L'ORÉAL

2007 ANNUAL REPORT

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WORLD'S NUMBER 1 COSMETICS GROUP

25 INTERNATIONAL BRANDS

130 COUNTRIES

63,000 EMPLOYEES

17 BILLION EUROS OF SALES IN 2007

This is a free translation into English of the L'Oréal 2007 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.

A WORLD OF BEAUTY

The L'Oréal adventure has been founded from the outset on a fundamental conviction: cosmetics are an expression of a universal dream of well-being and inner harmony. They help everyone to fully express their personality, to be self-assured and open in their relations with others, and to fulfil their potential. They can give vulnerable people the desire and the strength to rebuild their lives or resume their place in society. **Beauty is useful and indeed essential.**

The globalisation of cosmetics consumption is only just beginning. For L'Oréal, this is an opportunity. And a responsibility. As the world leader in beauty, L'Oréal has a duty to satisfy all the desires and all the needs of consumers across the world, by driving the scientific innovation which forges the excellence of its products, and by cultivating the diversity of its brand portfolio and its distribution channels to make **beauty accessible to everyone.**

L'Oréal's goal is to be one of the exemplary global companies of the 21st century. The group focuses its efforts on fostering the personal and professional fulfilment of its employees, on safeguarding the integrity and quality of the environment, on developing activities for the benefit of the community, and on strengthening its corporate citizenship in the 130 countries in which it operates. **Making a contribution to a more beautiful world is L'Oréal's promise.**

CONTINUITY IN STRATEGY AND VALUES, GROWTH ACCELERATES

One year ago, I told you that the transition at the head of the group had taken place smoothly, without L'Oréal missing a single heartbeat. 2007 marks an acceleration in the wake of this transition. Growth has accelerated and the group has achieved, for the twenty-third consecutive year, double-digit growth in its results, even though the monetary context has been difficult.

ACCELERATING GROWTH

A new energy, instilled by Jean-Paul Agon at the head of a young and enthusiastic management team, is making the whole company more dynamic by injecting new blood into an already highly efficient business model.

In 2007, L'Oréal significantly strengthened its positions in all its markets. It was a year of energetic growth, right at the top of the medium- to long-term targets. The results increased strongly and were of high quality, and the balance sheet is extremely healthy. On behalf of the Board of Directors, I would like to congratulate and thank all L'Oréal's employees. Thanks to their energy and commitment, 2007 was an excellent year for the group.

This level of performance enables us to propose to the Annual General Meeting a further substantial increase in the dividend of +16.9%. The payout ratio has grown once again, and now stands at more than 41%. This dividend policy is backed up by successive share buyback programmes, which have a positive impact on net earnings per share.

In the space of five years the dividend has more than doubled, reflecting L'Oréal's determination to support its shareholders, many of whom have remained loyal to the group over a great number of years. Through the confidence they show in us, they make a major contribution to the success of a business model which has consistently proven its effectiveness. Its success has indeed led to the group receiving the Award for the Best Economic Performance over the last 40 years from the magazine *L'Expansion*. We also see this recognition for our present and past achievements as a powerful encouragement to continue applying our strategy.

VIGILANT AND DYNAMIC GOVERNANCE

The separation of the roles of Chairman and Chief Executive Officer, with a clear definition of the responsibilities of each, leads both to great continuity in strategic vision and a powerful impetus for our businesses.

The strategy is regularly reviewed by the Board of Directors. The diversity and complementarity of the directors' experience mean that the debates are extremely rich and enable the Board to fully play its role of strategic guidance.

All the acquisitions, of which there have been many, were thoroughly discussed at Board level, as was the recent bid to acquire Yves Saint Laurent Beauté, which represents a new and attractive development opportunity. They follow a clear strategic line, strengthen our portfolio of brands in our business, and anticipate tomorrow's trends.
By selling in 2007 part of its stake in Sanofi-Aventis, L'Oréal is optimising its resources for the financing of strategic projects.

Furthermore, the Board is constantly reviewing its *modus operandi*. Accordingly, it decided to adapt its organisation: the "Management and Remuneration" Committee has been split into two separate Committees, one to select future Board Members and corporate officers for appointment by the Board, and the other to propose levels of remuneration for senior managers. The creation of these two committees strengthens an already vigilant and balanced organisation designed to ensure the harmonious development of the group for the years to come.

"The group ensures the continuity not only of its business model, but also of the values it holds."

CONTINUITY OF VALUES

The group ensures the continuity not only of its business model, but also of the values it holds. We want to look far beyond economic performance and make sure that the group is increasingly rooted in the heart of countries and of society. Respect for the environment, high ethical standards, diversity in our teams and everyday commitment to the communities in which we operate are the cornerstones of L'Oréal's responsible development.

By creating its Corporate Foundation this year, L'Oréal is setting out to extend and perpetuate activities in fields where we can make a genuine contribution: education, science and solidarity. The L'Oréal Foundation will guarantee the development of the group's major philanthropic initiatives, such as the "For Women in Science" awards, and the "Hairdressers against AIDS" awareness raising programme, both conducted in partnership with Unesco. It will develop new initiatives, particularly to help vulnerable people. Philanthropic initiatives which provide support, convey a message and play a key role in building the future.

The reputation of our group, the respect it inspires, and the attraction it exerts throughout the world are a great source of pride, and motivation, for L'Oréal's teams.

Driven by this impetus and our tried and tested business model, we are looking forward to 2008 with confidence.

Sir Lindsay Owen-Jones
Chairman of L'Oréal

THE STRENGTH OF OUR BUSINESS MODEL TO SEIZE ALL THE OPPORTUNITIES OF A NEW COSMETICS WORLD

In 2007, L'Oréal's business model—based on innovation, quality and globalisation—once again demonstrated its outstanding ability to create value. The acceleration of growth and the strong improvement in profitability once more proved its efficiency and its remarkable modernity.

PROFOUND TRANSFORMATION OF THE COSMETICS MARKET

The growth of the world cosmetics market was confirmed in 2007 at +5%, once more above the average of the last 15 years.

This year our market reached a historic milestone: the newer countries (in areas such as Asia, Latin America and Eastern Europe), which we term the Rest of the World zone, became for the first time the largest market, on a par with Western Europe, which they should easily overtake in 2008.

> "The profound transformation of the cosmetics market is a historic opportunity for L'Oréal."

We are thus seeing a rapid and profound transformation of the world cosmetics market, with a new balance between the various continents, and between developed and emerging countries.
Tomorrow's market is taking shape before our very eyes: it will be larger, more dynamic and more global.

This transformation is a historic opportunity for L'Oréal. Thanks to our diversified catalogue of brands, perfectly adapted to all the customers of the world, and to the location of our research centres on the different continents to meet the expectations of consumers all over the planet, we are perfectly poised to take advantage of the quite exceptional growth prospects offered by a truly globalised market.

ACCELERATED GROWTH

In 2007, our group once again demonstrated its ability to grow significantly faster than the market. Like-for like growth, at +8%, accelerated strongly compared with the previous two years, and was right at the top of our target range of +6% to +8%.

Growth was strong and homogeneous across all Divisions, as they each won market share in their respective distribution channels.

The three zones saw their growth accelerate compared with the previous year. In Western Europe, over the last two years we have returned to solid growth, supported by expanding markets and market share gains by our Divisions. In North America, we achieved a strong growth rate, twice as fast as the market. Finally, growth in the Rest of World accelerated faster than ever before, contributing more than 60% of the group's global growth.

All in all, the group's share of the world market advanced substantially to 15.3% with significant gains on all continents.

FULL SPEED AHEAD

In 2007, our growth engine was firing on all cylinders, and generating maximum power.

In terms of innovation, our research teams made several major technological advances and set up two new laboratories. The first is for organic and natural cosmetics for our brands The Body Shop and Sanoflore, and the second is for instrumental cosmetics, to "seize upcoming trends" in this promising area.

This was also a rich year for the creation of blockbusters with very high potential and global reach. Their roll-out will continue to fuel growth in 2008 and beyond.

Our policy of constantly enhancing value—by launching higher added value products and giving priority to support for the highest value segments—has produced excellent results.

The power of our brands continued to expand. On the growth podium, Kiehl's, La Roche-Posay and Giorgio Armani achieved outstanding advances. The performance of L'Oréal Paris, the group's number one brand, was also remarkable.

In terms of globalisation, the strong acceleration of our growth in the Rest of the World zone reflects the substantial progress we have made in rolling out our brands and our products all over the planet, and also shows their immense potential.

Finally, it was also a very active year for external growth. After smoothly integrating THE BODY SHOP, we started up a magnificent fragrance business, DIESEL, and began to globalise SANOFLORE, our organic cosmetics brand.
In 2007, we made three major acquisitions in Professional Products in the United States, which will help us accelerate our conquest of this strategic market.

"In 2007, our growth engine was firing on all cylinders, and generating maximum power."

OPERATING PROFIT: STRONG IMPROVEMENT IN A DIFFICULT CONTEXT

In 2007, L'Oréal not only confirmed its ability to achieve significant growth, but also once again this year showed its ability to improve its operating profit. This was achieved despite a highly negative currency effect and rising raw materials and energy costs.

Gross profit continued to advance strongly, thanks to our policy of enhancing value, optimising purchasing and improving industrial productivity in Operations, with the merging of manufacturing and logistics.

Our Research and Development expenses, and our advertising and promotion expenses, have remained stable as a percentage of sales, while our sales, general and administrative expenses have continued to fall.

The increase in profitability has been strong and homogeneous across all Divisions, which now have very similar profitability levels.

The most striking development was the very strong growth in profitability in the Rest of the World zone, which for the first time exceeded the North American level in absolute value. This is a turning point in the history of L'Oréal. Over the coming years, this zone will make a major contribution to the increase in the group's profitability.

All in all, operating profit increased by +11.3% and net profit excluding non-recurrent items after minority interests by +11.2%, which, because of the positive impact of share buybacks, resulted in a +13% increase in net earnings per share.

This substantial growth in our results has been achieved despite highly negative currency fluctuations. At constant exchange rates, the net profit excluding non-recurrent items after minority interests would have increased by +14.1% and net earnings per share by +15.9%.
Finally, cash flow continued to rise substantially with a +12.9% increase.

"We are confident that we can achieve another year of sustained growth."

PROGRESS IN MANY AREAS

2007 has been a year of success and progress in many areas, in economic performance of course, but also in terms of employees' self-fulfilment and corporate social responsibility, fields in which we have also set ourselves extremely ambitious targets.

L'Oréal is a company where talented men and women from all over the world like working, by contributing their own added value and their enthusiasm. Today more than ever, we are striving to create the most favourable environment for their self-fulfilment on a bedrock of strong values shared by everyone. The appointment of a Worldwide Director of Ethics and the international launch of our new *Code of Business Ethics* are important steps forward, which will make L'Oréal one of the most advanced companies in this essential area.

In the key area of corporate citizenship, a major milestone has been achieved with the creation of the L'Oréal Corporate Foundation, which will develop, oversee and make permanent L'Oréal's major philanthropic initiatives in education, science and solidarity. This strong commitment is also a corporate project which motivates all our teams and helps make L'Oréal a genuine "corporate citizen of the world".

CONFIDENCE FOR 2008

Despite the turbulence and uncertainty of the current economic environment, we are optimistic for 2008.

In fact we expect the growth of the world cosmetics market to continue, bolstered by the development of new markets.

L'Oréal has always demonstrated its ability to successfully cope with periods of economic uncertainty by winning market share, and we are determined to do so once again in 2008. Finally, the weight of our sales in new high-growth markets is now having a genuine "turbo effect" on the group's overall growth.

We are therefore confident that we can achieve another year of high sales growth, and a significant improvement in our results, both in quantitative and qualitative terms.

To achieve this aim, I know I can count on the outstanding talent and commitment of all our employees, united as they strive for the same collective goal: to make L'Oréal both the top performer and the most respected company in its industry.

Jean-Paul Agon
Chief Executive Officer of L'Oréal

BOARD OF DIRECTORS

COMPOSITION AT DECEMBER 31st, 2007. The statutory length of tenure of a L'Oréal director is four years, and is renewable. Each director holds a minimum of 1,000 L'Oréal shares. (The full list of directors' offices and directorships, in accordance with legal requirements, is included in the Notes to the Management Report of the Board of Directors.)

SIR LINDSAY OWEN-JONES(1)
Age: 61. British. Joined the L'Oréal group in 1969. During his international career, he was Chief Executive of L'Oréal in Italy from 1978 to 1981 and President (CEO) of L'Oréal USA from 1981 to 1984. He was appointed Deputy Chairman and Chief Executive Officer in 1984, Chairman and Chief Executive Officer in 1988, and has been **Chairman of the Board of Directors** since April 25th, 2006. L'Oréal Board member since 1984 (term of office renewed in 2006). Director and Chairman of the L'Oréal Corporate Foundation. Board member of Sanofi-Aventis and Ferrari (Italy). Vice-Chairman of the Board of Directors of Air Liquide.

JEAN-PAUL AGON
Age: 51. Joined the L'Oréal group in 1978. During his international career, he was General Manager of Consumer Products in Greece, and of L'ORÉAL PARIS in France, International Managing Director of BIOTHERM, Managing Director of L'Oréal in Germany, Managing Director of the Asia zone, and President and CEO of L'Oréal USA. Appointed Deputy Chief Executive Officer of L'Oréal in 2005 and then **Chief Executive Officer** on April 25th, 2006. L'Oréal Board member since April 25th, 2006. Director of the L'Oréal Corporate Foundation.

JEAN-PIERRE MEYERS(2) (6) (8)
Age: 59. L'Oréal Board member since 1987 (term of office renewed in 2005), **Vice-Chairman of the Board**. Nestlé SA (Switzerland) Board member.

PETER BRABECK-LETMATHE(2) (5) (6)
Age: 63. Austrian. With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Officer of Nestlé SA (Switzerland) in 1997, Vice-Chairman of the Board in 2001 and Chairman in 2005. L'Oréal Board member since 1997 (term of office renewed in 2005), Vice-Chairman of the Board. Board member of Crédit Suisse Group (Switzerland) and Roche Holding (Switzerland).

LILIANE BETTENCOURT(2) (3)
Daughter of Eugène Schueller, who founded L'Oréal almost a century ago. L'Oréal Board member since 1995 (term of office renewed in 2007).

FRANÇOISE BETTENCOURT MEYERS
Age: 54. Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2005).

WERNER BAUER
Age: 57. German. With the Nestlé group since 1990, appointed General Manager in 2002. L'Oréal Board member since 2005. Board member of Alcon (Switzerland).

FRANCISCO CASTAÑER BASCO(2) (8)
Age: 63. Spanish. With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board member since 1998 (term of office renewed in 2006). Board member and Vice-Chairman of Alcon (Switzerland).

CHARLES-HENRI FILIPPI(9)
Age: 55. French civil service from 1979 to 1987. Joined CCF (which became HSBC France in 2000) in 1987. Chief Executive Officer in 1995, Group Executive Committee member from 2001 to 2004, Chairman and Chief Executive Officer of HSBC France from 2004 to 2007, and Chairman of the Board since September 2007. L'Oréal Board member since November 30th, 2007. Board member and Executive Commission member of Altadis, Supervisory Board member of Euris and Censor of Nexity.

XAVIER FONTANET(7)
Age: 59 ans. Appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995, Chairman and Chief Executive Officer since 1996. L'Oréal Board member since 2002 (term of office renewed in 2006). Board member of Crédit Agricole SA.

BERNARD KASRIEL(2) (4) (5)
Age: 61. With the Institut du développement industriel from 1970 to 1975. Chief Executive Officer of Braud from 1972 to 1974. Executive Vice-President of the Société phocéenne de métallurgie from 1975 to 1977. Joined Lafarge in 1977, Deputy General Manager in 1982. Assigned to the United States between 1987 and 1989, appointed Executive Vice-President from 1989 to 2003, and then Chief Executive Officer from 2003 to 2005. L'Oréal Board member since 2004. Board member of Lafarge and Arkema. Partner of LBO France since September 2006.

MARC LADREIT DE LACHARRIÈRE
Age: 67. Member of the Institut. With L'Oréal from 1976 to 1991, former Executive Vice-President in charge of Administration and Finance, Group Executive Vice-President from 1984 to 1991. Chairman and Chief Executive Officer of Fimalac. Chairman of Fitch Ratings, Inc. L'Oréal Board member since 1984 (term of office renewed in 2006). Director of L'Oréal Corporate Foundation. Board member of Renault and Casino.

ANNETTE ROUX
Age: 65. Joined Bénéteau in 1964, Chairman and Chief Executive Officer from 1976 to 2005, Vice-Chairman of the Supervisory Board since January 2005. L'Oréal Board member since April 24th, 2007. President of the Bénéteau Corporate Foundation. President of the Fédération des industries nautiques.

LOUIS SCHWEITZER
Age: 65. Joined Renault in 1986, Chairman and Chief Executive Officer from 1992 to 2005, Chairman of the Board thereafter. L'Oréal Board member since 2005. Board member of BNP Paribas, EDF, Veolia Environnement, AB Volvo (Sweden). Chairman of the Board of AstraZeneca (United Kingdom). Vice-Chairman of the Supervisory Board of Philips (Netherlands).

Franck Riboud stepped down as director on November 15th, 2007.

(1) Chairman of the "Strategy and Implementation" Committee.
(2) Member of the "Strategy and Implementation" Committee.
(3) Chairwoman of the "Management and Remuneration" Committee until November 30th, 2007.
(4) Chairman of the Appointments Committee and the Remuneration Committee since November 30th, 2007.
(5) Member of the "Management and Remuneration" Committee until November 30th, 2007.
(6) Member of the Appointments Committee and Remuneration Committee since November 30th, 2007.
(7) Chairman of the Audit Committee.
(8) Member of the Audit Committee.
(9) The tenure of Mr Charles-Henri Filippi must be ratified by the Annual General Meeting of April 22nd, 2008.

TRIBUTE TO MR ANDRÉ BETTENCOURT
The Board of Directors paid tribute to Mr Bettencourt, who passed away on November 19th, 2007. Board member of L'Oréal and Vice-Chairman of the Board of Directors from 1980 to 1994, and Chairman and Chief Executive Officer of Gesparal from 1983 to 2004, Mr Bettencourt always demonstrated a strong and sincere attachment to the company and its teams. He was approachable, warm-hearted and caring, reflecting the humanistic traditions of L'Oréal which he encouraged.

EXECUTIVE COMMITTEE

1 **Jean-Paul Agon**
Chief Executive Officer

2 **Christian Mulliez**
Executive Vice-President
Administration and Finance

3 **Jean-Philippe Blanpain**
Managing Director Operations

4 **Marc Menesguen**
President
Luxury Products Division

5 **Patrick Rabain**
President
Consumer Products Division

6 **Jean-Jacques Lebel**
President
Professional Products Division

7 **Béatrice Dautresme**
Executive Vice-President
Corporate Communications and External Affairs

8 **Geoff Skingsley**
Executive Vice-President
Human Resources

9 **Jochen Zaumseil**
Managing Director Asia Zone

10 **Laurent Attal**
Managing Director North America Zone

11 **Brigitte Liberman**
Managing Director Active Cosmetics Division

12 **Joseph Bitton**
Managing Director Latin America Zone

13 **Jean-François Grollier**
Executive Vice-President
Research and Development

COMMITMENT

BUILDING A RESPONSIBLE COMPANY

L'Oréal employees, with children from the Alfred E. Smith Recreation Centre in New York, during the Volunteer Day organised by L'Oréal USA.

L'Oréal has always sought to go beyond mere economic success. Strong ethical principles guide its growth. A broader conception of social responsibility drives its commitment. To be one of the companies that have the greatest respect for the planet and are the most caring towards communities' needs is L'Oréal's constant goal, as it strives to build exemplary growth.

CORPORATE GOVERNANCE

A VIGILANT AND BALANCED BOARD OF DIRECTORS

Vigilance and balance inspire L'Oréal's governance. The Board of Directors constantly ensures that its organisation is adapted to changes in the group. The separation of roles between Chairman and Chief Executive Officer, decided in 2006, is proving satisfactory. At the end of 2007, the Board decided to split the "Management and Remuneration" Committee into two separate committees, one to select new Board members and corporate officers for appointment by the Board, and the other to determine the remuneration of general management. This organisation ensures the harmonious development of the group.

A HARMONIOUS ALLOCATION OF ROLES

Following the separation of the roles of Chairman and Chief Executive Officer, pursuant to the decision made by the Board of Directors in 2006, the directors expressed the view, at the end of 2007, that this management organisation was proving satisfactory by making an effective contribution to the quality of the Board's work.

RESPONSIBLE AND EXPERIENCED DIRECTORS

The L'Oréal Board has 14 members. Drawing on their commitment, diversity and highly complementary professional experience, the directors take an active part in debates, have complete freedom of judgement and great availability. All directors have the same fiduciary duty to act with due care and attention, and to strictly respect the collegial nature of the decisions made by the Board.

There are six members from the majority shareholders, three of whom represent Mrs Bettencourt and her family and three represent Nestlé. The two Vice-Chairmen of the Board respectively represent the two parties. Alongside the Chairman and the Chief Executive Officer, six other directors meet the independence criteria advocated by the recommendations in force, and one of them has been a director for over 12 years.

ACTIVELY INVOLVED COMMITTEES

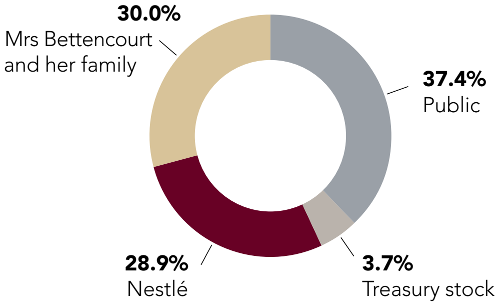
The Board's Committees act strictly in accordance with the remit given to them by the Board. They are actively involved in preparing for the Board's work, and make proposals, but do not have any decision-making powers. They report on a regular basis to the Board, which makes the decisions, and, through its Chairman, reports to the shareholders.

The "Strategy and Implementation" Committee

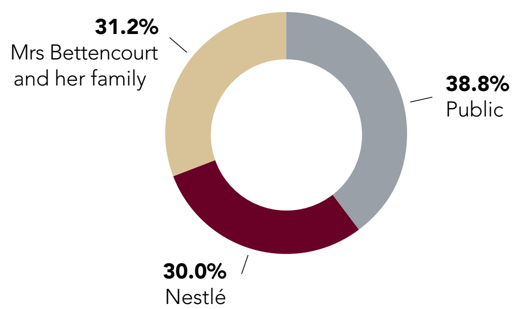
This Committee clarifies, through its analysis, the strategic orientations, which are submitted to the Board, and monitors the implementation and advancement of significant operations in progress. It ensures that the main financial balances are preserved. In this context, the Committee reviews the main strategic lines of development, options and projects presented by the General Management together with their economic and financial consequences, acquisition opportunities, and financial transactions that could significantly change the balance-sheet structure. It also reviews paths for future development.

The "Strategy and Implementation" Committee met five times in 2007. The Committee reviewed not only trends in the sales and results of L'Oréal, but also, for example, the share buyback programme and the situation of the group's stake in Sanofi-Aventis. It continued its reviews of proposed acquisitions, which were then submitted to the Board, for a decision to be made, in most cases in the presence of the senior managers concerned. Information on acquisitions that are completed is then provided to the Board. In addition, various aspects of the positioning of L'Oréal's businesses were presented and discussed by the Committee, and then during Board meetings.

BREAKDOWN OF SHAREHOLDING STRUCTURE AT DECEMBER 31ST, 2007



BREAKDOWN OF VOTING RIGHTS AT DECEMBER 31ST, 2007(1)



(1) In accordance with the law, treasury stock carries no voting rights.

The "Management and Remuneration" Committee

This Committee assists the Chairman and the Board, in complete independence, in their review of succession plans for the group's general management positions. It considers the composition of the Board of Directors and any possible changes. It makes proposals to the Board concerning the remuneration of corporate officers, and allocations of stock options or potential free grants of shares. The principles applied and the Board's decisions are set out in detail, and with complete transparency, in the Reference Document[1].

In 2007, the "Management and Remuneration" Committee met four times. On its proposal, the Board of Directors decided, at the end of 2007, to split the Committee in two (see opposite).

The Audit Committee

The role of this Committee is to ensure that the General Management is provided with the means enabling it to identify and manage the economic, financial and legal risks faced by the group both inside and outside France in its routine and exceptional operations. In 2007, the Committee met three times in the presence of all its members and the Statutory Auditors.

In 2007, with regard to the information on the group's results, the Audit Committee reviewed in detail the aspects relating to provisions, litigation and pension commitments. With regard to Internal Control, the situation concerning the legal risks to which the company is exposed was presented to the Committee, together with the observations made by the Internal Audit Department. The Committee was also informed that L'Oréal's fundamental Internal Control rules had been updated and of the changes in the Chairman's Report, in line with the recommendations made by local authorities and organisations responsible for determining corporate governance practices.

THE BOARD'S REVIEW COMMITTEES

"Strategy and Implementation" Committee
6 members:
- Sir Lindsay Owen-Jones (Chairman)
- Liliane Bettencourt
- Jean-Pierre Meyers
- Peter Brabeck-Letmathe
- Francisco Castañer Basco
- Bernard Kasriel

5 meetings in 2007.

"Management and Remuneration" Committee
(until November 30th, 2007)
3 members:
- Liliane Bettencourt (Chairwoman)
- Peter Brabeck-Letmathe
- Bernard Kasriel

4 meetings in 2007.

Appointments Committee
(since November 30th, 2007)
3 members:
- Bernard Kasriel (Chairman)
- Jean-Pierre Meyers
- Peter Brabeck-Letmathe

Remuneration Committee
(since November 30th, 2007)
3 members:
- Bernard Kasriel (Chairman)
- Jean-Pierre Meyers
- Peter Brabeck-Letmathe

Audit Committee
3 members:
- Xavier Fontanet (Chairman)
- Jean-Pierre Meyers
- Francisco Castañer Basco

3 meetings in 2007.

(1) Management Report of the Board of Directors, chapter on "Remuneration of corporate officers", pages 85 to 89 of volume 2 of this Reference Document.

AN APPOINTMENTS COMMITTEE AND A REMUNERATION COMMITTEE

The **Appointments Committee** makes proposals to the Board about the choice of directors, expresses an opinion about the Chairman's proposals for the appointment of the Chief Executive Officer, and ensures that a procedure is put in place to prepare succession plans for corporate officers in the event of an unforeseen vacancy. It supervises the method of evaluation of the Board and conducts the reflection process with regard to the Committees responsible for preparing for the Board's work.

The **Remuneration Committee** makes proposals to the Board about the fixed and variable remuneration of the Chairman and the Chief Executive Officer and any other benefits received (pension, termination indemnities, etc.), about the amount of attendance fees and the method of distribution of such fees, and about the setting up of long-term incentive plans, such as, for example, those involving the distribution of stock options or free grants of shares.

SYSTEMATIC SELF-EVALUATION

Each year the Board carries out an assessment of its composition, organisation and *modus operandi*. It considers new avenues of possible progress and makes any improvements it considers appropriate.

In 2007, the Board met five times with an average attendance rate of 91%. Many of the directors also attended the Annual General Meeting. In 2007, the Board of Directors firstly expressed satisfaction with its organisation, with the separation of the roles of Chairman and Chief Executive Officer, and the content of its meetings, as it considers that these have continued to improve in quality. It takes a more wide-ranging look at strategy, and the directors take the view that they have a better knowledge of businesses, markets and competition.

In accordance with its wishes, the Board was provided in 2007 with regular and reliable information about the group's business activities. The directors however still want to improve the quality and broaden the scope of their debates even further, by receiving prior information which is targeted and relevant in view of the decisions that the Board is being asked to take.

ENSURING STRICT CONFIDENTIALITY

The directors, who have permanent insider status, apply strict rules to themselves with regard to the confidential information in their possession. In this respect, they meet the requirements of the law and comply with the preventive measures taken by L'Oréal in relation to its employees, particularly within the scope of the Insider Trading Rules and the Internal Control procedures. The improper use and transmission of insider information must be prevented, and investments in the company's shares must be carried out within a secure framework.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

ENSURING SUSTAINABLE AND RESPONSIBLE GROWTH

L'Oréal's goal is to ensure sustainable and responsible growth. We are convinced that sustainable success is based on strong ethical principles, which provide a framework of values, shared by all employees, and guide our growth. It is also based on a genuine sense of responsibility towards the wider community.

THE SIX KEY PRINCIPLES OF OUR SUSTAINABLE DEVELOPMENT APPROACH

> We are committed to ensuring growth which creates value for the largest possible number of those who contribute to our success.

> We want to promote sustainable innovation by incorporating the principles of sustainable development into the heart of our Research and Development activities.

> We want to offer our employees a safe, healthy and stimulating working environment, in which personal talent and merit are recognised, diversity is valued, private life is respected and the balance between professional life and personal life is taken into account.

> We build strong and lasting partnerships with our customers and our suppliers, based on mutual trust and interest.

> We are aware of the impact of our activities on the natural environment, including biodiversity, and are constantly striving to reduce it.

> Finally, we are determined to be a genuinely good corporate citizen, making a positive contribution in the countries and communities in which we operate and in particular by fostering science, support for the vulnerable, and education.

Each year in June L'Oréal publishes a full Sustainable Development Report, available on www.loreal.com, which is followed by the publication of an abridged summary version.

This section of the Annual Report sets out the key principles of the group's sustainable development approach. It provides an insight into two major new developments in 2007: one in social responsibility with the creation of the L'Oréal Corporate Foundation, and the other in ethics with the publication of the new edition of the group's *Code of Business Ethics* and the appointment of a Director of Ethics.

Furthermore, the group's corporate governance policy is set out on pages 12 and 13 of this report. Information about achievements in environmental and safety matters is provided in the Operations section (pages 56 and 57). A number of initiatives taken in the field of diversity are presented in the Human Resources section (pages 58 to 61). Finally, some advances in sustainable and responsible innovation are set out in the Research and Development section (pages 52 to 55).

2007 HIGHLIGHTS

> Appointment of a Director of Ethics, reporting directly to the Chief Executive Officer of the group. New edition of the *Code of Business Ethics*.

> Creation of the L'Oréal Corporate Foundation.

> Extension of the Unesco-L'Oréal "For Women in Science" national fellowship programme to 35 countries.

> Active participation of L'Oréal in working groups on climate change, membership of the Global Business Leadership Platform on Climate Change of the United Nations Global Compact.

> Leadership of the CSR Europe Diversity Laboratory.

> Signing of the *Responsible Communication Charter* drawn up by the French advertisers' association (UDA).

> Internal communication on sustainable development: awareness raising days, module included in induction seminars, wide circulation of abridged report.

> Strategic partnership with the Women's Forum meeting in Deauville and co-initiation of the Sci Tech Girl project to raise young women's awareness of scientific and technical professions.

On October 18th, 2007, L'Oréal launched its new *Code of Business Ethics* worldwide, with each employee receiving a copy.

2007: NEW EDITION OF THE CODE OF BUSINESS ETHICS

L'Oréal has always aimed at being an exemplary company, not only in economic but also in ethical terms. The group has been built on strong values such as respect, integrity and excellence. L'Oréal's ethical approach is determined and pro-active, and develops in tandem with the group's growth.

In 2007, L'Oréal appointed a Director of Ethics, who reports directly to the Chief Executive Officer of the group. In October, a new edition of the *Code of Business Ethics* was issued simultaneously in all the countries in which the group has subsidiaries.
The process of drawing up the *Code of Business Ethics* is an illustration of L'Oréal's respect for its remarkable diversity. In order to create a universally acceptable document, employees from 22 countries took part in international working groups in Europe, North America, Latin America and Asia.
The ethical dimension is considered in the appraisal of all managers, through two management skills criteria "Leading with human sensitivity" and "Achieves results with integrity", the later criteria being added at the end of 2007. The launch of the new code was accompanied by the creation of an intranet site dedicated to ethics which is available to all group employees.

EXTERNAL RECOGNITION

L'Oréal's sustainable development initiatives are widely recognised:

> The strategic value advisor Innovest ranks L'Oréal as the leader in its sector for managing environmental, social and governance risks (ESG).
> *Corporate Knights*, a Canadian magazine for responsible business, ranks the group as one of the 100 most sustainable corporations of the world. The ranking includes companies from 17 countries, covering all sectors of the economy.
> L'Oréal is designated as one of the World's Most Ethical Companies by *Ethisphere Magazine*, published by the Ethisphere Council. Of more than 5,000 companies assessed over a 6-month period, fewer than a hundred were selected.
> L'Oréal is ranked as a *Carbon Leader* by Merrill Lynch.
> L'Oréal is included in most international sustainable development indices, such as ASPI Eurozone, FTSE4Good and Ethibel.

"We believe that our commitment to live up to these powerful values, and to demonstrate our high ethical standards in all that we do will ensure more than ever that L'Oréal is seen as an organisation which inspires trust and respect."

Sir Lindsay Owen-Jones and Jean-Paul Agon

CODE OF BUSINESS ETHICS

A new edition

The new *Code of Business Ethics* enables L'Oréal employees to anticipate and respond to the constantly changing expectations of stakeholders.

Issues such as competition law, fight against corruption, responsible marketing, diversity and privacy are considered from a decidedly practical and educational viewpoint.

To ensure it can be used by everyone, the *Code of Business Ethics* has been translated into 43 languages.

"Discovering and promoting talent. Supporting the efforts of those who stand up to their fate. Reaching out a helping hand to those made vulnerable by life. These are our Foundation's ambitions."

Béatrice Dautresme
Executive Vice-President, Corporate Communications and External Affairs of L'Oréal, Chief Executive Officer of the L'Oréal Corporate Foundation

BIRTH OF THE L'ORÉAL FOUNDATION

Created on October 9th, 2007, the L'Oréal Corporate Foundation marks a major step forward for the group, reflecting the joint determination of Sir Lindsay Owen-Jones and Jean-Paul Agon to make L'Oréal a true corporate citizen of the world.
The Foundation's missions centre on three aims: encouraging education, promoting scientific research, and helping vulnerable people.
Initially, the Foundation's initiatives will be directed towards women, with the goal of promoting their role in society and their cultural diversity. This is the spirit underlying the Foundation's support for the *Women of the World* exhibition by Titouan Lamazou, at the Musée de l'Homme in Paris.
The Foundation also represents a Corporate project aimed at gradually involving group employees. To carry out its mission, it has been granted a budget of 40 million euros over five years, and operates with external governance—a guarantee of transparency and efficient management—as one-third of the members of the Board of Directors are from outside L'Oréal.

The creation of the Foundation means that existing core programmes such as "For Women in Science" and "Hairdressers against AIDS" can be extended and made permanent (see boxes).
But it also opens up the possibility of initiating new projects, particularly in scientific education and support for the vulnerable people.
In France, for example, the Foundation is partnering the samusocial for its pilot project *La Maison des Femmes*, a shelter where particularly vulnerable women can rebuild their lives.
In the field of scientific education, it is also partnering the Cité des sciences et de l'industrie in Paris on a programme under which university-level students provide educational support to young people from underprivileged areas.

L'ORÉAL
FONDATION
D'ENTREPRISE

The fifth "For Women in Science" national fellowship programme in India.

"FOR WOMEN IN SCIENCE"

National fellowships set up in 16 new countries

The "For Women in Science" programme, created in partnership with Unesco, highlights the scientific excellence of women, and encourages new talents. Each year, the L'Oréal-Unesco awards are made to five eminent women researchers, with each scientist receiving $100,000. Up to now, 47 major scientists have received this distinction, and become role models for the younger generation.

Fellowships to encourage scientific careers form another part of the "For Women in Science" programme.

Each year the international Unesco-L'Oréal fellowships enable 15 post-doctorate students to continue their research in the best laboratories in the world. To date, 105 young scientists were awarded fellowships.

The national fellowship programmes, set up in 2001 by L'Oréal subsidiaries to enable women students to continue their scientific studies, have now been extended to 35 countries and 340 doctorate students have benefited from the scheme. In 2007, sixteen new countries joined the programme, including France, Germany and Russia.

On December 1st, 2007, World AIDS Day, more than 400 Beijing hairdressers took part in *The Great AIDS Walk* in China.

"HAIRDRESSERS AGAINST AIDS"

Programme launched in 12 new countries

Set in motion in South Africa, the preventative education initiative "Hairdressers against AIDS" was launched in 2007 in 12 new countries, including India, Germany, Argentina, Canada, Mexico and Russia.

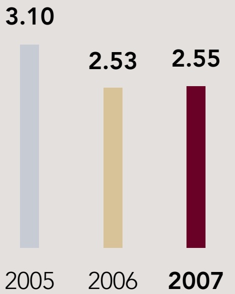
It makes use of the network of L'Oréal partner hairdressers to raise public awareness of the risks of the disease, and inform customers of ways of protecting themselves.
A specific AIDS training module is taught by more than 3,000 instructors worldwide, through hairdresser training academies, hair salons, and professional conferences.

To mark World AIDS Day on December 1st, 2007, 2,500 hairdressers took part in events in France, 550 salons in Germany relayed the programme's prevention messages, and more than 400 Beijing hairdressers took part in *The Great AIDS Walk* in China.

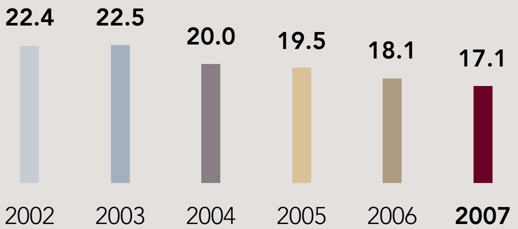
SAFETY, HEALTH AND ENVIRONMENT INDICATORS

	2006	2007	Change
Water consumption (litre/finished product equivalent)	0.696	0.649	–6.7%
Energy consumption (kWh/1,000 finished products equivalent)	176	169	–4.0%
Waste reuse and recycling index (in %)	91.2%	94.9%	+4.1%

> Change in environmental indicators
(group factories and distribution centres)

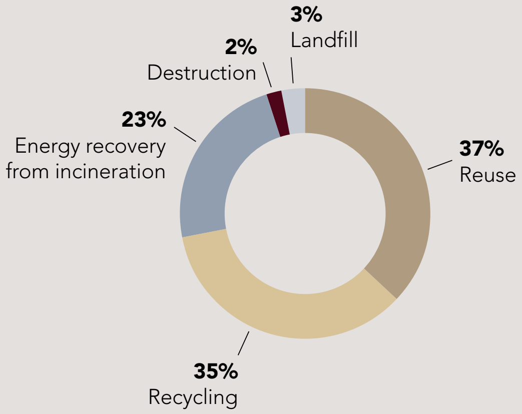


> Number of accidents resulting in sick leave per million hours worked for L'Oréal personnel
(group factories and distribution centres)



> CO_2 emissions in grams per finished products equivalent
(group factories and distribution centres)

L'Oréal has taken several "green energy" initiatives, for example at its plant at Burgos in Spain, where photovoltaic panels have been installed.



> Waste reuse and recycling in 2007
(group factories and distribution centres)

SHAREHOLDER INFORMATION

CLOSER TO THE SHAREHOLDER WITH MORE ACCESSIBLE INFORMATION

L'Oréal has introduced a wide range of initiatives to supplement the financial and strategic information provided to shareholders and investors: shareholder meetings in regional capitals, participation in the 2007 Actionaria shareholder fair in Paris, factory and laboratory visits, wider circulation of the *Letter to Shareholders* and the *Shareholder Digest*, meetings of the rolling shareholder panel to prepare for the Annual General Meeting and discuss the Annual Report, and meetings with analysts and institutional investors from all over the world.

More than 1,500 shareholders visited the L'Oréal stand at Actionaria.

MEETING SHAREHOLDERS

For the fourth year running, L'Oréal welcomed more than 1,500 shareholders on its stand at the Actionaria fair, held on November 16th and 17th, 2007 at the Palais des Congrès in Paris. They were thus able to meet L'Oréal representatives and find out more about its businesses with demonstrations of LANCÔME make-up and VICHY skincare lines.

L'Oréal also met its shareholders in regional capitals (Annecy, Nice, Marseille, Lyon, Lille) at meetings organised by the Cliff[1], the FFCI[2] and the newspaper *Le Revenu*. The meetings provide shareholders with an opportunity to talk to L'Oréal representatives, exchange views and gather information about the group's latest news and sales growth.

Calendar

Shareholder diary dates in 2008:

- January 24th, 2008: 2007 annual sales
- February 13th, 2008: 2007 annual results
- April 22nd, 2008: Annual General Meeting of Shareholders
- April 30th, 2008: Payable date of the dividend[3]
- June 16th, 2008: Shareholders' meeting in Brussels
- June 19th, 2008: Shareholders' meeting in Bordeaux
- August 29th, 2008: First-half 2008 results
- September 18th, 2008: Shareholders' meeting in Strasbourg
- October 9th, 2008: Shareholders' meeting in Toulouse
- November 6th, 2008: Shareholders' meeting in Dijon
- November 18th, 2008: Shareholders' meeting in Nice
- November 21st-22nd, 2008: Actionaria shareholder fair
- December 1st, 2008: Shareholders' meeting in Nantes

ON-LINE FINANCIAL INFORMATION

To supplement the information available on-line, L'Oréal has completely revamped the design and user interface of its website www.loreal-finance.com to make browsing easier and provide richer content, including a new "Frequently Asked Questions" section.

The site has been awarded the second Boursoscan prize for financial communication by Boursorama, France's leading stock market information site, and the specialist survey firm Opinionway. Over a six-week period, more than 6,000 Internet users took part in a vote, rating the websites of listed companies.

Furthermore, the mobile edition of www.loreal-finance.com for cell phone users is now available, enabling shareholders to access key data about L'Oréal wherever they may be.

FULLER AND MORE ACCESSIBLE INFORMATION

The freephone service for our shareholders in France on 0 800 66 66 66 (and the phone service from outside France on +33 1 40 14 80 50) now has an interactive voice server which can be called at any time to obtain the latest share price, the dates of upcoming shareholder events, and a summary of the latest news release, or to contact the L'Oréal Shareholders call centre, managed by BNP Paribas, on working days from 8.45 a.m. until 6 p.m.

L'Oréal's 2006 Annual Report was awarded the Bronze Top Com prize. This distinction is granted each year to the best annual reports of listed companies, and is awarded by a jury of professionals working in finance and financial communication.

