**REPORT OF THE BOARD OF DIRECTORS ON THE DRAFT RESOLUTIONS
ORDINARY AND EXTRAORDINARY GENERAL MEETING
OF APRIL 17th, 2012**

# ORDINARY PART

**Approval of the 2011 Parent Company financial statements, Approval of the 2011 consolidated financial statements and Allocation of the Company's net income for 2011 and declaration of the dividend**
(1st, 2nd and 3rd resolutions)

Having reviewed the reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- the Parent Company financial statements, with a profit and loss account which shows net income of €2,169,772,192.21 for 2011, compared with €1,995,329,601.31 at December 31st, 2010,
- the 2011 consolidated financial statements,

the main details of which are set out in the 2011 Annual Report, together with the main information included in the file for calling the Annual General Meeting on April 17th, 2012.

Following the modification of the articles of association made in 2009, this General Shareholders' Meeting will give rise to the first distribution of loyalty bonuses granted to shareholders, in the form of preferential dividend. This bonus aims at foster the loyalty of the shareholders with registered shares held for at least two years, and to participate to strengthen the stability of shareholder structure.

The Board of Directors proposes to the Annual General Meeting:

- a net dividend of €2 per share, representing an increase of 11% compared with the net dividend for 2010,
- a preferential dividend of €2.20 per share.

The preferential dividend will be granted to the shares held in registered form continuously from December 31st, 2009 to the date of payment of this dividend. The number of shares giving entitlement to such increase cannot exceed, for any one shareholder, 0.5% of share capital.

The Board of Directors proposes to the Annual General Meeting that the ex dividend date, for both ordinary and preferential dividend, will be on Friday, April 27th 2012 and the dividend will be paid to the shareholders on Thursday, May 3rd 2012.

The amount of ordinary and preferential dividend is eligible for the tax deduction provided for in article 158-3-2° of the French Tax Code, unless the taxpayer elects for the fixed levy in final discharge provided for in Article 117 *quater* of the French Tax Code.

**Tenures as Directors**
From 4th to 8th resolution

The Board of Directors proposes to the Annual General Meeting the appointment of three new Directors as well as the renewal of two Directors which tenures as Directors expire at the close of this Annual General Meeting.

## L'Oréal's Board of Directors

L'Oréal's Directors come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationality; they have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations and the preparation of its decisions.

1. Assessment of the independence of Directors

The Appointments and Governance Committee has proposed to the Board of Directors to review on a case-by-case basis the situation of each of the Directors with regard to their independence according to the criteria set out in the AFEP-MEDEF Code.

The Directors are independently minded. They have a duty of vigilance and exercise complete freedom of judgment. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its Committees of which the roles have been enlarged in 2011.

L'Oréal has a well-balanced Board comprising 14 members at February 13th, 2012: the Chairman and Chief Executive Officer, Jean-Paul Agon, the Honorary Chairman, Sir Lindsay Owen-Jones, six Directors appointed by the majority shareholders, three of whom are appointed by Bettencourt's family group and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent Directors: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

Mr. Ladreit de Lacharrière has been a Director of L'Oréal for over 12 years but its professional experience and his freedom of judgment, combined with a good knowledge of the company, are key contributors to the decisions or work of the Board.

2. The Board of Directors reviewed the composition of the Board

a) The Appointments and Governance Committee noted the end of Ms. Liliane Bettencourt's tenure as Director. Following the proposal by the Appointments and Governance Committee, the Board of Directors has decided to proceed with the cooptation of Jean-Victor Meyers, as Director, until the end of this Annual General Meeting which is called on to notify such appointment, pursuant to Article L225-24 of the French Commercial Code.

   The Board of Directors expresses its profound gratitude to Liliane Bettencourt for her active participation in the Board's meetings and for the heartfelt interest she has always demonstrated in the Board's work and that of its committees.

   The Board of Directors submits to the approval of the Annual General Meeting of shareholders, the appointment of Jean-Victor Meyers as Board Director, for a period of 4 years as of this Annual General Meeting.

b) The Appointments and Governance Committee noted the expiration of Messrs. Werner Bauer and Francisco Castañer Basco's tenures as Directors, both top executives of Nestlé, who don't apply for re-appointment.

   The Board of Directors expressed its gratitude to Messrs. Werner Bauer and Francisco Castañer Basco for their active participation in the Board's work and that of its committees.

