at the close of the Annual General Meeting on April 27th, 2010.

Furthermore, in 2009, Mr. Jean-Paul Agon declined the allocation of stock options that the Board of Directors had proposed to grant 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 <i>In euros</i>	2008		2009	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,100,000	2,100,000	2,100,000	2,100,000
Variable remuneration	1,365,000	0 ⁽¹⁾	1,260,000	1,365,000
Exceptional remuneration	-	-	-	-
Attendance fees ⁽²⁾	62,035	57,279	60,000	60,000
Benefits in kind	-	-	-	-
Total	3,527,035	2,157,279	3,420,000	3,525,000

(1) From 2008 onwards, the variable remuneration for year *n* is paid in year *n+1*.

(2) Attendance fees for year *n* are paid in year *n+1*.

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

<i>In euros</i>	2008	2009
Remuneration due in respect of the financial year	3,527,035	3,420,000
Valuation of stock options granted during the financial year	0	0
Valuation of performance shares awarded during the financial year	0	0
Total	3,527,035	3,420,000

2.5.2.2. Remuneration of the Chairman of the Board of Directors

The Board of Directors' meeting of February 16th, 2009 set the fixed part of the Chairman's remuneration at a gross amount of €2,000,000 on an annual basis for 2009 including benefits in kind.

With regard to variable remuneration, the target objective was €1,500,000, representing 75% of the fixed remuneration. It is based on achievement of objectives related to his role as described in the Internal Rules of the Board of Directors.

The Remuneration Committee proposed to apply the same rate of achievement of 60% of the target objective as that applied to the variable remuneration of the Chief Executive Officer. In light of the economic environment and the significant efforts made by everyone in the company, the Chairman decided to give up all right to any variable remuneration in respect of 2009. The Board duly noted this.

The Board decided to maintain the Chairman's fixed remuneration for 2010 at the current level of €2,000,000 including the benefits in kind up to the expiry of his term

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of office as director which ends at the next Annual General Meeting on April 27th, 2010.

The Board has also set in advance the amount of the Chairman's fixed remuneration for the remainder of 2010. Subject to renewal of his term of office, the Board has decided, in accordance with the Chairman's wishes, that his

fixed remuneration would be reduced to €1,000,000 on an annual basis including benefits in kind and that the variable remuneration would no longer be payable.

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

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

Sir Lindsay Owen-Jones Chairman of the Board of Directors <i>In euros</i>	2008		2009	
	Amounts due	Amounts paid	Amounts due	Amounts paid
- Fixed remuneration	1,985,450	1,985,450	1,984,664	1,984,664
- Variable remuneration	975,000	0 ⁽¹⁾	0	975,000
- Exceptional remuneration	-	-	-	-
- Attendance fees ⁽²⁾	92,035	87,279	90,000	90,000
- Benefits in kind	14,550	14,550	15,336	15,336
Total	3,067,035	2,087,279	2,090,000	3,065,000

(1) From 2008 onwards, variable remuneration for year *n* is paid in year *n*+1.

(2) Attendance fees for year *n* are paid in year *n*+1.

The summary table showing the remuneration and stock options allocated to the Chairman is as follows:

<i>In euros</i>	2008	2009
Remuneration due in respect of the financial year	3,067,035	2,090,000
Valuation of stock options granted during the financial year	0	0
Valuation of performance shares awarded during the financial year	0	0
Total	3,067,035	2,090,000

2.5.3. Stock Options granted to the corporate officers appointed by the Board

The stock options which were granted by the Board of Directors to Sir Lindsay Owen-Jones in previous years, and which can still be exercised are as follows:

Date of grant	Number of options granted	Number of options not yet exercised	1 st possible date of exercise	Date of expiry	Purchase (A) or subscription (S) price (in €)
04.05.2000	-	-	-	-	-
09.28.2000	150,000	150,000	09.29.2005	09.28.2010	83.00 (A)
12.07.2000	-	-	-	-	-
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 are as follows:

Date of grant	Number of options granted	Number of options not yet exercised	1 st 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	-	-	-	-	-

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

The "balance of the shares resulting from the exercise of the stock options" should be understood to mean the total number of shares resulting from the exercise of stock options minus the number of shares that have to be sold to finance the exercise of the stock options in question and, where applicable, the payment of any immediate or deferred taxes, social levies and costs relating to the exercise of these stock options as applicable at the date of exercise of the options. If the number of shares thus determined that must be retained until the termination of Mr. Jean-Paul Agon's duties as Chief Executive Officer is not a whole number of shares, this number of shares would be rounded down to the nearest lower whole number of shares.

Furthermore, in 2009, Mr. Jean-Paul Agon declined the allocation of stock options that the Board of Directors had proposed to grant him.

2.5.4. Stock Options exercised by the corporate officers appointed by the Board

On November 20th, 2009, Sir Lindsay Owen-Jones exercised 200,000 of the stock options granted by the Board of Directors on December 7th, 1999, out of a total of 300,000 stock options, at a price of €61.00 per share.

Mr. Jean-Paul Agon did not exercise any stock options in 2009.

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.

Corporate officer	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	
	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 will be proposed for renewal 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 provisions described below are tied in with renewal by the Board of Directors of the Chief Executive Officer's term of office at the close of the Annual General Meeting on April 27th, 2010. They will be put to the vote of the shareholders by means of a resolution subject to the condition precedent of renewal of this term of office.

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 therefore intends to formally lay down 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 notes 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 does 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 considers 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 99 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, 2010, the fixed remuneration amounts to €1,570,500 and variable remuneration to €1,308,750.

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 will be subject to the procedure applicable to regulated agreements and commitments; the Statutory Auditors will be informed of the provisions and the commitment will be submitted for approval to the Annual General Meeting on April 27th, 2010 when it makes a decision with regard to the special report prepared by the Statutory Auditors.

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.

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

(1) Mr. Agon has been a director since 2006. His tenure will be proposed for renewal 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 99.

(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 corporate officers in L'Oréal shares in 2009

(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
Sir Lindsay Owen-Jones, Chairman of the Board of Directors	November 20 th , 2009	Exercise of stock options	€61	€12,200,000
FIMALAC DEVELOPPEMENT, a legal entity related to Mr. Marc Ladreit de Lacharrière, Director	December 11 th , 2009	Sale of calls	€4,2173	€810,063

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 €119,794,482.00 as of December 31st, 2009. It is divided into 598,972,410 shares with a par value of €0.20 each, all of the same class and ranking *pari passu*.

The table set out below summarises (particularly in application of Articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code) the currently valid authorisations granted to the Board of Directors by the Annual General Meeting concerning the capital, shows the use made of such authorisations over the financial year and presents the authorisations which are to be put to the vote at the Annual General Meeting on April 27th, 2010.