REGISTERED SHARES: AN IDEAL WAY TO HOLD YOUR SHARES

By directly registering their shares, shareholders can benefit from a number of advantages:

- personalised information sent directly to the shareholder;
- no custody fees or management fees for routine transactions;
- no charge for switching to directly registered shares;
- dividend sent by cheque to the home address, or credited to the shareholder's account;
- notice to attend the Annual General Meeting sent directly to the shareholder.

(1) Cliff: French Association of Investor Relations.
(2) FFCI: French Investment Club Federation.
(3) Subject to the approval of the Annual General Meeting of April 22nd, 2008.

L'ORÉAL FINANCIAL HIGHLIGHTS

DOUBLE PERFORMANCE FOR SUSTAINED GROWTH

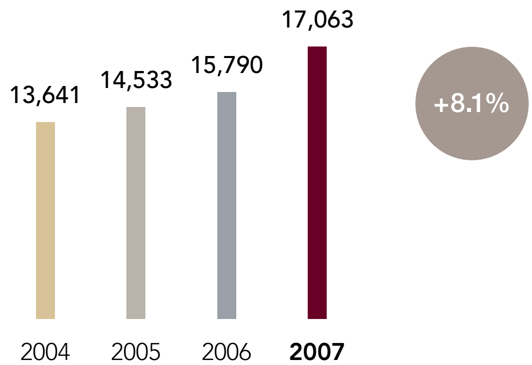
L'Oréal has always pursued a double objective: to increase both its sales and its results.

(1) Based on published figures.
(2) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interests.
(3) Dividend to be proposed to the Annual General Meeting of Shareholders on April 22nd, 2008.

GROUP PERFORMANCE OVER FOUR YEARS

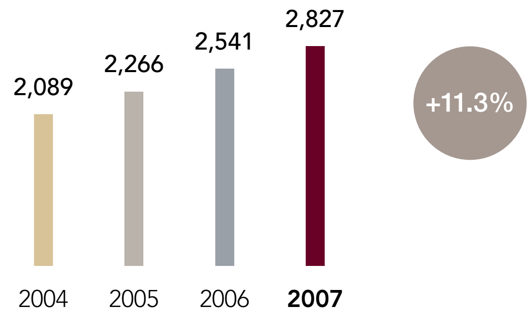
CONSOLIDATED SALES

(€ millions)



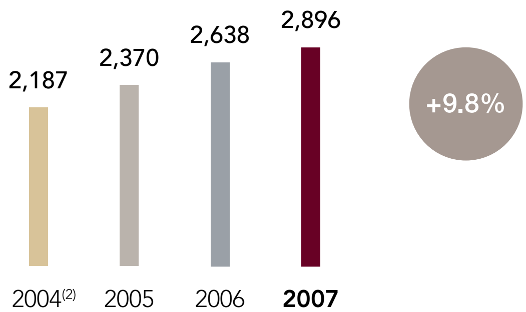
OPERATING PROFIT

(€ millions)



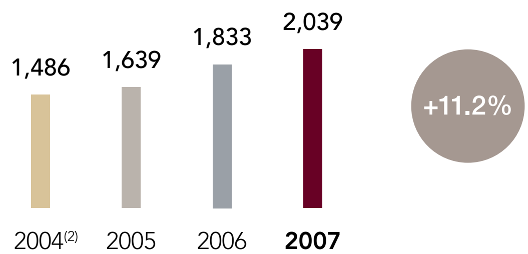
PRE-TAX PROFIT EXCLUDING NON-RECURRENT ITEMS(1)

(€ millions)



NET PROFIT EXCLUDING NON-RECURRENT ITEMS AFTER MINORITY INTERESTS(1)

(€ millions)



BREAKDOWN BY BRANCH IN 2007(3)

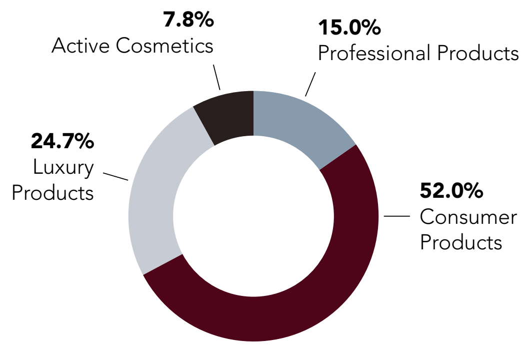
	CONSOLIDATED SALES			OPERATING PROFIT			
	€ millions	Growth Like-for-like	Growth Published figures	€ millions	Weight	Growth based on published sales	% of sales
Cosmetics	15,908	+8.0%	+6.0%	2,701	95.5%	+11.5%	17.0%
The Body Shop	787	+5.7%	+80.9%	64	2.3%	+9.3%	8.1%
Dermatology(4)	368	+12.7%	+6.9%	62	2.2%	+4.3%	16.9%

(1) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs.
(2) For comparison purpose, 2004 pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million,
- and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.
(3) The group business is composed of the cosmetics and the dermatology branches and of The Body Shop.
(4) Group share, i.e. 50%.

2007 CONSOLIDATED SALES OF THE COSMETICS BRANCH

BY DIVISION

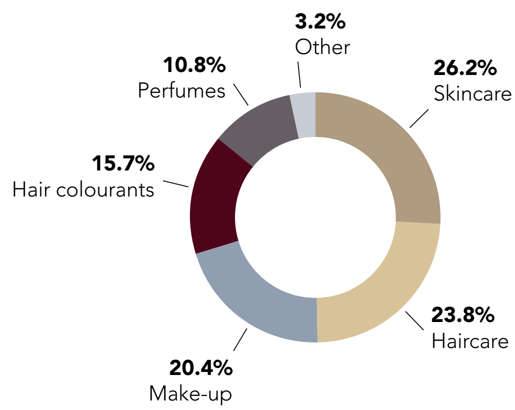
	€ millions	Like-for-like growth	Growth based on published figures
Professional Products	2,392	+7.5%	+12.5%
Consumer Products	8,280	+7.9%	+4.8%
Luxury Products	3,928	+8.4%	+4.1%
Active Cosmetics	1,248	+10.8%	+10.7%
Total cosmetics sales[1]	**15,908**	**+8.0%**	**+6.0%**



Divisions weight

BY BUSINESS SEGMENT

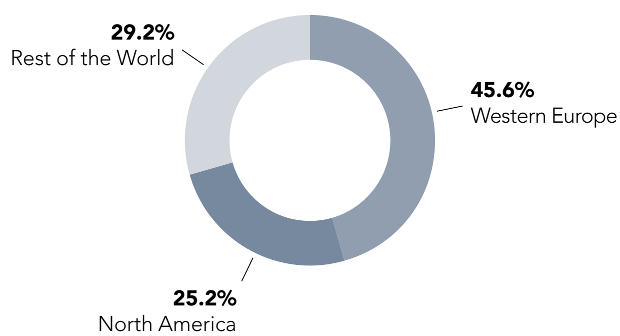
	€ millions	Like-for-like growth	Growth based on published figures
Skincare	4,162	+10.8%	+8.1%
Haircare	3,790	+5.7%	+4.3%
Make-up	3,240	+8.0%	+3.7%
Hair colourants	2,493	+5.2%	+2.5%
Perfumes	1,715	+12.5%	+9.1%
Other	509	+3.7%	+26.5%
Total cosmetics sales	**15,908**	**+8.0%**	**+6.0%**



Business segments weight

BY GEOGRAPHIC ZONE

	€ millions	Like-for-like growth	Growth based on published figures
Western Europe	7,250	+4.1%	+3.7%
North America	4,004	+4.8%	+1.3%
Rest of the World, of which:	4,654	+17.9%	+14.5%
Asia	1,580	+14.3%	+7.0%
Latin America	1,124	+14.6%	+10.1%
Eastern Europe	1,142	+29.4%	+34.4%
Other countries	808	+15.4%	+12.5%
Total cosmetics sales	**15,908**	**+8.0%**	**+6.0%**



Geographic zones weight

(1) The difference between the total cosmetics sales and the combined total of the four divisions, (€60 million), consists mainly of mail order sales.

2007 OPERATING PROFIT OF THE COSMETICS BRANCH

BY DIVISION

	2006		2007	
	€ millions	% of sales	€ millions	% of sales
Professional Products	443	20.8%	502	21.0%
Consumer Products	1,421	18.0%	1,582	19.1%
Luxury Products	776	20.6%	844	21.5%
Active Cosmetics	221	19.6%	256	20.5%
Cosmetics divisions total(1)	**2,860**	**19.1%**	**3,180**	**20.0%**
Non-allocated(2)	–437	–2.9%	–479	–3.0%
Cosmetics branch total	**2,423**	**16.1%**	**2,701**	**17.0%**

BY GEOGRAPHIC ZONE

	2006		2007	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,527	21.8%	1,633	22.5%
North America	744	18.8%	773	19.3%
Rest of the World	589	14.5%	774	16.6%
Total for geographic zones	**2,860**	**19.1%**	**3,180**	**20.0%**
Non-allocated(2)	–437	–2.9%	–479	–3.0%
Cosmetics branch total	**2,423**	**16.1%**	**2,701**	**17.0%**

2007 FINANCIAL RATIOS

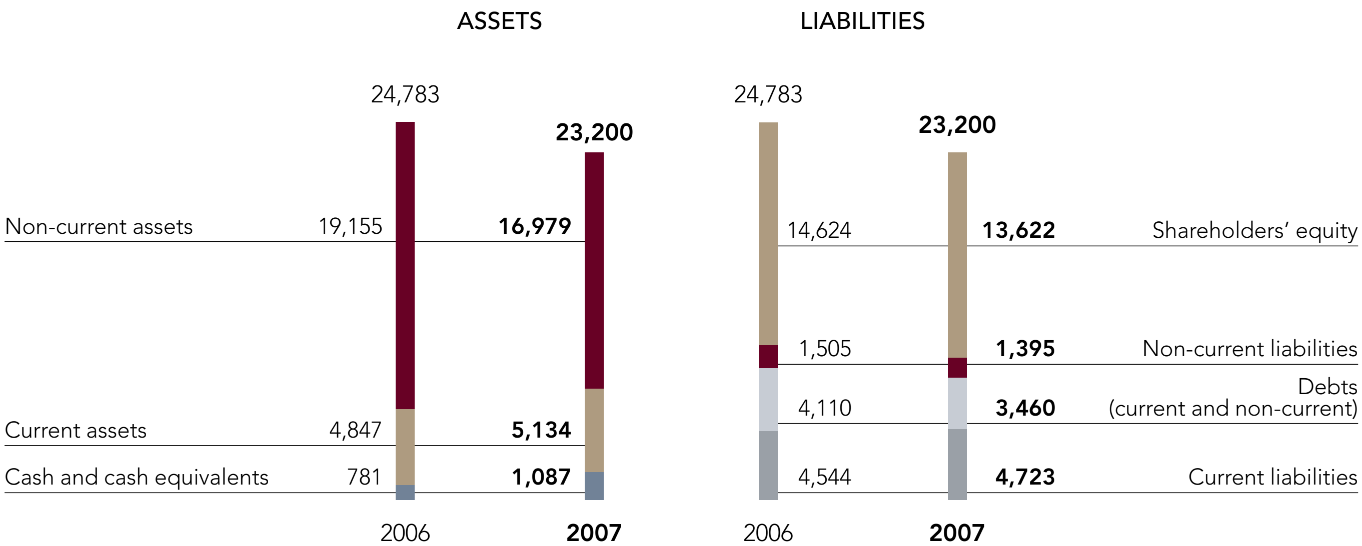
		2006	2007
(% of sales) Operating profit/Sales	=	16.1%	16.6%
(% of shareholders' equity) Net profit excluding non-recurrent items after minority interests/Opening shareholders' equity	=	12.5%	13.9%
(% of shareholders' equity) Net gearing(3)	=	22.8%	17.4%
Cash flow/Investments	=	3.2 x	3.5 x

(1) Includes the operating profit of the "cosmetics miscellaneous" activity which consists mainly of mail order sales.
(2) "Non-allocated" items consist of the expenses of functional divisions and of fundamental research, and of stock option costs, which are not allocated to the cosmetics divisions. This item also includes activities not forming part of the group's core businesses, such as insurance, reinsurance and banking.
(3) Net gearing = $\frac{\text{Current and non-current debt – Cash and cash equivalents}}{\text{Shareholders' equity after minority interests}}$

2007 BALANCE SHEET AND CASH FLOWS

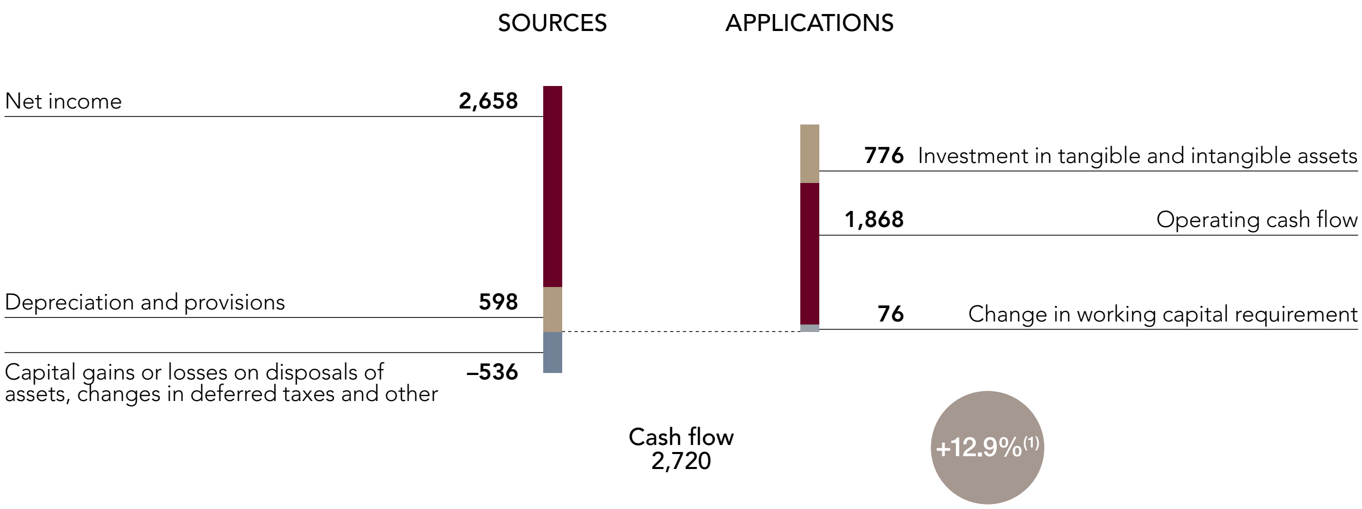
BALANCE SHEET

(€ millions)



SOURCES AND APPLICATIONS OF FUNDS

(€ millions)



(1) +12.9% growth compared with December 31st, 2006.

L'ORÉAL OVER 10 YEARS

FRENCH ACCOUNTING STANDARDS (€ millions)	1997	1998	1998(1)	1999(1)(2)	2000(2)	2001
Results of operations						
Consolidated sales	10,537	11,498	9,588	10,751	12,671	13,740
Pre-tax profit of consolidated companies	1,183	1,339	979	1,125	1,322	1,502
As a percentage of consolidated sales	**11.2**	**11.6**	**10.2**	**10.5**	**10.4**	**10.9**
Income tax	422	488	375	429	488	536
Net operational profit	722	807	722	833	1,033	1,236
As a percentage of consolidated sales	**6.9**	**7.0**	**7.5**	**7.7**	**8.2**	**9.0**
Net operational profit after minority interests	641	719	719	827	1,028	1,229
Total dividend	165	191	191	230	297	365
Balance sheet						
Fixed assets	5,346	5,590	5,299	5,918	7,605	8,140
Current assets	4,512	4,937	4,229	5,139	6,256	6,724
Of which cash and marketable securities	825	903	762	1,080	1,588	1,954
Shareholders' equity(3)	5,015	5,428	5,123	5,470	6,179	7,210
Borrowing and debts	1,767	1,748	1,718	1,914	3,424	2,939
Per share data (€) – notes 4 to 6						
Net operational profit after minority interests per share(7)	0.95	1.06	1.06	1.22	1.52	1.82
Net dividend(8)(9)	0.24	0.28	0.28	0.34	0.44	0.54
Tax credit	0.12	0.14	0.14	0.17	0.22	0.27
Share price at December 31st(8)	35.90	61.59	61.59	79.65	91.30	80.90
Weighted average number of shares outstanding	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160

FRENCH ACCOUNTING STANDARDS

(1) For purposes of comparability, the figures include:
- in 1998, the pro forma impact of the change in the consolidation method for Synthélabo, following its merger with Sanofi in May 1999,
- the impact in 1998 and 1999 of the application of CRC Regulation no.99-02 from January 1st, 2000 onwards. This involves the inclusion of all deferred tax liabilities, evaluated using the balance sheet approach and the extended concept, the activation of financial leasing contracts considered to be material, and the reclassification of profit sharing under "Personal costs".

(2) The figures for 1999 and 2000 also include the impact on the balance sheet of adopting the preferential method for the recording of employee retirement obligation and related benefits from January 1st, 2001 onwards. However, the new method had no material impact on the profit and loss account of the years concerned.

(3) Plus minority interests.

(4) Including investment certificates issued in 1986 and bonus share issues. Public Exchange Offers were made for investment certificates and voting right certificates on the date of the Annual General Meeting on May 25th, 1993 (see Commission des Opérations de Bourse information note of June 3rd, 1993). The certificates were reconstituted as shares following the Special General Meeting on March 29th, 1999 and the Extraordinary General Meeting on June 1st, 1999.

(5) Figures restated to reflect the one-for-ten bonus share allocation decided by the Board of Directors as of May 23rd, 1996.

(6) Ten-for-one share split (Annual General Meeting of May 30th, 2000).

(7) Net earnings per share are based on the weighted average number of shares outstanding in accordance with the accounting standards in force.
In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net operational profit after minority interests, before allowing for the provision for depreciation of treasury stock, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill. At December 31st, 2004, 8.5 million subscription options have been allocated to group executives, and could lead to the issue of the same number of shares.

(8) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was listed in 1963.

(9) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.

2002	2003	2004
14,288	14,029	14,534
1,698	1,870	2,063
11.9	**13.3**	**14.2**
580	629	696
1,464	1,661	1,659
10.2	**11.8**	**11.4**
1,456	1,653	1,656
433	494	554
8,130	8,136	11,534
6,843	6,876	6,645
2,216	2,303	1,981
7,434	8,136	10,564
2,646	1,941	2,175
2.15	2.45	2.46
0.64	0.73	0.82
0.32	0.37	–
72.55	65.00	55.85
675,990,516	676,021,722	673,547,541

IFRS (€ millions)	2004	2004(1) pro forma	2005	2006	2007
Results of operations					
Consolidated sales	13,641	13,641	14,533	15,790	17,063
Operating profit	2,089	2,089	2,266	2,541	2,827
As a percentage of consolidated sales	**15.3**	**15.3**	**15.6**	**16.1**	**16.6**
Pre-tax profit excluding non-recurrent items	2,334	2,187	2,370	2,638	2,896
Net profit excluding non-recurrent items after minority interests	–	1,486	1,639	1,833	2,039
Total dividend	554	554	659	739	843
Balance sheet					
Non-current assets	15,734	15,734	18,686	19,155	16,979
Current assets	4,075	4,075	4,537	4,847	5,134
Cash and cash equivalents	576	576	663	781	1,087
Shareholders' equity(2)	11,825	11,825	14,657	14,624	13,622
Net current and non-current debt	1,568	1,568	2,217	3,329	2,373
Cash flow	**1,923**	**1,923**	**2,130**	**2,410**	**2,720**
Per share data (€)					
Diluted net profit excluding non-recurrent items after minority interests	–	2.29	2.60	2.98	3.36
Net dividend(3)(4)	0.82	0.82	1.00	1.18	1.38(5)
Share price at December 31st(3)	55.85	55.85	62.80	75.90	97.98
Diluted weighted average number of share outstanding	649,598,404	649,598,404	630,892,470	615,723,220	606,012,471

IFRS

(1) For comparison purpose, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €149.5 million,
- and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.

(2) Plus minority interests.

(3) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was listed in 1963.
The share capital is fixed at €123,595,122 at December 31st, 2007: the par value of one share is now €0.2.

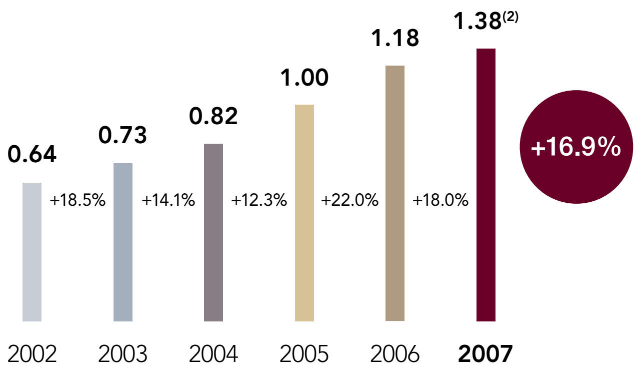
(4) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.

(5) Dividend proposed to the Annual General Meeting of April 22nd, 2008.

THE L'ORÉAL SHARE (at December 31st, 2007)

Net earnings(1) per share	Dividend(2) per share	Share price	Market capitalisation(3)
€3.36	€1.38	€97.98	€60.55 billion

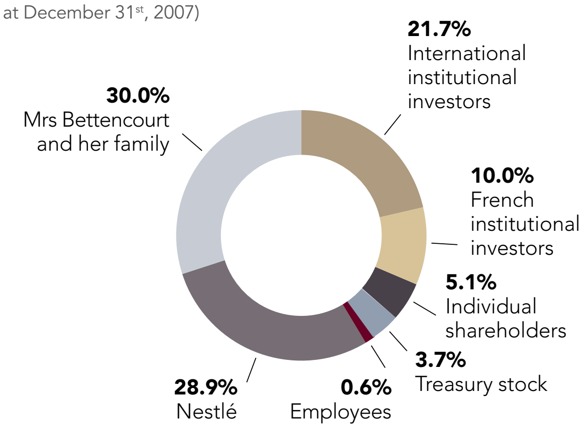
DIVIDEND PER SHARE (in euro)



Dividend distribution rate in 2002: 36.0%
Dividend distribution rate in 2007: 41.1%(4)

BREAKDOWN OF SHARE OWNERSHIP

(as at December 31st, 2007)



INVESTMENT IN L'ORÉAL SHARES

OVER 10 YEARS

Initial capital multiplied by 3.19 in 10 years
Total shareholder return: 11.26%

Purchase of 41 shares at €359.02(5) on December 31st, 1997: 14,719.82 euros

Valuation at December 31st, 2007 including reinvestment of dividends (479 shares at €97.98): 46,932.42 euros

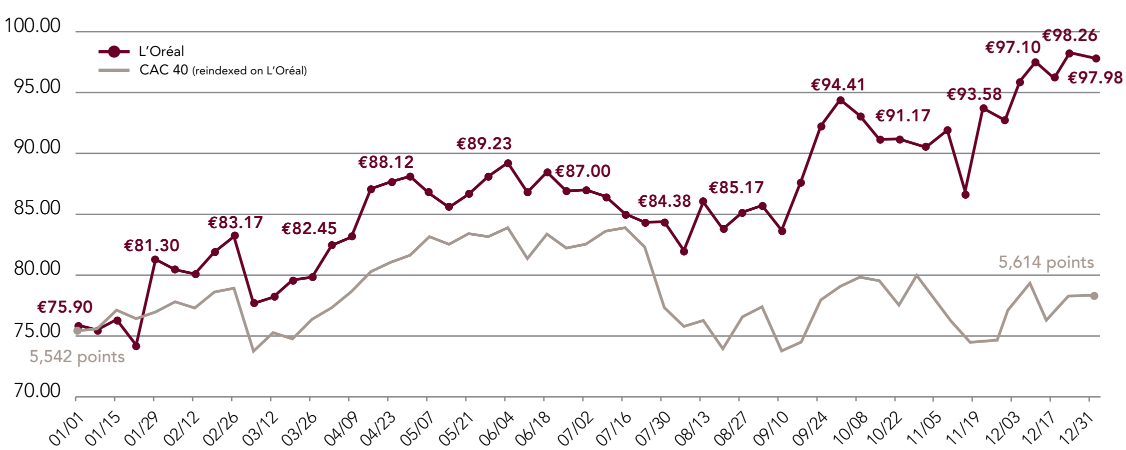
OVER 20 YEARS

Initial capital multiplied by 35.3 in 20 years
Total shareholder return: 19.00%

Purchase of 38 shares at €389.51(5) on December 31st, 1987: 14,801.38 euros

Valuation at December 31st, 2007 including reinvestment of dividends (5,333 shares at €97.98): 522,527.34 euros

L'ORÉAL SHARE PRICE IN 2007 (in euro)



+29.09%
Change in L'Oréal share price in 2007

+1.31%
Change in CAC40 index in 2007

(1) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interests.
(2) Dividend proposed to the Annual General Meeting of April 22nd, 2008.
(3) On the numbers of shares at December 31st, 2007, i.e. 617,975,610 shares.
(4) Based on the dividend proposed to the Annual General Meeting of April 22nd, 2008.
(5) Non-adjusted share price.

TRENDS

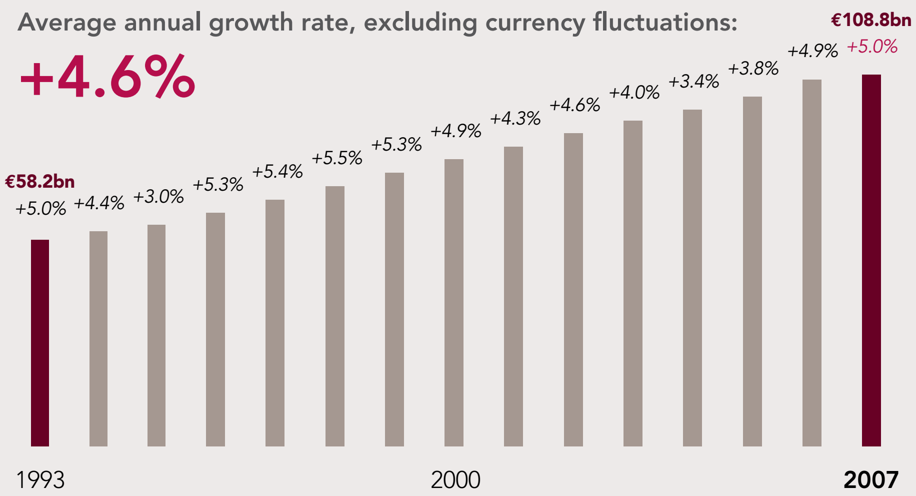
COSMETICS MARKET
A NEW WORLD BECKONS

STRONG AND SUSTAINABLE GROWTH IN

WORLDWIDE COSMETICS MARKET[1]

Average annual growth rate, excluding currency fluctuations:

+4.6%



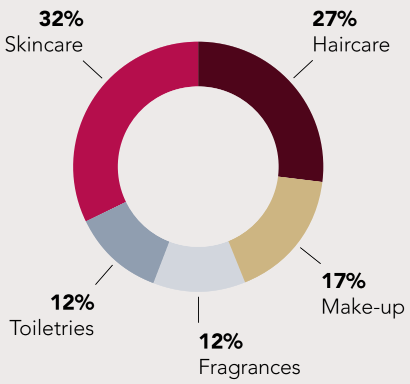
> Worldwide cosmetics market 1993-2007 (€ billions)
(1) Excluding soap, toothpaste and razors. Provisional estimates for 2007.
Source: L'Oréal estimates, manufacturer selling prices.

A MARKET WORTH ALMOST 110 BILLION EUROS...
In 2007, the worldwide cosmetics market totalled €108.8 billion[1], representing some €17 per person.

... GROWING STRONGLY AND STEADILY
It is growing strongly and extremely steadily in a very long term perspective, with an average annual growth rate of +4.6% excluding currency fluctuations over the last 15 years.

DYNAMICS OF THE FIVE MAIN BUSINESS SEGMENTS

The cosmetics market is divided into five main business segments: skincare, haircare, make-up, fragrances and toiletries. As many consumers needs and aspirations all over the world have not yet been met, all product categories are growing, and offer substantial development potential.



> Weight of market by product category[2]
(2) Excluding soap, toothpaste and razors. Source: L'Oréal estimates.

SKINCARE, NUMBER 1 CATEGORY IN THE MARKET

The number one category by size, skincare now represents about one-third of the market.

... AND THE MOST DYNAMIC
Over the last five years, skincare products (facial skincare, bodycare, sun protection) have achieved the highest growth rate of the five main cosmetics categories.

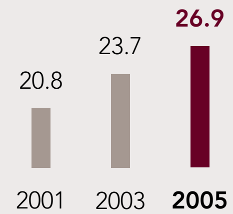
THE WORLDWIDE COSMETICS MARKET

A MARKET FOR INNOVATION DRIVEN BY MAJOR TECHNOLOGICAL BREAKTHROUGHS

Beauty is a technology-based business and its market is focused on innovation, as consumers are highly sensitive to progress and performance. Major technological breakthroughs play a key role in the market's growth, particularly in the skincare business.
Decades of research thus led to the discovery of the negative effects of UVA on skin ageing, and to the major discovery of the role played by anti-oxydants.

MEN

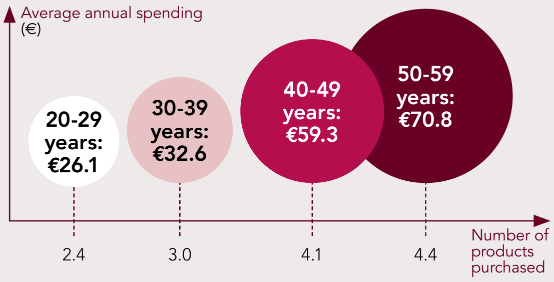
7 MILLION NEW EUROPEAN CONSUMERS IN 4 YEARS
Men are gradually starting to consume facial skincare products, even though they still only represent a small share of the market.
In 2005, 27 million men in Europe used a facial skincare product, a 30% increase in 4 years.



> Millions of men using a facial skincare product in Europe
Source: L'Oréal surveys in five European countries (France, Germany, United Kingdom, Italy, Spain).

SENIORS

OPPORTUNITY NUMBER 1 IN DEVELOPED COUNTRIES
With the ageing of the population in the most developed countries, seniors represent a major opportunity for developing the skincare business. Seniors are always looking for increasingly active and technologically advanced skincare products, and naturally turn to the highest premium products. This upward trend in market value is a substantial source of growth and an opportunity for L'Oréal with its cutting edge research.



> Skincare creams: average annual spending and number of products purchased by age bracket per year
Source: TNS Worldpanel France.

SUSTAINABLE GROWTH

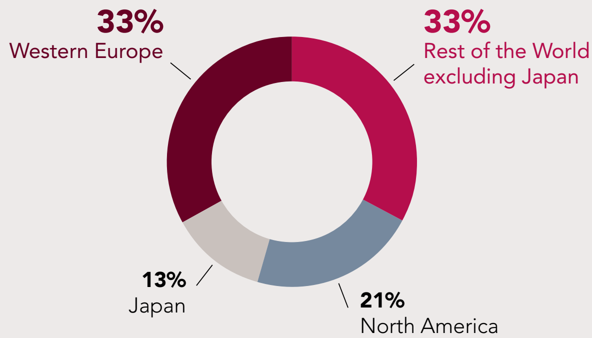
The cosmetics market in the developed countries should achieve sustainable growth. Firstly because of the arrival of new consumers, and secondly because penetration rates in some markets, even in Western Europe and North America, still offer very significant growth prospects.

DECISIVE

NEW MARKETS BECOME THE NUMBER ONE CONSUMPTION ZONE IN THE WORLD

THEY REPRESENT ONE THIRD OF THE MARKET…

In 2007, the countries in the Rest of the World zone, excluding Japan, became the number one market, on a par with Western Europe, which they should overtake in 2008.



> Weight of cosmetics market by geographic zone[2]

… BUT THEY ARE THE GROWTH DRIVER

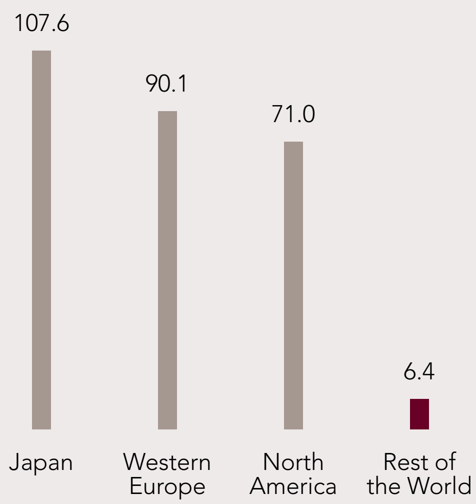
In 2007, the countries of the Rest of the World zone contributed some two-thirds (63%) of the growth of the world cosmetics market. This contribution has grown substantially over the last 10 years. The constant increase in the weight of these countries will continue to generate a leverage effect, accelerating worldwide market growth.

> Weight and contribution of Rest of the World zone in cosmetics market growth[2]

(2) Excluding soap, toothpaste and razors. 2007 provisional estimates.
Source: L'Oréal estimates.

CONSUMPTION 14 TIMES LOWER THAN IN THE MOST DEVELOPED MARKETS

Consumption of cosmetics products in the new markets is still on average 14 times lower than in the most developed markets (Japan, Western Europe and North America).



> Cosmetics consumption per capita[1]

(€)

(1) Excluding soap, toothpaste and razors. 2007 provisional estimates.
Source: L'Oréal estimates of manufacturer selling prices.

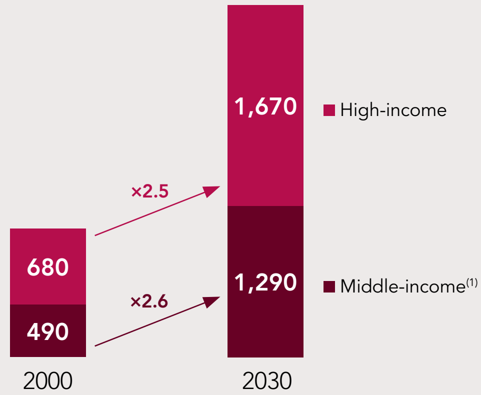
CONTRIBUTION OF NEW MARKETS

INCREASING INCOME ACCELERATES ACCESS TO COSMETICS

In these new markets, the driving force for consumption is the strong increase in income. This new trend represents an outstanding opportunity for all consumer product industries, and cosmetics in particular.

60 MILLION NEW CONSUMERS A YEAR
Each year, some 60 million new consumers attain an income level which means they can afford to buy more sophisticated cosmetics products.

This redistribution of wealth benefits both the middle-income and high-income categories, whose numbers are set to increase by a factor of 2.5, according to World Bank statistics. This growth in income holds out growth prospects not only for mass-market but also for the most exclusive brands.



> Growth in world population by income bracket (millions of people)
Source: Calculated on data from the World Bank's Global Economic Prospects 2007 report.
(1) Middle-income: per capita income between 4,000 and 17,000 U.S. dollars P.P.P.

POTENTIAL OF NEW MARKETS

In 20 years, the world of cosmetics has undergone a profound upheaval. Several emerging countries are now amongst the largest markets in the world: the BRIMC countries (Brazil, Russia, India, Mexico and China). But L'Oréal has also identified 12 countries which combine substantial market potential and high growth rates, and they in turn will act as growth relays. The BRIMC countries and the "Next 12" (see table opposite) together contributed more than half of the growth of the worldwide cosmetics market (52.3%) in 2007.

> 52.3%: Contribution of BRIMC countries and the "Next 12" countries to worldwide cosmetics market growth[2]

BRIMC	"NEXT 12": 12 HIGH GROWTH POTENTIAL COUNTRIES	
Brazil	Argentina	Poland
Russia	Colombia	South Africa
India	Czech Republic	Thailand
Mexico	Dubai	Turkey
China	Indonesia	Ukraine
	Philippines	Vietnam

(2) Excluding soap, toothpaste and razors. 2007 provisional estimates.

MEETING ALL BEAUTY ASPIRATIONS

Growth in consumption is underpinned by strong local beauty traditions. L'Oréal Research explores them in all their diversity to spot expectations and meet all kinds of beauty aspirations. Beauty customs firmly rooted in different civilisations exist all over the world. They form the living tradition in which L'Oréal can innovate and offer products adapted to local cosmetic cultures. For several decades, research evaluation centres based in the four corners of the earth have been collecting data about cultural contexts, and everyday hygiene and beauty rituals, providing an insight into the different local realities of cosmetics culture. Ethnography and ethology thus enable the construction of a veritable science of geocosmetics.
This knowledge and understanding of diversity mean that research is working for the benefit of all forms of beauty, while providing a constant flow of innovations.

OPENING
ALL PATHS TO BEAUTY

COMPLEMENTARY BRANDS

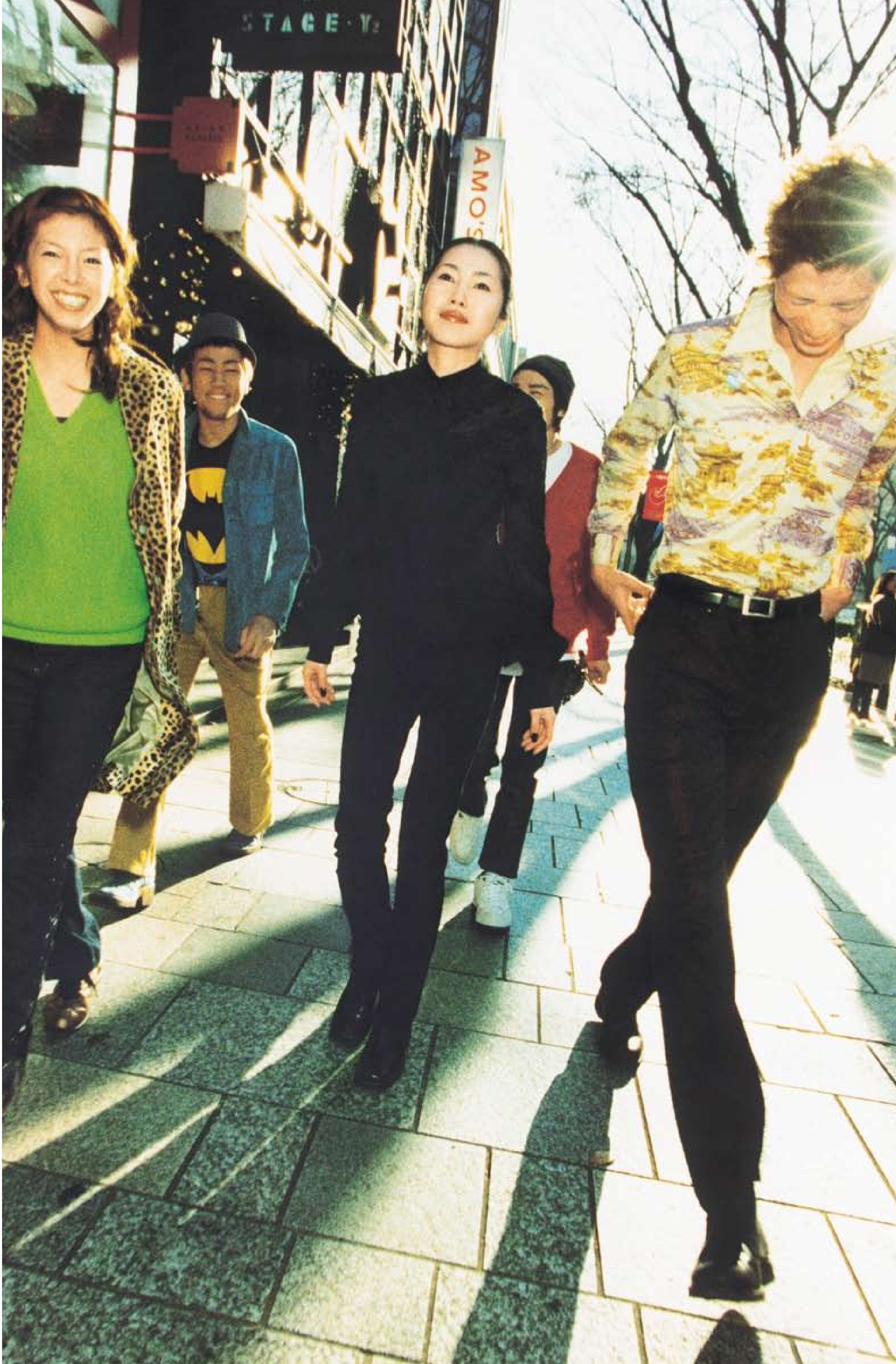
All different and perfectly complementary in terms of cultural origin, positioning and price, the brands are rolled out by distribution channel with each division developing a specific vision of beauty: the artistic creativity of hairdressers, luxury in selective distribution, health and skincare in pharmacies, and affordability in mass-market outlets. The brands are opening and developing all paths to beauty.

MULTICULTURAL BRANDS

L'Oréal was the first global company to fully encompass geographic and cultural diversity in its conception of beauty. Italian luxury with Giorgio Armani, French elegance with L'Oréal Paris and Lancôme, American style with Ralph Lauren, American make-up with Maybelline New York, natural inspiration with the British brand The Body Shop and artistic Japanese make-up with Shu Uemura... The group's brand portfolio meets the multi-faceted beauty aspirations of the whole world.

WITH STRONG POTENTIAL

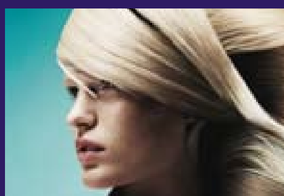
Today, the 25 international brands, which represent 93% of sales, enable the group to actively prepare for the future. Some, such as L'Oréal Paris, Lancôme, Vichy and L'Oréal Professionnel, are already leaders in their respective channels. Others are rapidly emerging, and could become tomorrow's leaders. Others again are beginning their conquest of world markets. All of them have tremendous growth potential.


AMO'S

25 BRANDS WITH GLOBAL REACH

PROFESSIONAL PRODUCTS

The Professional Products Division designs hair products for all kinds of hair salons. More than 3 million hairstylists use them and sell them in their salons offering their professional advice.