   The Board of Directors reviewed the application of two new Directors from Nestlé, reference shareholders of L'Oréal, and the Board of Directors has already decided to submit to the approval of the next Annual General Meeting of shareholders, the appointment of Mr. Paul Bulcke and Ms. Christiane Kuehne.

c) The reappointment of Mrs Bernard Kasriel and Jean-Pierre Meyers, whose tenures as Directors were due to expire in 2012, is submitted to the Annual General Meeting.

By no means, these changes would affect the level of independence of the Directors, as described on point 1.

3. <u>Maintaining of the balance of the Board of Directors</u>

It is therefore proposed to maintain this balance, which is considered to be satisfactory by proposing to the Annual General Meeting:

- the ratification of the appointment of Mr. Jean-Victor Meyers as Director until the end of this Annual General Meeting, appointment which has been decided by the Board of Directors;

- the appointment of Mr. Jean-Victor Meyers as Director, for a period of 4 years;

- the appointment of Mr Paul Bulcke and Ms Christiane Kuehne as Directors, for a period of four years;

- the renewal of tenures as Directors of Messrs. Jean-Pierre Meyers and Bernard Kasriel, for a period of four years.

**Presentation of the Directors whose term of office is proposed for appointment or renewal**

**Jean-Victor Meyers** (25 years old) studied economics and management, in France and in the United States. Over the last two years, in the context of his professional experience, Jean-Victor Meyers spent several months with L'Oréal Group's divisions, in France and abroad. He is a member of the Supervisory Board of Téthys, the Bettencourt family holding, since January 2011 and was co-opted to L'Oréal's Board of Directors on February, 13th 2012.

**Paul Bulcke** (57 years old). Belgian. With Nestlé since 1979, he is Chief Executive Officer since 2008. Paul Bulcke possesses an international experience, more particularly in Europe, in North America and in Latin America. He is Board member of Nestlé and Roche Holding in Switzerland.

**Christiane Kuehne** (56 years old). Swiss. With Nestlé since 1977, she heads the Food Strategic Business unit. Christiane Kuehne possesses an international experience, more particularly in Europe and in Asia.

**Jean-Pierre Meyers** has been Board Director of L'Oréal since 1987, Vice-Chairman of the Board since 1994, member of the Strategy and Sustainable Development Committee, Audit Committee, Appointments and Governance Committee and Human Resources and Remuneration Committee. He is a member of the Supervisory Committee and General Manager of Téthys, Director of Nestlé and Vice-Chairman of the Board of Bettencourt Schueller Foundation.

Mr. Jean-Pierre Meyers participates with a lot of commitment, serious and dedication not only to the work of the Board of Directors but also to those of its others committees. He is available and actively contributes to the quality of the debates in each committee, concerning the proposals made to the Board of Directors.

**Bernard Kasriel** (65 years old) has been Board Director of L'Oréal since 2004. Chairman of the Human Resources and Remuneration Committee and Member of the Strategy and Sustainable Development Committee. He was previously Chief Executive Officer and Director of Lafarge and is currently Director of Arkema in France and Nucor in the United States.

Very available, conscientious and free of judging, Mr. Bernard Kasriel is Chairman of the Human Resources and Remuneration Committee and member of the Strategy and Sustainable Development Committee. The missions and works of these both committees, in which Mr. Kasriel plays an active part, have been expanded at the end of 2010, and the number of members has increased.

For information purposes, if the Annual General Meeting votes in favor of the appointment and renewals proposed to it in 2012, the terms of office of the 14 Directors of L'Oréal would be as follows:

| **Directors** | **Expiry dates of the terms of office** | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| Mr. Jean-Paul Agon | | **X** | | |
| Mr. Jean-Pierre Meyers | | | | **X** |
| Mr. Peter Brabeck-Letmathe | **X** | | | |
| Ms. Françoise Bettencourt Meyers | **X** | | | |
| Mr. Paul Bulcke | | | | **X** |
| Ms. Christiane Kuehne | | | | **X** |
| Mr. Charles-Henri Filippi | | | **X** | |
| Mr. Xavier Fontanet | | **X** | | |
| Mr. Bernard Kasriel | | | | **X** |
| Mr. Marc Ladreit de Lacharrière | | **X** | | |
| Mr. Jean-Victor Meyers | | | | **X** |
| Sir Lindsay Owen-Jones | | **X** | | |
| Mr. Louis Schweitzer | **X** | | | |
| Ms. Annette Roux | | | **X** | |
| ***Number of renewal per year*** | **3** | **4** | **2** | **5** |

## Authorization for the Company to buy back its own shares
9th resolution

**It is proposed that you give the Board of Directors a new authorization to buy back shares of the Company.**

During 2011 and up until February 13th, 2012, the Board of Directors did not buy back any shares.