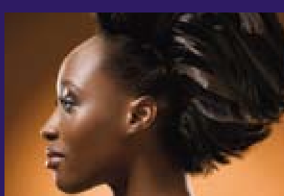


L'ORÉAL PROFESSIONNEL PARIS

KÉRASTASE PARIS

MATRIX

REDKEN 5TH AVENUE NYC



MIZANI

CONSUMER PRODUCTS

The Consumer Products Division distributes its products in all mass-market channels (7,600 hypermarkets, 40,000 supermarkets, 74,000 drugstores). It offers consumers products that combine advanced technology with high added value at affordable prices.

L'ORÉAL PARIS

GARNIER

MAYBELLINE NEW YORK

SOFTSHEEN·CARSON™

THE BODY SHOP

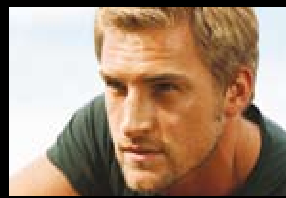
Present in 59 countries with 2,426 stores, THE BODY SHOP brand is renowned for its pioneering role in the use of natural ingredients and its strong ethical commitment.

THE BODY SHOP®

LUXURY PRODUCTS

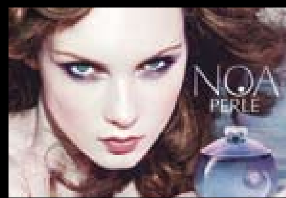
The Luxury Products Division markets prestige brands, with a wide diversity of cultural origins, in selective outlets worldwide (department stores, perfumeries, travel retail, brand and distributor on-line sales sites, and free standing stores).

LANCÔME PARIS



RALPH LAUREN

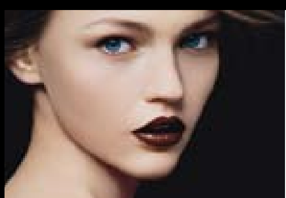
BIOTHERM



cacharel

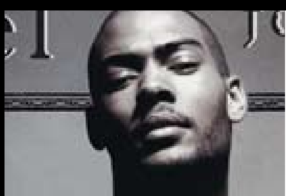
HR HELENA RUBINSTEIN

Kiehl's SINCE 1851



GIORGIO ARMANI PARFUMS

shu uemura

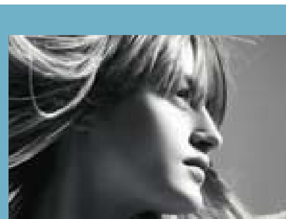


DIESEL

VIKTOR&ROLF

ACTIVE COSMETICS

The world leader in the dermocosmetic skincare market, the Active Cosmetics Division markets its five brands in more than 75,000 pharmacies, in spas and medispas, and through doctors. It offers products ideally suited to pharmacists' advice and dermatologists' recommendations.



innéov nutricosmetics

VICHY LABORATOIRES

SKINCEUTICALS

LA ROCHE-POSAY LABORATOIRE PHARMACEUTIQUE

SANOFLORE

INTERNATIONAL

EXPANDING IN ALL THE WORLD'S MARKETS

L'ORÉAL PARIS event in Shanghai.

Outstanding growth prospects are opening up in all markets. In Western Europe and North America, L'Oréal is strengthening its position in markets where the group's brands have considerable growth potential. In the rest of the world, as consumer spending potential increases for millions of people each year, the group is ideally positioned to seize this historic opportunity.

WESTERN EUROPE

In an expanding market, Western Europe posted +4.1% like-for-like sales growth. Sales trends were very favourable in the United Kingdom (+7.6%), Spain (+8.7%) and Scandinavia, particularly in Sweden (+9.7%). In France and Germany sales improved in the second half. The Professional Products Division performed particularly well in Germany and the United Kingdom. Consolidating its leadership, the Consumer Products Division won substantial market share in facial skincare, particularly in Germany, foundations and lipsticks. There was a sharp acceleration in the Luxury Products Division's sales, with excellent performances in the United Kingdom, France and Italy. The Active Cosmetics Division recorded solid growth.

SPAIN

> Matrix on show in 5,000 salons

One year after the brand's launch in Spain, more than 5,000 hair salons have used Matrix products: SoColor Beauty hair colourant and Biolage haircare ranges are proving highly successful. The American brands Matrix and Redken are asserting their role as growth relays for the Professional Products Division in West European countries.

> Innéov, number one for oral cosmetics in Western Europe

In 2003, L'Oréal and Nestlé created Innéov, an oral cosmetics brand sold in pharmacies. Four years later, Innéov is number one in the European market and leads a new consumer trend.

GERMANY

> Maybelline New York captivates Berlin

Larger areas in sales outlets mean more advice and shopping pleasure for consumers. The success of high definition Stretch&Define mascara and exclusive partnerships with the fashion world, such as Berlin Fashion Week, are stimulating the growth of the Maybelline New York brand, and reinforcing its leadership of the German make-up market.

7,250
million euros of consolidated sales in 2007

45.6%
of total group consolidated cosmetics sales

+4.1%
like-for-like growth

FRANCE
> All-time record for L'Oréal Paris

Just six weeks after its launch in August 2007, the Derma Genèse facial skincare range was number one in the market.
By winning new consumers, captivated by a new vision of facial skincare, L'Oréal Paris is achieving all-time record market share levels, strengthening its number one position in this segment.

UNITED KINGDOM
> Fuel For Life by Diesel, an energising launch

The highly original launch of Fuel For Life by Diesel took everyone by surprise: an offbeat teasing campaign on the Internet, true to the spirit of fashion and to its designer Renzo Rosso, backed up by an exceptional commercial initiative to give the fragrances unrivalled visibility in retail outlets. Launched at the end of August 2007, Fuel For Life reached the premier league of best selling men's and women's fragrances by September.

EASTERN EUROPE

The group achieved record growth of +29.4%, reflecting trends across all East European countries, particularly Russia (+37.7%) and Poland (+16.9%). L'Oréal Ukraine became the third largest subsidiary in the zone, just two years after its creation. Professional Products sales are accelerating everywhere, and are now number one in Russia, Poland and the Czech Republic. Consumer Products recorded strong and evenly matched growth, driven by facial skincare and make-up. The Luxury Products Division is growing twice as fast as the market, strengthening its leadership in the zone. In addition to the success of VICHY, long established as the leader in pharmacies, LA ROCHE-POSAY is proving to be an important growth relay for the Active Cosmetics Division.

POLAND
> Vichy revolutionises pharmacies
VICHY, the number one pharmacy brand, consolidates its number two position in facial skincare across all retail channels. In 2007, ten Healthy skin check-up centres offer skin diagnostic services across the country. By setting up high quality health sections within pharmacies, the Active Cosmetics Division is playing a leading role in modernising the channel, while improving the visibility of its brands.

UKRAINE
> Instant Garnier effect
Created at the start of 2006, the Ukrainian subsidiary delivers spectacular growth in 2007, spearheaded by the breakthrough of GARNIER skincare. The Pure range, specially formulated to cleanse young skin, and the anti-wrinkle formulas of UltraLift both prove an instant hit.

POLAND
> Natural success for The Body Shop
In its seven stores opened in 2007 in Warsaw and three other cities in Poland, THE BODY SHOP is making its mark, particularly with its make-up and fragrance ranges. The boom in the Polish market fully justifies the brand's goal of opening around fifty stores in Poland over the next five years.

1,142
million euros of consolidated sales in 2007

7.2%
of total group consolidated cosmetics sales

+29.4%
like-for-like growth

RUSSIA
> Lancôme inspires dreams

2007 was a year of conquest for Lancôme in Russia: +70% growth and a luxury image reinforced by the renovation of two of Russia's most prestigious department stores, GUM and TSUM. The brand inspires the dreams of Russian women, as reflected in the success of the most recent launches: Virtuôse mascara and Rénergie Morpholift R.A.R.E. anti-ageing skincare.

RUSSIA
> Affinitone by Maybelline New York: Made-to-measure beauty

A nourishing formula to withstand the rigours of winter, and a palette of natural tones adapted to the complexions of East European women spell success for Affinitone foundation, which was launched in Russia at the end of 2007, and helps the Maybelline New York brand to grow by more than 30%.

NORTH AMERICA

Sales grew by +4.8% in North America, as market growth slowed slightly. Market share gains were significant. The Professional Products Division strengthened its market leader position, particularly in hair colourants. The Consumer Products Division grew faster than the market in the make-up segment, due particularly to L'Oréal Paris and in the skincare segment thanks to a number of strategic launches. Luxury Products Division sales grew slightly faster than the market thanks to the success of its fragrances. The Active Cosmetics Division is strengthening its presence in drugstore in the north-eastern states and in California, while SkinCeuticals recorded a solid growth rate.

UNITED STATES
> Facial skincare breakthrough

Having gained second place in just three years in the United States haircare market with Fructis, Garnier takes a new step forward with the launch of its Nutritioniste skincare range. This product combines nutrition and dermatology in a pack in the traditional green colour of the Garnier brand. In 2007, L'Oréal Paris also launches the Skin Genesis facial skincare range.
Aimed at women in their thirties to early forties, Skin Genesis represents an opportunity for the brand to win new consumers. The success of the launch allows L'Oréal Paris to take a commanding position in the anti-ageing skincare segment. The launches of Nutritioniste by Garnier and Skin Genesis by L'Oréal Paris are helping the group to strengthen its number one position in the consumer skincare market.

CANADA
> Vichy, number one in facial skincare in Canadian pharmacies

Vichy's blockbuster Aqualia Thermal is launched in 2007 in Canada, with special events in seven major cities.
Just a few months after its launch, Aqualia Thermal reaches the top 5 in facial skincare sales in pharmacies[1], bolstering Vichy's position as number one in this category in Canada[2].

(1) Source: AC Nielsen, National $, Drugstores, Moisturisers, 3 periods: from September 29th to November 24th, 2007.
(2) Source: AC Nielsen Canada, Total Face Care Market in Dollars, National Drug, aggregate data at December 22nd, 2007.

CANADA
> The fascination of Shu Uemura

The opening in May 2007 of the first counter in Vancouver marks the launch of Shu Uemura in Canada.
Canadian women find the brand's purifying oils, false eyelash collection and palette of colours extremely attractive. At the end of December, the brand is already number three in make-up sales at the Holt Renfrew department store in Vancouver.

4,004
million euros of
consolidated sales in 2007

25.2%
of total group
consolidated cosmetics sales

+4.8%
like-for-like growth

UNITED STATES

> Three men's fragrances in the top five 2007 launches

The Luxury Products Division shows robust retail sales and gains ground in 2007, in part due to strong launches in designer fragrances.
In 2007, the Division continued to consolidate its leadership position in the American men's category with three out of the top five new launches for the year—Attitude by Giorgio Armani, Polo Explorer by Ralph Lauren and Fuel for Life by Diesel.
In women's fragrances, Giorgio Armani continues to grow its presence with the fall introduction of Emporio Armani Diamonds, which was the third largest new launch of the year.

UNITED STATES

> Strategic acquisitions in Professional Products

With the acquisition of the luxury haircare brand PureOlogy, and the launch of Shu Uemura Art of Hair, the Professional Products Division is stepping up its presence in the fast-growing sector of the most prestigious American hair salons.
The acquisition of geographically complementary distributors Beauty Alliance and Maly's West means the Division can control distribution more effectively and build a closer relationship with American hairdressers by offering them the best service and training. These two strategic acquisitions form part of a highly efficient salon distribution business model, which combines the American distribution approach with L'Oréal's expertise in partnerships with hairdressers.

LATIN AMERICA

In Latin America, like-for-like sales grew by +14.6%. Alongside Brazil and Mexico, already major markets for L'Oréal, the group achieved spectacular growth in Colombia (+27.2%), Argentina (+36.6%), Venezuela (+46.8%) and Panama (+74.2%), where a subsidiary was created in 2007. The group's brands are capitalising on the spectacular development in this part of the world to gain market share. Meanwhile, the zone has rationalised its business model by grouping its industrial and logistical operations for the southern triangle in Brazil, and for the northern part in Mexico. The new organisational structure enables L'Oréal to make large economies of scale while significantly cutting its costs.

BRAZIL
> Active Cosmetics in the driving seat

La Roche-Posay is strengthening its position as the leading partner of pharmacists and dermatologists in Brazil, the brand's second most important country in the world. The partnership brings spectacular successes in sun products for the Anthelios range, and in anti-wrinkle skincare, with sales rising by more than 50% since the launch of Redermic. With Vichy and La Roche-Posay, the Active Cosmetics Division is now number one in the Brazilian dermocosmetics market.

ARGENTINA
> Winning duo in hair salons

In 2007, Redken and Matrix are successfully launched in the Argentinean market, with two highly complementary strategies. The premium brand Redken is available in more than 200 high-end salons in the major cities. Matrix, a more affordable brand, was sold in more than 1,000 affordable salons by the end of 2007. Together they are bolstering the Professional Products Division's number one position.

MEXICO
> The Kiehl's adventure begins

An affordable luxury positioning, a very friendly atmosphere and excellent quality of service have ensured the success of the three Kiehl's boutiques opened in Mexico over the last year. The latest, created at the Saks Fifth Avenue store in Mexico City, even succeeds in capturing the number one position in the department store's cosmetics brand rankings. Four new Kiehl's boutiques are to be opened in 2008.

1,124
million euros of consolidated sales in 2007

7.0%
of total group consolidated cosmetics sales

+14.6%
like-for-like growth

BRAZIL
> Elsève Volume Control by L'Oréal Paris, specially designed for Latin American hair
Elsève Volume Control by L'Oréal Paris is formulated to meet the specific needs of Brazilian women who wish to tame the volume of their hair. Successfully launched in Brazil in April 2007, it rapidly became the leading franchise of Elsève, thanks to its "Crema para peinar" conditioner. Also launched in Chile and Mexico in 2007, Elsève Volume Control will continue its Latin American roll-out in 2008.

ARGENTINA
> L'Oréal, number one partner of the World Congress of Dermatology
More than 12,000 dermatologists from all over the world took part in the World Congress of Dermatology, held in Buenos Aires in October 2007, of which L'Oréal was the number one partner. Many of the dermatologists visited the "L'Oréal Village" to find out more about the group's brands.

ASIA

L'Oréal's growth accelerated quarter by quarter to reach +14.3% in like-for-like sales. In Asia excluding Japan, it reached +17.8%, with a growth rate of +1.8% in Japan. In the highly competitive North Asian markets (Japan and South Korea), the group achieved positive scores thanks to the success of Professional Products in both countries and the breakthrough of Kiehl's, Shu Uemura and Biotherm in the luxury channel in South Korea. In China (+30%), growth was very rapid in all divisions. The Luxury Products Division strengthened its number one position there, thanks in particular to the strong performances of Yue-Sai in skincare. Finally, conquests are continuing in the countries of South-East Asia, particularly in Indonesia (+21.2%), Thailand (+22%) and Vietnam, where L'Oréal is creating a subsidiary to cover the four divisions.

CHINA
> L'Oréal Paris, number one in its retail universe
Driven by the success of its ranges in the skincare segment, the largest market in China, L'Oréal Paris achieved growth of more than 47% in 2007, making it the number one beauty brand in its retail universe. Among its major successes, the Men Expert range, launched one year ago, is proving a winner with Chinese men.

HONG KONG
> Armani magic
The immediate success of the premium skincare range Crema Nera, and its rise to number one position in the selective fluid/cream foundation market, enable the Giorgio Armani brand to achieve +38% growth in 2007. The opening of two new sales outlets takes the total number to six.

SOUTH KOREA
> Customers appreciate Kiehl's quality of service
South Koreans are very keen on the Kiehl's brand. They appreciate the simple, natural products, quality of service and proximity to the consumer, which create a spirit of community. Present in five stores, Kiehl's achieves spectacular growth in 2007, particularly in skincare with its flagship ranges Dermatologist Solutions and Ultra Facial.

1,580
million euros of consolidated sales in 2007

9.9%
of total group consolidated cosmetics sales

+14.3%
like-for-like growth

MALAYSIA
> Garnier's new horizons

Building on its success in Thailand, where GARNIER is now number two in the skincare segment, the brand moved into Hong Kong and several countries in South-East Asia, including Indonesia and Malaysia. GARNIER is making a significant breakthrough there, driven by the success of Light facial skincare, ideally suited to local expectations.

JAPAN
> Luxury is synonymous with Kérastase

KÉRASTASE establishes itself in Japan as the top luxury brand in the exclusive haircare sector. Its rinse-free haircare products, which highlight the skills of the hairdresser, are proving highly successful with very demanding customers. These successes have made Japan the second largest market for the brand after France, and are contributing, with the success of L'ORÉAL PROFESSIONNEL, to the Division's very significant market share increases in Japan.

AFRICA, ORIENT, PACIFIC

Like-for-like sales in the Africa-Orient-Pacific zone grew by +15.4%. The zone's growth was driven by India (+34.4%) and boosted by resounding successes in South Africa (+19.9%) and Dubai (+26.4%). Meanwhile, growth is increasing again in Australia (+11.3%). All the brands are making progress in North Africa and the Middle East, thanks to GARNIER's skincare initiatives and the success of the luxury brands, especially in Dubai.

AUSTRALIA

> Elvive by L'Oréal Paris makes a remarkable debut

Well established in the make-up, skincare and hair colourant segments, L'ORÉAL PARIS in 2007 launched its Elvive haircare range in Australia, a market with 20 million consumers. This launch propelled L'ORÉAL PARIS into second place in the Australian market.

INDIA

> Garnier, modernity for everyone

With the success of its Light Matte skincare range, GARNIER is asserting its identity as a modern and high performance brand, which remains affordable. With its dual lightening and matte effect, ideal for the humid Indian climate, Light Matte helped GARNIER to shoot up the Indian skincare rankings from fifth to second in one year.

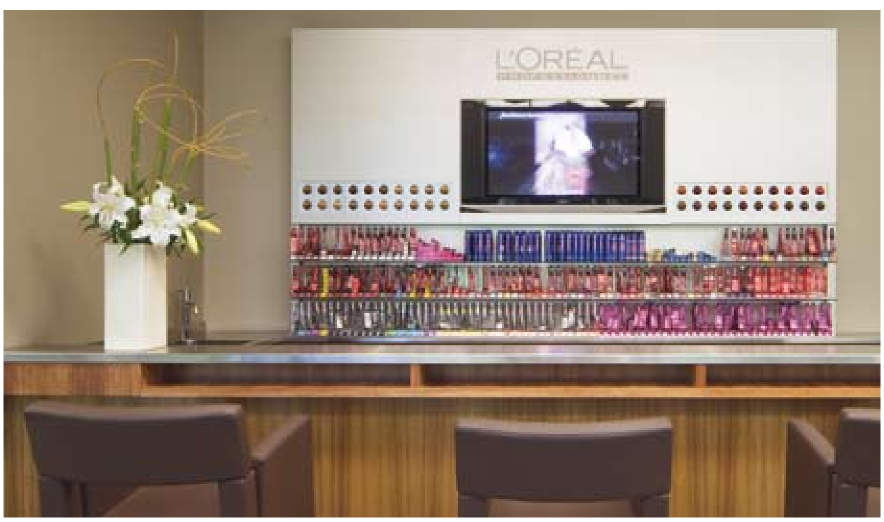
808
million euros of consolidated sales in 2007

5.1%
of total group consolidated cosmetics sales

+15.4%
like-for-like growth

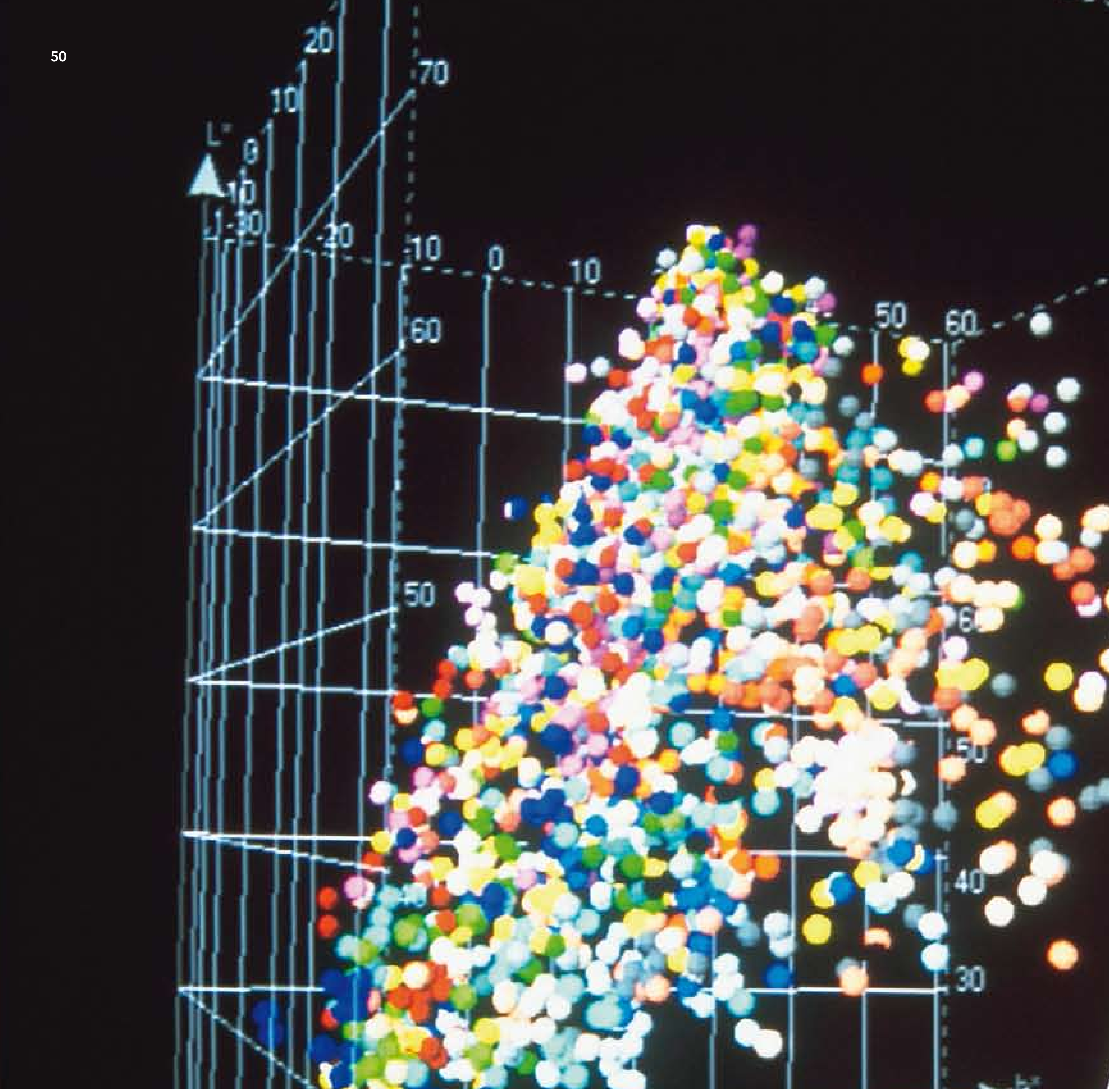
DUBAI
> Viktor & Rolf, luxury rolls-out its brands

Launched in highly selective retail channels, the Viktor & Rolf brand has very rapidly succeeded in making Flowerbomb one of the top five women's fragrances in Dubai. The introduction of Viktor & Rolf, which perfectly embodies the modern luxury concept, is continuing in the luxury brand portfolio roll-out in this region.



NEW ZEALAND
> Creativity galvanises growth

More than 1,300 young hairdressers from New Zealand took part in the new "Talent Spotting" competition organised by L'Oréal Professionnel, and intended to develop their professional and artistic skills. This initiative helped the brand to grow much faster than the market. This success, and those achieved by the other brands including Matrix, is consolidating the Professional Products Division's position as the unchallenged leader in this market.



RESOURCES

AT THE HEART OF THE GROUP, INVENTING THE FUTURE

Modelling and screening tools facilitate the creation of tomorrow's hair colourants.

The Research Division invents beauty to accelerate the brands' success and prepare for the future. The Operations Division redesigns organisational structures to improve the performance, quality and efficiency of customer service. Women and men are at the heart of the group's success, and the acceleration of its growth. For them, L'Oréal builds an environment of creativity, diversity and passion.

RESEARCH AND DEVELOPMENT

INVENTING BEAUTY INSPIRED BY DIVERSITY

The world of beauty is changing. As people live longer and the melting pot effect continues, new kinds of beauty expectations are emerging. At the same time, the paths of beauty are diversifying. Men and women are turning increasingly to institutes, pharmacies, hair salons, perfumeries, supermarkets, dermatologists and even surgeons. L'Oréal Research is taking all these factors on board so as to anticipate beauty trends, seize growth relays and invent the products of tomorrow, without making any concessions on quality, safety and performance.

Jean-François Grollier
Executive Vice-President
Research and Development

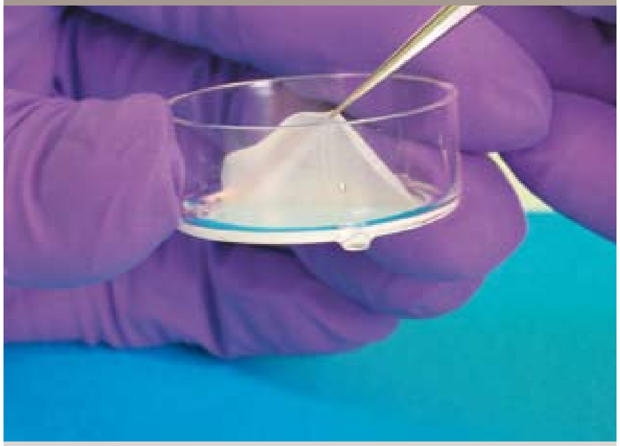
2007 HIGHLIGHTS

> Creation of two new worldwide development units: Natural and organic cosmetics; Instrumental cosmetics.

> Validation by ECVAM (European Centre for the Validation of Alternative Methods) of the human epidermis model Episkin as a method of predicting the irritant potential of chemical substances, enabling the complete replacement of animal testing for skin irritation.

> Publication of the first volume of the *Skin Aging Atlas* (Volume 1: *Caucasian types*). The result of 12 years of studies over the world, this research enables the evaluation of anti-ageing product performance and the development of ageing modelling tools.

> L'Oréal's innovative force was recognised when it won the Decision Makers' Prize ("Prix des Décideurs") at the first Innovation Management Trophy Awards.



Products and substances in all forms (liquid, powder, gel, cream, paste) are tested directly on the surface of the epidermis, simulating the topical application which corresponds to normal conditions of use. L'Oréal routinely uses the Episkin model to confirm the products cause no irritation.

RECONSTRUCTED SKIN

Moving towards widespread use

For 25 years, L'Oréal has been able to reconstruct skin from human cells, in the laboratory, but also on a large scale, in a production unit in Lyon (France).

The Episkin epidermis model, which is an invaluable research tool in biology, has just been validated by the European Commission body ECVAM (European Centre for the Validation of Alternative Methods) as a tool for evaluating the irritant potential of substances and products on the skin. This is a decisive step forward for alternative methods, and has been welcomed by consumers, regulatory bodies, and the chemical industries.

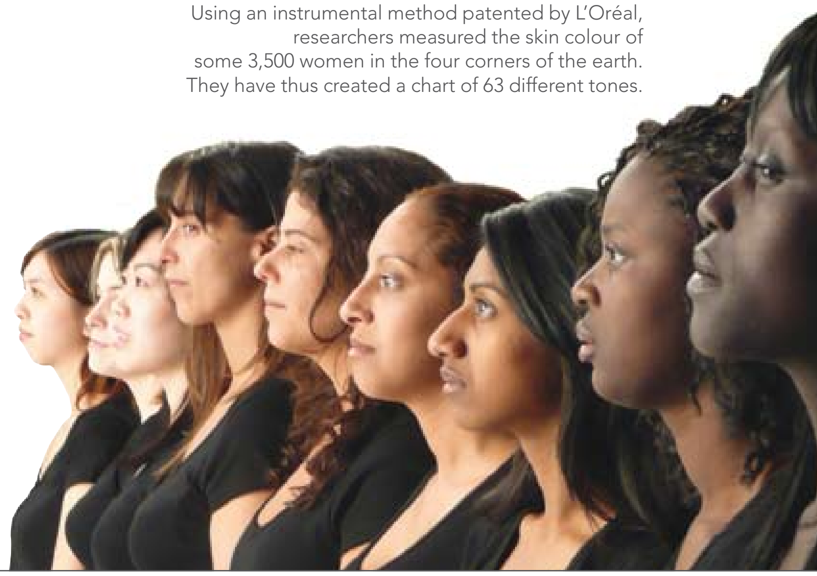
L'Oréal does not intend to stop there; other models of the skin and the cornea are currently being validated to replace other safety evaluation tests.

THE FUTURE OF BEAUTY

In 2007, the World Congress of Dermatology in Buenos Aires brought together all the major beauty trends: dermatologists talking of "appearance medicine" with the rise of plastic and aesthetic surgery; suppliers of lasers, injectable products, instruments and cosmetic nutritional complements; and conventional and organic cosmetics brands. At the heart of this scientific event, L'Oréal presented its vision of the future of beauty, through the major advances of its research and its brands.

The beauty of the future will reflect the world's diversity. With the migration of populations, the planet is experiencing a melting pot effect which creates new kinds of beauty. L'Oréal is following this underlying trend. As some teams observe beauty rituals across the world, others are conducting cam-

Using an instrumental method patented by L'Oréal, researchers measured the skin colour of some 3,500 women in the four corners of the earth. They have thus created a chart of 63 different tones.



COSMETICS AND DERMATOLOGICAL RESEARCH CENTRES WORLDWIDE

> 10 in France
Chevilly-Larue, Clichy (2 centres), Tours, Aulnay, Lyon, Sophia Antipolis, Monaco, Nice, Gigors-et-Lozeron

> 3 in the United States
Clark, Chicago, Princeton

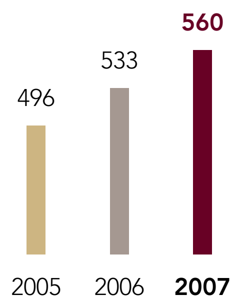
> 3 in Asia
Kawasaki, Tokyo (Japan)
Pudong (China)

paigns to measure and characterise the skin, hair, eyelashes and lips of the whole world. This geocosmetics approach makes it possible to reflect the true diversity of beauty in the world. It consists of understanding beauty routines in the light of physical and biological properties, as well as cultural and climatic factors. L'Oréal has thus created the first research centres dedicated to the ethnicity of skin and hair. Their discoveries provide essential benchmarks. In 2007, this research led to several publications. The first volume of an atlas describing the signs of facial ageing in Caucasian populations makes no less than 12 years of practical experience available to the international scientific community. The universal classification of hair by shape, the first chart of the world's skin colours and a typology of eyelashes and lips enable a refined interpretation of melting pot effects. These are all invaluable tools for developing hair styling, skincare and make-up products adapted to these new forms of beauty, both in their formulation and in the evaluation of their performances.

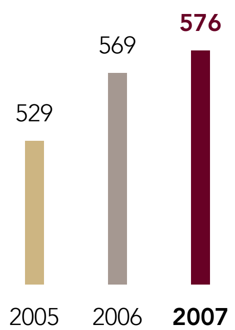
For more than 10 years, the hair biology teams have been working on stem cells: they have identified two ring-shaped reservoirs along the hair follicle (shown in reddish brown).

Towards energy cosmetics. Various sources of energy (nutrition, light, massage, heat, electricity, etc.) can be used to stimulate or revitalise skin and hair functions. The adventure of energy beauty, which began four years ago with Nestlé in oral cosmetics (Innéov), continued in 2007. L'Oréal signed an agreement with Light BioScience, the inventor of a technology for skin rejuvenation using photomodulation, and a generation of commercially successful devices. Research has now set up an instrumental cosmetics development unit, which offers energy diffusion devices and instruments (light-emitting diodes, laser and radio-frequency devices, etc.) for aesthetic medicine professionals and dermatologists, and for home use, to rejuvenate the skin, improve tone, smooth out dark circles, stimulate hair growth or reduce cellulite. The challenge is a major one: this type of cosmetics, welcomed by dermatologists and consumers, is governed by specific regulations, and requires strict efficacy tests and new skills, which is why a unit of global excellence has been created.

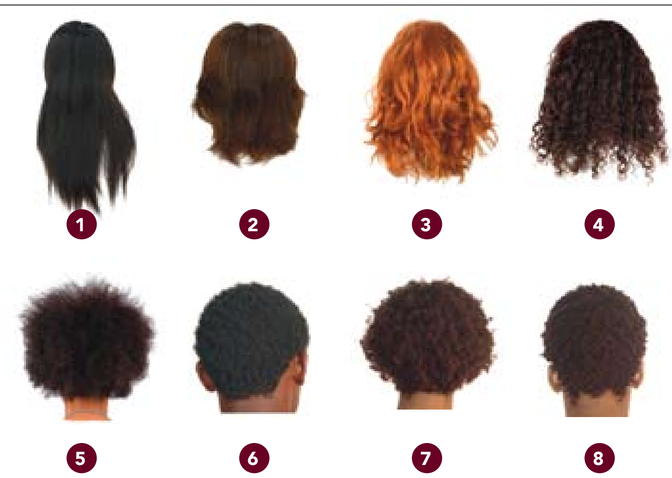
At the heart of living matter. In its laboratories and in partnership with international academic teams, L'Oréal studies the genomics of skin ageing, stem cell biology, reparative medicine and tissue therapy. This "skinomics" arsenal holds out the promise of a cosmetics revolution. Stem cell research will ultimately lead to cosmetics which can find solutions to combat ageing, prevent hair loss, and even restore hair growth. The ultimate aim of the research is to identify biological targets and markers which will enable a diagnosis and personalised solutions. Stem cell research will in the future lead to cosmetics capable of regenerating tissue. Today this is already possible, but *in vitro*. In a Petri dish, researchers have succeeded, using adult stem cells of hair, in reconstructing epidermis, muscle, bone and nerves. Currently L'Oréal's Research teams are taking advantage of these advances to optimise the cell banks from which they reconstruct skin to develop alternative methods to animal testing. In 2007, the group made a great step forward in this field (see box, page 53).



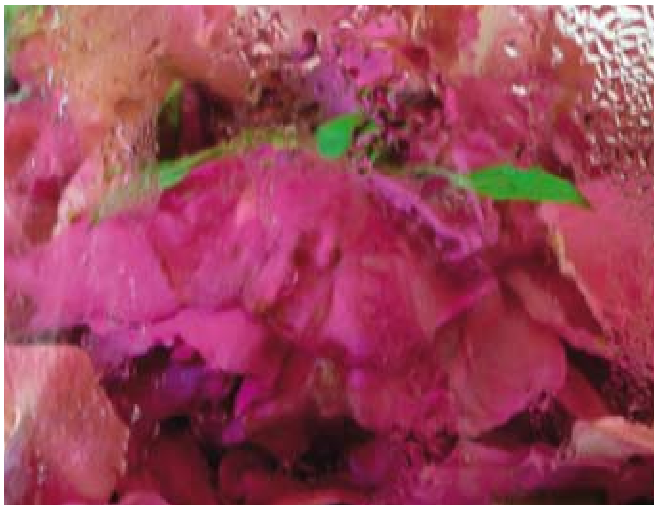
> Research and development budget
(€ millions, including 50% of Galderma research investments)



> Number of patents
(cosmetics and dermatological research)



The universal classification of hair shape contains eight categories.



Centifolia rose extract is obtained from petals using environment-friendly distillation processes.

HIGH TECH AND NATURALNESS: THE SYNERGY

Alongside aspirations for high technology and so-called invasive techniques, aspirations are also growing for products which are more natural, environment-friendly and fairly traded. Two of the group's brands, Sanoflore and The Body Shop, have shown the way forward. To tap into this rapidly expanding trend, L'Oréal has created a Natural and organic cosmetics unit in its Research Division. Its mission: to make use of natural extracts (plants, bacteria, plankton, ferments and probiotics) in the design of products, to offer a great diversity of formulas (with or without preservatives, gentle, ecological or certified organic) and extend their use to a variety of fields (texture agents, colourants and packaging), and to set up indexes of naturalness.

The choice of "green" supply chains will be monitored with the greatest vigilance to preserve biodiversity and guarantee fair trade, by ensuring a fair return for growers and pickers. L'Oréal has already begun to apply this approach with its suppliers of argan oil, shea butter and palm oil.

FOR SUSTAINABLE INNOVATION

All over the world, the regulatory context is shifting, with a growing emphasis on corporate commitment to sustainable and responsible innovation. This is another challenge which L'Oréal has largely anticipated. In Europe, the seventh amendment to the Cosmetics Directive prohibits the use of ingredients tested on animals from 2009 or 2013, depending on the case, and the new REACh regulations (Registration, Evaluation, Authorisation and Restriction of Chemicals) makes it compulsory from 2008 onwards to register all chemicals used in industrial products sold in Europe.

In Asia, Canada and the United States, similar programmes are being set up with different time frames and requirements. L'Oréal Research has largely anticipated these regulations, so that compliance does not hamper the flow of innovations, but on the contrary converts them into development opportunities.

In fact, the beauty market is supply-driven and L'Oréal's Research Division is continually equipping itself with the means for inventing this market, with all its internal and external partners, whilst observing the diversity of consumers and their expectations.

3,095
cosmetics and dermatological research employees
(including 50% of Galderma research employees)

576
patents registered in 2007

560
million euros of research expenses in 2007
(including 50% of Galderma research expenses)

INNOVATION

HAIR SHAPE

A universal classification

L'Oréal researchers, in conjunction with population geneticists, have just published the results of a study of 1,500 people in 18 countries, which set out to define hair types on the basis of shape criteria.

Simple, based on physical measurements which are easily applicable to hair, this objective classification reflects diversity. It is compatible with the history of migrations and the melting pot process.

The method requires the measurement of three parameters: diameter of curvature, curl index and number of waves. It leads to a classification with eight categories, from the straightest hair to the curliest. From now on, the performances of a straightener, a relaxer or a permanent wave will be defined on the basis of these eight classes, thus opening up new perspectives for the development of hair styling and texture products.

OPERATIONS

STREAMLINING OPERATIONS TO DRIVE PERFORMANCE

The newly created Operations Division has now brought the production and commercial logistics teams together under a single authority. We have redeployed the whole supply chain into four geographic poles (Europe, Asia, Latin America, North America), each with considerable autonomy, to increase responsiveness and accelerate mutualizing projects. We are continuing our efforts to simplify production facilities and ensure recurrent reductions in purchasing costs. This takes us forward in the ongoing process of streamlining our production and logistics structures, to improve returns on investment and maintain the cost cutting spiral in a context of less favourable raw material prices.

Jean-Philippe Blanpain
Managing Director Operations

DIESEL fragrance packaging, Gauchy factory (France).

2007 HIGHLIGHTS

> The Production and Technology Division has been superseded by the Operations Division, which has a wider brief covering the whole supply chain.

> L'Oréal has joined the Carbon Disclosure Project Supply Chain Leadership Council to gain a clearer vision of the environmental footprint of its supply chain.

> L'Oréal received the "Responsible Purchasing" prize at the Procurecon Awards Meeting in Brussels for its many joint initiatives with suppliers in the field of social responsibility, and for the social audit programme implemented over the last two years.

	2005	2006	2007
Millions of units Cosmetics plant output	4,379	4,484	4,720
€ millions Cosmetics investments (production and physical distribution commitments)	288	270	248
Index (base 100 in 2005) Comparable product purchasing price index	100	96.7	94.3

2007	Cosmetics output	Cosmetics sales
Western Europe	50%	46%
North America	25%	25%
Rest of the World	25%	29%
Total	100%	100%

L'Oréal China distribution centre, Suzhou (China).

A NEW INTEGRATED AND CENTRALISED SUPPLY CHAIN

L'Oréal's supply chain now includes three activities under the same authority: production, purchasing/procurement, and customer logistics. This new organisational structure offers a global and continuous vision from the purchase of raw materials to the delivery of finished products to the distributor. It enables greater efficiency and better customer service quality, while maximising the productivity of operations, and adapting the supply chain to suit the specifics of each geographic zone. Until now customer logistics was decentralised in each country. The creation of a single centralised responsibility is a strategic step towards more efficient use of the physical distribution network.

RECURRENT PURCHASING COST REDUCTIONS

In 2007, a new organisational structure was introduced, using seven sourcing centres compared with the previous 37. Combined with the benefits of ongoing and thorough value analysis efforts, it has enabled recurrent gains on purchases of packaging, despite the higher prices for energy and raw materials, such as aluminium and plastic.

This virtuous model of leadbuying packaging items will be extended to raw materials, outsourcing, capital goods, promotional articles and general expense purchasing. Finally, L'Oréal has set up a supplier assessment system based on five criteria: quality, innovation, competitivity, logistics and social responsibility.

SIMPLIFYING PRODUCTION FACILITIES

In 2007, L'Oréal continued to apply the simplification policy introduced several years ago. This led the group to close an industrial site in Chile so as to concentrate production for Latin America in the Brazilian and Mexican factories. Further productivity gains have been added to the process, driven by the introduction of innovative processes for skincare products and make-up emulsions (mascara and foundation). Finally, several factory extension projects have been carried out, for example in Poland, India and Canada, to support growth in these expanding zones.

THE ENVIRONMENT AND SAFETY

Once again there were very clear improvements in all environmental indicators: water consumption (–7%), energy consumption (–4%) and CO_2 emissions (–6%). The group's environmental commitment is leading to practical steps such as the installation of solar panels at Burgos in Spain and Pune in India. Applying the same principle, all the group's property construction projects are based on a sustainable design and building policy with HEQ (High Environmental Quality) or LEED certification.

In the safety field, the group has succeeded in maintaining the good performance level it achieved in 2006.

COMMITMENT

SUPPLIERS AND DIVERSITY CONVENTION

In November 2007, L'Oréal held a convention with more than 100 of the group's suppliers.

A dozen associations were thus able to make presentations about the challenges of diversity and illustrate good practices.

This is in line with the strategy of encouraging supplier involvement in L'Oréal's sustainable development policy: some 600 social audits were carried out in 2007 on suppliers' premises.

FOUR AUTONOMOUS GEOGRAPHIC POLES
INDUSTRIAL FACTORIES IN THE WORLD

> Europe
21 factories
(including 13 in France)

> North America
8 factories

> Latin America
3 factories

> Asia - Africa - Middle-East - Pacific
8 factories

HUMAN RESOURCES

SECURING THE TALENTS OF TOMORROW

Our mission at Human Resources is to contribute to L'Oréal's sustainable growth by providing on-going support to the men and women of the company. Identifying and recruiting the talents of tomorrow, developing their skills, promoting their careers and securing their loyalty all lie at the heart of our forward-looking Human Resources strategy. To achieve this, we are constantly seeking to attract the best candidates and communicate to them the enthusiasm and passion for our business and brands. At the same time, we stimulate creativity by sharing our know-how and promoting the personal development of each individual, thus strengthening our expertise in beauty products and our capacity for generating leaders. Our working environment, remuneration policies, opportunities for advancement and sensitivity to employees' needs all contribute to a sense of belonging, and create the optimum conditions for focusing everybody's energy on our business. We also provide support to our Divisions by staying abreast of this perpetually changing environment, continually devising fresh solutions to meet the challenges and opportunities in rapidly changing world markets.

Geoff Skingsley
Executive Vice-President
Human Resources

2007 HIGHLIGHTS

> 28,200 employees from 14 countries participated in an internal opinion survey.

> Hewitt, the Human Resources consultancy, named L'Oréal as one of the best performing companies for spotting and developing leaders in its Top companies for Leaders survey.

> In 2007, L'Oréal once again came top as the favourite company of European students in the internationally renowned Trendence survey.

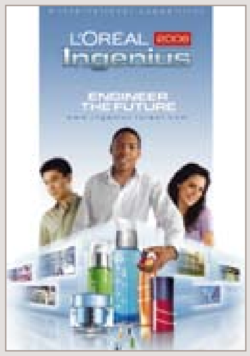
> Creation of "L'Oréal Innovation Lab" a new business game for recruiting Research candidates.

> Over 1,800 managers participated in Diversity seminars in Europe in 2007.

BUSINESS GAMES

For its 15th edition, the **"L'Oréal Brandstorm"** marketing game attracted more than 4,400 students from 35 countries who worked on creating a new range of hairstyling products.

For the 7th edition of the **"L'Oréal e-Strat Challenge"** business game, more than 44,000 students in 128 countries took on the role of General Manager of a virtual cosmetics company.



"L'Oréal Ingenius Contest" awards engineering students who have demonstrated their inventive talent by putting an ambitious industrial challenge into practice.

The latest game, **"L'Oréal Innovation Lab"** is aimed at attracting and recruiting candidates of a scientific background for our Research and Development Division.

SUSTAINING GROWTH

To fulfil its development ambitions, L'Oréal requires experienced and trained individuals in all its different business sectors and activities. The challenge for our Human Resources teams world-wide lies in training, developing and securing the loyalty of talented individuals who are capable of generating future growth. Recruitment and training is intensifying with the rapid growth in new markets.

One of the fundamental elements of L'Oréal's human policy is to constantly prepare managers for their future responsibilities by offering them exposure to a complementary range of experiences. Internal mobility is therefore strongly encouraged: a typical career path will alternate between experience in the field and jobs within functional departments and young managers are swiftly promoted to positions of responsibility. Furthermore, the group encourages mobility throughout its different geographic zones. The principle mission of more than 580 of our expatriate managers consists in undertaking and launching new activities (in the commercial, industrial, and research sectors, for example) and ensuring that our local teams benefit from the transfer of know-how and experience—a policy which is conducive to building diversified and strong management teams.

SHARING PASSION AND AMBITION

In order to meet the group's development targets, Human Resources must be capable of spotting, attracting and convincing the best talents to join our teams; diversity, and all that it offers in the way of progress, performance and cultural richness, is a core requisite of our recruitment policy and for building our teams world-wide.

L'Oréal's original recruitment policy is centred on "sharing the passion" of the L'Oréal adventure. This policy includes: active involvement and partnerships with more than 200 universities in the world; a wide range of internationally-renowned business games using real life situations which illustrate the extent and complexity of our businesses; participation in real or virtual recruitment events designed to give target audiences an insight into the issues at stake in the group, its culture, teams and working environment; an internship policy, rolled out world-wide, where students have the opportunity of working at the very heart of our teams; the integration of young recruits into our "talent pool" and a development programme bringing them systematically into contact with our consumers, clients and products.

RECRUITMENT

RECRUITMENT WEEKENDS IN NEW YORK

American students spend a weekend in New York "living the L'Oréal experience".

The students from American universities are picked from among several hundreds of candidates and get the chance of talking to L'Oréal managers about their careers, the industry and the different lines of business.

Over the weekend, the students experience both real-life business situations (getting to know the group's brands and products, its creativity) and take part in recreational workshops which are a fun and engaging way of experiencing the full impact of L'Oréal's passion and energy.

CAPITALISING ON ENERGY

L'Oréal's success is based on the quality and commitment of its employees and their well-being is constantly being monitored. Internal opinion surveys have been a feature for several years in many countries and since the end of 2006, 28,200 employees have been interviewed in 14 countries via *Pulse*, a single 63-question survey.

Strong employee commitment emerged as a common result in all our subsidiaries, and it is a vital asset for achieving our growth targets. All employees were informed of the results of the internal survey and working groups have been created to deal with those areas which are felt to be in need of improvement.

REWARDING COMMITMENT AND PERFORMANCE

L'Oréal aims to offer individual and collective remuneration packages to attract talented individuals and secure company loyalty. Each individual's contribution is evaluated on his or her own performance and recognised through a competitive salary. Every year L'Oréal participates in the international remuneration benchmarks of specialist consultancies. Collective remuneration is also a means of developing employee loyalty and contributing to global targets; profit sharing and incentive schemes were set up in France in 1988 and in 2007 represented the global sum of 120 million euros. In 2001, L'Oréal launched a Worldwide Profit Sharing programme (WWPS) in all other group subsidiaries. The WWPS is based on local sales and profit growth targets and can represent up to 7% of an employee's salary.

L'Oréal has always encouraged permanent dialogue between its employees, their representatives and Management. For example, more than 24,000 employees are represented in L'Oréal's European Council for Social Dialogue. In France, the partnership between employees and Management is guaranteed by 101 representative councils and more than a thousand employee representatives.

STIMULATING CREATIVITY

L'Oréal's training programmes are structured around four learning centres in the United States, China, France and Brazil. These programmes (which in time will be open to all employees) are dedicated to sharing and building on our expertise, and a number of programmes have also been specifically designed to stimulate the creativity of teams in all our major markets. Creative techniques are taught individually or in teams and managers have the opportunity of meeting creative experts or furthering their learning based on the experience of other cultures.

The "Must Have" programmes

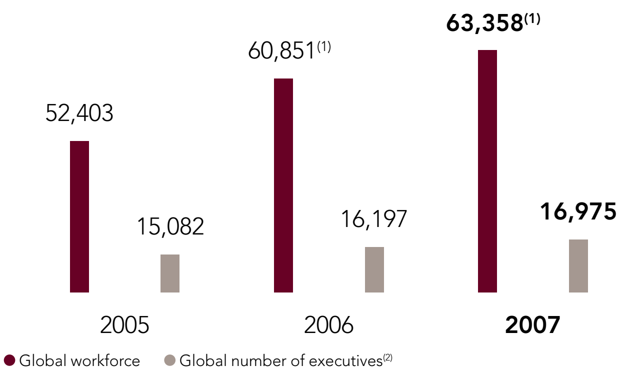
These training courses have been designed to ensure that every manager acquires the basic necessary expertise prior to a new assignment. A "Must Have" programme, combining general knowledge of L'Oréal and its specific practices, has been drawn up by each professional sector for all countries and regions.

"Metiers Essentials" in India

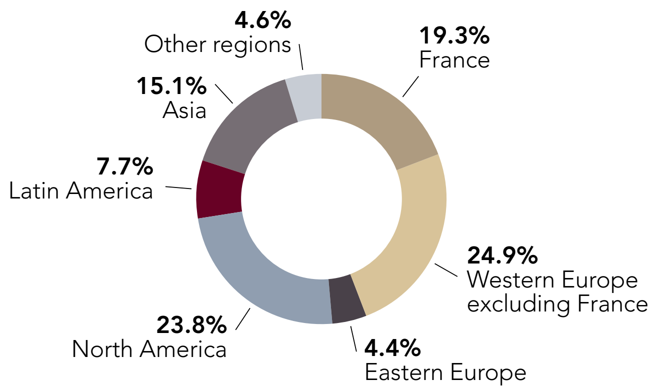
Expertise provides a major competitive edge which fosters innovation. The "Metiers Essentials" programme was developed and launched in India and is scheduled to be deployed, in priority, throughout all the "BRIMC" countries. It ensures that newly recruited young marketing managers have immediate access to in-depth product knowledge on formulae, ingredients, textures and the different applications for all skin and hair types.

"360° Launch Excellence" in Brazil

"360° Launch Excellence" has been designed to develop a team's creative abilities. A coach specialised in creative techniques works alongside teams in devising the particularly innovative launch of an operational project. This "action learning" programme was launched in Brazil and in several other markets.



> Change in workforce



> Breakdown of employees by geographic zone[1] at December 31st, 2007

(1) Including The Body Shop since 2006 and American distributors since 2007.
(2) Global number of executives in the cosmetics branch.

ACTIONS FOR DIVERSITY

PROMOTING TALENTS AND DIVERSITY TRAINING FOR MANAGERS

> Scholarships and mentoring

L'Oréal stresses its commitment to deserving young students from socially deprived or minority backgrounds by helping them to pursue their studies through its partnerships with schools or universities on every continent: the Lycée Henri IV and the Institut d'études politiques in France, Mara University (UitM) in Malaysia, Rio de Janeiro State University in Brazil, Wits University and the University of Cape Town in South Africa, the University of Tel Aviv in Israel, etc.

Dr Ismail, Associate Dean Business School, UitM

"I never thought that L'Oréal would be our partner… L'Oréal is like family now."

> "Diversity and Performance" Chair, ESSEC (France)

The "Diversity and Performance" Chair was created at the French business school ESSEC, between L'Oréal, Air France-KLM and Deloitte in the first partnership of its kind in a top management school. This research and learning programme is focused on developing a centre of expertise on diversity, and training future managers in this crucial issue for society.

Pierre Tapie, Executive Director, ESSEC Business School

"The "Diversity and Performance" Chair is the culmination of a shared belief: that diversity drives performance. L'Oréal was intimately involved in defining the content."

> Diversity Seminars for Managers

Since the end of 2006, a special Diversity training programme is being rolled out for the 8,000 managers in the group. This programme is designed to help them identify and overcome any of their own individual barriers to diversity. By the end of 2007, nearly 1,800 managers had already received training.

Mike Elmont, co-founder of Focus Consultancy

"In the past two years we have designed and piloted a Diversity and Equity training programme for L'Oréal and are currently rolling it out Europe-wide for 8,000 L'Oréal managers. You cannot invest that amount of time and allocate the relevant resources without a serious commitment to diversity."

PROMOTING EQUAL RECRUITMENT OPPORTUNITIES

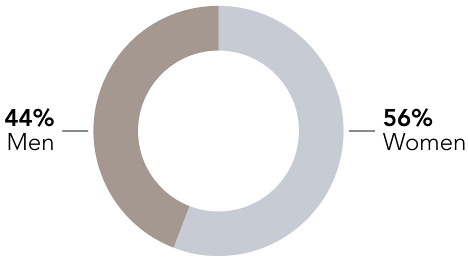
In order to diversify recruitment sources, the group supports numerous forums devoted to minorities, the disabled or seniors, and sets up partnerships with associations to fight discrimination.

SHARING BEST PRACTICES

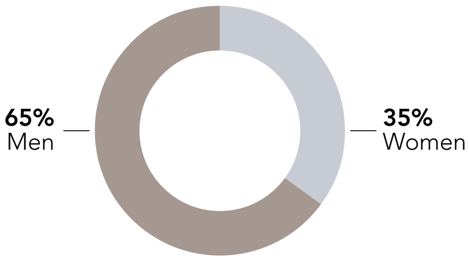
In 2007, L'Oréal initiated an European laboratory of exchange and co-building, in partnership with CSR Europe and IMS-Entreprendre pour la Cité. The laboratory involves around fifteen international companies as well as approximately ten anti-discrimination associations (ENAR, Sodalitas, ILGA, European Disability Forum, etc.). The laboratory works closely with the European Commission, particularly in respect of the "European Year of Equal Opportunities for All".

Ann Vandenhende, CSR Europe Senior Director and Catherine Rubbens, CSR Europe Director

"L'Oréal has taken up a strong leadership role in managing this laboratory. Through the active engagement of key European stakeholders, it also pushes forward the equality and non-discrimination agenda in Europe".



> Breakdown of female and male executives in 2007[2]



> Breakdown of female and male management committee members in 2007[2]

ADMINISTRATION AND FINANCE

ENSURING FINANCIAL STABILITY AND MAKING OUR ORGANISATIONAL STRUCTURES MORE EFFICIENT

The Administration and Finance Division of L'Oréal continued to apply a balanced financial policy in 2007. The policy was supported by initiatives to improve the productivity of both organisational structures and systems made available to the operational teams. Throughout the group, the administration, management and finance teams played an active part in the operational performance of the businesses. Their contribution was particularly focused on tightening up internal control, monitoring cash flows and ensuring rigorous control of performance, which was reported in detail to all shareholders. Overall, the group continued in 2007 its policy of substantially and continuously increasing dividend, backed up by a share buyback programme for significant amounts, while strengthening the balance sheet.

Christian Mulliez
Executive Vice-President
Administration and Finance

2007 HIGHLIGHTS

> Updating of the *Fundamentals of Internal Control* guide to help employees identify operational risks even more clearly.

> Implementation of the Enterprise Resource Planning (ERP) and the new reporting tool continued.

> Creation of an Indirect Purchasing department in most subsidiaries.

> Pooling of subsidiaries' support services continued.

> Disposal of 1.8% stake in Sanofi-Aventis capital.

> Several strategic acquisitions: PUREOLOGY, an American premium professional haircare brand; the American distributors Beauty Alliance and Maly's West; preparation for the acquisition of Canan, a Turkish haircare product company, and the signing of a scientific collaboration agreement with Light Bioscience, the leading medical research company in LED photomodulation®.

The merging of teams in single sites continued, as in Greece where a new headquarters was opened.

INFORMATION SYSTEMS TO DRIVE PERFORMANCE

The implementation of the Enterprise Resource Planning continued in 2007, and it now covers more than 75% of group sales. It has been extended to include the European and North American production sites, and the subsidiaries in Australia. The roll-out of the financial reporting tool, launched in 2006, continued. It optimises the monitoring of group entities, and the integration of consolidated data, while assisting in the management of forecasts based on subsidiaries' situations and anticipated exchange rates. Moves to facilitate the convergence of technical platforms in Europe continued in the field of pooling support services. Finally, substantial efforts were made to modernise work stations and improve their productivity, so that employees are equipped with effective communication tools.

INTERNAL AUDIT, A TOOL FOR CONTROL

The internal audit team, which carries out regular missions to verify the application of the group's principles and standards, performed 48 missions in 2007. Thirty-five related to commercial businesses representing some 29% of group sales. In addition, five plant audits were carried out, representing some 14% of total worldwide production in unit terms.

PURCHASING OPTIMISATION

Programmes to optimise non-production purchases continued, particularly in advertising and promotion purchasing. By the end of 2007, programmes of this type had been introduced in 29 countries, enabling substantial cost savings. To ensure that gains continue in the long term, Indirect Purchasing departments have been created in most group subsidiaries. Indirect Purchasing remains an important issue in terms of improving L'Oréal's future competitivity.

POOLING CONTINUES

L'Oréal made rapid advances again in support service pooling, particularly in the United States and Europe. The consolidation of the information technology, human resources, accounting and purchasing activities strengthens these structures' operational efficiency. At the same time, L'Oréal has continued to group its teams in single operational centres, as in Greece where a new headquarters was opened. The same trends have led to the creation of multi-country support services, such as those covering Germany, Austria and Switzerland.

SECURITY OF FINANCING AND OPTIMISATION OF FINANCIAL FLOWS

In 2007, L'Oréal took steps to further optimise its subsidiaries' financial flows. The centralisation of cash positions, with the development of cash pooling for the whole of Europe and the integration of flows from The Body Shop, is contributing to the optimisation of financial charges. The centralisation of international payments meanwhile reduces bank charges and enhances the security of international transactions in most group entities. Finally, as part of its foreign exchange risk hedging policy, the group continued to implement an information system to measure the impact of hedging against market risks.

MANAGEMENT/CONSOLIDATION

The organisation of the group's management/consolidation is based on a solid and seamless decision support information system used to anticipate and precisely manage economic performance.

LEGAL

The legal teams dedicated to the various divisions provide advice and control to ensure dynamic protection as business activities are extended, and verify compliance with laws and regulations.

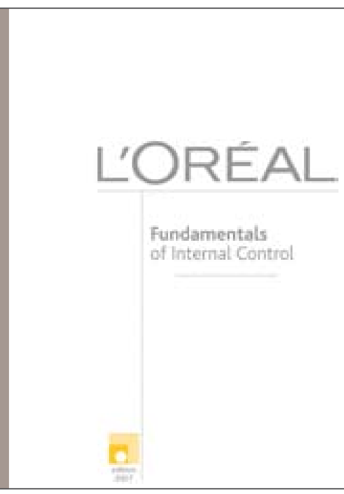
COMMITMENT

GREATER CONTROL OF OPERATIONAL RISKS

To help all employees carry out their everyday duties, the group has updated the *Fundamentals of Internal Control* guide.

This overview of internal control, first edited in 2005, is a simple and effective management and training tool, which supplements the group's standards and charters. It forms part of an ongoing internal control effort, and is an essential tool to effectively manage operational risks.

The guide is a reference document based on practical experience. It brings together all the measures designed to provide a guidance framework for operational activities.



BUSINESSES

EXCELLING IN ALL OUR DISTRIBUTION CHANNELS

GIORGIO ARMANI event for the Emporio Armani Diamonds launch at GUM department store in Moscow.

To tap into every desire for beauty, each Division maximises the potential of all its brands: today's leaders and those of tomorrow. In this way, a closer and stronger relationship is established each day, between our brands and growing numbers of increasingly diverse consumers. In 2007, all Divisions increased their market share, matching each other in contributing to the dynamism of the group's growth.

Galderma
p.97

PROFESSIONAL PRODUCTS

L'ORÉAL PROFESSIONNEL / KÉRASTASE / MATRIX
REDKEN / MIZANI / SHU UEMURA ART OF HAIR

PROFESSIONAL PRODUCTS

STIMULATING CREATIVITY IN ALL HAIR SALONS

The Division's key focus is to be the partner of the greatest number of hair salons around the world. Firstly, through differentiated brands, enabling salons of all kinds to express their personality. The acquisition of the American brand PureOlogy in 2007, for example, is strengthening our presence in the new and fast-growing luxury segment. The Division also offers increasingly relevant innovations which improve the quality of hair colour, styling and haircare services. Finally, educational initiatives, tailored to suit each salon's stage of development and aspirations, support and inspire salons, reflecting the specific preferences of each region of the world.

Jean-Jacques Lebel
President Professional Products

Shu Uemura Art of Hair, France.

2007 HIGHLIGHTS

> Acquisition of two of its key distributors in the United States, Beauty Alliance and Maly's West, to build a closer relationship with American hairdressers in the fields of services and education, and to accelerate the Division's growth.

> Acquisition of the PureOlogy brand in the United States to complete the Division's brand portfolio in the luxury haircare segment. This brand offers haircare products for colour-treated hair.

> Launch of Shu Uemura Art of Hair in an ultra-selective distribution channel.

> Success of the Division's initiatives in the segment aimed at senior women with Color Suprême hair colourants and Age Densiforce haircare from L'Oréal Professionnel, together with the Age-Recharge haircare range from Kérastase.

> Extension of the global reach of the Matrix brand, now present in 50 countries and 260,000 salons.

PUREOLOGY

A new strategic brand for the Division in a fast-growing sector

PureOlogy has an excellent reputation with the top American hair colour specialists for its highly original formulas: sulphate-free shampoos, plant ingredients and aromatic perfumes. Acquired in 2007, the brand is proving extremely successful in the United States. It is unlocking excellent growth opportunities all over the world.

2007 REVIEW

Growth accelerated in all regions of the world, as the Division grew three times faster than the market. In Western Europe, all countries and all brands contributed to the growth rate of +4%. In North America (+6.2%), the Division is benefiting from the acquisition of two distributors, by forging a strategic alliance with the hairdressers who are our customers, and from the dynamism of our brands, particularly Redken and Kérastase. The recently acquired PureOlogy brand is also growing strongly. Growth in the rest of the world was +16.4%, with advances of +9.3% in Japan, +40.7% in Russia and +29.4% in China.

2008 OUTLOOK

Growth is set to continue in 2008, with a particular focus on the highly dynamic luxury hairdressing market, as the Division goes on building a comprehensive offering to meet the needs of the most exclusive salons. It will continue to develop its luxury brands with highly diverse cultural backgrounds: the French brand Kérastase, the Japanese brand Shu Uemura Art of Hair and the American brand PureOlogy. 2008 marks the Division's entry into the new and highly dynamic market of professional skincare, with the newly created brand Keraskin esthetics. The Division is now able to offer a full spectrum of beauty care products in the world's most prestigious salons. The Division will also strive to reinforce its positions in the booming men's and senior women's segments. Finally, the geographical roll-out will continue across all regions of the world, particularly in the most affordable salons where Matrix should make more breakthroughs.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

	2006	2007	% of 2007 sales	Growth 2007/2006	
€ millions				Like-for-like	Published figures
Western Europe	980.3	1,017.8	42.6%	+4.0%	+3.8%
North America	635.5	802.0	33.5%	+6.2%	+26.2%
Rest of the World	510.0	572.1	23.9%	+16.4%	+12.2%
TOTAL	**2,125.9**	**2,391.9**	**100%**	**+7.5%**	**+12.5%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

	2006	2007	% of 2007 sales	Growth 2007/2006	
€ millions				Like-for-like	Published figures
Hair colourants	842.8	887.6	37.1%	+6.5%	+5.3%
Styling and textures	349.5	360.3	15.1%	+1.1%	+3.1%
Shampoos and haircare	933.6	1,144.0	47.8%	+10.4%	+22.5%
TOTAL	**2,125.9**	**2,391.9**	**100%**	**+7.5%**	**+12.5%**

The Professional Products Division develops services and offers products to meet the expectations of all hairdressing professionals, in hair colourants, textures and haircare. It has the most comprehensive brand portfolio in the industry thanks to its cultural variety and its ability to cater for all kinds of hair salons, from the most affordable to the most exclusive.

L'ORÉAL PROFESSIONNEL

In 2007, the L'Oréal Professionnel brand sharply accelerated its growth, advancing more than twice as fast as the worldwide market. In hair colourants, the good performances of the core ranges Majirel and Richesse, combined with the highly successful launch of Color Suprême in the senior women's segment, have lent dynamic new impetus to this business. In textures, the brand is continuing to win market share in zones with strong potential, thanks to products such as Xtenso which is continuing to prove highly successful. The Asian launch of Wonder Wave is also contributing to the brand's growth in this market segment. In the haircare sector, Série Expert is continuing its highly dynamic growth across the world. The successful launch of Age Densiforce is consolidating the brand's offering in the market aimed at senior women. In styling, the brand's growth is continuing thanks to the good score of Tecni.Art and the ongoing success story of the Play Ball styling range for young people, with its "alternative" image. Texture Expert, a new premium high tech styling range, has made a very promising start.

KÉRASTASE

In 2007, Kérastase continued to improve its top-end positioning, bolstering its position as world number one in luxury haircare by achieving double-digit growth. The brand scored its highest growth rate for five years, excelling in major countries such as Japan and the United States. The main highlights were the growing dynamism of the Résistance franchise, with the development of the Age-Recharge range for senior women, the successful launch of Nutritive Oléo-Curl on the curly hair segment, the winning ways of Pixelist, a post-colourant haircare line for professional use only, and the creation of the new haircare category of night-time treatment with the Noctogenist range.

Kérastase
With Noctogenist, Kérastase is growing rapidly and reinforcing its position as the luxury haircare world leader.

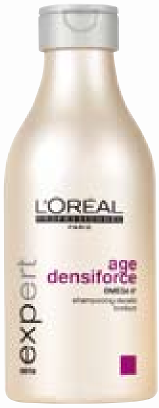
PARTNERSHIP

HAIR BE 12

Serious games foster a new educational approach

The Division has developed a new tool for both trainees and experienced hairdressers, that uses online video game techniques to simulate the activity of a hair salon.
This new educational system helps hairdressers improve the quality of the services provided to their customers, builds team spirit and increases salon sales.
Hair Be 12 is also aimed at all our hairdressers who wish to train or perfect their skills using the Internet. The initiative has been unanimously welcomed by hairdressing schools and hairdressers in salons across the world.

L'Oréal Professionnel, Age Densiforce
L'Oréal Professionnel is continuing its breakthrough in the seniors segment thanks to the success of its two major initiatives: the Age Densiforce anti-ageing haircare range and the global roll-out of Color Suprême hair colourant.



MATRIX

Number 1 in North America, Matrix produced a satisfactory performance in this region, despite a less substantial contribution from new products and substantial efforts to restrict distribution to the professional channel only. The brand's internationalisation is continuing, as it bolsters its positions in Brazil, Russia, India, China and Poland. Hair colourants enjoyed double-digit growth for the two core ranges Socolor and Colorsync, thanks to the success of the Chocolate Cherry initiative. Wonderbrown was launched successfully in Asia and Italy in the brown segment. In haircare, the success of the Fortethérapie launch in Brazil is continuing, and Cooling Mint from Scalpthérapie made a very promising start in the United States. In styling, Vavoom Gold Heat confirmed its worldwide success.

REDKEN

The brand again increased its market share and is strengthening its positions on all continents. In hair colourants, Redken is building up its presence and recruiting thousands of salons with the relaunch of Color Fusion Advanced Performance Color Cream. In haircare, All Soft for dry hair was successfully relaunched, expert salon haircare was strengthened by Chemistry System, and the launch of the scalp care line Scalp Relief was very well received. In styling, Redken introduced Urban Experiment, a new generation of products with highly original textures for an underground style. Redken for Men has strengthened its positions all over the world with the men's hair colourant Color Camo 10', and with innovative styling products.

MIZANI

This expert brand for Afro-American and mixed-race hair is continuing to grow (+31%), with a successful launch for Butter Blend, a comprehensive straightening system with associated treatments to obtain an outstanding quality of hair.

SHU UEMURA ART OF HAIR

The launch of Shu Uemura Art of Hair, in the second half of 2007, in the most prestigious hair salons, is building up the Division's brand portfolio in the luxury segment. The brand focuses on hair beauty rituals inspired by the Japanese tea ceremony. Based on the philosophy of Mr Shu Uemura and his professional experience, the brand offers haircare and styling products formulated with rare and natural ingredients rediscovered by science. Launched in the United States and in Europe, the brand has been very favourably received, and its growth prospects are promising.

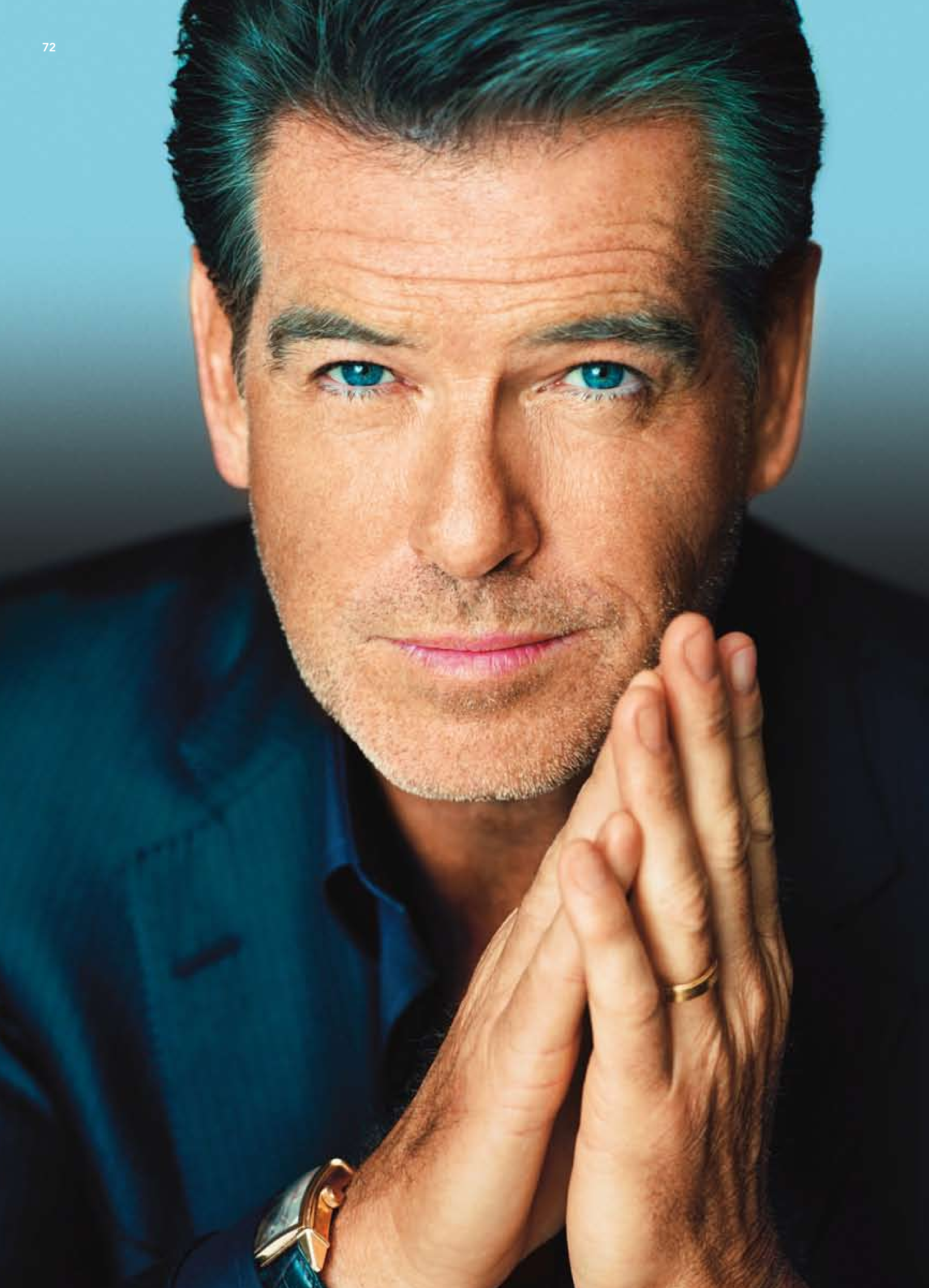
Shu Uemura Art of Hair
With the new Shu Uemura Art of Hair brand, the Division continues to build a complete offering for high-end salons.

L'Oréal Professionnel,
Germany.

Matrix,
India.

Redken,
shampoo range.

International hairdressing show,
Germany.



CONSUMER PRODUCTS

L'ORÉAL PARIS / GARNIER
MAYBELLINE NEW YORK / SOFTSHEEN·CARSON
CLUB DES CRÉATEURS DE BEAUTÉ

CONSUMER PRODUCTS

INNOVATING FOR ALL CONSUMERS

The most important challenge for the Division is the global roll-out of our major brands, L'Oréal Paris, Garnier and Maybelline New York, to make sure that we take full advantage of dynamic consumer spending in the growth relay countries and the thrust of modern retailing channels. Our second challenge is to continue our geographic conquests, by investing in the BRIMC countries (Brazil, Russia, India, Mexico and China) while supporting a good level of growth in Western Europe and North America and increasing worldwide profitability through businesses which have reached critical mass. The third challenge is moving into categories with a strong growth potential and high added value, such as skincare and make-up, where our performance is able to excell both in terms of sales and contribution to profit, without failing to develop positions in our original business of haircare. Our fourth challenge is making product innovation a permanent process: as well as rapidly renewing the catalogue, the key to our dynamic growth, it is important to build major franchises in a long-term perspective, spurred on by technological innovations, and establish them on a permanent basis in each of the main regions of the world.

Patrick Rabain
President
Consumer Products

L'Oréal Paris, Bosnia and Herzegovina.

2007 HIGHLIGHTS

> In facial skincare, the Division broke the one billion euro barrier with a +19% increase, boosted by the successful launch of Skin Genesis by L'Oréal Paris. Men Expert facial skincare meanwhile advanced by +45%.

> An outstanding year in make-up, both for L'Oréal Paris and Maybelline New York, thanks in particular to very strong growth for the foundations Accord Parfait Mineral from L'Oréal Paris and Superstay by Maybelline New York.

> 12 countries accounted for 70% of the Division's growth, in the following order: Russia, United States, China, Ukraine, Spain, United Kingdom, India, Mexico, Poland, Australia, Brazil and Italy.

> Productivity efforts are continuing in organisational structures and in purchasing. Gross profit is improving, while selling, general and administrative expenses are advancing at only half the rate of sales growth, enabling a very significant increase in profit.

SKIN GENESIS

Natural source of youth

With Skin Genesis, multi-layer cell strengthening skincare, L'Oréal Paris is innovating by combining, without added preservatives, two key active ingredients: Pro-Xylane™, a molecule developed using green chemistry by L'Oréal laboratories after seven years of research, and hyaluronic acid, which is naturally present in the skin and can retain up to one thousand times its weight in water. To develop Pro-Xylane™, L'Oréal's researchers used xylose, a sugar extracted from the ash tree, a renewable and biodegradable raw material.

2007 REVIEW

The strong growth in sales (+7.9% like-for-like), built up quarter by quarter, enabled the Division to achieve a substantial increase in profit.

Dynamic growth continued in Western Europe and there was a good performance in North America, two key regions where the Division is growing faster than the market. The remarkable acceleration in the rest of the world, led by the BRIMC countries, has propelled these countries beyond the mark of 30% of the Division's sales.

Finally, in the two high added value segments of skincare and make-up, the Division has stolen a march on its competitors with major launches and a strict policy of building blockbuster products.

2008 OUTLOOK

The cosmetics market is just as dynamic as ever, driven by consumers who are keen to look attractive, the skincare needs of increasing numbers of seniors in West European markets, and the ability of the new middle classes in the rest of the world to afford beauty products.

By making its product innovations more relevant and its brands more desirable, the Division is constantly creating more value in markets. Boosted by the success of the launches at the end of 2007 and by a particularly rich launch schedule in 2008, it is looking forward to 2008 with confidence and high expectations.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2006	2007	% of 2007 sales	Growth 2007/2006 Like-for-like	Growth 2007/2006 Published figures
Western Europe	3,640.9	3,729.5	45.0%	+3.5%	+2.4%
North America	2,130.9	2,043.2	24.7%	+3.9%	–4.1%
Rest of the World	2,131.6	2,507.5	30.3%	+19.2%	+17.6%
TOTAL	**7,903.5**	**8,280.2**	**100%**	**+7.9%**	**+4.8%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2006	2007	% of 2007 sales	Growth 2007/2006 Like-for-like	Growth 2007/2006 Published figures
Hair colourants	1,587.2	1,604.8	19.4%	+4.6%	+ 1.1%
Haircare and styling	2,269.4	2,314.3	28.0%	+4.5%	+2.0%
Make-up	2,136.5	2,252.7	27.2%	+10.1%	+5.4%
Skincare	1,616.5	1,823.0	22.0%	+15.0%	+12.8%
Other	293.8	285.5	3.4%	–2.6%	–2.8%
TOTAL	**7,903.5**	**8,280.2**	**100%**	**+7.9%**	**+4.8%**

The Consumer Products Division distributes its products through all mass-market channels. Its diversified brand portfolio offers consumers affordable products combining high technology with strong added value.

Bare Naturale, a new generation foundation beneficial for the skin, symbolising the dynamism of L'Oréal Paris in the make-up segment.

L'ORÉAL PARIS

The Division's premium brand achieved very good growth (+8.1%), exceeding its targets in many countries. In the second half, its acceleration was boosted by the success of product launches from summer onwards.

Although its sales have already topped 4 billion euros, the brand still has considerable growth potential as the number of consumers demanding premium quality is increasing across the world.

In the haircare segment, Elsève is confirming its position as the number one shampoo in the West European market, with the success of Colorvive and Nutrigloss. Hair treatment sales are growing in the rest of the world, where the brand is now starting to conquer markets. Elnett hair lacquer sales grew by +7%, bolstered by ever-present and growing customer loyalty, 50 years after its creation. Excellence and Préférence hair colourants delivered solid performances, and the ammonia-free hair colourant Casting Crème Gloss proved extremely successful in its second year of existence.

UV Perfect SPF 50, the champion of UV protection products in China, reflects the determination of L'Oréal Paris to create regional blockbusters.

L'Oréal Paris, Russia.

L'Oréal Paris, France.

L'Oréal Paris, France.

Finding a gloss that stays is no longer mission impossible. Thanks to a new patented polymer, **Glam Shine 6H** from L'Oréal Paris keeps its shine for 6 hours.

In facial skincare, the blockbusters Revitalift, Age-Perfect and Collagen Filler recorded double-digit growth, and there was a successful launch for Skin Genesis, multi-layer cell strengthening skincare, combining the benefits of hyaluronic acid and Pro-Xylane™.

In Western Europe, the brand outpaced its traditional rival(1) at end-2007 with sell-through rising by +16%. The success stories were just as sensational in China—the second-ranking facial skincare market for the brand after the United States—in Russia and in Mexico, where skincare products have been adapted to meet local needs.

The success of the Men Expert facial skincare range has been growing ever since its launch at the end of 2005. Two blockbusters, Hydra-Energetic (with ambassadors Matthew Fox in Europe and Daniel Wu in Asia) and Vita-Lift (with Pierce Brosnan), are driving Men Expert forward in its conquest of world markets.

In make-up, L'Oréal Paris had an outstanding year from several viewpoints. Through its strong growth (+12%) in all regions of the world. By achieving critical mass (almost one billion euros), so that each country can leverage profitability. And finally through the quality of its launches, which combine "impulse buy" products, such as Color Riche and Glam Shine 6H lipsticks, "convenience" products such as Telescopic mascara, and loyalty building products such as Bare Naturale foundation. Today, the brand is aiming for category leadership in most of its markets.

Fructis by Garnier became the Division's number one haircare and styling line in 2007.

GARNIER

The Garnier brand again achieved a very good score in 2007 with growth of +8.9%. Its goal is to offer well adapted, effective and natural products of international quality in each region of the world. A mass-market brand, Garnier builds a close relationship with consumers by using well-known local personalities in cheerful adverts which offer effective answers to real-life problems.

This strategy is producing very strong growth in emerging countries, particularly in Russia, Ukraine, Romania, Thailand, Dubai, and India, where the brand is becoming one of the major players. In North America, Garnier is achieving double-digit growth and is now operating in three key categories: haircare, hair colourants and skincare.

On the product front, the brand is concentrating its efforts on blockbusters. Fructis, the Division's number one haircare and styling range, grew by +7% with the successful launch of Sleek & Shine for dry and unmanageable hair. Nutrisse Coloration crème (and Color Naturals, its version for emerging countries) is the world's number one hair colourant in volume and is

(1) Nielsen/IRI panel—Facial skincare (December 2007).

L'Oréal Paris, Italy.

Garnier, India.

Garnier, Romania.

Garnier Pure anti-bacteria skincare is a big success in Eastern Europe.

World number one in mascara, Maybelline New York introduces a new elastomer brush technology with **Define-a-lash**.

A grille diffuser is used to apply the new **Watershine Elixir** lip gloss from Maybelline New York.

growing strongly in Western Europe, North America and the BRIMC countries.

Garnier Skin Naturals facial skincare recorded growth of +24% with its major franchises, adapted to the needs of different continents: UltraLift anti-ageing skincare in Europe, Pure anti-bacteria skincare in Eastern Europe, Whitening Light products in South-East Asia and India, and the Nutritioniste range in the United States.

Garnier bodycare products achieved good growth, particularly with Body Repair, Body Summer and Body Light moisturisers. Despite poor summer weather, the Ambre Solaire range succeeded in growing by +4% in Europe, bolstered in Spain by the acquisition of Delial sun products.

MAYBELLINE NEW YORK

The American make-up brand had a particularly prosperous year with worldwide growth of +8.4% and a good economic performance.

The highlight was the brand's balanced development across all regions of the world: Western and Eastern Europe, Asia, Latin America and North America. More than ever before, Maybelline New York is the undisputed worldwide make-up leader. The development teams worked hard to ensure the effectiveness of product presentations and take targeted initiatives to meet the needs of each region in the world.

In the eye segment, Maybelline New York launched the major innovation Define-a-lash with an elastomer brush, which is now one of the leading mascaras in Europe and the United States. In Asia, where eyelash needs are different, Unstoppable and Volum' Express Ipercurl are proving extremely successful.

The key developments in the facial segment were the winning Superstay Silky long-lasting foundation in Western Europe, and the success in Asia of Lumifit Two Way Cake compact foundation, adapted for the Chinese complexion and climate. In North America and Europe, Dream Matte Mousse foundation is continuing its growth.

In lipstick, the successful launch of Watershine Elixir lip gloss strengthened the Watershine franchise. In Western Europe, the success of Superstay long-lasting lipstick was confirmed, while in the United States the group innovated with Superstay gloss and its new patented technology.

SOFTSHEEN·CARSON

The year was more favourable for SoftSheen·Carson, with a clear improvement in South Africa and the United States, which together account for 90% of the brand's sales.

In South Africa, the brand produced a fine marketing and commercial performance with Dark & Lovely relaxers. It launched Rich and Naturals hair colourants, adapted to deal with the fragility of relaxed hair. In the United States there were good performances from the Optimum Care range and Let's Jam styling products.

Maybelline, Singapore.

SoftSheen·Carson, South Africa.

Extreme comfort with **Agnès b.** moisturising and smoothing foundation.

CLUB DES CRÉATEURS DE BEAUTÉ

The specialist in direct sales of cosmetics products, Le Club des Créateurs de Beauté (CCB), jointly owned 50/50 by L'Oréal and 3 Suisses, had a disappointing year, reflecting lower sales in France and Germany. Internet sales however continued to increase, and now account for more than 30% of total sales, rising to 38% in December. Reflecting this success, the ccb-paris.fr site was the second most visited cosmetics website in France in 2007.