As the existing authorization is due to expire in October 2012, it is proposed that the Annual General Meeting give the Board a new authorization which will enable it to resume its share buyback policy where applicable, depending on the opportunities that may arise, except during periods of public offers with regard to the Company's capital.

The Company could buy back its own shares in the aim of:
- their cancellation;
- their cession through employee shareholding plans and their allocation to free grant of shares and/or share purchase options, to the benefit of employees and corporate officers of L'Oréal Group;
- market animation of the share;
- retaining them and subsequently using them as payment in connection with external growth operations.

The acquisition of these shares could be made by any ways, in one or several times, on the market or by mutual agreement, even by the acquisition of blocks of shares.

The authorization would be granted for a period of 18 months at a purchase price per share that may not be greater than €130. The authorization would concern no more than 10% of the capital, namely, for information purposes, 60,298,408 shares for a maximum amount of €7.8 billion at December 31st, 2011, it being stipulated that the Company may at no time hold over 10% of its own capital.

## EXTRAORDINARY PART

**Authorization for the Board of Directors to reduce share capital by cancelling shares purchased by the company under articles L 225-209 and L 225-208 of the French Commercial Code**
10th resolution

**With regard to the authorization given to the Board of Directors to cancel shares purchased by the company under Article L 225-209 of the French Commercial Code**

The authorisation given to the Board of Directors in 2010 to cancel shares purchased by the company under Article L 225-209 of the French Commercial Code is due to expire.

A proposal is made to the Annual General Meeting that it should grant the Board a further authorization enabling it to cancel shares, within the limits provided for by law.

This authorization would be granted for a period of twenty-six months, as from the date of the Annual General Meeting of April 17th, 2012 and would render any prior authorization ineffective.

**With regard to the authorization given to the Board of Directors to cancel shares purchased by the company under Article L 225-208 of the French Commercial Code**

Certain share purchase option allocated in the past can no longer be exercised, for example as a result of the fact that the beneficiary of such share purchase options has left the company.

The resolution providing for cancellation of the shares purchased by the Company under Article L. 225-209 of the French Commercial Code, as mentioned above, does not enable these shares to be cancelled, as the legal rules governing their cancellation are different.

The authorization given to the Board of Directors in 2010 to cancel the corresponding shares, purchased by the company under Article L. 225-208 of the French Commercial Code, is due to expire.

A proposal is made that, for a maximum of 500,000 shares, namely a maximum reduction in the share capital of €100,000, the shares corresponding to share purchase options that can no longer be exercised should be covered by the cancellation policy currently being conducted by the Board of Directors.

This authorization would be valid for a period of twenty-six months, as from the date of the Annual General Meeting of April 17th, 2012 and would render any prior authorization ineffective.

**Amendments of the Articles of Association**
11th resolution

The amendments to the Articles of Association proposed by this resolution have become necessary in order to comply with the latest regulation.

It is proposed that the Annual General Meeting should decide to amend Article 10 of the Articles of Association, concerning the authority of the Board of Directors and of the Chairman of the Board, and also Article 12 of the Articles of Association, concerning the general rules regarding General Shareholders' Meeting.

1. **<u>Proposed amendment to Article 10</u>**

The proposed amendment to Article 10 is intended to bring the Articles of associations in compliance with the legislation, regarding the role of the Chairman of the Board of Directors, as defined in Article L225-51 of the French Commercial Code.

2. **<u>Proposed amendment to Article 12</u>**

The proposed amendment to Article 12 paragraph 10 of the Articles of association relates to the *modus operandi* of participation and voting at the General Shareholders' Meeting. It is proposed to remove the reference concerning the irrevocability of proxies and to include a provision concerning the use of electronic communication and signature.

This amendment to the Articles of Association, proposed in order to comply with the latest regulation, responds to a growing demand for simplify the shareholders' participation at the General Shareholders' Meeting.

**Powers for formalities**
12th resolution

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.