A new strength-building styling cream for ethnic hair in the **Optimum Care** range of SoftSheen·Carson.

PARTNERSHIP

L'ORÉAL AND COOP ITALIA

Working together to double footfall in the Health and Beauty area

Creating a universe in a hypermarket where consumers feel just as relaxed and receptive as in Perfumery: the challenge taken up by L'Oréal's Italian subsidiary and Coop Italia. An exemplary collaborative effort to transform the Health and Beauty area of Ipercoop at Castenaso near Bologna into an attractive space offering a pleasant shopping experience: more clearly identified zones for each category, new products that are highlighted more effectively, and above all more explanations for consumers. This pilot partnership led to a very clear improvement in customer satisfaction and the doubling of footfall in the Health and Beauty section, together with a significant increase in sales.

LUXURY
PRODUCTS

LANCÔME / BIOTHERM
HELENA RUBINSTEIN
GIORGIO ARMANI / DIESEL
RALPH LAUREN / CACHAREL
KIEHL'S / SHU UEMURA
VIKTOR & ROLF / YUE-SAI

LUXURY PRODUCTS

ANTICIPATING EVERY ASPIRATION FOR LUXURY

Luxury is becoming truly global. The new markets—Russia, China, India, Mexico and the Middle East—are experiencing record growth rates. Meanwhile demand remains very high in Western markets. Over the next few years, we have a triple goal: to maintain our dynamism in fragrances by developing our brand portfolio, and further improving the success rate of our initiatives; to continue the globalisation of our relay brands: Kiehl's, Diesel, Shu Uemura and Viktor & Rolf; to be a driving force in the major scientific innovation breakthroughs in the two major segments of skincare and make-up.

Marc Menesguen
President
Luxury Products

Diesel, France.

2007 HIGHLIGHTS

> The arrival of the Diesel brand at the end of August hits the headlines with the launch of two Fuel for Life fragrances, for men and women.

> Amongst the relay brands, Kiehl's continues its conquest of world markets, and now covers 28 countries with new free standing stores and worldwide growth of +23.6%.

> Shu Uemura accelerates its growth and its worldwide presence, particularly in China, South Korea, the United States and Canada. The success of the new skincare line Phyto-Black Lift is opening up bright prospects for the brand in skincare.

> Giorgio Armani moves into the skincare segment with its ultra premium Crema Nera range, and opens its first spa in Tokyo.

> Lancôme consolidates its worldwide leadership in anti-ageing skincare with the success of Absolue Premium ßx, Rénergie Morpholift R.A.R.E. and the Lancôme Men line.

KIEHL'S / GIORGIO ARMANI

Designing naturally innovative products

The brands of the Luxury Products Division take a very close interest in natural ingredients. The aim is not to follow fashion, but as always to discover in nature new and effective ways of taking care of beauty.
In 2007 the Kiehl's brand thus launched its facial skincare line Yerba Maté, consisting of three products: a lotion, a toner and a cleanser. Maté is a South American plant whose stimulant and anti-oxidant properties are widely recognised, and which is very rich in nutrients.
The new Crema Nera facial skincare line from Giorgio Armani has a unique mineral composition, Obsidian Mineral Complex, which stimulates cellular metabolism, combined with expanded obsidian (L'Oréal patent). This highly innovative approach by L'Oréal researchers has produced excellent results both *in vitro* and *in vivo*.

2007 REVIEW

In an extremely buoyant worldwide selective market, the Division achieved strong growth (+8.4%) across all geographic zones. In Western Europe (+6.7%), the recovery which began in 2006 became more pronounced, with very good scores in France, Italy, the United Kingdom, Belgium and Spain. In North America, the Division's sales grew by +5%. In the rest of the world there was strong double-digit growth (+14.7%), with substantial expansion in Asia, the Middle East, Australia, Latin America and particularly Russia.
Fragrances (+14.0%) are the most dynamic category. Skincare sales are growing, particularly in the anti-ageing segment. In make-up, the acceleration came in the second half.
This dynamic growth, together with strict cost control, enabled the Division to significantly improve its profitability.

2008 OUTLOOK

In 2008, the Luxury Products Division should benefit from a buoyant environment. It will expand across the world the successes of its brands, symbolising a new kind of luxury: Diesel, Viktor & Rolf, Kiehl's, Shu Uemura and Yue-Sai. It will step up the global development of its core brands, such as Lancôme, Giorgio Armani, Ralph Lauren, Biotherm and Helena Rubinstein. Men will be at the heart of the Division's objectives in fragrances and skincare. Finally, the Division will focus its energy and resources on major initiatives.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2006	2007	% of 2007 sales	Growth 2007/2006 Like-for-like	Published figures
Western Europe	1,627.3	1,734.7	44.2%	+6.7%	+ 6.6%
North America	1,087.6	1053.2	26.8%	+5.0%	–3.2%
Rest of the World	1,058.2	1,140.0	29.0%	+14.7%	+7.7%
TOTAL	**3,773.1**	**3,927.9**	**100%**	**+8.4%**	**+4.1%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2006	2007	% of 2007 sales	Growth 2007/2006 Like-for-like	Published figures
Skincare	1,405.2	1,423.0	36.2%	+5.6%	+1.3%
Fragrances	1,488.3	1,641.6	41.8%	+14.0%	+10.3%
Make-up	879.5	863.3	22.0%	+3.3%	–1.8%
TOTAL	**3,773.1**	**3,927.9**	**100%**	**+8.4%**	**+4.1%**

The Luxury Products Division develops, manufactures and markets luxury beauty product brands, primarily fragrances, skincare and make-up, in worldwide selective distribution (department stores, perfumeries, travel retail, brand or distributor sales websites, and free standing stores). The Division is focused on developing each brand with a unique business model, and thus building up a highly complementary portfolio.

LANCÔME

The world's number one luxury beauty brand, a symbol of French refinement, excellence and emotion, LANCÔME is the anti-ageing skincare and make-up leader in the selective distribution channel.

In skincare, the anti-ageing Absolue Premium ßx with Pro-Xylane™ achieved double-digit growth and Rénergie Morpholift R.A.R.E. produced one of the best launches of the year worldwide in anti-ageing skincare. In make-up, LANCÔME recorded another success with Virtuôse, the brand's best-selling mascara since its launch. The feminine fragrances are stable thanks to Trésor—and its new advertising campaign with Kate Winslet—generating a double-digit growth in the last quarter 2007. The conquest of the men's market is accelerating with Lancôme Men skincare and the success of the fragrance Hypnôse Homme.

Number one in anti-ageing cream skincare in the United States, LANCÔME is also winning market share in skincare in France. In Asia, the brand is also advancing faster than the market in an extremely competitive environment. It has strengthened its number one position in China. Sales climbed sharply in the Russian market in 2007.

Rénergie Morpholift R.A.R.E. by Lancôme, one of the top anti-ageing skincare launches worldwide in 2007.

Lancôme, Italy.

Biotherm, Japan.

Lash Queen Feline Blacks mascara by Helena Rubinstein has become a cult product just a few weeks after its launch.

BIOTHERM

In 2007, the discovery of a new property of Plancton Thermal, a unique micro-organism used in all BIOTHERM skincare lines, marked the birth of dermobiotic cosmetics. This new area is strengthening the brand's strong progress, driven by the remarkable dynamism of the emerging markets—Russia, China, Mexico, Dubai—and travel retail.

BIOTHERM is building its success by focusing on three key categories. In facial skincare for women, the brand is the market leader in many countries in the moisturising skincare segment thanks to the spectacular advances of Aquasource, celebrating its 10th anniversary, and the launch of Multi-Recharge anti-fatigue moisturiser. The brand is extending its anti-ageing range for women over 50 with Reminerale. White Detox posted the fastest growth in the last five years in the whitening segment in Asia. In bodycare, the brand expanded significantly thanks to the launch of the Body Resculpt firmness franchise. Finally, BIOTHERM is still growing faster than the market, confirming its world leader position in men's skincare, despite tough competition.

Reminerale, on sale since September 2007, is already making a strong contribution to BIOTHERM growth in the anti-ageing segment.

HELENA RUBINSTEIN

The premium brand HELENA RUBINSTEIN, a byword in the anti-ageing segment, offers skincare and make-up products combining advanced science and glamour for sumptuous and assertive beauty. Its promise is summed up in the new brand slogan *Live Brilliantly* and embodied by Demi Moore.

2007 was notable for the very strong growth of Prodigy skincare and the launch of Lash Queen Feline Blacks mascara which has become a cult product just a few weeks after its launch. New and highly sophisticated stands, and the first boutique in Hong Kong have produced very promising initial results. The brand ended the year on a very dynamic note.

GIORGIO ARMANI

2007 was another year of double-digit growth for GIORGIO ARMANI in all the zones where the brand is strongly established (Europe +12%, United States +13%, travel retail +19%), with spectacular growth in the new countries (Russia +79%, Asia +34%, Latin America +24%).

The brand is consolidating its number one position in men's fragrances with Acqua di Giò, the best-selling men's fragrance in the world for the seventh year running. Armani Code for Men is number three, and it's women's version is in the top ten.

A new facet of the brand's appeal for women has emerged with the high-profile launch of Emporio Armani Diamonds, with ambassador Beyoncé, which should lift GIORGIO ARMANI for the first time to number two worldwide in the fragrances segment.

Bolstered by this position, and by the premium quality development of Giorgio Armani Cosmetics, the luxury brand successfully launched its first ultra-premium skincare range Crema Nera and has now become a global player in the beauty segment.

Giorgio Armani, Russia.

Lancôme, France.

Fuel for Life by Diesel, international success for fragrances which challenge perfumery codes.

CACHAREL

For nearly 30 years now, CACHAREL has accompanied women in the intimate exploration of their personality. In 2007, the new fragrance Liberté enabled the brand to increase its sales by targeting more sophisticated and mature consumers. The other fragrances continue to perform well: Amor Amor is still a hit amongst youngsters, Anaïs Anaïs has become a vintage classic, and the success of Noa Perle, launched in 2006, reboosted the classic version of the Noa fragrance.

KIEHL'S

KIEHL'S SINCE 1851 is a New York-based modern apothecary rooted in community and committed to generously serving its customers with high quality, efficacious formulations for the whole family which combine advanced science with gentle, natural ingredients.

In 2007, KIEHL'S continued its very strong growth (+23.6%). By launching the Yerba Maté skincare range, KIEHL'S remained faithful to its long standing tradition of offering products with a purpose. KIEHL'S grew to a total of 63 free standing stores, in 28 countries, which included openings in Berlin, Lisbon, Amsterdam, Vienna, Manila, Bangkok and Kuala Lumpur.

DIESEL

2007 was the year of the birth of Diesel fragrances, focused on the powerful *Be Alive* concept. Fuel for Life is the founding project of this cool, iconic, ironic and sexy brand. Every aspect of its launch was innovative: vintage packaging with a history, a cult multi-visual and multi-spot campaign and a communication platform with multiple contact points with consumers, creating a unique brand experience. Immediately after launch, Fuel for Life proved a resounding success, and the men's fragrance reached the top 5 in the United States and the top 3 in France and the United Kingdom by the end of 2007.

RALPH LAUREN

To continue its conquest of the men's fragrance market, RALPH LAUREN has launched Polo Explorer expressing a new facet of the Polo man, living without limits. Its worldwide launch strengthened Polo's position as one of the top 5 men's franchises in the world.

Ralph Lauren Romance remains the brand's number one women's fragrance. Latin American markets, North American markets and the travel retail zones linked to them have shown strong performances. Emerging markets like Russia, Dubai have recorded solid growth. Asia, particularly South-East Asia, remains a stronghold for the brand.

Phyto Black Lift by Shu Uemura, the brand's first global anti-ageing skincare range.

Shu Uemura, France.

TRIBUTE TO MR SHU UEMURA

Mr Shu Uemura was an extraordinary pioneer, not only in the art of make-up, but also in the art of skincare in the great Japanese tradition. Following an initial alliance in 2000 and the acquisition of Shu Uemura Cosmetics, Inc. in 2004, L'Oréal's teams had the great privilege of working for seven years with this outstanding visionary figure, in an atmosphere of passion and enthusiasm. The successors he trained are determined to continue his work while respecting his inspiration.

Giorgio Armani, Ralph Lauren, Cacharel, Argentina.

SHU UEMURA

Founded and named after legendary Japanese make-up artist and beauty pioneer, Shu Uemura, who died in 2007, the brand breaks all boundaries in beauty creation and invents the art of beauty.

The brand's growth on skincare has been fueled by the successful launch of Phyto-Black Lift, the first global anti-ageing skincare range from SHU UEMURA, and by Cleansing Oil Premium A/I for sensitive skin. In make-up, Face Architect remodeling cream foundation, based on SHU UEMURA's unique architectural approach to beauty, is a major success. Tokyo Lash Bar artistic visuals, emblematic of the brand's vision of beauty, have been enthusiastically received. In 2007 the brand made more than 70% of its sales outside Japan.

VIKTOR & ROLF

Fashion, boldness and rigour are the keynotes of the Viktor & Rolf universe, in which fragrances now form an essential element. Since 2005, Flowerbomb has become a modern perfume icon. In 2007, the designers successfully launched their first fragrance for the modern-day gentleman, Antidote. The success of the fragrances and the opening up of new opportunities worldwide have almost doubled the fragrance brand's sales. A strong presence in ultra-selective premium quality channels, highlighted by theatrical events, has made VIKTOR & ROLF a shining example of an efficient made-to-measure business model.

YUE-SAI

YUE-SAI brand stands for Chinese modern beauty.

YUE-SAI combines ancient know-how of ingredients with advanced research technologies. One of the most beautiful faces in China—the model Du Juan—reveals the new concept in an advertising campaign which is attracting new consumers. Vital Essential, which contains the precious ingredient Ganoderma, is becoming a star skincare product for Chinese women, and won the Cosmopolitan Beauty Award as the year's most innovative product in 2007. At the end of November, a TV campaign for Vital Essential propelled the brand's growth to the highest level since its acquisition by the group three years ago. Over the whole of 2007, YUE-SAI achieved double-digit growth.

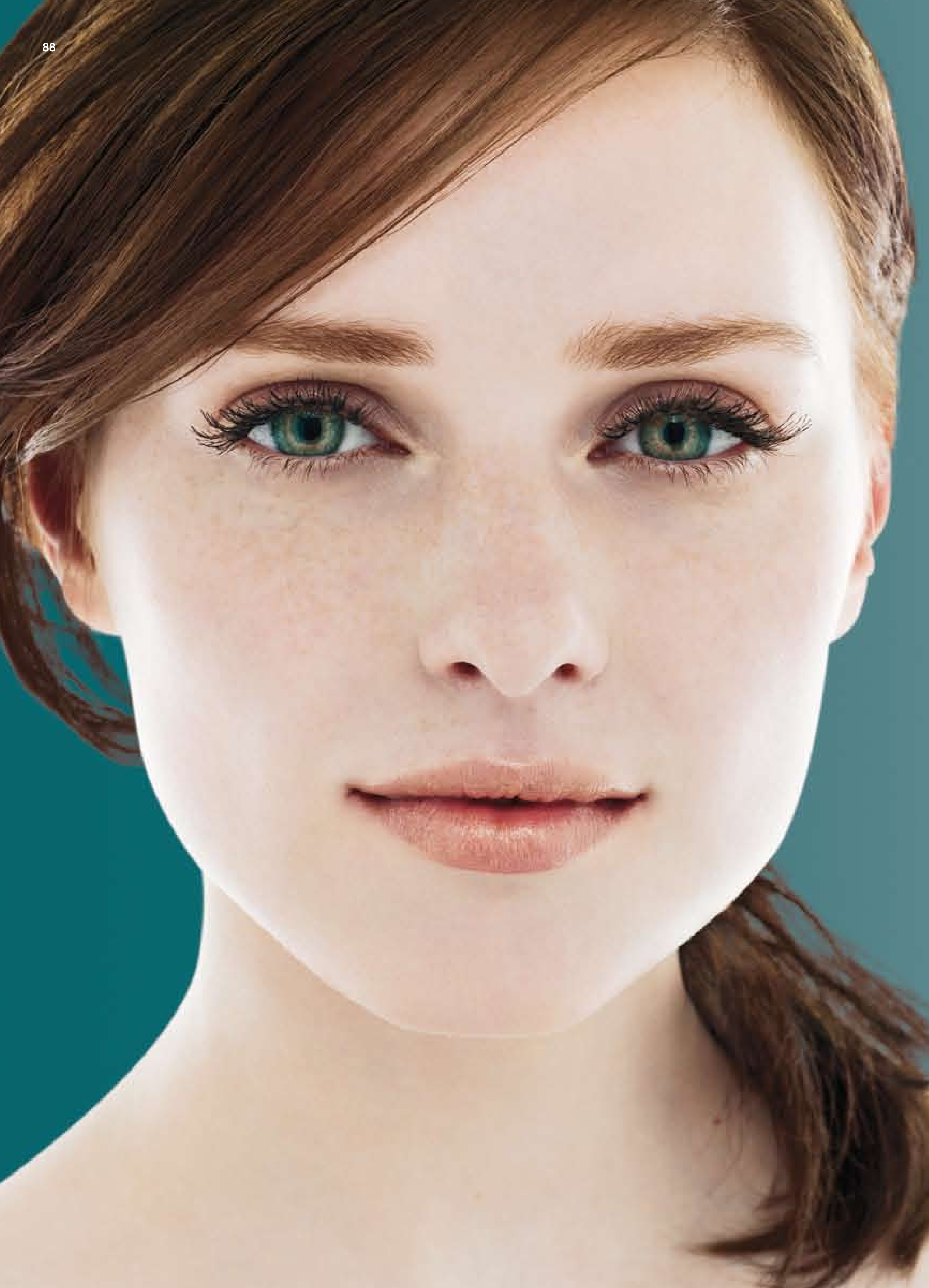
Vital Essential by Yue-Sai, the brand that stands for Chinese modern beauty.

PARTNERSHIP

LANCÔME

20 years of expert skin diagnosis for women's beauty

In conjunction with L'Oréal's laboratories, LANCÔME has succeeded in providing sales outlets with unique skin diagnosis expertise using sophisticated and affordable kits. Diagnôs Expert offers women all over the world a complete diagnosis of their skin for each ethnic group: identification of skin type and grain, pigment blemishes, and measurement of moisturising, firmness and lines so that the ideal personalised skincare can be recommended for each woman. Its portable version, Diagnôs Express, offers both women and men a practical skincare response in just a few minutes.
The kits have been widely acclaimed by dermatologists from all over the world whenever congresses are held.



ACTIVE COSMETICS

VICHY
LA ROCHE-POSAY
INNÉOV
SKINCEUTICALS / SANOFLORE

ACTIVE COSMETICS

DRAWING ON NEW HEALTH AND BEAUTY TRENDS

The dynamism of the dermocosmetics market is supported by the growing importance of health in the demand for beauty products, the modernisation of the pharmacy and drugstore channel, and the increasing role played by dermatologists in beauty care.
In this context, three strategic goals underpin the entire Division's policy: to diversify our brand portfolio and thus seize new consumer trends combining health with beauty; to strengthen our special relationship with pharmacists and dermatologists; and to accelerate the roll-out of our brands in geographic zones with a very strong growth potential—not only Eastern Europe, Asia and Latin America, but also the United States.

Brigitte Liberman
Managing Director Active Cosmetics

Vichy, Poland.

2007 HIGHLIGHTS

> La Roche-Posay accelerates in Western Europe, with growth 2.5 times faster than the dermocosmetics market.

> Four years after its launch, Innéov becomes the European leader in oral cosmetics sold in pharmacies.

> The Division moves into the fast-growing natural cosmetics market by launching Sanoflore, the pioneering organic cosmetics brand, in seven European countries.

> SkinCeuticals begins its globalisation with launches in five European countries through selective distribution channels of pharmacies, premium spas and dermatologists.

> Vichy is consolidating its leadership in men's skincare with the success of the new Vichy Homme range.

SANOFLORE

Farming the countryside and harvesting organic personal care products

Sanoflore controls the whole production chain thus securing its supplies of organic ingredients, their traceability and their quality. Systematic ongoing controls are carried by Ecocert, an independent organisation, to guarantee compliance with organic standards at each stage of production: raw materials, production facilities and finished products. At the heart of the products are essential oils, concentrated forms of the plant produced by distillation which have scientifically proven active properties. Organic ingredient content is exceptionally high, at up to 99% of the total formulation.

2007 REVIEW

In 2007, the Active Cosmetics Division once again achieved double-digit growth (+10.8% like-for-like). Sales in Western Europe proved resilient, despite the seasonal weakness of sun and slimming products. Growth was dynamic in North America and continued its acceleration in the rest of the world—Latin America, Asia, Eastern Europe—which today represents 33% of sales. All the brands contributed to this achievement, which bolsters the Division's worldwide position in its core skincare business.

2008 OUTLOOK

For several years now, the dermocosmetics market has been growing faster than the worldwide cosmetics market as a whole. In 2008, several favourable factors will boost the sales of the Active Cosmetics Division: the diversification of its brand portfolio, planned innovations, particularly in skincare, the solid performances of each brand's core products, and the acceleration of its drives into new markets.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2006	2007	% of 2007 sales	Growth 2007/2006 Like-for-like	Growth 2007/2006 Published figures
Western Europe	688.0	727.5	58.3%	+4.0%	+5.7%
North America	99.7	105.1	8.4%	+12.6%	+5.5%
Rest of the World	340.2	415.4	33.3%	+24.3%	+22.1%
TOTAL	**1,127.9**	**1,248.1**	**100%**	**+10.8%**	**+10.7%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2006	2007	% of 2007 sales	Growth 2007/2006 Like-for-like	Growth 2007/2006 Published figures
Skincare	879.6	978.4	78.4%	+12.1%	+11.2%
Haircare	98.9	98.8	7.9%	+0.2%	–0.1%
Make-up	81.0	93.7	7.5%	+17.3%	+15.8%
Other	68.4	77.2	6.2%	+1.7%	+12.7%
TOTAL	**1,127.9**	**1,248.1**	**100%**	**+10.8%**	**+10.7%**

World leader in the dermocosmetics market, the Active Cosmetics Division has a portfolio of five unique and complementary brands to meet growing health and skincare needs. It offers effective and safe products all over the world, backed up by advice from pharmacists and dermatologists' recommendations. It has special relationships with health professionals in all fields. As a result, the Division was able to raise its profile as a major partner of dermatologists during the 21st World Dermatology Congress, held in Buenos Aires in October 2007.

The success of the Aqualia Thermal moisturising skincare line is strengthening VICHY's position in this segment.

VICHY

VICHY develops everyday skincare products focused on skin health and sold in pharmacies.

In 2007, VICHY's growth was bolstered by the success of Aqualia Thermal moisturising skincare and Normateint anti-imperfection foundation, together with the revamp of Vichy Homme, which uses the properties of powerful and recognised active ingredients (such as calcium, retinol and vitamin C) whose efficacy is measured under medical control. The growth of the core products continues with Normaderm, for oily skin, and Néovadiol, which corrects the effects of the menopause on the skin.

Substiane with Pro-Xylane™ is reinforcing LA ROCHE-POSAY's position in anti-ageing skincare.

LA ROCHE-POSAY

LA ROCHE-POSAY offers everyday skincare and make-up products recommended by dermatologists and pharmacists for all kinds of skin, including the most sensitive. Supported by more than 25,000 dermatologists worldwide, the brand's sales growth is accelerating (+18.4%), with major product successes such as the anti-ageing replenishing skincare line Substiane with 5% of Pro-Xylane™, and Iso Uréa smoothing and regulating body milk, and with the European launch of the professional aesthetic corrective line Biomedic, exclusively for dermatologists.

Vichy, Russia.

La Roche-Posay, Singapore.

Sanoflore, Spain.

INNÉOV

Four years after its launch, INNÉOV, a joint venture between L'Oréal and Nestlé, became the number one oral cosmetics brand sold in European pharmacies, following very strong sales growth at +40%(1). These achievements reflect the remarkable success in 2007 of the new product Innéov Cellulite, and the brand's credibility for journalists, pharmacists and consumers. INNÉOV is now available in 14 countries in the skincare, sun protection, haircare and cellulite segments.

Innéov becomes the leader of the European oral cosmetics market.

SkinCeuticals was launched in five European countries in 2007.

Sanoflore's globalisation begins.

SKINCEUTICALS

A major player in the American market for professional skincare products, SKINCEUTICALS is strongly developing (+14.2%) its position in the United States in selective distribution through dermatologists, plastic surgeons, and medi-spas, particularly with CE Ferulic serum, hailed for its effectiveness as an antioxidant. Meanwhile, SKINCEUTICALS is beginning to globalise its operations, with successful launches in five European countries.

SANOFLORE

Laboratoires Sanoflore, based in the Drôme in the south of France, joined L'Oréal in October 2006.
Producing, distilling and formulating its products, SANOFLORE is positioned as an expert organic brand in pharmacies, with a full range of organic cosmetics, aromatherapy and phytotherapy products.
In 2007, SANOFLORE began its conquest of Europe, and aims to become a major player in the fast-growing market for natural cosmetics in the pharmacy distribution channel.

(1) Source: IMS October 2007—Europe 7 Cumulative Value.

PARTNERSHIP

LA ROCHE-POSAY

The partnership with dermatologists has been strengthened through three major initiatives.

"Resident Courses", rolled out in fifteen countries, provide training for students in the final year of dermatology specialisation, focussing on the benefits of cosmetics products and aesthetic procedures.

The La Roche-Posay Foundation, established in Asia in 2007, has enabled the Division to achieve its aim of participating in dermatological research on all four continents by awarding research and publication fellowships.

The "Master" training programme has been set up to develop dermatologists' management skills and modernise their practices.

THE BODY SHOP

THE BODY SHOP

ONGOING COMMITMENT TO NATURAL AND ETHICAL COSMETICS

The Body Shop, Poland.

A TRIBUTE TO DAME ANITA RODDICK, FOUNDER OF THE BODY SHOP

Passionately interested in ecology and a true pioneer of sustainable development, Dame Anita Roddick, founder of The Body Shop, passed away in September 2007. Throughout her life, she fought with determination for her ideals, which she forged into the five pillars of The Body Shop: Protect our planet, Support community trade, Against animal testing, Defend human rights, and Activate self-esteem. She had the ability of communicating her passionately held convictions to all those she met. Her creative energy will remain an inspiration to the teams of The Body Shop.

The strategy of The Body Shop is underpinned by three major goals: launching new ranges of products based on natural ingredients that continually broaden the brand's portfolio and strengthen its identity, expanding into new markets with high growth potential, and developing multi-channel distribution to increase the number of contact points with consumers. Following the acquisition of The Body Shop in July 2006, the gradual process of integration into the L'Oréal group is continuing, and the brand is starting to benefit from the group's research and development resources and its marketing expertise.

NUMBER OF STORES

	At December 31^{st}, 2006	At December 31^{st}, 2007	Variation in 2007
Company owned stores	886	1,008	+122
Franchisees	1,379	1,418	+39
TOTAL	**2,265**	**2,426**	**+161**

SALES

€ millions	2007	Like-for-like growth
Retail sales[1]	1,291.9	+7.9%
Retail sales with a comparable store base[2]	1,071.7	+3.3%
Consolidated sales	787	+5.7%

RETAIL SALES[1] BY GEOGRAPHIC ZONE

€ millions	2007	% of 2007 retail sales	Like-for-like growth
Western Europe	584.8	45.3%	+6.3%
North America	235.1	18.2%	–3.9%
Rest of the World	472.1	36.5%	+17.5%
TOTAL	**1,291.9**	**100%**	**+7.9%**

2007 REVIEW

Consolidated sales grew by +5.7% in 2007 with all regions recording strong performances, except for the United States. Growth in retail sales[1] reached +7.9%, driven by strong growth, on a comparable store base, in the United Kingdom, Singapore, Hong Kong and Eastern Europe. 161 stores were opened in 2007, taking the total to 2,426 in 59 countries.

2008 OUTLOOK

The Body Shop will continue its growth momentum on existing markets through its multi-channel strategy, which is designed to enhance the brand's accessibility, offering customers the ability to purchase in retail stores, on-line and through The Body Shop at Home. Asia and Eastern Europe also offer promising growth prospects, which The Body Shop will exploit in collaboration with its solid network of franchisee partners. The product innovation programme, particularly in skincare and make-up, will further enhance our customer reach.

(1) Total sales to consumers through all channels.
(2) Total sales to consumers by stores which operated continuously in 2007 and over the same reference period in 2006.

Body Focus,
Asian markets have given an enthusiastic welcome to the Body Focus bodycare range.

Created in the United Kingdom in 1976 and today operating in 59 countries, The Body Shop has become a well-known brand amongst consumers all over the world for its pioneering use of natural ingredients and its strong commitment to values. It offers a large number of consumers naturally inspired, appealing products that contain community trade ingredients that help support more than 25,000 people worldwide.

In 2007, growth was driven by successful launches in all segments, particularly in skincare with the Wise Woman and Body Focus ranges. The successful revamping of the Seaweed and Tea Tree lines in skincare, and the relaunch of emblematic White Musk eau de toilette, contributed to The Body Shop's growth.
The brand continues to extend its network of exclusive boutiques across the world. There are now 20 stores in India. The number of sales outlets has risen from 15 to 21 in Russia, from 31 to 42 in France, and from 112 to 124 in Saudi Arabia.
The home distribution system The Body Shop at Home operates in the United Kingdom, in the United States, in Australia and in Germany. With its established retailing expertise, the brand reinforces its strategy by constantly improving the quality of service provided to consumers.
Initiatives to reinvigorate and communicate the essence of the brand will increase awareness and build customer engagement. The Body Shop will pursue a strong values agenda by continuing efforts to promote its Stop Violence in the Home programme, and its ongoing involvement in the AIDS prevention campaign.

PARTNERSHIP

PALM OIL

The Body Shop is an ethical brand, committed to developing innovative solutions for the protection of the environment and natural resources. In 2007, to combat the rapid destruction of ancestral tropical forests by the uncontrolled production of palm oil, The Body Shop was the first brand to source sustainable palm oil for inclusion in its products. This pioneering initiative is a significant advance which shows how a global brand can foster sustainable development.
Closely involved for several years in this issue, The Body Shop has been an active participant in the Roundtable on Sustainable Palm Oil (RSPO) for four years.
L'Oréal supports this initiative, and joined RSPO in 2006.

2007 HIGHLIGHTS

> Strategic acquisition of franchisees in Sweden and Portugal.

> Opening of the first The Body Shop stores in the Czech Republic, Poland and Namibia.

> Launch of Wise Woman, a skincare range to target the specific needs of the mature customer.

> Launch of RougeBerry eau de toilette, in partnership with the television channel MTV, to support the AIDS prevention campaign.

> Introduction of performance-based, targeted body care products under the Body Focus franchise, which was particularly well received in Asian markets.

GALDERMA

MAKING DERMATOLOGY MOVE FORWARD

Galderma delivers innovative solutions that empower physicians and improve patient's health.

Galderma's ambition is to be recognized as the most competent and successful innovation-based company focused exclusively on dermatology. With significant investments in research, in providing training for physicians and information for patients, the company is actively shaping the future of dermatology as it pioneers medical solutions for unmet patient needs.

In 2007, Galderma continued to innovate in its core therapeutic areas while expanding into the rapidly growing field of corrective dermatology.
Differin® 0.3% gel was approved and launched in the United States and Canada. The company's top of class sales organisation established this improved formulation as front line therapy for acne by the doctors and patients, based on its safety and effectiveness.
Epiduo™, a new and unique combination product with significant potential for the treatment of acne, was approved in Argentina and Europe with approvals in the United States and the rest of the world expected early 2009. This product was discovered and developed by Galderma and is an excellent example of our R&D potential.
The state-of-the-art R&D facility in Sophia-Antipolis (France) became fully operational during the year and has attracted researchers from around the world.

The dedicated professionals in Galderma's manufacturing operations continued to deliver the high quality products that have defined the industry, while constantly striving to improve efficiency.

Galderma has also made progress in its commitment to develop a significant presence in the corrective dermatology segment. An agreement was signed providing Galderma development and distribution rights for an innovative topical anesthetic which should be widely adopted by the industry as a new standard of care. In addition, the company licensed the rights for a botulinum toxin Type A product in Europe, South America and several other significant countries.
Thanks to its excellent perspectives in terms of growth, Galderma has every reason to feel confident and look forward to a bright future.

For further information, please consult Galderma's website:
www.galderma.com

2007 REVIEW

2007 was a year of strong and accelerating growth for Galderma. Sales grew +12.7% with balanced contributions across all geographic zones. This growth was based on the continued success of established products such as Clobex® (psoriasis), Cetaphil® (therapeutic skin care for health care professionals) and Loceryl® (onychomycosis) and the innovative Differin® 0.3% gel for acne, launched at the beginning of the third quarter.
Nearly 2,700 employees contribute to the company's success, a company which ranks respect for people as one of its highest values.

2008 OUTLOOK

Growth from Galderma's flagship brands will be complemented by the launches of several innovative pharmaceutical products such as Epiduo™ (acne). In addition, its ongoing expansion into the dynamic corrective and aesthetic dermatology segment will provide additional growth opportunities with Pliaglis™, an innovative topical anesthetic for aesthetic medical procedures, and a best-in-class botulinum toxin Type A product.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE(1)

	2006	2007	% of 2007 sales	Growth 2007/2006	
€ millions				Like-for-like	Published figures
Western Europe	174.6	187.2	25.5%	+7.6%	+7.2%
North America	388.0	409.8	55.8%	+14.9%	+5.6%
Rest of the World	124.6	138.0	18.8%	+13.7%	+10.8%
TOTAL	**687.2**	**735.0**	**100%**	**+12.7%**	**+6.9%**

(1) 100% of Galderma's sales.

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2007 FINANCIAL STATEMENTS

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

ADDITIONAL INFORMATION FOR THE REFERENCE DOCUMENT

L'ORÉAL

The L'Oréal Reference Document comprises two separate volumes:
> a general brochure "2007 Annual Report",
> the 2007 financial statements, plus additional information as required by law,
available prior to the Annual General Meeting convened for Tuesday, April 22nd, 2008.

This is a free translation into English of the L'Oréal 2007 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.

SUMMARY

DETAILED SUMMARY

2007 Financial Statements, Management Report and Additional Information

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2007 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.

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2007 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.

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CHAPTER I

2007 CONSOLIDATED FINANCIAL STATEMENTS*

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CONSOLIDATED FINANCIAL STATEMENTS

COMPARED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

€ millions

	2007	2006	2005
Net sales (note 3)	**17,062.6**	**15,790.1**	**14,532.5**
Cost of sales	–4,941.0	–4,569.1	–4,347.3
Gross profit	**12,121.6**	**11,221.0**	**10,185.2**
Research and development	–559.9	–532.5	–496.2
Advertising and promotion	–5,126.7	–4,783.0	–4,367.2
Selling, general and administrative expenses	–3,618.2	–3,309.4	–3,009.3
Operating profit before foreign exchange gains and losses	**2,816.8**	**2,596.1**	**2,312.5**
Foreign exchange gains and losses (note 6)	10.4	–55.2	–46.5
Operating profit	**2,827.2**	**2,540.9**	**2,266.0**
Other income and expenses (note 7)	621.6	–60.8	9.3
Operational profit	**3,448.8**	**2,480.1**	**2,275.3**
Finance costs (note 8)	–174.5	–115.9	–63.8
Other financial income (expense)	–7.6	–3.6	–3.3
Sanofi-Aventis dividends	250.3	217.4	171.6
Share in net profit (loss) of equity affiliates	0.1	–1.2	–0.7
Profit before tax and minority interests	**3,517.2**	**2,576.8**	**2,379.1**
Income tax (note 9)	–859.7	–514.7	–405.9
Net profit	**2,657.5**	**2,062.1**	**1,973.2**
Attributable to:			
- group share	2,656.0	2,061.0	1,972.3
- minority interests	1.5	1.1	0.9
Net profit attributable to the group per share (euros) (note 10)	4.42	3.36	3.13
Diluted net profit attributable to the group per share (euros) (note 10)	4.38	3.35	3.13
Net profit excluding non-recurrent items attributable to the group per share (euros) (note10)	3.39	2.99	2.60
Diluted net profit excluding non-recurrent items attributable to the group per share (euros) (note 10)	3.36	2.98	2.60

COMPARED CONSOLIDATED BALANCE SHEETS

€ millions

Assets	12.31.2007	12.31.2006	12.31.2005
Non-current assets	**16,979.6**	**19,155.4**	**18,686.0**
Goodwill (note 11)	4,344.4	4,053.9	3,837.1
Other intangible assets (note 12)	1,959.2	1,792.8	1,201.0
Tangible assets (note 14)	2,651.1	2,628.4	2,466.0
Non-current financial assets (note 15)	7,608.9	10,168.5	10,757.1
Investments in equity affiliates	–	82.0	–
Deferred tax assets (note 9)	416.0	429.8	424.8
Current assets	**6,220.7**	**5,627.6**	**5,200.1**
Inventories (note 16)	1,547.6	1,404.4	1,261.8
Trade accounts receivable (note 17)	2,617.5	2,558.5	2,379.7
Other current assets (note 18)	926.4	851.8	829.0
Current tax assets	42.5	31.7	66.4
Cash and cash equivalents (note 19)	1,086.7	781.2	663.2
Total assets	**23,200.3**	**24,783.0**	**23,886.1**

€ millions

Liabilities	12.31.2007	12.31.2006	12.31.2005
Shareholders' equity (note 20)	**13,621.8**	**14,624.2**	**14,657.2**
Capital stock	123.6	127.9	131.7
Additional paid-in capital	963.2	958.5	953.9
Other reserves	8,695.8	8,974.4	8,824.8
Items directly recognised in equity	3,408.9	5,066.9	5,197.2
Cumulative translation adjustments	–441.1	–70.3	214.0
Treasury stock	–1,787.2	–2,496.3	–2,638.2
Net profit attributable to the group	2,656.0	2,061.0	1,972.3
Shareholders' equity excluding minority interests	**13,619.2**	**14,622.1**	**14,655.7**
Minority interests	2.5	2.1	1.5
Non-current liabilities	**3,978.5**	**3,396.9**	**2,460.5**
Provisions for employee retirement obligation and related benefits (note 21)	755.3	837.9	960.6
Provisions for liabilities and charges (note 22)	148.5	154.1	157.0
Deferred tax liabilities (note 9)	491.6	512.5	914.7
Non-current borrowings and debts (note 23)	2,583.0	1,892.4	428.2
Current liabilities	**5,600.1**	**6,761.9**	**6,768.4**
Trade accounts payable	2,528.7	2,485.0	2,276.5
Provisions for liabilities and charges (note 22)	285.7	272.0	289.3
Other current liabilities (note 25)	1,732.5	1,613.9	1,523.2
Current tax liabilities	176.5	173.0	227.3
Current borrowings and debts (note 23)	876.8	2,218.0	2,452.1
Total liabilities	**23,200.3**	**24,783.0**	**23,886.1**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ millions

	Common share outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
At 12.31.2004	**638,274,360**	**135.2**	**953.5**	**10,295.3**	**3,031.0**	**–2,450.9**	**–139.9**	**11,824.2**	**1.2**	**11,825.4**
Capital increase	7,500	0.0	0.4					0.4		0.4
Cancellation of treasury stock		–3.5		–980.9		984.4				
Dividends paid (not paid on treasury stock)				–518.8				–518.8	–0.6	–519.4
Cumulative translation adjustments							*353.9*	*353.9*	*0.2*	*354.1*
Financial assets available for sale					*2,255.8*			*2,255.8*		*2,255.8*
Cash flows hedging					*–89.6*			*–89.6*	*–0.1*	*–89.7*
Items directly recognised in equity					2,166.2		353.9	2,520.1	0.1	2,520.2
Consolidated net income of the period				1,972.3				1,972.3	0.9	1,973.2
Total income and expenses				**1,972.3**	**2,166.2**		**353.9**	**4,492.4**	**1.0**	**4,493.4**
Deferred share-based payment				29.9				29.9		29.9
Net changes in treasury stock	–18,308,250			–0.9		–1,171.7		–1,172.6		–1,172.6
Other movements				0.2				0.2	–0.1	0.1
At 12.31.2005	**619,973,610**	**131.7**	**953.9**	**10,797.1**	**5,197.2**	**–2,638.2**	**214.0**	**14,655.7**	**1.5**	**14,657.2**
Capital increase	76,000	0.0	4.6					4.6		4.6
Cancellation of treasury stock		–3.8		–1,255.6		1,259.4		–		–
Dividends paid (not paid on treasury stock)				–616.1				–616.1	–0.9	–617.0
Cumulative translation adjustments							*–284.3*	*–284.3*	*0.2*	*–284.1*
Financial assets available for sale					*–194.5*			*–194.5*		*–194.5*
Cash flows hedging					*64.2*			*64.2*		*64.2*
Items directly recognised in equity					–130.3		–284.3	–414.6	0.2	–414.4
Consolidated net income of the period				2,061.0				2,061.0	1.1	2,062.1
Total income and expenses				**2,061.0**	**–130.3**		**–284.3**	**1,646.4**	**1.3**	**1,647.7**
Deferred share-based payment				49.4				49.4		49.4
Net changes in treasury stock	–14,327,500			–1.5		–1,117.5		–1,119.0		–1,119.0
Other movements				1.1				1.1	0.2	1.3
At 12.31.2006	**605,722,110**	**127.9**	**958.5**	**11,035.4**	**5,066.9**	**–2,496.3**	**–70.3**	**14,622.1**	**2.1**	**14,624.2**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

€ millions

	Common share outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders equity excluding minority interests	Minority interests	Shareholders equity
At 12.31.2006	**605,722,110**	**127.9**	**958.5**	**11,035.4**	**5,066.9**	**–2,496.3**	**–70.3**	**14,622.1**	**2.1**	**14,624.2**
Capital increase	75,050	–	4.7					4.7		4.7
Cancellation of treasury stock		–4.3		–1,704.8		1,709.1		–		–
Dividends paid (not paid on treasury stock)				–711.6				–711.6	–0.9	–712.5
Cumulative translation adjustments							*–370.8*	*–370.8*		*–370.8*
Financial assets available for sale					*–1,685.9*			*–1,685.9*		*–1,685.9*
Cash flows hedging					*27.9*			*27.9*		*27.9*
Items directly recognised in equity		–			–1,658.0	–	–370.8	–2,028.8	–	–2,028.8
Consolidated net income of the period				2,656.0				2 656.0	1.5	2,657.5
Total income and expenses	**–**	**–**	**–**	**2,656.0**	**–1,658.0**	**–**	**–370.8**	**627.2**	**1.5**	**628.7**
Deferred share-based payment				69.1				69.1		69.1
Net changes in treasury stock	–10,486,487			–1.6		–1,000.0		–1,001.6		–1,001.6
Other movements				9.3				9.3	–0.1	9.2
At 12.31.2007	**595,310,673**	**123.6**	**963.2**	**11,351.8**	**3,408.9**	**–1,787.2**	**–441.1**	**13,619.2**	**2.5**	**13,621.8**

COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions

	2007	2006	2005
Cash flows from operating activities			
Net profit attributable to the group	2,656.0	2,061.0	1,972.3
Minority interests	1.5	1.1	0.9
Elimination of expenses and income with no impact on cash flows:			
• depreciation and charges to provisions	598.5	579.4	426.9
• changes in deferred taxes	38.3	–273.3	–290.1
• share-based payment (note 20.3)	69.1	49.4	29.9
• capital gains and losses on sale of assets (note 10)	–11.7	–8.5	–11.4
• capital gain on Sanofi-Aventis sale, net of tax	–631.9		–
• share in net income of equity affiliates net of dividend received	0.5	1.2	0.7
• other non-cash movements	–	–	0.4
Gross cash flow	**2,720.4**	**2,410.3**	**2,129.6**
Cash (used in) from working capital (note 27)	–76.3	65.6	–35.7
Net cash provided by operating activities (A)	**2,644.0**	**2,475.9**	**2,093.9**
Cash flows from investing activities			
Investments in tangible and intangible assets	–776.0	–745.2	–662.3
Disposals of tangible and intangible assets	30.1	28.9	11.9
Disposal of Sanofi-Aventis, net of tax	1,465.3		
Changes in other financial assets (including investments in non-consolidated companies)	–10.2	–3.9	–37.7
Effect of changes in the scope of consolidation (note 28)	–604.4	–1,065.7	–181.7
Net cash (used in) from investing activities (B)	**104.8**	**–1,785.9**	**–869.8**
Cash flows from financing activities			
Dividends paid	–725.7	–633.8	–563.3
Capital increase of the parent company	4.7	4.6	0.4
Disposal (acquisition) of treasury stock	–1,001.6	–1,119.0	–1,193.9
Issuance (repayment) of short-term loans	–1,439.1	209.3	582.0
Issuance of long-term borrowings	753.2	1,563.5	100.0
Repayment of long-term borrowings	–10.1	–577.0	–85.0
Net cash (used in) from financing activities (C)	**–2,418.7**	**–552.4**	**–1,159.8**
Net effect of exchange rate changes and fair value changes (D)	–24.6	–19.6	22.7
Change in cash and cash equivalents (A+B+C+D)	**305.5**	**118.0**	**87.0**
Cash and cash equivalents at begining of the year (E)	**781.2**	**663.2**	**576.2**
Cash and cash equivalents at end of the year (A+B+C+D+E) (note 19)	**1,086.7**	**781.2**	**663.2**

Income taxes paid amount to €820.9 million, €725.6 million and €688.3 million respectively for years 2007, 2006 and 2005.
Interests paid amount to €201.1 million, €133.9 million and €82.5 million respectively for years 2007, 2006 and 2005.
Dividends received amount to €250.3 million, €217.4 million and €171.6 million respectively for years 2007, 2006 and 2005. They are included in the gross cash flow.

NOTES TO FINANCIAL STATEMENTS

NOTE 1_ACCOUNTING PRINCIPLES

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") published for 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union on December 31st, 2007.

On February 13th, 2008 the Board of Directors closed the consolidated financial statements at December 31st, 2007. The financial statements will not become definitive until they have been approved by the Annual General Meeting of Shareholders to be held on April 22nd, 2008.

IFRS 7: "Financial Instruments: Disclosures" as well as IAS1 amendment relative to Capital disclosure are the subject of a first application in the consolidated financial statements as at December 31st, 2007.

IFRIC Interpretation 10 "Interim Financial Reporting and Impairment" does not affect the consolidated financial statements.

The group has not applied any standards or interpretations whose application is not yet compulsory in 2007.

The group is considering the application in its accounts of the standard IFRS 8 "Segment Operations", applicable as from January 1st, 2009.

The group is considering the application of the interpretation IFRIC13 "Customer loyalty programs" in its accounts but does not anticipate any major impacts. It is also the case for the application of the interpretation of IFRIC14 relative to IAS19.

Other interpretations do not concern the group.

The IFRS standards have been applied retroactively at January 1st, 2004, except for certain exemptions stipulated in the IFRS 1 standard for the first application of IFRS standards:
- no restatement of business combinations prior to January 1st, 2004,
- actuarial gains and losses on pension obligations fully recognised against opening equity at January 1st, 2004,
- cumulative translation adjustments at January 1st, 2004 merged with consolidated reserves,
- no revaluation of tangible assets at January 1st, 2004,
- no recognition of share purchase or subscription options plans prior to November 7th, 2002.

Furthermore, standards IAS 32 and 39 relating to financial instruments have been applied from January 1st, 2004 onwards for purposes of comparison. The amendment to IAS39 "Recognition of the hedging of future financial flows relating to intra-group transactions", which is compulsory from January 1st, 2006 onwards, has been applied.

1.1. Use of estimates

The preparation of the consolidated financial statement in accordance with international accounting standards implies that the group makes a certain number of estimates and assumptions that may affect the value of the group's assets, liabilities, shareholders' equity and net income (loss).

These estimates and assumptions mainly concern the valuation of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payments measurement. Estimates used by the group in relation to these different areas are detailed 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.

Equity affiliates 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 rate effective at the transaction date.

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at closing date. Unrealised exchange gains and losses impact the profit and loss account.

With regard to exchange risks, long-term contracts and options are negotiated to cover commercial transactions recorded on the balance sheet as fair value hedges and cash flows on future commercial transactions, recorded as cash flow hedges, whose completion is considered to be highly probable.

All 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, the variation in the fair value of these hedging instruments is recorded as follows:

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

In application of the hedging accounting, unrealised exchange gains and losses relating to unsold inventories are deferred to the inventories item in the balance sheet. In the same way, if fixed assets purchased with foreign exchange are covered by a hedge, they are valued in the balance sheet on the basis of the hedging rate.

The group may decide to cover certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated shareholders' 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 is entered directly under shareholders' equity under the item *Cumulative translation adjustments*, for the group's share, and under the *Minority interests* item, for the minority interests. This 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 be assets and liabilities of the foreign company, and is therefore expressed in the currency in which the entity operates, and is translated using exchange rates effective at closing date. Goodwill recorded before January 1st, 2004 has been kept in euros, at the historic exchange rate.

1.4. Net sales

Net sales are recognised when the risks and benefits inherent in ownership of the assets 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 cash out flow, 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 the products sold, the cost of distributing products to customers including the freight and delivery costs, either directly or indirectly through depots, inventory depreciation 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.

The 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 advantages, 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 the uncertainties concerning the decision to launch the products relating to the project, 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 giving rise to additional functions are also capitalised.

The capitalised development costs are amortised from the date on which the software is made available in the entity concerned, over the probable useful life span, which is in most cases 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 of the financial year when 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. Exchange gains and losses

The exchange gains and losses included in this item correspond to gains and losses recorded on operating expenses and income in foreign currency valued at the rate effective on the day of the transaction and the rate applied for the settlement, after allowing for hedging derivatives. Furthermore, the variation in the time value of hedging derivatives is systematically charged to the profit and loss account, and this also applies to option premiums (note 1.3).

1.10. Operating profit

Operating profit consists of gross profit, after deducting research and development expenses, advertising and promoting expenses, selling, general and administrative expenses, and exchange gains and losses on commercial transactions.

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 and restructuring costs.

The cost of restructuring operations is fully provisioned if it results from a group obligation towards a third party originating from the decision taken by the competent body and giving rise before the closing date to the announcement of this decision to the third parties concerned. This cost consists mainly of severance payments, early retirement payments, the cost of notice periods not worked, and the costs of training terminated employees and other costs relating to the site closures. The write-offs of fixed assets, depreciation of inventories and other assets, linked directly to the restructuring measures, are also recorded as restructuring costs.

1.12. Operational profit

Operational profit is calculated from 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 debts, after deducting cash and cash equivalents.

The cost of the net financial debt consists of the expenses and income generated by the items constituting the net financial debt during the accounting period, including the related results of interest rate and exchange rate hedging.

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 temporary differences occur between the tax base and the consolidated base of assets and liabilities, using a balance sheet approach and the 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 valued using the enacted tax rate at the closing date and which will also be in force when the temporary differences reverse.

Deferred tax assets generated by tax loss are only recognised to the extent that a taxable profit is expected during the validity period of these tax loss carry forwards.

Under the French system of tax consolidation, some French companies in the group compensate for their taxable incomes when determining the overall tax charge, which only the parent company L'Oréal remains liable to pay. Fiscal 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 and liabilities of the company acquired are valued on the fair value basis. 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 share of the group in the fair value of the identified assets and liabilities is recorded as *Goodwill*.

Goodwill generated at the acquisition of an equity affiliate is presented in the Investments in *equity affiliates* line.

Goodwill is no longer amortised in accordance with the standard IFRS 3 "Business combinations". It is subjected to an impairment test if an unfavourable event occurs, and at least once a year, during the fourth quarter. Unfavourable 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 net asset values including goodwill and the recoverable value of each Cash Generating Unit. A Cash Generating Unit corresponds to one or more worldwide brands. Recoverable values are determined on the basis of discounted operating cash flows over a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. Cash flows are determined in local currency and translated, along with the net equity to which they are compared, at estimated rates for the coming year. The discount rate used for these calculations is the weighted average cost of capital (WACC), which amounts to 8.6% for 2007, 8.0% for 2006 and 7.2% for 2005, adjusted by applying a country risk premium if necessary. The discount rates are rates after tax applied to cash flows after tax. Their use leads to the determination of recoverable values identical to those obtained by using rates before tax with non-fiscalised cash flows. The hypotheses adopted in terms of growth of sales and terminal values are reasonable and in line with the available market data (generally around 3% except in specific cases).

The use of discounted cash flows is preferred in order to determine recoverable value, due to the lack of similar recent transactions easily available.

The depreciation of goodwill is not reversible.

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 implemented to date:

- premium-based approach: this method involves estimating the part of future flows that could be generated by the trademark, compared with the future 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 retained refers to the weighted average cost of capital (WACC) for the target acquired. Growth rate in perpetuity is 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 inside the group are trademarks with a finite life span.

They are depreciated over a life span, which is estimated at the date of acquisition.

International trademarks are trademarks with an indefinite life span. They are subjected to impairment tests if an unfavourable event occurs, and at least once a year, during the fourth quarter. Unfavourable 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 value of the trademark based on the model adopted when the acquisition takes place.

As for product ranges, this concept covers all items which constitute a franchise: product concept, complementary name in addition to the trademark, formulas and patents used, packaging, logos, advertising trademark, etc.

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

The group may decide to identify and value patents and formulas that it wishes 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 depreciation period of patents corresponds to the period of legal protection. Formulas which are not protected by legal means are depreciated over a maximum period of 5 years.

Market shares and business value accounted for in the consolidated financial statements prepared in accordance with French accounting methods do not correspond to the definition of a separable intangible asset and have been reclassified under *Goodwill* for the application of 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 essentially transfer to the group the risks and rewards inherent in their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded as Borrowings and debts 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 life spans, and therefore their depreciation periods, are materially different.

Tangible assets are depreciated using the straight-line method, over the following economic life spans:

Buildings	10/40 years
Industrial materials	5/15 years
Point-of-sales advertising, stands and displays	3/5 years
Other tangible assets	3/10 years

Amortisation and depreciation are recorded in the profit and loss account according to the destination of the tangible asset.

In view of the typology indicated in the above table, the tangible assets are considered to have zero value at the end of the economic life spans indicated.

1.17. Non-current financial assets

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

Their fair value is determined on the basis of the share price at the closing date for listed securities. For unlisted securities, if the fair value cannot be reliably established, they are valued at cost.

If the unrealised loss accounted for through equity is representative of a lasting decline, this loss is recorded in the profit and loss account.

Long-term loans and other debtors are considered to be assets generated by the activity. 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" formula.

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 provisional 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 uncertain debts based on an assessment of the risk of non-recovery.

The group policy is to recommend a customer insurance coverage as far as the local conditions allow it.

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 no risk of change in value, and whose realisation date at the date of acquisition is less than three months away.

Investments in shares and cash, which are held in a blocked account for more than three months, cannot be recorded under cash and are presented under *Other current assets*.

Bank overdrafts considered to be assimilated to a financing activity are presented in *Current borrowings and debts*.

Units of 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. The unrealised gains thus generated are accounted for directly through equity on the line *Items directly recognised in equity*.

The book value 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 shareholders' equity. Capital gains/losses on disposal of this stock net of tax are charged directly to shareholders' equity and do not contribute to the income for the financial year.

1.22. Stock options

Stock options are intended to motivate and strengthen the loyalty of employees who make the largest contribution to the group's performance through their skills and commitment.

In accordance with the requirements of standard IFRS 2 "Share-based payment", the value of the options granted calculated at the grant date is charged to the profit and loss account over the vesting period, which is generally 5 years.

Stock options fair value is determined using the Black & Scholes model. This model allows for the characteristics of the plan such as exercise price and exercise period, market data at the acquisition date such as the risk-free rate, share price, volatility, expected dividends and behavioural factors of beneficiaries.

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

The impact on the result of the period of application of standard IFRS 2 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 to geographic zones.

1.23. Provisions for employee retirement obligation and related benefits

The group adheres to pension, early retirement and other benefit schemes depending on local legislation and regulations.

For basic schemes and other defined-contribution schemes, the group charges to the profit and loss account the contributions to be paid when they are due and no provision has been set aside, with the group's commitment not exceeding the amount of contributions paid. For defined benefit schemes, the characteristics of the schemes in force inside the group are as follows:
- French regulations provide for specific length-of-service awards payable to employees on retirement. In addition, an early retirement plan and a defined benefit plan have been set up. In some group companies there are also measures providing for the payment of certain healthcare costs for retired employees.
These obligations, except for those relating to healthcare costs for retired employees, are partially funded.
- For foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefits, the excess of obligations 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.

The charges recorded in the profit and loss account during the year include:
- service cost, i.e. additional rights acquired by employees during the accounting period,
- interest cost, i.e. change in the value of the discounted rights due to the fact that one year has elapsed,
- expected return on 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,
- amortisation of unrecognised gains and losses.

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 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).

The cumulative effects of unrecognised gains and losses are depreciated over the average residual period of activity of active employees, unless such gains and losses do not exceed 10% of the greater of the discounted benefit obligation or the fair value of plan assets (corridor principle). The depreciation is included in the annual actuarial charge of the following financial year. Gains and losses in relation to other benefits, such as jubilees and medals, are immediately charged to the profit and loss account without the application of the corridor principle.

The liability corresponding to the company's net commitment for personnel is entered on 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 potential outflows for the benefit of third parties without return for the group. They relate mainly to tax risks and litigation, industrial and commercial risks relating to operations (breach of contract, product returns) and social risks.

They are estimated on the basis of the most likely assumptions 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 twelve months of the closing date, and those linked to the normal operating cycle (such as product returns) are recorded as *Current liabilities*. The other provisions for liabilities and charges are recorded as *Non-current liabilities*.

1.25. Borrowings and debts

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

In accordance with the principle of recording fair value hedges, fixed rate borrowings and debts swapped at a variable rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance cost and are offset by changes in the value of the attached interest rate swaps.

The fair value of fixed rate debts is determined by the discounted cash flow method at the closing date, allowing for the spread corresponding to the group's risk class.

The book value of the variable rate debts is a reasonable approximation of their fair value.

Medium and long-term borrowings and debts are recorded under *Non-current liabilities*. Short-term borrowings and debts, and the part of medium and long-term borrowings and debts, which is repayable in less than one year, are presented under *Current liabilities*.

1.26. Financial derivatives

In accordance with group financial management policies, none of L'Oréal's consolidated companies conduct any market transactions for speculative reasons. As a result, all derivative instruments concluded by group companies are only for hedging purposes, and are thus carried out in accordance with the principle of hedge accounting.

With regard to exchange rate risk, the applicable accounting principles are set out in detail in note 1.3.

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

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

1.27. Earnings per share

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

Net earnings per share are obtained from the weighted average number of shares outstanding during the year, after deducting the average number of treasury stock which is deducted from shareholders' equity.

Diluted net earnings per share allow where applicable for stock options with a dilutive effect in accordance with the "treasury stock method": the sums collected during the exercise or purchase are assumed to be allocated primarily to share buybacks at market price.

NOTE 2_CHANGES IN THE SCOPE OF CONSOLIDATION

2.1. Year 2007

In mid-April, 2007, L'Oréal USA Inc. acquired 100% of Beauty Alliance, in which it had taken a 30% minority interest in July, 2006. This company is fully consolidated from April 12th, 2007, having been accounted for under the equity method until this date. Assets and liabilities have been revalued at the date of control.
The net sales of Beauty Alliance amounted to $372 million in 2006. L'Oréal USA Inc. recorded sales of $124 million in 2006 with Beauty Alliance.

In the beginning of May, 2007, L'Oréal USA Inc. acquired 100% of PureOlogy Research LLC.
Based in California, the company is a luxury brand of high performance hair care products uniquely developed for hair colourists to use and recommend to their clients.
The net sales of PureOlogy of the last 12 months were $57 million. The company is consolidated from May 8th, 2007.

In mid-July, 2007, L'Oréal USA Inc. acquired 100% of Maly's West. Maly's West is the 3rd largest professional salon distributorship in the USA, with facilities in the western states, selling to 30,000 salons through 340 Distributor Sales Consultants and through more than 100 professional outlets.
Maly's West, which achieved sales of $187 million in 2006, is fully consolidated from August 1st, 2007.

The total cost of acquisitions amounts to approximately €618.5 million. The total amount of goodwill and other intangible assets resulting from these acquisitions is respectively €406.4 million and €236.4 million.

2.2. Year 2006

At the end of February 2006, EpiSkin, a subsidiary of L'Oréal, acquired SkinEthic, a company listed on the "Marché Libre" of Euronext Paris. SkinEthic produces and markets reconstructed epidermis, skin and epithelial tissues which can be used to carry out in vitro tests on the safety and effectiveness of many products (cosmetics, pharmaceuticals, chemicals, etc). In 2005 SkinEthic sales totalled €1.5 million.

On March 17th, 2006, L'Oréal announced a cash offer for The Body Shop International PLC.
Listed on the London Stock Exchange, The Body Shop is a successful cosmetics brand with strong growth potential. With 2,133 dedicated and franchise retail outlets in 54 countries, The Body Shop posted revenue of £486 million and retail sales of £772 million in the year ending February 25th, 2006. The Body Shop has acquired a strong reputation as a naturally-oriented brand with expertise in retail and deeply-rooted values.

On June 9th, 2006, L'Oréal declared the offer wholly unconditional and had acquired or received at that date valid acceptances in respect of 208,098,583 The Body Shop shares in aggregate (representing approximately 95.5% of the existing issued share capital of The Body Shop). L'Oréal decided to compulsorily acquire the remaining The Body Shop shares. As the operation is finalised at a date close to the half-year closing date, The Body Shop has been fully consolidated from June 30th, 2006 onwards and constitutes a separate branch (see note 3).

The main items of the acquisition balance sheet of The Body Shop are as follows:

€ millions	
Non-current assets (1)	814.4
Current assets	268.3
Non-current liabilities	–228.2
Current liabilities	–222.9
Total net equity acquired	**631.6**

(1) Out of which intangible assets (except goodwill) resulting from the acquisition for €645.5 million.

At the end of July 2006, L'Oréal USA Inc. has claimed a 30% stake in the distribution company Beauty Alliance International (BAI), which services 115,000 hair salons in the US. This investment is accounted for under the equity method from August 1st, 2006.

At the end of October 2006, L'Oréal acquired the French Laboratoire Sanoflore, a pioneer in the design, manufacture and marketing of certified organic cosmetics products.
Sanoflore manufactures and distributes through pharmacies and specialist shops its ranges of cosmetics and aromatherapy products. Sanoflore handles all the stages in the aromatic and medicinal plant chain, from cultivation with partner farmers to the finished product. The sales of Sanoflore amounted to about €15 million in 2006, including 20% outside France.

The total cost of theses new acquisitions amounts to €1,150.4 million. The total amount of goodwill and other intangible assets resulting from these acquisitions amounted to €482.7 million and €704.4 million respectively out of which €108.4 million booked under the caption "Investment in equity affiliates".

2.3. Year 2005

In May 2005, the L'Oréal group increased its stake in le Club des Créateurs de Beauté Japon to 50%. This company, previously consolidated by the equity method, has therefore been consolidated by the proportional method from July 1st, 2005 onwards.

In June 2005, the L'Oréal group finalised the acquisition of SkinCeuticals, an unlisted company which is one of the leading players in the US market for upmarket skincare products sold by professionals. The sales of SkinCeuticals amounted to $35 million in 2004.

At the end of August 2005, the L'Oréal group acquired the sun protection brand Delial, one of the leading brands in this business in Europe. The sales of Delial amounted to €20 million in 2004.

The total cost of these new acquisitions amounted to some €180 million. The total amount of goodwill and other intangible assets resulting from these acquisitions amounted to €128 million and €60 million respectively.

NOTE 3_SEGMENT INFORMATION

3.1. Segment information

The Cosmetics branch is organised into four sectors, each one 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 "Other Cosmetics" heading consists mainly of direct sales of cosmetics products.

The "non-allocated" item contains the expenses of 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), at home, and on-line sales.

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 established using the same accounting principles as those used for the preparation of the consolidated financial statements, and which are described in note 1.

The performance of each branch and division is measured by the *operating profit*.

€ millions 2007	Sales	Operating profit	Operational assets (1)	Operational liabilities (2)	Investments in tangible and intangible assets	Depreciation and provisions
Professional Products	2,391.9	501.7	2,439.5	558.4	64.2	80.8
Consumer Products	8,280.2	1,582.4	5,360.5	2,106.3	373.3	365.5
Luxury Products	3,927.9	843.8	2,694.6	1,098.1	175.7	145.9
Active Cosmetics	1,248.1	255.8	818.1	314.9	32.1	40.8
Other Cosmetics	60.3	–3.4	18.5	19.6	2.1	3.2
Cosmetics divisions total	**15,908.2**	**3,180.4**	**11,331.2**	**4,097.3**	**647.4**	**636.2**
Non-allocated		–478.9	363.5	504.6	51.8	67.0
Cosmetics branch	**15,908.2**	**2,701.5**	**11,694.7**	**4,601.9**	**699.2**	**703.2**
The Body Shop branch	**786.9**	**63.8**	**1,271.2**	**92.3**	**58.0**	**52.9**
Dermatology branch	**367.5**	**62.0**	**343.1**	**79.2**	**33.1**	**26.7**
Group	**17,062.6**	**2,827.2**	**13,309.0**	**4,773.4**	**790.3**	**782.8**

(1) Operational assets include goodwill, intangible and tangible assets, trade accounts receivable, inventories, samples, and point-of-sales advertising recorded in advance.
(2) Operational liabilities include provisions for liabilities and charges (excluding provisions for tax and restructuring), provisions for employee retirement obligation, trade accounts payable, social accounts payable and creditors.

€ millions 2006	Sales	Operating profit	Operational assets (1)	Operational liabilities (2)	Investments in tangible and intangible assets	Depreciation and provisions
Professional Products	2,125.9	443.0	1,756.1	544.0	68.3	62.3
Consumer Products	7,903.5	1,421.3	5,394.4	2,162.0	379.9	341.8
Luxury Products	3,773.1	775.9	2,559.5	1,075.3	151.1	126.1
Active Cosmetics	1,127.9	220.8	785.2	281.8	30.4	33.4
Other Cosmetics	81.1	–0.8	22.4	29.2	0.7	2.9
Cosmetics divisions total	**15,011.4**	**2,860.2**	**10,517.7**	**4,092.4**	**630.4**	**566.5**
Non-allocated		–437.0	333.1	506.6	59.7	46.6
Cosmetics branch	**15,011.4**	**2,423.2**	**10,850.8**	**4,599.0**	**690.0**	**613.0**
The Body Shop branch (3)	**435.0**	**58.3**	**1,371.0**	**65.2**	**47.3**	**28.5**
Dermatology branch	**343.7**	**59.4**	**342.5**	**74.5**	**19.7**	**24.5**
Group	**15,790.1**	**2,540.9**	**12,564.3**	**4,738.7**	**757.1**	**666.0**

€ millions 2005	Sales	Operating profit	Operational assets (1)	Operational liabilities (2)	Investments in tangible and intangible assets	Depreciation and provisions
Professional Products	2,060.9	405.8	1,802.5	554.7	64.1	63.2
Consumer Products	7,499.4	1,290.4	5,460.7	2,064.5	369.5	321.9
Luxury Products	3,582.4	723.5	2,570.0	1,053.7	143.5	131.8
Active Cosmetics	985.9	187.0	719.8	247.6	22.4	31.5
Other Cosmetics	86.2	1.9	27.0	34.2	1.6	4.0
Cosmetics divisions total	**14,214.7**	**2,608.6**	**10,580.0**	**3,954.8**	**601.2**	**552.3**
Non-allocated		–396.4	326.3	549.4	57.3	46.2
Cosmetics branch	**14,214.7**	**2,212.2**	**10,906.3**	**4,504.2**	**658.4**	**598.5**
Dermatology branch	**317.8**	**53.8**	**359.1**	**73.6**	**15.5**	**26.7**
Group	**14,532.5**	**2,266.0**	**11,265.5**	**4,577.8**	**673.9**	**625.3**

(1) Operational assets include goodwill, intangible and tangible assets, trade accounts receivable, inventories, samples, and point-of-sales advertising recorded in advance.
(2) Operational liabilities include provisions for liabilities and charges (excluding provisions for tax and restructuring), provisions for employee retirement obligation, trade accounts payable, social accounts payable and creditors.
(3) 2006 data for The Body Shop relate only to second half of the year 2006. Sales for full year 2006 would have amounted to €733.4 million.

Operational assets and operational liabilities can be reconciled to the 2007, 2006 and 2005 balance sheets as follows:

€ millions	2007	2006	2005		2007	2006	2005
Operational assets	**13,309.0**	**12,564.3**	**11,265.5**	**Operational liabilities**	**4,773.4**	**4,738.7**	**4,577.8**
Non-current financial assets	7,608.9	10,250.5	10,757.1	Shareholders' equity	13,621.8	14,624.2	14,657.2
				Non-current borrowings and loans	2,583.0	1,892.4	428.2
Deferred tax assets	416.1	429.8	424.8	Provision for liabilities and charges	148.6	138.9	113.1
				Current borrowings and loans	876.8	2,218.0	2,452.1
Other current assets	779.8	757.2	775.5	Deferred tax liabilities	491.6	512.6	914.7
Cash and cash equivalent	1,086.7	781.2	663.2	Other current liabilities	705.2	658.4	743.0
Non-allocated assets	**9,891.4**	**12,218.7**	**12,620.6**	**Non-allocated liabilities**	**18,427.0**	**20,044.3**	**19,308.4**
Total assets	**23,200.3**	**24,783.0**	**23,886.1**	**Total liabilities**	**23,200.3**	**24,783.0**	**23,886.1**

3.2. Information by geographic zone - Group

All information is presented on the basis of geographic location of the subsidiaries, except for the breakdown of sales by destination, which is based on the geographic location of the customer.

3.2.1. Consolidated sales by geographic zone

	2007		Growth (%)		2006		2005	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,851.8	46.0%	6.9%	7.0%	7,347.7	46.5%	6,822.4	46.9%
North America	4,426.0	25.9%	3.2%	11.8%	4,288.0	27.2%	4,051.9	27.9%
Rest of the World	4,784.7	28.0%	15.2%	19.6%	4,154.4	26.3%	3,658.2	25.2%
Group	**17,062.6**	**100.0%**	**8.1%**	**11.6%**	**15,790.1**	**100.0%**	**14,532.5**	**100.0%**

3.2.2. Consolidated sales by geographic zone by destination

The breakdown of sales for each geographic zone by destination for 2007, 2006 and 2005 is as follows:

- Western Europe: 44.6%, 44% and 45.8%,
- North America: 25.5%, 27.6 and 27.4%,
- Rest of the World: 29.9%, 28.4 and 26.8%.

3.2.3. Cosmetics sales by geographic zone

	2007		Growth (%)		2006		2005	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,250.4	45.6%	3.7%	3.8%	6,992.3	46.6%	6,742.1	47.4%
North America	4,003.5	25.2%	1.3%	9.7%	3,953.7	26.3%	3,868.2	27.2%
Rest of the World including :	4,654.3	29.3%	14.5%	18.9%	4,065.4	27.1%	3,604.4	25.4%
Asia	1,580.3	9.9%	7.0%	14.3%	1,476.3	9.8%	1,374.7	9.7%
Latin America	1,123.8	7.1%	10.1%	14.6%	1,020.7	6.8%	860.9	6.1%
Eastern Europe	1,142.4	7.2%	34.4%	34.4%	850.2	5.7%	681.5	4.8%
Other countries	807.8	5.1%	12.5%	15.4%	718.3	4.8%	687.4	4.8%
Cosmetics branch	**15,908.2**	**100.0%**	**6.0%**	**9.4%**	**15,011.4**	**100.0%**	**14,214.7**	**100.0%**

3.2.4. Breakdown of operating profit of cosmetics branch by geographic zone

€ millions	2007	2006	2005
Western Europe	1,633.1	1,527.3	1,415.1
North America	773.5	744.4	708.0
Rest of the World	773.9	588.5	485.5
Cosmetics division total	**3,180.4**	**2,860.2**	**2,608.6**
Non-allocated	–478.9	–437.0	–396.4
Cosmetics branch	**2,701.5**	**2,423.2**	**2,212.2**

3.2.5. Breakdown of operational assets and consolidated investments by geographic zone

€ millions	2007		2006		2005	
	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	7,003.1	342.0	6,989.0	315.7	5,512.6	269.2
North America	3,609.9	213.3	3,116.8	228.2	3,289.8	206.1
Rest of the World	2,332.5	183.2	2,125.3	169.1	2,136.7	141.4
Non-allocated	363.5	51.8	333.1	44.1	326.3	57.3
Group	**13,309.0**	**790.3**	**12,564.3**	**757.1**	**11,265.5**	**673.9**

NOTE 4_PERSONNEL COSTS AND NUMBER OF EMPLOYEES

4.1. Number of employees (1)

	12.31.2007	12.31.2006	12.31.2005
Western Europe	28,012	27,237	23,903
North America	15,107	14,576	9,622
Rest of the World	20,239	19,038	18,878
Total (2)	**63,358**	**60,851**	**52,403**

(1) Including companies consolidated by the proportional method.
(2) Out of which 8,937 for The Body Shop in 2006.

4.2. Personnel costs

€ millions	2007	2006	2005
Personnel costs (including welfare contributions)	**3,318.3**	**3,034.9**	**2,851.7**

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

4.3. Compensation of directors and management

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

€ millions	2007	2006	2005
Directors' fees	1.0	0.9	0.9
Salaries and benefits including employer welfare contributions	26.3	20.2	23.4
Employee retirement obligation charges	11.2	13.1	14.5
Stock option charges	29.0	19.7	9.1

The number of Management Committee members was 13 at December 31st, 2007. There were respectively 9 and 10 members at December 31st of the years 2006 and 2005.

NOTE 5_AMORTISATION EXPENSE

Amortisation of tangible and intangible assets included in operating expenses amount to €657.8, €589.5 and €541.6 million respectively for 2007, 2006 and 2005.

NOTE 6_FOREIGN EXCHANGE GAINS AND LOSSES

Foreign exchange gains and losses may be divided into the following:

€ millions	2007	2006	2005
Change in time value	–29.4	–38.3	–48.0
Other exchange gains and losses	39.8	–16.9	1.5
Total	**10.4**	**–55.2**	**–46.5**

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

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at closing date. Translation variations resulting from this impact the profit and loss account under the line *Foreign exchange gains and losses*. The line *Foreign exchange gains and losses* also includes the following items relating to financial instruments:

- the variation of the market value linked to changes in the time value (forward points and premiums paid for options),
- the variation of market value linked to variations in the spot rate between the inception of the hedge and the date on which the transactions hedged are completed,
- the remaining ineffectiveness linked to overhedges is recognised directly to the profit and loss account under "other exchange gains and losses" for respectively €0.6 and €0.9 million for 2007 and 2006.

NOTE 7_OTHER INCOME AND EXPENSES

This item may be divided into the following:

€ millions	2007	2006	2005
Capital gains or losses on disposals of tangible and intangible assets	11.8	8.5	11.5
Sanofi-Aventis sale capital gain (note 15)	642.8		
Impairment of tangible and intangible assets (1)	–1.4	–69.4	–
Restructuring costs (2)	–31.6	0.1	–2.2
Total	**621.6**	**–60.8**	**9.3**

(1) These impairment charges relate in 2006 to SoftSheen.Carson goodwill for €53.7 million and to the Yue-Sai brand for €15.7 million.
(2) Of which €10.8 million concerns the discontinuation of the distribution of Biotherm in the United States which henceforth will exclusively focus on the online product advertising and retail, €14 million concerns the restructuring of an important supplier of The Body Shop and €6.8 million concerns the restructuring of the supply chain in Spain.

NOTE 8_FINANCE COSTS

This item may be divided into the following:

€ millions	2007	2006	2005
Financial interests related to the gross debt	–207.5	–140.6	–84.3
Financial interests related to cash and cash equivalents	33.0	24.7	20.5
Finance costs	**–174.5**	**–115.9**	**–63.8**

NOTE 9_INCOME TAX

9.1. Detailed breakdown of income tax

€ millions	2007	2006	2005
Current tax	834.5	788.0	696.0
Deferred tax	25.2	–273.3	– 290.1
Income tax	**859.7**	**514.7**	**405.9**

9.2. Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2007	2006	2005
Pre-tax income of consolidated companies	**3,517.2**	**2,576.8**	**2,379.1**
Theoretical tax rate	31.95%	31.74%	32.29%
Expected tax charge	**1,123.6**	**817.9**	**768.2**
Impact of permanent differences	45.0	59.7	37.0
Impact of tax rate differences (1)	–291.5	–361.6	–398.3
Change in non-recorded deferred taxes	–2.0	–9.8	12.6
Other (2)	–15.4	8.5	–13.6
Group tax charge	**859.7**	**514.7**	**405.9**

(1) Includes the impact of the decrease in long term tax rates on disposal of investments from 15% to 8% and 1.66% applicable to the Sanofi-Aventis stake, as well as for 2007 the effect of the tax rate difference on the sale of Sanofi-Aventis shares realised on November 14th, 2007.
(2) Including tax credits, tax reassessments and provisions for tax liabilities.

The expected tax charge is the total for each country of the pre-tax income multiplied by the normal taxation rate. The theoretical tax rate is the total expected tax charge as a percentage of the pre-tax income of consolidated companies.

9.3. Deferred taxes in the balance sheet

The variation in deferred taxes (assets and liabilities) may be analysed as follows:

€ millions	
Balance of deferred tax assets at December 31st, 2004	**427.9**
Balance of deferred tax liabilities at December 31st, 2004	**–1,322.2**
Profit and loss effect	290.1
Translation differences	–0.8
Other effects	115.1
Balance of deferred tax asset at December 31st, 2005	**424.8**
Balance of deferred tax liabilities at December 31st, 2005	**–914.7**
Profit and loss effect	273.3
Translation differences	–1.5
Other effects	135.4
Balance of deferred tax asset at December 31st, 2006	**429.8**
Balance of deferred tax liabilities at December 31st, 2006	**–512.5**
Profit and loss effect	–25.2
Translation differences	21.4
Other effects	10.9
Balance of deferred tax asset at December 31st, 2007	**416.0**
Balance of deferred tax liabilities at December 31st, 2007	**–491.6**

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

€ millions	12.31.2007		12.31.2006		12.31.2005	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	408.3	370.7	421.2	349.1	416.9	82.7
Deferred tax liability on Sanofi-Aventis restatement		120.9	–	163.4		832.0
Tax credits and tax loss carry-forwards	7.7		8.6	–	7.9	
Deferred tax total	**416.0**	**491.6**	**429.8**	**512.5**	**424.8**	**914.7**

Deferred tax assets relative to temporary differences mainly concerns provisions for pensions and early retirement (€216.3 million, €244.8 million and €298.7 million at the end of 2007, 2006 and 2005 respectively), and provisions for liabilities and charges (€112.4 million, €109.8 million and €102.7 million at the end of 2007, 2006 and 2005 respectively).

Deferred tax liabilities relative to temporary differences mainly concern intangible assets acquired in the case of business combinations except non tax deductible goodwill.

The decrease in deferred tax liabilities in 2006 related to the revaluation of the investment in Sanofi-Aventis results from the decrease of the tax rate applicable for long-term capital gains on investments to 8% for 2006 and 1.66% thereafter: In this regard, standard IAS 12 governing income tax stipulates that the tax rate to be retained when determining the deferred tax liability to be booked on unrealised tax capital gains at each close of accounts should be the rate applicable under current tax regulations as on the date on which such capital gains are expected to be realised. The amended French finance law (*Loi de finances*) of 2004 reduced the tax rate (excluding additional taxes) applicable for long-term capital gains on investments to 8% for 2006 and 1.66% thereafter. Since it was not possible to determine the likely date for the disposal of all or part of its stake in Sanofi-Aventis, L'Oréal retained the highest long-term capital gains tax rate in force at the end of 2005 for the coming financial year, i.e. 8%.

The retention of L'Oréal's stake in Sanofi-Aventis at December 31st, 2005 led to a €325.8 million and a €83.8 million write-back respectively through income and equity in connection with the deferred tax liability in 2005.

The retention of L'Oréal's stake in Sanofi-Aventis at December 31st, 2006 led to a €285.6 million and a €383 million write-back respectively through income and equity in connection with the deferred tax liability in 2006.

The decrease in deferred tax liabilities at December 31st, 2007 is due to the disposal of a stake of 1.8% in November, 2007 (see note 15).

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €74.3 million at December 31st, 2007 compared with €75.1 at December 31st, 2006 and with €81.3 million at December 31st, 2005.

NOTE 10_NET PROFIT EXCLUDING NON-RECURRENT ITEMS AFTER MINORITY INTERESTS – NET EARNINGS PER SHARE

10.1. Reconciliation with net profit

The net profit excluding non-recurrent items after minority interests is reconciled as follows with the net profit after minority interests:

€ millions	2007	2006	2005
Net profit after minority interests	**2,656.0**	**2,061.0**	**1,972.3**
Capital gains and losses on tangible and intangible asset disposals	–11.8	–8.5	–11.5
Sanofi-Aventis sale capital gain	–642.8		
Tangible and intangible assets depreciation	1.4	69.4	–
Restructuring cost	31.6	–0.1	2.2
Effect of change in tax rate on Sanofi-Aventis deferred tax liability	–	–285.6	–325.8
Tax effect on Sanofi-Aventis sale capital gain	11.0		
Tax effect on non-recurrent items	–6.8	–2.8	1.3
Minority interests	–	–	–
Net profit excluding non-recurrent items after minority interests	**2,038.6**	**1,833.4**	**1,638.5**

10.2. Net profit per share

The tables below set out the net earnings after minority interests per share:

2007	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit per share	2,656.0	600,492,348	4.42
Stock options plan	–	5,520,123	
Diluted net profit per share	**2,656.0**	**606,012,471**	**4.38**

2006	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit per share	2,061.0	613,281,887	3.36
Stock options plan		2,441,333	
Diluted net profit per share	**2,061.0**	**615,723,220**	**3.35**

2005	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit per share	1,972.3	629,508,822	3.13
Stock options plan		1,383,648	
Diluted net profit per share	**1,972.3**	**630,892,470**	**3.13**

10.3. Net profit excluding non-recurrent items per share

The tables below set out in detail the net earnings excluding non-recurrent items after minority interests per share:

2007	Net profit excluding non-recurrent items after minority interests (€ millions)	Number of shares	Net profit excluding non-recurrent items after minority interests per share (€)
Net profit excluding non-recurrent items per share	2,038.6	600,492,348	3.39
Stock options plan	–	5,520,123	
Diluted net profit excluding non-recurrent items per share	**2,038.6**	**606,012,471**	**3.36**

2006	Net profit excluding non-recurrent items after minority interests (€ millions)	Number of shares	Net profit excluding non-recurrent items after minority interests per share (€)
Net profit excluding non-recurrent items per share	1,833.4	613,281,887	2.99
Stock options plan		2,441,333	
Diluted net profit excluding non-recurrent items per share	**1,833.4**	**615,723,220**	**2.98**

2005	Net profit excluding non-recurrent items after minority interests (€ millions)	Number of shares	Net profit excluding non-recurrent items after minority interests per share (€)
Net profit excluding non-recurrent items per share	1,638.5	629,508,822	2.60
Stock options plan		1,383,648	
Diluted net profit excluding non-recurrent items per share	**1,638.5**	**630,892,470**	**2.60**

NOTE 11_GOODWILL

Goodwill is allocated to each Cash Generating Unit or by groups of Cash Generating Units. A Cash Generating Unit consists of one or more worldwide trademarks. The methodology of impairment tests is described in note 1.

€ millions **2007**	12.31.2006	Acquisitions Disposals	Other movements	12.31.2007
L'Oréal Professionnel/Kérastase	304.3	29.3	–6.8	326.9
Matrix	180.6	80.8	1.7	263.1
Redken/PureOlogy	101.4	290.6	6.3	398.3
Professional Products Total	**586.3**	**400.7**	**1.1**	**988.2**
L'Oréal Paris	741.1		–2.6	738.5
Maybelline/Garnier	1,016.4	1.0	–57.7	959.8
SoftSheen.Carson	76.5		–8.1	68.4
Consumer Products Total	**1,834.0**	**1.0**	**–68.5**	**1,766.6**
Lancôme	562.4		–2.8	559.6
Shu Uemura	109.4		–7.2	102.2
Other	193.0		–2.2	190.8
Luxury Products Total	**864.8**		**–12.1**	**852.6**
Vichy/Dermablend	203.2		23.3	226.5
Other	172.5		–32.9	139.6
Active Cosmetics Total	**375.7**		**–9.6**	**366.1**
Other cosmetics	7.3			7.3
The Body Shop	**385.8**	**8.2**	**–30.4**	**363.6**
Group Total	**4,053.9**	**409.9**	**–119.4**	**4,344.4**

2007 acquisitions relate to Maly's West, Beauty Alliance and PureOlogy for €402.6 million. No disposal took place during 2007. The other movements consist mainly of negative changes in exchange rates for €184.5 million, partly set off by €63.8 million due to the reclassification of the goodwill arisen from the acquisition of the 30% stake in Beauty Alliance recorded in *Investments in equity affiliates at the end of 2006*. The accumulated impairment losses for SoftSheen.Carson amount to €66.0 million at December 31st, 2007.

€ millions **2006**	12.31.2005	Acquisitions Disposals	Other movements	12.31.2006
L'Oréal Professionnel/Kérastase	316.6		–12.3	304.3
Matrix	195.7		–15.0	180.6
Redken	101.4		0.0	101.4
Professional Products Total	**613.7**		**–27.4**	**586.3**
L'Oréal Paris	749.0		–7.9	741.1
Maybelline/Garnier	1,093.4		–77.0	1,016.4
SoftSheen.Carson	144.3		–67.8	76.5
Consumer Products Total	**1,986.6**		**–152.6**	**1,834.0**
Lancôme	567.3		–4.9	562.4
Shu Uemura	124.0		–14.6	109.4
Other	195.7		–2.7	193.0
Luxury Products Total	**887.0**		**–22.2**	**864.8**
Vichy/Dermablend	204.8		–1.6	203.2
Other	142.9	38.7	–9.1	172.5
Active Cosmetics Total	**347.7**	**38.7**	**–10.7**	**375.7**
Other cosmetics	2.1	5.3	–0.1	7.3
The Body Shop		**379.0**	**6.9**	**385.8**
Group Total	**3,837.1**	**423.0**	**–206.2**	**4,053.9**

2006 acquisitions relate to The Body Shop, SkinEthic and the Laboratoire Sanoflore. No disposal took place during 2006. The other movements consist mainly of changes in exchange rates during the period, as well as an impairment loss of €53.7 million relating to SoftSheen.Carson. This impairment loss is generated by an increase in the interest rates for €29.1 million. The accumulated impairment losses for SoftSheen.Carson amount to €72.9 million at December 31st, 2006.

€ millions **2005**	12.31.2004	Acquisitions Disposals	Other movements	12.31.2005
L'Oréal Professionnel/Kérastase	300.2		16.5	316.6
Matrix	175.8		19.9	195.7
Redken	107.2		-5.8	101.4
Professional Products Total	**583.2**		**30.5**	**613.7**
L'Oréal Paris	735.3	0.1	13.5	749.0
Maybelline/Garnier	952.6	29.5	111.3	1,093.4
SoftSheen.Carson	127.9		16.3	144.3
Consumer Products Total	**1,815.8**	**29.7**	**141.1**	**1,986.6**
Lancôme	559.0	0.1	8.2	567.3
Shu Uemura	120.3		3.8	124.0
Other	190.8		4.9	195.7
Luxury Products Total	**870.0**	**0.1**	**16.9**	**887.0**
Vichy/Dermablend	201.9		2.9	204.8
Other	42.3	97.4	3.3	142.9
Active Cosmetics Total	**244.2**	**97.4**	**6.2**	**347.7**
Other cosmetics	0.6	1.5		2.1
Group Total	**3,513.8**	**128.7**	**194.7**	**3,837.1**

The acquisitions in 2005 relate to SkinCeuticals, Delial and le Club des Créateurs de Beauté Japan. No disposal took place in 2005. The other movements consisted mainly of changes in exchange rates during the period.

NOTE 12_OTHER INTANGIBLE ASSETS

€ millions 2007	12.31.2006	Acquisitions Amortisation	Disposals Takeovers	Changes in the scope of consolidation (1)	Other movements	12.31.2007
Brands with an indefinite life span (2)	1,268.8			60.6	–100.8	1,228.6
Depreciable brands and product ranges	49.6	1.5	–0.1	1.9	–0.8	52.1
Licences and patents	458.1	35.6	–5.0	1.1	–11.1	478.7
Other	381.0	57.2	–8.5	172.8	24.7	627.1
Gross value	**2,157.5**	**94.3**	**–13.6**	**236.4**	**–88.0**	**2,386.6**
Brands with an indefinite life span	15.3				–0.7	14.6
Depreciable brands and product ranges	18.8	6.0	–0.1		–1.9	22.8
Licences and patents	143.6	20.1	–3.0		–3.8	156.9
Other	187.1	57.5	–8.5		–3.0	233.2
Amortisation and provisions	**364.8**	**83.5**	**–11.5**		**–9.4**	**427.4**
Other intangible assets – net	**1,792.8**	**10.8**	**–2.1**	**236.4**	**–78.7**	**1,959.2**

(1) This item consists mainly of changes in the scope of consolidation (Maly's West, Beauty Alliance and PureOlogy).
(2) At December 31st, 2007, the brands with an indefinite life span were mainly the brands The Body Shop (€565.8 million), Matrix (€255.3 million), Kiehl's (€115.3 million) and Shu Uemura €90.5 million).

The other movements consisted of variations in exchange rates over the period.

€ millions 2006	12.31.2005	Acquisitions Amortisation	Disposals Takeovers	Changes in the scope of consolidation (1)	Other movements	12.31.2006
Brands with an indefinite life span (2)	707.4	0.1		605.4	–44.1	1,268.8
Depreciable brands and product ranges	42.4	0.6		8.7	–2.2	49.6
Licences and patents	462.6	5.8	–1.9	3.1	–11.4	458.1
Other	276.6	49.6	–15.0	63.9	5.8	381.0
Gross value	**1,489.0**	**56.2**	**–17.0**	**681.2**	**–51.9**	**2,157.5**
Brands with an indefinite life span		15.7			–0.4	15.3
Depreciable brands and product ranges (3)	16.5	3.5			–1.1	18.8
Licences and patents	131.0	18.6	–1.9		–4.1	143.6
Other	140.6	42.6	–14.9	13.4	5.4	187.1
Amortisation and provisions	**288.0**	**80.4**	**–16.8**	**13.4**	**–0.3**	**364.8**
Other intangible assets – net	**1,201.0**	**–24.3**	**–0.2**	**667.8**	**–51.6**	**1,792.8**

(1) This item consists mainly of changes in the scope of consolidation (The Body Shop, SkinEthic and Sanoflore).
(2) At December 31st, 2006, the brands with an indefinite life span were mainly the brands The Body Shop (€616.9 million), Matrix (€277.8 million), Kiehl's (€124.2 million) and Shu Uemura (€93.5 million).
(3) An impairment loss of €15.7 million has been recognised for the Yue-Sai brand during 2006.

The other movements consisted of variations in exchange rates over the period.

€ millions 2005	12.31.2004	Acquisitions Amortisation	Disposals Takeovers	Changes in the scope of consolidation (1)	Other movements	12.31.2005
Brands with an indefinite life span (2)	618.5	0.1		28.8	60.0	707.4
Depreciable brands and product ranges	28.5	0.2		5.9	7.9	42.4
Licences and patents	453.6	5.9	–1.7	1.5	3.3	462.6
Other	184.0	67.4	–8.3	24.3	9.2	276.6
Gross value	**1,284.6**	**73.5**	**–9.9**	**60.4**	**80.4**	**1,489.0**
Brands with an indefinite life span	–	–	–		–	
Depreciable brands and product ranges (3)	1.8	13.0		–	1.7	16.5
Licences and patents	107.4	22.2	–1.6	–	3.0	131.0
Other	110.5	35.8	–7.8	0.2	1.9	140.6
Amortisation and provisions	**219.7**	**70.9**	**–9.4**	**0.2**	**6.6**	**288.0**
Other intangible assets – net	**1,064.9**	**2.6**	**–0.5**	**60.2**	**73.8**	**1,201.0**

(1) This item consists mainly of changes in the scope of consolidation (SkinCeuticals and Delial).
(2) At December 31st, 2005, the brands with an indefinite life span were mainly the brands Matrix (€302.2 million), Kiehl's (€134.0 million) and Shu Uemura (€101.8 million).
(3) An exceptional amortisation of €9.2 million has been recorded for the Mininurse brand during 2005.

The other movements consisted of variations in exchange rates over the period.

NOTE 13_IMPAIRMENT TESTING OF INTANGIBLE ASSETS

Impairment tests on Cash Generating Units for which the carrying amount of goodwill and intangible assets with indefinite useful lives is significant, are realised based on the following data and assumptions:

€ millions	Goodwill and brands with indefinite useful lives net book value	Discount rate in % International without USA	Discount rate in % USA
2007 Test			
Lancôme	559.6	8.6	9.1
L'Oréal Paris	738.5	8.6	9.1
Maybelline/Garnier	959.8	8.6	9.1
The Body Shop	929.4	9.4	9.4
2006 Test			
Lancôme	562.4	8.0	9.1
L'Oréal Paris	741.1	8.0	9.1
Maybelline/Garnier	1,016.4	8.0	9.1
2005 Test			
Lancôme	567.3	7.2	8.5
L'Oréal Paris	749.0	7.2	8.5
Maybelline/Garnier	1,093.4	7.2	8.5

1 point increase in the discount rate for these Cash Generating Units would not generate any impairment loss.

Growth rate in perpetuity is in accordance with market data i.e. 3%.

1 point decrease in the growth rate in perpetuity would not generate any impairment loss.

NOTE 14_TANGIBLE ASSETS

€ millions 2007	12.31.2006	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements (1)	12.31.2007
Land and buildings	1,533.4	36.8	−47.3	−31.4	45.4	1,536.9
Machinery and equipment	2,176.1	140.3	−69.6	−65.4	78.7	2,260.1
POS, stands and displays	839.1	239.9	−159.9	−41.9	6.2	883.5
Other tangible assets and work-in-progress	1,106.7	280.7	−52.1	−54.3	−116.0	1,165.0
Gross value	**5,655.3**	**697.7**	**−328.9**	**−193.0**	**14.3**	**5,845.5**
Land and buildings	733.8	70.4	−37.0	−15.6	12.5	764.1
Machinery and equipment	1,271.5	209.0	−67.4	−37.5	−8.7	1,366.9
POS, stands and displays	492.7	201.1	−159.7	−22.2	−1.2	510.7
Other tangible assets and work-in-progress	528.9	95.1	−49.5	−24.5	2.6	552.6
Depreciation and provisions	**3,026.9**	**575.6**	**−313.6**	**−99.8**	**5.2**	**3,194.3**
Tangible assets - net	**2,628.4**	**122.1**	**−15.3**	**−93.2**	**9.1**	**2,651.2**

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

€ millions 2006	12.31.2005	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements (1)	12.31.2006
Land and buildings	1,379.0	41.1	–34.9	–37.0	185.2	1,533.4
Machinery and equipment	2,140.5	177.4	–98.6	–86.3	43.1	2,176.1
POS, stands and displays	722.9	199.3	–140.6	–39.4	96.9	839.1
Other tangible assets and work-in-progress	1,056.4	269.5	–63.9	–59.9	–95.4	1,106.7
Gross value	**5,298.8**	**687.3**	**–338.0**	**–222.6**	**229.8**	**5,655.3**
Land and buildings	643.8	61.6	–23.2	–13.3	64.9	733.8
Machinery and equipment	1,231.1	197.4	–102.3	–47.6	–7.1	1,271.5
POS, stands and displays	446.8	178.7	–138.8	–21.9	27.9	492.7
Other tangible assets and work-in-progress	511.1	87.1	–61.8	–25.4	17.9	528.9
Depreciation and provisions	**2,832.8**	**524.8**	**–326.1**	**–108.2**	**103.6**	**3,026.9**
Tangible assets - net	**2,466.0**	**162.5**	**–11.9**	**–114.4**	**126.2**	**2,628.4**

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

€ millions 2005	12.31.2004	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements (1)	12.31.2005
Land and buildings	1,296.2	23.5	–17.4	55.2	21.5	1,379.0
Machinery and equipment	1,880.9	155.3	–89.7	115.6	78.4	2,140.5
POS, stands and displays	635.6	168.0	–147.2	57.4	9.1	722.9
Other tangible assets and work-in-progress	921.9	253.6	–67.4	78.2	–129.9	1,056.4
Gross value	**4,734.6**	**600.4**	**–321.7**	**306.4**	**–20.9**	**5,298.8**
Land and buildings	581.6	62.6	–14.3	16.8	–2.9	643.8
Machinery and equipment	1,110.8	167.9	–88.2	62.7	–22.1	1,231.1
POS, stands and displays	401.6	161.3	–146.9	34.9	–4.1	446.8
Other tangible assets and work-in-progress	455.5	78.9	–65.0	35.3	6.4	511.1
Depreciation and provisions	**2,549.6**	**470.7**	**–314.4**	**149.7**	**–22.7**	**2,832.9**
Tangible assets - net	**2,185.0**	**129.7**	**–7.3**	**156.7**	**1.8**	**2,466.0**

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

Tangible assets include capital lease contracts for the following amounts:

€ millions	12.31.2007	12.31.2006	12.31.2005
Land and buildings	109.2	100.9	167.5
Machinery and equipment	2.8	8.6	6.2
Other tangible assets and work-in-progress	22.2	20.3	21.6
Gross value	**134.2**	**129.8**	**195.3**
Depreciation	54.8	43.1	98.0
Net value	**79.4**	**86.7**	**97.3**

NOTE 15_**NON-CURRENT FINANCIAL ASSETS**

€ millions	12.31.2007		12.31.2006		12.31.2005	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Financial assets available for sale • Sanofi-Aventis (1)	7,446.0	4,033.5	10,005.8	4,880.1	10,585.0	4,880.1
• Unlisted securities (2)	4.5	5.7	4.2	6.4	4.4	6.5
Financial assets at amortised cost Non-current loans and receivables	158.4	168.8	158.5	167.5	167.6	176.4
Total	**7,608.9**	**4,208.0**	**10,168.5**	**5,054.0**	**10,757.0**	**5,063.0**

(1) On November 14th, 2007, L'Oréal sold a stake of 1.8% in Sanofi-Aventis capital. This sale was made at the price of €60.5 per share and generated a capital gain net of tax of €632 million (see notes 7 and 10). Upon closing of the transaction, L'Oréal's stake in Sanofi-Aventis was reduced to 8.7%. The balance sheet value at December 31st, 2005, December 31st, 2006 and December 31st, 2007 of €10,585 million, €10,005.8 million and €7,446.0 million respectively, corresponds to the market value of the shares based on the closing price on December 31st, 2005, 2006 and 2007 respectively of €74.00, €69.95 and €62.98.
(2) As their fair value cannot be reliably determined, they are stated at possibly impaired purchase cost.

NOTE 16_**INVENTORIES**

€ millions	12.31.2007	12.31.2006	12.31.2005
Finished products and consumables	1,369.7	1,257.0	1,147.3
Raw materials, packaging end semi-finished products	323.3	307.7	289.9
Gross value	**1,693.0**	**1,564.7**	**1,437.2**
Valuation allowance	145.4	160.3	175.4
Inventories – net	**1,547.6**	**1,404.4**	**1,261.8**

NOTE 17_**TRADE ACCOUNTS RECEIVABLE**

€ millions	12.31.2007	12.31.2006	12.31.2005
Gross value	2,658.3	2,599.0	2,422.8
Valuation allowance	40.8	40.5	43.2
Net value	**2,617.5**	**2,558.5**	**2,379.7**

Trade accounts receivable are due within one year. The group policy is to recommend a customer insurance coverage as far as the local conditions allow it. As a result, the accounts receivable non-collection risk is minimised all the more, that shows the accounts receivable allowance level lower than 2%.

NOTE 18_OTHER CURRENT ASSETS

€ millions	12.31.2007	12.31.2006	12.31.2005
Fiscal and social accounts receivable (excluding income tax)	223.5	221.4	198.4
Prepaid expenses	148.5	167.0	163.7
Point of sales advertising	148.1	125.8	119.8
Derivatives	177.2	109.1	73.3
Other current assets	229.1	228.5	273.8
Total	**926.4**	**851.8**	**829.0**

NOTE 19_CASH AND CASH EQUIVALENTS

€ millions	12.31.2007		12.31.2006		12.31.2005	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Marketable securities	135.5	130.0	132.3	123.5	142.7	136.6
Bank accounts and other cash and cash equivalents	951.2	951.2	648.9	648.9	520.5	520.5
Total	**1,086.7**	**1,081.2**	**781.2**	**772.4**	**663.2**	**657.1**

The 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. They are considered as *Financial assets available for sale*.

Unrealised gains recorded over the period amount to €5.5 million compared with €8.8 million and €6.1 in 2006 and in 2005 and are recorded directly in shareholders' equity.

NOTE 20_SHAREHOLDERS' EQUITY

20.1. Share capital and additional paid-in capital

The share capital consists of 617,975,610 shares with a par value of €0.20 at December 31st, 2007 following the decision made by the Board of Directors on February 14th and August 30th, 2007 to cancel respectively 13,490,750 and 8,225,100 shares and the exercise of share subscription options for 75,050 shares.

The share capital consisted of 639,616,410 shares with a par value of €0.20 at December 31st, 2006 following the decision made by the Board of Directors on April 25th, 2006 to cancel 19,229,250 shares and the exercise of share subscription options for 76,000 shares.

The share capital consisted of 658,769,660 shares with a par value of €0.20 at December 31st, 2005 following the decision made by the Board of Directors on April 26th, 2005 to cancel 17,300,000 shares and the exercise of share subscription options for 7,500 shares.

20.2. Treasury stock

A L'Oréal share buyback programme was authorised by the Annual General Meetings of May 29th, 2002, May 22nd, 2003, April 29th, 2004, April 26th, 2005, April 25th, 2006 and April 24th, 2007. These shares are deducted from consolidated shareholders' equity. Capital gains or losses relating to these shares net of tax are also recorded in shareholders' equity.

In 2005, L'Oréal purchased 20,000,000 shares for €1,224.6 million. In view of the 17,300,000 shares cancelled in April 2005, 15,040,000 shares were held at December 31st, 2005 for €932.0 million, of which 1,800,000 shares are allocated to the share option plan of November 30th, 2005.

In 2006, L'Oréal purchased 16,813,000 shares for €1,241.8 million. In view of the 17,660,000 shares cancelled in April 2006 and 6,000 options exercised, 14,187,000 shares are held at December 31st, 2006 for €1,033.8 million, of which 1,794,000 shares are allocated to the share option plan of November 30th, 2005.

In 2007, L'Oréal purchased 15,373,100 shares for €1,337.5 million. In view of the 13,490,750 and 8,225,100 shares respectively cancelled in February and August 2007 and 4,886,613 options exercised, 8,067,350 shares are held at December 31st, 2007 for €679.6 million, of which 1,786,350 shares are allocated to the share option plan of November 30th, 2005.

Furthermore, the L'Oréal shares acquired as part of employee share purchase option plans, which are now deducted from consolidated shareholders' equity, amounted to 23,756,050 shares at December 31st, 2005 for an acquisition price of €1,706.2 million.

At December 31st, 2006 these shares amounted to 19,707,300 for an acquisition price of €1,462.5 million. At December 31st, 2007 these shares amounted to 14,597,587 for an acquisition price of €1,107.6 million.

In 2005, no shares were bought or sold for this purpose, and options relating to 1,691,750 shares were exercised.

In 2006, no shares were bought or sold for this purpose, and options relating to 2,479,500 shares were exercised and 1,569,250 shares were cancelled.

In 2007, no shares were bought or sold for this purpose, and options relating to 4,878,963 shares were exercised and 230,750 shares were cancelled.

20.3. Share subscription or share purchase options

The table below sets out the data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2007.

Allocation date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			From	To	
12.03.2003	2,500,000	2,447,500	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	2,388,750	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	1,974,000	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	3,955,000	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	4,170,950	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,786,350	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	5,494,000	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	4,000,000	12.01.2012	11.30.2017	91.66

All plans have a 5 years exercise period and no performance conditions.

The fair value of options is determined using the Black & Scholes method base d on the following hypotheses:

	Purchase options		Subscription options							
	December 2003	November 2005	December 2003	March 2004	December 2004	June 2005	November 2005	April 2006	December 2006	November 2007
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%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years	6 years	7 years	7 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17%	21%	20.50%	22.52%	23%
Expected dividends	1%	1.35%	1%	1.20%	1.34%	1.38%	1.35%	1.35%	1.35%	1.24%
Share price	63.45	61.3	63.45	60.6	54.6	59.4	61.3	74.10	74.60	94.93
Exercise price	71.90	62.94	63.02	64.69	55.54	60.17	61.37	72.60	78.06	91.66
Fair value	15.24	12.3	15.66	14.67	10.15	9.45	12.88	17.48	17.19	25.88

Expected volatility is equal to the implicit volatility of the options listed on the Monep at the grant dates. As from 2007, in order to mitigate the effects of the atypical phenomena, the retained volatility corresponds to the average between the implied volatility at the grant date and the historic volatility over the expected life span of the option. The expected life span has been adjusted in order to match as closely as possible the behavioural hypotheses of the beneficiaries.

Data concerning all share option plans during fiscal years 2005, 2006 and 2007 are set out below:

	12.31.2007		12.31.2006		12.31.2005	
	Number of options	Weighted average price for year	Number of options	Weighted average price for year	Number of options	Weighted average price for year
Number of options not exercised at beginning of period	42,017,800	69.86	38,648,550	67.47	33,947,800	66.70
• Options granted	4,000,000	91.66	7,500,000	76.60	6,400,000	61.74
• Options exercised	–4,961,663	68.47	–2,561,500	49.44	–1,699,250	30.59
• Options expired	–230,750		–1,569,250		–	
Number of options not exercised at end of period	40,825,387	71.96	42,017,800	69.86	38,648,550	67.47
Of which: number of exercisable options at end of period	12,208,837	77.30	12,581,550	72.74	11,043,800	65.06
expired options at end of period	1,999,750		1,669,750		2,667,500	

The average weighted price of the share amounted to €86.20, €73.84 and €60.91 respectively for 2007, 2006 and 2005.

The total charge recorded in 2007, 2006 and 2005 amounted to €69.1, €49.4 and €29.9 million respectively.

20.4. Items directly recognised in equity

The following tables indicate movements on the various types of item:

€ millions	12.31.2007	12.31.2006	12.31.2005
Financial assets available for sale			
Reserve at opening date	5,134.4	5,711.0	3,540.2
Changes in fair value over period	–1,053.5	–571.1	2,176.8
Loss of value recorded in profit and loss account	–	–	–
Changes in fair value recorded in profit and loss account on disposal	–663.0	–5.5	–6.0
Reserve at closing date	**3,417.9**	**5,134.4**	**5,711.0**

€ millions	12.31.2007	12.31.2006	12.31.2005
Cash flows hedge - exchange			
Reserve at opening date	33.3	–47.6	68.8
Changes in fair value over period	100.8	93.2	–105.9
Changes in fair value recorded in profit and loss account	–61.4	–12.3	–10.5
Reserve at closing date	**72.7**	**33.3**	**–47.6**

A 10% increase (decrease) of the Euro against main group currencies (USD, RUB, CHF, CAD, CNY, AUD, GBP, MXN) would have had an effect of +€176.1 million (–€45.9 million) on the reserve of foreign exchange cash flows hedge and the market value of hedging instruments at December 31st, 2007 against respectively +€143.0 million (–€64 million) at December 31st, 2006.

A 10% increase (decrease) of the USD against main group currencies (CHF, GBP) would have had an effect of –€5.5 million (+€28.2 million) on the reserve of foreign exchange cash flows hedge and the market value of hedging instruments at December 31st, 2007 against respectively –€9.7 million (+€19.3 million) at December 31st, 2006.

€ millions	12.31.2007	12.31.2006	12.31.2005
Cash flows hedge - interest rates			
Reserve at opening date	0.4	–	–2.2
Changes in fair value over period	0.5	2.0	+2.8
Changes in fair value recorded in profit and loss account	–1.2	–1.6	–0.6
Reserve at closing date	**–0.3**	**0.4**	**–**

€ millions	12.31.2007	12.31.2006	12.31.2005
Total items directly recognised in equity			
Gross reserve	3,490.3	5,168.1	5,663.4
Associated tax effect	–81.4	–101.2	–466.2
Reserve net of tax	**3,408.9**	**5,066.9**	**5,197.2**

NOTE 21_POST-EMPLOYMENT BENEFITS, TERMINATION BENEFITS AND OTHER LONG-TERM EMPLOYEE BENEFITS

The group adheres to pension, early retirement and other benefits schemes depending on local legislation and regulations.

For basic schemes and other defined-contribution schemes, the group charges to profit and loss account the contributions to be paid when they are due and no provision has been set aside, with the group's commitment not exceeding the amount of contributions paid. For defined benefit schemes, the characteristics of the schemes in force inside the group are as follows:

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

These obligations, except for those relating to healthcare costs for retired employees, are partially funded.

- For foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefits, the excess of obligations 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 1.24.

The actuarial assumptions used to calculate these obligations take into account the economic conditions in each country or in each group company. The average weighted assumptions for the group are as follows:

	12.31.2007	12.31.2006	12.31.2005
Discount rate	5.3%	4.7%	4.5%
Salary increase	4.8%	4.8%	4.5%
Long-term return on assets	6.0%	5.6%	5.4%

	12.31.2007			12.31.2006			12.31.2005		
	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	6.1%	5.0%	2013	6.7%	4.6%	2011	7.4%	4.7%	2011

The discount rates are obtained by reference to market yields on high quality bonds having maturity dates equivalent to those of the plans.

The returns on plan assets are determined upon the asset allocation of the investment portfolio taking into account for each class of assets returns in accordance with the risk and past performance.

The variations during 2007, 2006 and 2005 are set out below:

€ millions	Projected pension obligations	Assets	Unrealised gains and losses	Unrecognised Plans amendments	Net provisions
Balance at December 31st, 2004	**2,177.7**	**1,035.5**	**173.1**	**–26.5**	**995.6**
Service cost	107.2				107.2
Interest cost	109.8				109.8
Expected return on assets		66.6			–66.6
Reversal of provisions	–0.6				–0.6
Past service cost: new plans/plans amendments	–0.4			8.6	–9.0
Curtailments	–11.3		–1.5	0.1	–9.9
Settlements					
Benefits paid	–97.1	–57.1			–40.0
Contribution paid	6.8	156.6			–149.8
Unrealised gains and losses	166.5	43.4	119.9		3.3
Translation differences	81.2	57.0	7.0	–0.6	17.9
Other movements	2.8				2.8
Balance at December 31st, 2005	**2,542.6**	**1,302.0**	**298.4**	**–18.4**	**960.6**
Service cost	104.0				104.0
Interest cost	109.2				109.2
Expected return on assets		71.7			–71.7
Past service cost: new plans/plans amendments	–11.0			–0.8	–10.2
Curtailments	–71.0		–7.1		–63.9
Settlements	–4.5	–2.9	–1.5		–0.1
Benefits paid	–107.4	–70.8			–36.6
Contribution paid	6.7	155.8			–149.1
Unrealised gains and losses	21.6	32.0	–18.3		7.9
Translation differences	–66.7	–47.1	–7.6	0.2	–12.2
Balance at December 31st, 2006	**2,523.5**	**1,440.7**	**263.9**	**–18.9**	**837.9**
Service cost	102.5				102.5
Interest cost	114.9				114.9
Expected return on assets		83.5			–83.5
Past service cost: new plans/plans amendments	5.1			23.5	–18.4
Curtailments					
Settlements					
Benefits paid	–102.4	–76.9			–25.6
Contribution paid	6.1	174.7			–168.6
Unrealised gains and losses	–205.0	–50.9	–162.2		8.1
Translation differences	–81.0	–63.4	–6.0	0.6	–12.1
Other movements (scope changes)	0.6	0.5			0.1
Balance at December 31st, 2007	**2,364.3**	**1,508.2**	**95.7**	**5.1**	**755.3**

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

€ millions	12.31.2007	12.31.2006	12.31.2005
Present value of defined benefit obligations that are wholly or partly funded	2,111.4	2,253.9	2,178.0
Fair value of plan assets	1,508.2	1,440.8	1,302.0
Funded status of defined benefit obligations that are wholly or partly funded	603.2	813.1	876.0
Present value of defined benefit obligations that are wholly unfunded	252.9	269.6	364.6

The retirement expense charged to the profit and loss account is recorded with personal expenses in operational profit and may be analysed as follows:

€ millions	2007	2006	2005
Service cost	102.5	104.0	107.2
Interest cost	114.9	109.2	109.8
Expected return on assets	–83.5	–71.7	–66.6
Amortisation of unrealised gains and losses	8.1	7.9	3.3
Reversal of provisions			–0.6
New plans/plans modifications	–18.4	–10.2	–9.0
Curtailments		–23.3	–9.9
Settlements		–0.1	
Total	**123.7**	**115.8**	**134.2**

The contributions to defined-contribution plans recognised as an expense in 2007 and 2006 rose respectively to €271.8 and €250.3 million.

In respect of the medical care plans, a change of one percentage point in the assumed medical costs has the following impact:

€ millions	Increase of 1%	Decrease of 1%
Impact on the benefit obligation	20.18	16.43
Impact on the current service cost and interest costs	1.43	1.35

The plan assets of retirement plans are invested as follows:

In %	12.31.2007	12.31.2006	12.31.2005
Equity securities (1)	38.7	38.6	40.7
Bonds	48.7	47.6	45.3
Property assets (2)	6.2	7.2	7.0
Monetary instruments	1.0	1.6	4.7
Others	5.4	4.9	2.3
Total	**100%**	**100%**	**100%**

(1) Out of which L'Oréal shares: nil.
(2) Out of which property assets occupied by group entities: 0.5%.

Allocation of investments in plan assets has to respect determined proportions between the different classes of assets and have to meet minimum rating criteria for monetary instruments and bonds.

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

€ millions	12.31.2007	12.31.2006	12.31.2005	12.31.2004
Benefit obligation	2,364.3	2,523.5	2,542.6	2,177.7
Plan assets	–1,508.2	–1,440.7	–1,302.0	–1,035.5
(Funded) unfunded status	**856.1**	**1,082.8**	**1,240.6**	**1,142.2**
Experience adjustments generated on the obligation	44.3	–43.3	–62.7	–34.5
Experience adjustments generated on the plan assets	–50.9	32.0	43.4	24.4

NOTE 22_PROVISIONS FOR LIABILITIES AND CHARGES

22.1. Balances at closing date

€ millions	12.31.2007	12.31.2006	12.31.2005
Other non-current provisions for liabilities and charges	**148.5**	**154.1**	**157.0**
Provisions for restructuring	1.0	1.4	2.8
Other non-current provisions (1)	147.5	152.7	154.2
Current provisions for liabilities and charges	**285.7**	**272.0**	**289.3**
Provisions for restructuring	9.6	18.9	32.2
Other current provisions (1)	276.1	253.1	257.1
Total	**434.2**	**426.1**	**446.3**

(1) This item includes provisions facing tax risks and litigation, industrial and commercial risks relating to operations (breach of contract, product returns) and personnel costs.

22.2. Variations in Provisions for restructuring and Other provisions for liabilities and charges during the year

€ millions	12.31.2005	12.31.2006	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Others (1)	12.31.2007
Other provisions for liabilities and charges	411.3	405.8	183.7	–111.0	–44.1	–10.8	423.6
Provisions for restructuring	35.0	20.3	1.6	–10.2	–0.2	–0.9	10.6
Total	**446.3**	**426.1**	**185.3**	**–121.2**	**–44.3**	**–11.7**	**434.2**

(1) Mainly resulting from translation differences.
(2) These figures may be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	1.6	–10.2	–0.2
• Operating profit	166.4	–110.6	–40.5
• Income tax	17.3	–0.4	–3.6

For 2006, the change was analysed as follows:

€ millions	12.31.2005	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Others (1)	12.31.2006
Other provisions for liabilities and charges	411.3	220.1	–138.9	–67.5	–19.2	405.8
Provisions for restructuring	35.0	0.5	–13.7	–0.1	–1.4	20.3
Total	**446.3**	**220.6**	**–152.6**	**–67.6**	**–20.6**	**426.1**

(1) Mainly resulting from translation differences.
(2) These figures may be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	0.5	–13.7	–0.1
• Operating profit	166.5	–134.5	–61.7
• Income tax	53.6	–4.4	–5.8

For 2005, the change was analysed as follows:

€ millions	12.31.2004	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/ Others (1)	12.31.2005
Other provisions for liabilities and charges	426.9	109.8	–95.1	–60.2	29.9	411.3
Provisions for restructuring	47.7	5.3	–15.2	–3.5	0.7	35.0
Total	**474.6**	**115.1**	**–110.3**	**–63.7**	**30.6**	**446.3**

(1) Mainly resulting from translation differences.
(2) These figures may be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	5.3	–15.2	–3.5
• Operating profit	106.0	–87.2	–41.4
• Income tax	3.8	–7.9	–18.8

NOTE 23_BORROWINGS AND DEBTS

The group carries out financing through medium-term bank loans, and by the issue of short-term paper in France and the issue of short-term commercial paper in the United States.

23.1. Debt by type

€ millions	12.31.2007		12.31.2006		12.31.2005	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	–	584.1	–	2,000.0		1,795.9
MLT bank loans	2,484.9	52.7	1,787.3	2.8	339.3	359.4
Perpetual loan	–	–	–	7.1	8.0	13.0
Debts on capital lease contracts	69.3	10.1	77.2	10.3	53.9	14.5
Overdrafts	–	103.1	–	73.6		51.0
Other borrowings and debts	28.8	126.8	27.9	124.2	27.0	218.3
Total	**2,583.0**	**876.8**	**1,892.4**	**2,218.0**	**428.2**	**2,452.1**

23.2. Debt by maturity date

€ millions	12.31.2007	12.31.2006	12.31.2005
Under 1 year	876.8	2,218.0	2,452.1
1 to 5 years	2,534.5	1,837.3	385.1
Over 5 years	48.5	55.1	43.1
Total	**3,459.8**	**4,110.4**	**2,880.3**

The expected financial interest flows at the end of 2007 are about €125.4 million for 2008, €314.5 million for the period 2009-2012 and €0.1 million beyond 2012.

The expected financial interest flows at the end of 2006 were about €70.4 million for 2007, €212.6 million for the period 2008-2011 and €0.8 million beyond 2011.

These evaluations are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and without renewal at maturity dates.

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

€ millions	12.31.2007	12.31.2006	12.31.2005
Euro (EUR)	2,570.8	3,116.9	1,772.3
US dollar (USD)	606.7	731.6	808.9
Canadian dollar (CAD)	62.9	49.8	56.0
Yen (JPY)	47.2	42.9	32.8
Yuan (CNY)	43.4	55.7	57.4
Others	128.8	113.5	152.9
Total	**3,459.8**	**4,110.4**	**2,880.3**

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

€ millions	12.31.2007	12.31.2006	12.31.2005
Floating rate	3,373.1	3,824.3	2,592.7
Fixed rate	86.7	286.1	287.6
Total	**3,459.8**	**4,110.4**	**2,880.3**

23.5. Effective interest rates

The effective debt interest rates, after allowing for hedging instruments, were 3.10% in 2005, 4.05% in 2006 and 4.32% in 2007 for short-term paper, and 2.56% in 2005, 3.69% in 2006 and 4.83% in 2007 for bank loans.

23.6. Average debt interest rates

The average debt interest rates, after allowing for hedging instruments, were 2.18% in 2005, 3.07% in 2006 and 4.35% in 2007 for the Euro, and 3.31% in 2005, 4.76% in 2006 and 5.03% in 2007 for the US dollar.

23.7. Fair value of borrowings and debts

The fair value of fixed rate debt is determined for each loan by the discounting of future cash flows, based on the debenture interest rate curves at the balance sheet date, after allowing for the spread corresponding to the group's risk rating.

The net book value of outstanding bank loans and other floating rate loans is a reasonable approximation of their fair value.

At December 31st, 2007, the fair value of the debt amounts to €3,464.2 million. At December 31st, 2006, the fair value of the debt amounted to €4,113.2 million. At December 31st, 2005, it amounted to €2,884.9 million.

23.8. Debts covered by collateral

There were no significant debts covered by collateral as at December 31st, 2007, at December 31st, 2006 and at December 31st, 2005.

23.9. Confirmed credit lines

At December 31st, 2007, L'Oréal and its subsidiaries have €2,625 million of credit lines confirmed but not used, compared with €2,625 million respectively at December 31st, 2006 and at December 31st, 2005.

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 organisations with the best credit ratings.

In accordance with the group's rules, the 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 from commercial transactions recorded on the balance sheet and from future transactions considered to be highly probable.

The group's policy on exposure to currency risk from its future commercial transactions is to hedge at the end of the year practically 100% of the currency risk of the next year by derivatives on the basis of operating budgets in each subsidiary.

All the group's future currency flows are analysed in detailed forecasts for the coming budget year. Currency risks that emerge are hedged by forward contracts or by options, to reduce as far as possible the currency position of each subsidiary. The duration of the derivatives is determined as appropriate for 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 the currency is not convertible, with any such operations subject to control by Régéfi.

As the group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by the management of their cash flow are almost non-existent.

Because of the group's policy on foreign exchange risk hedging of practically 100% of the annual needs of the next year at the end of the year, the sensitivity of profit or loss to the changes in the foreign exchange rate on December 31st is practically non-existent. The impact of a variation in the foreign exchange rate on the reserve of foreign exchange cash flows hedge is given in note 20.4.

The following derivatives, all of which originally have a maturity of less than 18 months, are held for currency risk hedging purposes:

€ millions	Nominal			Market value		
	12.31.2007	12.31.2006	12.31.2005	12.31.2007	12.31.2006	12.31.2005
Currency futures						
Purchase EURO/currency	**1,661.3**	**1,278.3**	**1,565.4**	**34.3**	**19.4**	**–71.4**
EUR/USD	595.5	205.5	523.4	12.6	12.8	–38.0
EUR/RUB	135.6	125.0	123.7	1.8	–0.1	–5.7
EUR/CHF	105.6	118.7	110.3	0.5	1.7	0.4
EUR/CAD	101.6	104.7	101.1	–0.5	6.0	–6.9
EUR/CNY	87.7	83.0	–	3.2	0.7	–
EUR/AUD	61.3	62.5	72.8	1.0	–0.5	–2.6
EUR/GBP	52.7	93.8	160.5	7.0	–2.4	–0.8
EUR/MXN	40.1	56.1	50,0	2.3	0.8	–5.6
EUR/West European currencies	81.7	102.0	101.6	0.8	0.2	0.5
EUR/East European currencies	104.9	87.6	72.8	–0.8	–4.5	–1.8
EUR/Asian currencies	165.3	171.2	168.8	8.7	5.1	–4.5
EUR/Latin American currencies	56.7	27.2	31.9	–0.7	0.2	–3.4
EUR/Other currencies	72.5	41.0	48.5	–1.7	–0.6	–3.0
Purchase USD/currency	**115.2**	**119.1**	**177.1**	**–2.1**	**–1.3**	**0.8**
USD/Latin American currencies	83.4	55.0	56.2	0.1	–0.6	–0.4
USD/Other Asian currencies	7.0	37.0	98.9	–0.6	–0.1	0.5
USD/Other currencies	24.8	27.1	22.0	–1.6	–0.6	0.7
Sale USD/CHF	**87.3**	**108.5**	**58.6**	**5.2**	**1.8**	**–1.2**
Sale USD/GBP	**29.8**	**18.1**	**2.2**	**0.1**	**0.7**	**0.0**
Other currency pairs	146.6	103.3	89.7	–2.5	–0.7	–0.4
Currency futures total	**2,040.2**	**1,627.3**	**1,892.9**	**35.0**	**20.0**	**–72.2**
Currency options						
EUR/USD	217.3	137.0	136.2	16.4	9.2	2.5
EUR/RUB	170.6	50.0	21.9	7.7	2.4	0.4
EUR/GBP	81.4	65.7	75.3	5.6	0.7	1.4
EUR/CNY	59.3	22.4	0.0	1.8	0.5	0.0
EUR/MXN	58.5	29.4	19.2	4.9	1.8	0.4
EUR/Other currencies	225.0	179.0	110.9	10.0	6.4	1.1
USD/CHF	58.7	45.7	115.5	5.5	1.0	5.3
Other currency pairs	49.3	62.0	47.9	1.0	1.0	1.1
Currency options total	**920.2**	**591.2**	**526.9**	**52.9**	**22.9**	**12.2**
Of which: call options total	948.4	613.9	599.0	53.5	23.2	12.6
put options total	–28.3	–22.7	–72.1	–0.6	–0.3	–0,4
Total	**2,960.4**	**2,218.5**	**2,419.9**	**87.9**	**42.9**	**–60.0**

The put options total corresponds exclusively to the sale of previously purchased options when it appeared opportune to replace them by other hedging instruments.

The market values by type of hedging are as follows:

	2007	2006	2005
Fair value hedges (1)	6.4	4.3	–6.7
Cash flow hedges	81.5	38.6	–47.8
Net foreign investment hedges		–	–5.5
Total	**87.9**	**42.9**	**–60.0**

(1) The fair value hedges relate to currency risks for operating debtors and creditors as well as for financial debts. On December 31st, 2007, the needs for financing in US dollars amount to €442 million as currency swaps, on the line EUR/USD of forward contracts.

The fair value of the derivatives is their market value.
The group has no significant currency positions 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 reasons.

The derivatives are mainly swaps and interest rate options (purchase of caps) which are freely negotiated.

The market values of the derivatives set out below should be compared with the market values of the debts that they hedge.

The interest rate derivatives are as follows:

€ millions	Notional			Market value		
Interest rate derivatives	**12.31.2007**	**12.31.2006**	**12.31.2005**	**12.31.2007**	**12.31.2006**	**12.31.2005**
Cash flow hedges						
Borrower fixed interest-rate swaps						
EUR Euribor/fixed rate	19.5	20.2	21.0	–0.3	–1.0	–2.3
USD Libor/fixed rate	–	190.0	212.0	–	1.3	2.3
Purchases caps						
USD Libor	271.6	–	–			–
Fair value hedges						
Borrower floating interest-rate swaps						
EUR Euribor/fixed rate	121.8	128.8	309.6	1.5	3.6	13.3
Non-designated derivatives						
Floating/floating interest-rate swaps						
EUR Euribor/Euribor	–	7.1	210.2	–	–	0.1
Total	**412.9**	**346.1**	**752.8**	**1.2**	**3.9**	**13.4**

The fair value of the interest rate derivatives is their market value. The market value of the interest rate derivatives is calculated by the discounting of future flows at the interest rate ruling at the balance sheet date.

The maturities of the derivatives broken down by type of hedge are as follows:

€ millions	Nominal by maturity											
	12.31.2007				12.31.2006				12.31.2005			
	< 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 Borrower fixed interest-rate swaps	0.8	6.4	12.3	19.5	190.8	6.1	13.3	210.2	0.7	218.0	14.3	233.0
Purchases caps	271.6			271.6					–	–	–	
Fair value hedges Borrower floating interest-rate swaps	52.0	69.8		121.8	7.0	121.8	–	128.8	174.0	135.5	–	309.5
Non-designated derivatives Floating/floating interest-rate swaps					7.1	–	–	7.1	196.4	13.8	–	210.2
Total	**324.4**	**76.2**	**12.3**	**412.9**	**204.9**	**127.9**	**13.3**	**346.1**	**371.2**	**367.3**	**14.3**	**752.8**

24.3. Sensitivity to changes in interest rates

An increase in interest rates of 100 basis points would have a direct impact on the group's financial charge of €22.6 million at December 31st, 2007 compared with €30.7 million at December 31st, 2006 and €19.4 million at December 31st, 2005, after allowing for cash, cash equivalents and derivatives, and assuming that total net debt remains stable and that the fixed rate debts at maturity date are 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 €2.7 million at December 31st, 2007 compared with €3.2 million at December 31st, 2006 and €5.7 million at December 31st, 2005.

24.4. Third party risk

The group has financial relations with international banks with the best credit ratings. The group thus considers that its exposure to third party risk is low.

Furthermore, the financial instruments used in exchange rate and interest rate risk management are issued by leading international banking counterparties.

24.5. Share risk

No cash has been invested in shares.

The available cash is invested, with top financial organisations, in the form of non-speculative instruments which can be drawn in very short periods.

At December 31st, 2007, the group holds 118,227,307 Sanofi-Aventis shares for an amount of €7,446.0 million (note 15). For these shares, a change in the market price of plus or minus 10% relative to the market price of €62.98 on December 31st, 2007 would have an impact on the group shareholders' equity of plus or minus €744.6 million before tax.

At December 31st, 2006, the group held 143,041,202 Sanofi-Aventis shares for an amount of €10,005.7 million (note 15). For these shares, a change in the market price of plus or minus 10% relative to the market price of €69.95 on December 31st, 2006 would have had an impact on the group shareholders' equity of plus or minus €1,000.6 million before tax.

NOTE 25_OTHER CURRENT LIABILITIES

€ millions	12.31.2007	12.31.2006	12.31.2005
Social and fiscal accounts payable (excluding income tax)	844.4	796.5	722.4
Creditors	558.4	512.9	473.9
Debts on fixed assets	127.1	120.7	120.4
Derivatives	93.3	65.4	124.6
Other current liabilities	109.3	118.4	81.9
Total	**1,732.5**	**1,613.9**	**1,523.2**

NOTE 26_OFF-BALANCE SHEET COMMITMENTS

26.1. Operating lease commitments

They amount to €1,789.2 million at December 31st, 2007, compared with €1,823.2 million at December 31st, 2006 and €1,362.8 million at December 31st, 2005, of which:

- €329 million is due in under one year at December 31st, 2007 compared with €318.1 million at December 31st, 2006 and €248.6 million at December 31st, 2005,
- €878.2 million is due in 1 to 5 years at December 31st, 2007 compared with €922.2 million at December 31st, 2006 and €584.9 million at December 31st, 2005,
- €582 million is due in over 5 years at December 31st, 2007 compared with €582.9 million at December 31st, 2006 and €529.3 million at December 31st, 2005.

26.2. Other off-balance sheet commitments

The confirmed credit lines are indicated in note 23.

The other off-balance sheet contingent liabilities are as follows:

€ millions	12.31.2007	12.31.2006	12.31.2005
Commitments given (1)	111.6	52.2	45.3
Documentary credits	5.2	7.2	5.4
Commitments received	28.6	32.3	32.3
Capital commitments	251.0	233.0	202.4

(1) These consist mainly of commitments given to administrations or commitments concerning loans granted to third parties who are partners of the group, and for 2007, the net commitment toward the L'Oréal Foundation for its long-term action program.

26.3. Contingent liabilities

In 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 an estimate of its cost is possible.

At the present time, there is no exceptional event or dispute which could materially and with serious probability affect the results, financial situation, 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 situation, results or assets of the group.

NOTE 27_CASH USED FOR WORKING CAPITAL

This amounts to – €76.3 million, €65.6 million and – €35.7 million respectively for 2007, 2006 and 2005, and can be analysed as follows:

€ millions	2007	2006	2005
Inventories	–137.8	–119.1	–35.1
Trade accounts receivable	–102.3	–244.0	–174.8
Trade accounts payable	79.0	251.2	66.8
Other receivables and debts	84.8	177.5	107.4
Total	**–76.3**	**65.6**	**–35.7**

NOTE 28_IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION

For 2007, this item mainly relates to the Maly's West, Beauty Alliance and PureOlogy acquisitions.

For 2006, this item mainly related to the The Body Shop, Beauty Alliance International and Sanoflore acquisitions.

In 2005, this item mainly related to the SkinCeuticals and Delial acquisitions.

NOTE 29_TRANSACTIONS BETWEEN RELATED PARTIES

29.1. Joint ventures

Transactions between the companies consolidated on a proportional basis are as follows:

€ millions	2007	2006	2005
Sales of goods and services	5.4	10.6	11.6
Cost of sales	–	–	–0.7
Financial expenses and income	1.6	1.2	0.8

The following debtors and creditors are recorded on the balance sheet for the related parties:

€ millions	12.31.2007	12.31.2006	12.31.2005
Operating debtors	3.1	6.6	18.3
Creditors	0.3	–0.3	–0.3
Financial debtors	34.7	42.3	59.4

29.2. Related parties with a material influence on the group

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

29.3. Equity affiliates

During 2006 and from January 1st to April 12th, 2007, L'Oréal USA Inc. realised respectively €50.6 and €35.6 million sales to Beauty Alliance International, a company in which the group had a 30% stake until April 2007 (note 2).

No significant transactions have taken place with an equity affiliate during 2005.

NOTE 30_SUBSEQUENT EVENTS

In November 2007, L'Oréal signed an agreement to acquire 100% of the Turkish haircare products company Canan.

Founded in 1981, Canan achieved sales of €26 million in 2006, mainly through its brand Ipek which is in 4th position in the mass-market haircare segment.

Canan will be fully consolidated from January 2008, after antitrust clearance.

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 Southeastern part of the United States, Columbia Beauty Supply achieved sales of about $60 million in 2007.

Columbia Beauty Supply will be fully consolidated from January 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 €1,150 million in terms of enterprise value,
- obtain an exclusive and very long-term worldwide licence for the use of the Yves Saint Laurent and Boucheron brands in the category of perfumes and cosmetics, under conditions conforming to usual market practice,
- take over the licences for the Stella McCartney, Oscar de la Renta, and Ermenegildo Zegna brands, in the category of perfumes and cosmetics.

YSL Beauté reached sales of around €630 million in 2006 with its Yves Saint Laurent brand as well as with its Roger & Gallet, Boucheron, Stella McCartney, Oscar de la Renta and Ermenegildo Zegna brands.

The acquisition should be concluded after consultation of the employee representative bodies of the PPR group and subject to the approval of the appropriate authorities notably those relating to antitrust law.

CONSOLIDATED COMPANIES AT DECEMBER 31st, 2007

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	
Beautycos International Co Ltd	China	100.00	
Beautylux International Cosmetics (Shanghai) Co Ltd	China	100.00	
Beautytech International Cosmetics (Yi Chang) Co Ltd	China	100.00	
Belcos Ltd	Japan	100.00	
Biotherm	Monaco	100.00	
Biotherm Distribution & Cie	France	100.00	
Caribel Fragrances Inc.	Puerto Rico	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 CV	Mexico	100.00	
Cosmelor Ltd	Japan	100.00	
Cosmelor K.K.	Japan	100.00	
Cosmephil Holdings Corporation Philippines	Philippines	100.00	
Cosmetil	Morocco	49.80	100.00
Cosmétique Active Belgilux	Belgium	100.00	
Cosmétique Active Deutschland GmbH	Germany	100.00	
Cosmétique Active España	Spain	100.00	
Cosmétique Active France	France	100.00	
Cosmétique Active Hellas	Greece	100.00	
Cosmétique Active International	France	100.00	
Cosmétique Active Ireland Ltd	Ireland	100.00	
Cosmétique Active Italia	Italy	100.00	
Cosmétique Active Nederland	Netherlands	100.00	
Cosmétique Active Production	France	100.00	
Cosmétique Active Suisse	Switzerland	100.00	
Elebelle (Pty) Ltd	South Africa	100.00	
Episkin	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 CV	Mexico	100.00	

(1) In accordance with the provisions of Article R.233-14 of French Commercial Law, some information provided above is incomplete.
(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	% Interest	% Control (2)
Garnier New Zealand Ltd	New Zealand	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 Spa	Italy	100.00	
Holdial	France	100.00	
Kosmepol Sp Z.O.O	Poland	100.00	
L & J Re	France	100.00	
Laboratoire Bioexigence	France	100.00	
Laboratoire Garnier & Cie	France	100.00	
Laboratoire Sanoflore	France	99.11	
Lai Mei Cosmetics International Trading (Shanghai) Co. Ltd	China	100.00	
Lancôme Parfums & Beauté & Cie	France	100.00	
Lancos Ltd	Japan	100.00	
La Roche-Posay Dermato-Cosmétique	France	99.98	
La Roche-Posay Laboratoire Pharmaceutique	France	99.98	
LaScad	France	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 Cosmeticos Ltda	Brasil	100.00	
L’Oréal Bulgaria E.O.O.D	Bulgaria	100.00	
L’Oréal Canada Inc.	Canada	100.00	
L’Oréal Ceska Republica 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 Danmark A/S	Denmark	100.00	
L’Oréal Deutschland GmbH	Germany	100.00	
L’Oréal Division Productos de Lujo S.A.	Spain	100.00	
L’Oréal Division Productos Gran Publico S.A.	Spain	100.00	
L’Oréal Division Productos Profesionales S.A.	Spain	100.00	
L’Oréal España S.A.	Spain	100.00	
L’Oréal Finland Oy	Finland	100.00	
L’Oréal Guatemala	Guatemala	100.00	
L’Oréal Hellas S.A.	Greece	100.00	
L’Oréal Hong-Kong Limited	Hong-Kong	100.00	
L’Oréal H.U.P GmbH & Co Kg	Germany	100.00	
L’Oréal H.U.P Beteiligungs GmbH	Germany	100.00	

(1) In accordance with the provisions of Article R.233-14 of French Commercial Law, some information provided above is incomplete.
(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	% Interest	% Control (2)
L'Oréal India Pvt Ltd	India	100.00	
P.T. L'Oréal Indonesia	Indonesia	100.00	
L'Oréal Investments BV	Netherlands	100.00	
L'Oréal Israel Ltd	Israel	92.97	
L'Oréal Italia Spa	Italy	100.00	
L'Oréal Japan Ltd	Japan	100.00	
L'Oréal Korea Ltd	South Korea	100.00	
L'Oréal Liban SAL	Lebanon	99.88	
L'Oréal Libramont	Belgium	100.00	
L'Oréal Luxe Producten Nederland BV	Netherlands	100.00	
L'Oréal Luxusprodukte GmbH	Germany	100.00	
L'Oréal Magyarorszag Kozmetikai Kft	Hungary	100.00	
L'Oréal Malaysia SDN BHO	Malaysia	94.34	
L'Oréal Midrand Manufacturing PTY Ltd	South Africa	100.00	
L'Oréal Maroc	Morocco	50.00	100.00
L'Oréal Mexico S.A. de CV	Mexico	100.00	
L'Oréal Mexico Servicios S.A. de C.V.	Mexico	100.00	
L'Oréal Middle East	United Arab Emirates	100.00	
L'Oréal Nederland BV	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 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 Ltd	Portugal	100.00	
L'Oréal Prodotti di Lusso Italia Spa	Italy	100.00	
L'Oréal Produits de Luxe Belgilux	Belgium	100.00	
L'Oréal Produits de Luxe France	France	100.00	
L'Oréal Produits de Luxe Hellas AE	Greece	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 SAL	Romania	100.00	
L'Oréal Saipo Industriale Spa	Italy	100.00	
L'Oréal Saipo Spa	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	

(1) In accordance with the provisions of Article R.233-14 of French Commercial Law, some information provided above is incomplete.
(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	% Interest	% Control (2)
L'Oréal Taiwan Co. Ltd	Taiwan	100.00	
L'Oréal Thailand Ltd	Thailand	100.00	
L'Oréal Turkiye Kosmetik 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.	United States	100.00	
L'Oréal Venezuela CA	Venezuela	100.00	
L'Oréal Vietnam Co. Ltd	Vietnam	100.00	
Marigny Manufacturing Australia Pty Ltd	Australia	100.00	
Maybelline KK	Japan	100.00	
Maybelline Suzhou Cosmetics Ltd	China	100.00	
Nihon L'Oréal KK	Japan	100.00	
Parbel Of Florida Inc.	United States	100.00	
Par-Bleue	France	100.00	
Parfums Cacharel et Cie	France	100.00	
Parfums Guy Laroche	France	100.00	
Parfums Paloma Picasso & Cie	France	100.00	
Parfums Ralph Lauren	France	100.00	
Prestige & Collections International	France	100.00	
Procosa - Productos de Beleza Ltda	Brazil	100.00	
Productora Albesa S.A.	Spain	100.00	
Productos Capilares L'Oréal S.A.	Spain	100.00	
Redken France	France	100.00	
Regefi	France	100.00	
Scental Ltd	Hong-Kong	100.00	
Shu Uemura Cosmetics Inc.	Japan	93.57	
Sicôs et Cie	France	100.00	
SkinEthic	France	99.52	
Socex De Expansao Mercantil Em Cosmeticos Ltda	Brazil	99.00	
Société Civile Immobilière Socinay	France	100.00	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche-Posay	France	99.98	
Sofamo	Monaco	100.00	
SoftSheen.Carson Products West Africa Ltd	Ghana	100.00	
Soprocos	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	
Swan Beauties Pvt Ltd	India	100.00	
The Body Shop (as a group)	United Kingdom	100.00	
Venprobel	Venezuela	100.00	
Viktor & Rolf Parfums	France	100.00	
P.T. Yasulor Indonesia	Indonesia	100.00	
Yue-Sai Kan Cosmetics Shenzen Ltd	China	100.00	
Zao L'Oréal	Russia	100.00	

(1) In accordance with the provisions of Article R.233-14 of French Commercial Law, some information provided above is incomplete.
(2) Equivalent to the interest percentage except if specified.

2. Companies consolidated by the proportional method

Companies	Head Office	% Interest	% Control (3)
Beauté Créateurs	France	50.00 (1)	
Club Créateurs Beauté Japon KK	Japan	50.00 (1)	
Cosimar Japon KK	Japan	50.00 (1)	
Galderma Argentina S.A.	Argentina	50.00 (2)	
Galderma Australia Pty Ltd	Australia	50.00 (2)	
Galderma Belgilux N.V	Belgium	50.00 (2)	
Galderma Brasil Limitada	Brazil	50.00 (2)	
Galderma Canada Inc.	Canada	50.00 (2)	
Galderma Colombia S.A.	Colombia	50.00 (2)	
Galderma Hellas Trade of Pharmaceutical Products S.A.	Greece	50.00 (2)	
Galderma Hong-Kong	Hong-Kong	50.00 (2)	
Galderma India Private Ltd	India	50.00 (2)	
Galderma International	France	50.00 (2)	
Galderma Italia S.P.A	Italy	50.00 (2)	
Galderma Korea Ltd	South Korea	50.00 (2)	
Galderma KK	Japan	50.00 (2)	
Galderma Laboratories Inc	United States	50.00 (2)	
Galderma Laboratorium GmbH	Germany	50.00 (2)	
Galderma Laboratories South Africa Pty Ltd	South Africa	50.00 (2)	
Galderma Mexico S.A. de CV	Mexico	50.00 (2)	
Galderma Nordic AB	Sweden	50.00 (2)	
Galderma Peru Laboratorios	Peru	50.00 (2)	
Galderma Pharma S.A.	Switzerland	50.00 (2)	
Galderma Philippines Inc.	Philippines	50.00 (2)	
Galderma Polska	Poland	50.00 (2)	
Galderma Production Canada Inc.	Canada	50.00 (2)	
Galderma Research & Development	France	50.00 (2)	
Galderma Research and Development Inc.	United States	50.00 (2)	
Galderma S.A.	Switzerland	50.00 (2)	
Galderma Singapore	Singapore	50.00 (2)	
Galderma UK Ltd	United Kingdom	50.00 (2)	
Galderma Uruguay	Uruguay	50.00 (2)	
Innéov Belgique	Belgium	50.00 (2)	
Innéov Brasil Nutricosmeticos Ltda	Brazil	50.00 (2)	
Innéov Canada Inc.	Canada	50.00 (2)	
Innéov Chile S.A.	Chile	50.00 (2)	
Innéov CZ s.r.o.	Czech Republic	50.00 (2)	
Innéov Deutschland GmbH	Germany	50.00 (2)	
Innéov España S.A.	Spain	50.00 (2)	

(1) Companies jointly owned with *Les Trois Suisses*.
(2) Companies jointly owned with Nestlé.
(3) Equivalent to the interest percentage except if specified.

Companies	Head Office	% Interest	% Control [3]
Innéov France	France	50.00 [2]	
Innéov Hellas AE	Greece	50.00 [2]	
Innéov Italia Spa	Italy	50.00 [2]	
Innéov Nutrikozmetik Ticaret Ve Sanayi Limited Sirketi	Turkey	50.00 [2]	
Innéov Österreich Handelsgesellschaft mbH	Austria	50.00 [2]	
Innéov Polska Sp. z.o.o.	Poland	50.00 [2]	
Innéov SK s.r.o.	Slovakia	50.00 [2]	
Innéov Suisse	Switzerland	50.00 [2]	
Laboratoires Galderma	France	50.00 [2]	
Laboratoires Innéov	France	50.00 [2]	
Laboratoires Innéov Unipessoal Portugal Ltda	Portugal	50.00 [2]	
Laboratorios Galderma S.A.	Spain	50.00 [2]	
Laboratorios Galderma Chile Limitada	Chile	50.00 [2]	
Laboratorios Galderma Venezuela S.A.	Venezuela	50.00 [2]	
Le Club des Créateurs de Beauté	Belgium	50.00 [1]	
Le Club des Créateurs de Beauté Taiwan Co. Ltd	Taiwan	50.00 [1]	
Le Club des Créateurs Cosmetic Versand Verwaltungs GmbH	Germany	50.00 [1]	
Le Club des Créateurs Cosmetic Versand GmbH and Co Kg	Germany	50.00 [1]	
O.O.O Innéov	Russia	50.00 [2]	
Yi Mei Jia (Shanghai) Trading Co. Ltd	China	50.00 [1]	

(1) Companies jointly owned with *Les Trois Suisses*.
(2) Companies jointly owned with Nestlé.
(3) Equivalent to the interest percentage except if specified.

CHAPTER II

2007 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.

2007 MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

This Management Report reviews the activity of the company and its group in 2007. In an attached Report, the Chairman reports on the ways in which the Board's work is prepared and organised and the internal control procedures are set up and applied in the group, particularly in the field of accounting information and financial reporting. Furthermore, the Board of Directors prepares its Report to the Annual General Meeting, published within the legal deadlines with the notice for the Annual General Meeting. In this Report, the Board sets out the reasons for the draft resolutions submitted for approval by the shareholders.

1. THE GROUP'S BUSINESS ACTIVITIES IN 2007

The consolidated financial statements of L'Oréal were reviewed by the Audit Committee and the Board of Directors and then closed off by the Board of Directors at its meeting on February 13th, 2008, in the presence of the company's statutory auditors.

1.1. Overview of the results for 2007

The sales of the L'Oréal group, at December 31st, 2007, amounted to €17.063 billion, an increase of +8.1% (based on reported figures).

Like-for-like (i.e. based on a comparable structure and identical exchange rates), the increase in the group's sales was +8.0%.
The impact of changes in consolidation, as a result of the acquisitions of The Body Shop, Sanoflore, Beauty Alliance, PureOlogy and Maly's West, amounted to +3.6%.
The currency fluctuations had a negative impact of – 3.5% for the full year 2007.
Growth excluding the exchange rate impact was +11.6%.

The group's results have once again advanced substantially and are of a very high quality.
Based on a comparable structure (excluding The Body Shop, and excluding professional distributors in the United States), operating profit grew by 90 basis points, thanks to an improvement in gross profit and strict cost control.
All divisions and zones contributed to this achievement. The profitability of the Rest of the World zone has increased considerably; in absolute value, it is at the same level as North America.
Despite the negative impact of currency fluctuations, which was more pronounced in the 4th quarter, net earnings per share growth was very strong at +13%. Based on identical exchange rates, this growth rate would have reached +15.9%.

1.2. Consolidated sales

Consolidated sales by operational division and geographic zone

€ millions	12.31.2007			4th quarter 2007		
		Growth			Growth	
		Like-for-like	Reported		Like-for-like	Reported
By operational division						
Professional Products	2,392	+7.5%	+12.5%	622	+8.6%	+17.9%
Consumer Products	8,280	+7.9%	+4.8%	1,990	+7.3%	+3.5%
Luxury Products	3,928	+8.4%	+4.1%	1,156	+12.1%	+7.1%
Active Cosmetics	1,248	+10.8%	+10.7%	264	+14.2%	+13.1%
Cosmetics total	**15,908**	**+8.0%**	**+6.0%**	**4,045**	**+9.1%**	**+7.0%**
By geographic zone						
Western Europe	7,250	+4.1%	+3.7%	1,771	+5.3%	+4.1%
North America	4,004	+4.8%	+1.3%	1,036	+7.2%	+4.7%
Rest of the World	4,654	+17.9%	+14.5%	1,238	+17.0%	+13.7%
Of which: Asia	1,580	+14.3%	+7.0%	412	+15.5%	+7.1%
Latin America	1,124	+14.6%	+10.1%	304	+13.1%	+9.7%
Eastern Europe	1,142	+29.4%	+34.4%	327	+28.6%	+32.0%
Other countries	808	+15.4%	+12.5%	196	+9.7%	+8.9%
Cosmetics total	**15,908**	**+8.0%**	**+6.0%**	**4,045**	**+9.1%**	**+7.0%**
The Body Shop	787	+5.7%	+80.9%	266	+4.1%	+1.2%
Dermatology[1]	368	+12.7%	+6.9%	112	+14.5%	+7.2%
Group total	**17,063**	**+8.0%**	**+8.1%**	**4,423**	**+9.0%**	**+6.6%**

(1) Group share, i.e., 50%.

1.2.1. Cosmetics Branch: Sales trends by division

The **Professional Products Division** recorded strong like-for-like growth of +7.5%, consolidating its worldwide leadership.

L'Oréal Professionnel is continuing its breakthrough in the seniors segment thanks to the success of two key product initiatives: Color Suprême hair colorant which is being rolled out worldwide, and the anti-ageing haircare range Age Densiforce. Redken has successfully launched its Fresh Curls range and has internationalised its Urban Experiment styling range.

Matrix has accelerated its penetration outside the United States, particularly in Europe with the Biolage range.

In the dynamic luxury hairdressing market, the Division is continuing to build a comprehensive offering to meet the needs of the most exclusive salons. In addition to the very fast growth achieved by Kérastase with the launch of Noctogenist, the Division now includes the American brand PureOlogy acquired in May, and the newly created Shu Uemura Art of Hair range, whose launch in the United States and Europe is just beginning.

The **Consumer Products Division** posted like-for-like growth of +7.9% in 2007, a very significant acceleration compared with previous years. The dynamism of the different countries and the strong programme of new products enabled the three major brands – L'Oréal Paris, Garnier and Maybelline New York – to produce very similar performances.

The skincare category was the division's number one growth driver with some major successes: for L'Oréal Paris they were Skin Genesis, a cell rejuvenation skincare line, Men Expert Hydra Energetic and the new Revitalift, world number one in the anti-wrinkle segment. Garnier is continuing to build up this category across the world by making use of the major franchises Ultralift, Nutritionist and Light while adapting them to each zone.

Make-up was also very dynamic, with a large number of innovations: in mascara with Define-A-Lash from Maybelline and Telescopic from L'Oréal Paris, in foundations with Bare Natural by L'Oréal Paris and Superstay Silky by Maybelline, and in lipstick with Color Riche and Glam Shine 6h from L'Oréal Paris.

The **Luxury Products Division** ended the year with +8.4% like-for-like growth, with a fourth quarter at +12.1%, driven by powerful product initiatives.

Perfumes were particularly dynamic in the fourth quarter, thanks to the launches of Diesel Fuel for Life (for men and women), Emporio Diamonds, the new women's fragrance from Giorgio Armani and the men's fragrance Polo Explorer by Ralph Lauren. Sales were also excellent for Trésor by Lancôme,

with American actress Kate Winslet as its new ambassador, and the strong development of Viktor & Rolf. The Division, already world number one in this category, is further strengthening its positions.
The skincare category is doing well, particularly anti-ageing products. Lancôme is achieving worldwide success with the new Rénergie Morpholift R.A.R.E line, and Biotherm and Shu Uemura are having similar success with ReMinérale and Phytoblack Lift respectively. The premium skincare line Armani Crema Nera is being started up worldwide.
In make-up, Lancôme sales accelerated in the 4th quarter thanks to Virtuôse mascara, which is consolidating the brand's position in the mascara market, and in the whole selective make-up segment. There was also a major success for the mascara Lash Queen Feline Blacks from Helena Rubinstein. Armani is continuing its global brand development with the very upmarket expansion of Giorgio Armani Cosmetics make-up. And the growth of Shu Uemura make-up accelerated at the end of the year, as it capitalised on its new foundation Face Architect.

The growth of **Active Cosmetics** continued at the high rate of +10.8% like-for-like, with a strong 4th quarter at +14.2%.
Vichy took advantage of the successful launch of Aqualia Thermal and the Vichy Homme range.
The growth of La Roche-Posay accelerated thanks to the success of the facial skincare products and the launch of Biomédic, a new range of peeling products exclusively for use by dermatologists.
Innéov also achieved strong growth, becoming number one in oral cosmetics sold in European pharmacies.
Sanoflore and SkinCeuticals started their globalisation programmes in the fourth quarter.

1.2.2. Western Europe

Growth in Western Europe amounted to +4.1% like-for-like, as the market trend appears to have held up well. Sales trends rose very significantly in the United Kingdom and Spain. In France and Germany trends improved in the second half of the year.

The Professional Products Division turned in good performances in all the countries, particularly in Germany and the United Kingdom. The American brands Matrix and Redken are growing strongly, fulfilling their role as growth relays.
The Consumer Products Division won market share, strengthening its leadership thanks to the outstanding performance of L'Oréal Paris and Maybelline. Market share gains have been particularly substantial in facial skincare, foundation and lipstick. All the European countries have positive growth rates, even though the quarter was marked by substantial returns of sun protection products. In addition to very good performances in Spain, Great Britain and Sweden, sell-through increased substantially in Germany, particularly in facial skincare as the Division advanced significantly faster than the market.
The Luxury Products Division is accelerating very strongly with excellent performances in Great Britain, France and Italy. It has been galvanised by the success of Diesel, and the men's fragrance in particular, which has made the top three in several European markets. The Kiehl's and Shu Uemura brands are clearly becoming growth relays for the Division.
The Active Cosmetics Division recorded high growth in the 4th quarter, reflecting in particular the rapid growth of La Roche-Posay and the launch of Sanoflore and SkinCeuticals in the major countries in the zone.

1.2.3. North America

With market growth slower than in 2006, the group's sales growth in North America amounted to +4.8%, with a strong 4th quarter (+7.2%).
The Professional Products Division, already the market leader, continued to gain market share, particularly in hair colourants, and strengthened control of its distribution by acquiring professional distributors Beauty Alliance and Maly's West. With the acquisition of PureOlogy, the launch of Shu Uemura Art of Hair, and the strong growth of Kérastase, the division is intensifying its presence in the booming segment of the most exclusive salons.
The Consumer Products Division has continued to win market share, particularly in make-up with the major successes of Bare Naturale and Infallible Lip by L'Oréal Paris. Skincare products achieved strong growth thanks to the strategic launch of Nutritioniste by Garnier at the start of the year, and Skin Genesis from L'Oréal Paris.
The Luxury Products Division sales grew slightly faster than the market trend; thanks to very robust sales in fragrances, the division consolidated its leadership in men's fragrances with the success of Diesel Fuel for Life and Ralph Lauren Explorer. Lancôme strengthened its number one position in anti-ageing skincare with the success of Absolue ßx Ultimate Serum, Collaser Eye and Renergie Morpholift R.A.R.E. and in mascara with the successful launch of Virtuose.
The Active Cosmetics Division has continued its roll-out, with the expansion of its drugstore distribution in the north-east of the USA and in California, and thanks to the high growth of SkinCeuticals.

1.2.4. New markets

The strong dynamism of markets continued in all the regions. With a growth rate of +17.9% in the Rest of the World zone over the whole year, the group has greatly increased its penetration.
The **Asia** Zone accelerated in the 4th quarter to +15.5%, reaching +14.3% like-for-like over the full year. Growth in Japan amounted to +1.8%; in the rest of Asia, growth totalled +17.8%.
In the highly competitive Northern Asian markets (Japan and South Korea), the group's scores were positive, thanks in particular to the successes of the Professional Products Division in both countries, and the breakthroughs of Kiehl's, Shu Uemura and Biotherm in luxury products in South Korea.

In China, growth has been very rapid across all the divisions. In Consumer Products, L'Oréal Paris is expanding particularly

quickly with Dermo-Expertise skincare, and also with the great success of Men Expert, demonstrating how fast Chinese men are opening up to products in this category. The Luxury Products Division has further strengthened its number one position, thanks in large measure to the good skincare performances of Yue-Sai with Vital Essential.
Lastly, in the ASEAN countries, conquests are continuing, particularly for Consumer Products and the Garnier brand. The Garnier facial skincare range, strong in Thailand, has been extended to other countries. The new subsidiary, L'Oréal Vietnam has been created, covering the 4 divisions.

In **Eastern Europe**, growth has remained at an extremely high level: the group ended the year with growth of +29.4%. All the countries are recording very rapid growth, particularly Russia and Poland. L'Oréal Ukraine is now the third largest subsidiary in this zone, two years after its creation.
The Professional Products Division has become market leader in Russia, Poland and the Czech Republic. Matrix is now available in more than 10,000 salons in the zone; Redken has just been launched in Russia, the Czech Republic and Slovakia.
The 3 brands of the Consumer Products Division are recording strong and evenly matched growth rates, driven in particular by L'Oréal Paris and Garnier skincare and by Maybelline and L'Oréal Paris make-up.
The Luxury Products Division brands are growing twice as fast as the market, boosted by Lancôme, Biotherm and Giorgio Armani. The Division is reinforcing its number one position in the zone.
In addition to the success of Vichy, long established as the market leader in pharmacy sales, La Roche-Posay is proving to be an important growth relay for the Division. Sanoflore and SkinCeuticals are just starting up operations.

Sales in **Latin America** grew by +14.6% like-for-like. Alongside the two major countries Brazil and Mexico, L'Oréal is recording spectacular growth in Argentina, Colombia, Venezuela and Panama, where a subsidiary was created this year.
In Professional Products, the launch of the American brands Redken and Matrix in several countries is adding to the success of the already well established brands.
In Consumer Products, the Elsève Volume Control shampoo and haircare brand from L'Oréal Paris, created specifically for Latin American hair, has been rolled out in several countries.
The Luxury Products Division is continuing its conquests in fragrances, and is rolling out new brands such as Kiehl's, which has opened 3 boutiques in Mexico.
The Active Cosmetics Division is growing strongly, particularly in Brazil where it is number one in the dermocosmetics market. Brazil is now the second most important country in the world for the brand La Roche-Posay.

In the Other Countries, like-for-like sales increased by +15.4%.

- In India, strong growth is continuing thanks to the performances in Garnier haircare and skincare with Light Matte.
- In South Africa, as in Australia, the L'Oréal Paris brand is growing strongly, particularly in make-up.
- All our brands are growing in the Maghreb and the Middle East.

1.2.5. The Body Shop

Like-for-like sales growth at The Body Shop amounted to +5.7%.
Retail sales[1] increased by +7.9%. With a comparable store base[2], the increase in sales amounted to +3.3%.
Sales at the end of the year, traditionally the strongest period, were marked by a belated but good level of store frequentation, and the success of gift box sales. 4th quarter sales were held back by the difficulties of a large industrial subcontractor, causing disruptions in the availability of certain products.
Over the full year, trends in retail sales with a comparable store base were favourable in Western Europe. Growth was rapid in the Rest of the World, and in Russia, India, Hong-Kong and Japan. There were contrasting performance trends in the United States.
161 stores were opened during 2007, taking the total to 2,426. The brand is now established in 59 countries.

1.2.6. Galderma

During the last quarter of 2007, Galderma experienced solid development, yielding an annual turnover growth of +12.7% in 2007, like-for-like. Sales increased by +14.4% in the Americas and by +9.7% in Europe and the Rest of the World.

This worldwide double-digit increase was reinforced by the excellent performance of Differin® 0.1% and 0.3% (acne), Clobex® (psoriasis), Loceryl® (onychomycosis) and Cetaphil® (compromised skin).
Epiduo®, Galderma's new highly effective acne product, recently received regulatory approval in Argentina and Europe.
In the corrective and aesthetic dermatology segment, Galderma licensed the rights for a botulinum toxin A product. The company also signed an agreement for the development and distribution rights of an innovative topical anaesthetic for aesthetic medical procedures, which should be widely adopted by the industry as a new standard of care.

1.3. Results

1.3.1. Strong improvement in operating profit on a comparable structure basis

The group consolidated The Body Shop, together with professional distributors in the USA, for the first time in 2007, over a full year.
In the interest of visibility and comparability of the performance of the group, the table below sets out the consolidated profit and loss account excluding The Body Shop and excluding professional distributors. In fact, these two businesses have an operating account structure which is different from that of the L'Oréal group.

(1) Retail sales: total sales to consumers through all channels.
(2) Retail sales with a comparable store base: total sales to consumers by stores which operated continuously from January 1st to December 31st, 2006 and over the same period in 2007.

Consolidated profit and loss account excluding The Body Shop and excluding professional distributors in the USA

€ millions	12.31.2006 excluding The Body Shop	As % of sales	12.31.2007 excluding The Body Shop & excluding USA professional distributors	As % of sales
Sales	**15,355**	**100%**	**16,110**	**100%**
Cost of sales	–4,414	28.7%	–4,592	28.5%
Gross Profit	**10,941**	**71.3%**	**11,518**	**71.5%**
Research and development expenses	–531	3.5%	–557	3.5%
Advertising and promotion expenses	–4,718	30.7%	–4,950	30.7%
Selling, general and administrative expenses	–3,153	20.5%	–3,259	20.2%
Foreign exchange gains and losses	–56	0.4%	10	0.1%
Operating profit	**2,483**	**16.2%**	**2,762**	**17.1%**

Excluding The Body Shop and excluding professional distributors in the USA, sales amounted to €16,110 million.

Gross profit represented 71.5% of sales, an increase of 20 basis points compared with 2006. This improvement becomes even more clearly visible if the corresponding proportion of exchange gains and losses is allocated to gross profit in 2007 and 2006, that is 78% of the total. Adjusted for this factor, gross margin advanced by 50 basis points compared with 2006, reflecting the continuous striving to enhance product value, constant efforts to improve plant productivity, and control of ingredient purchasing and packaging costs.

Research and development expenses remained stable as a percentage of sales at 3.5%.

Advertising and promotion expenses represented 30.7% of sales in 2007, a level equivalent to 2006. This stability reflects an increase in volumes invested, improved cost management and more favourable media purchasing conditions.

Selling, general and administrative expenses represented 20.2% of sales, compared with 20.5% in 2006. This further improvement has been achieved through determined efforts in organisation, cost reduction and purchasing optimisation.

Operating profit amounted to €2,762 million, an increase of 11.3%. This represents 17.1% of sales, reflecting a further strong improvement in profitability.

1.3.2. 2007 consolidated profit and loss account (from sales to operating profit)

(including The Body Shop in 2006 and 2007 and professional distributors in the USA in 2007).

€ millions	12.31.2006	As % of sales	12.31.2007	As % of sales	Change
Sales	**15,790**	**100%**	**17,063**	**100%**	**+8.1%**
Cost of sales	–4,569	28.9%	–4,941	29.0%	+8.1%
Gross Profit	**11,221**	**71.1%**	**12,122**	**71.0%**	**+8.0%**
Research and development expenses	–533	3.4%	–560	3.3%	+5.1%
Advertising and promotion expenses	–4,783	30.3%	–5,127	30.0%	+7.2%
Selling, general and administrative expenses	–3,309	21.0%	–3,618	21.2%	+9.3%
Foreign exchange gains and losses	–55	0.3%	+10	0.1%	n/s
Operating profit	**2,541**	**16.1%**	**2,827**	**16.6%**	**+11.3%**

Overall, the group's operating items, including The Body Shop and professional distributors in the USA, can be summed up as follows:
- sales amounted to €17,063 million, up by +8.1%,
- gross profit amounted to €12,122 million, representing an increase of +8.0%,
- operating profit, at 16.6% of sales in 2007, has increased by 11.3%, representing a strong improvement of 50 basis points.

1.3.3. Good contribution from all cosmetics divisions

Operating profit by branch and division

	2006		2007	
	€ millions	% of sales	€ millions	% of sales
By operational division				
Professional Products	443	20.8%	502	21.0%
Consumer Products	1,421	18.0%	1,582	19.1%
Luxury Products	776	20.6%	844	21.5%
Active Cosmetics	221	19.6%	256	20.5%
Cosmetics divisions total	**2,860**	**19.1%**	**3,180**	**20.0%**
Non-allocated(1)	–437	2.9%	–479	3.0%
Cosmetics branch total	**2,423**	**16.1%**	**2,701**	**17.0%**
The Body Shop	58	13.4%	64	8.1%
Dermatology branch(2)	**59**	**17.3%**	**62**	**16.9%**
Group	**2,541**	**16.1%**	**2,827**	**16.6%**

(1) Non-allocated = Central group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total sales.
(2) Group share, i.e. 50%.

The profitability of each cosmetics division grew substantially in 2007.

The profitability of The Body Shop is not comparable year-on-year, because this business was only consolidated in the second half of 2006, and each year almost all the profit is made in the second half.

The profitability of the dermatology branch, Galderma, edged down slightly to 16.9% of sales, as a result of research investment decisions in the first half of 2007.

1.3.4. Strong increase in operating profitability in all geographic zones, particularly in the Rest of the World

Cosmetics branch: operating profit of geographic zones

	Operating profit			
	2006		2007	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,527	21.8%	1,633	22.5%
North America	744	18.8%	773	19.3%
Rest of the World	589	14.5%	774	16.6%
Cosmetics zones total	**2,860**	**19.1%**	**3,180**	**20.0%**

Profitability clearly increased in each geographic zone in 2007, particularly in the Rest of the World.
The contribution of this zone, in absolute value, reached the same level as North America.

1.3.5. Strong growth in net earnings per share: +13%

Consolidated profit and loss account (from operating profit to net profit excluding non-recurrent items)

€ millions	12.31.2006	12.31.2007	Change
Operating profit	**2,541**	**2,827**	**+11.3%**
Financial expense and income	–120	–182	
Sanofi-Aventis dividends	218	250	
Share in net profit (loss) of equity affiliates	–1	–	
Pre-tax profit excluding non-recurrent items	**2,638**	**2,896**	**+9.8%**
Income tax excluding non-recurrent items	–803	–856	
Minority interests	–1	–1	
Net profit excluding non-recurrent items after minority interests (1)	**1,833**	**2,039**	**+11.2%**
EPS (2) (in euros)	**2.98**	**3.36**	**+13.0%**
Net profit after minority interests	**2,061**	**2,656**	**+28.9%**
Diluted net earnings per share (group share) (in euros)	3.35	4.38	+30.9%
Diluted average number of shares	**615,723,220**	**606,012,471**	

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

Finance costs increased from €116 million to €174 million in 2007. This reflects the cost of financing acquisitions, rising interest rates in the United States and Europe, and the continuation of the share buyback programme.

The dividends received from Sanofi-Aventis amounted to €250 million, an increase of 15% compared with 2006.
Tax amounted to €856 million. The tax rate in 2007 amounted to 29.5%, lower than in 2006 when the rate was 30.4%.

Overall, net profit excluding non-recurrent items after minority interests came in at €2,039 million, up by 11.2%.
After allowing for the positive effect of share buybacks, net earnings per share amounted to €3.36, up by +13%.
Exchange rate impact: On an identical exchange rate translation basis, i.e. by applying the exchange rates recorded in 2007 to the 2006 figures, net earnings per share growth would have been +15.9%. This calculation shows the significant impact on the group's earnings of the strong currency fluctuations in 2007.

1.3.6. Exceptional growth in net profit after minority interests: +28.9%

Consolidated profit and loss account (from net profit excluding non-recurrent items to net profit)

€ millions	12.31.2006	12.31.2007	Change in %
Net profit excluding non-recurrent items after minority interests	1,833	2,039	+11.2%
Non-recurrent items	228	617	NC
Net profit after minority interests	**2,061**	**2,656**	**+28.9%**
Diluted earnings per share (euros)	3.35	4.38	+30.9%

After allowing for non-recurrent items, primarily the capital gain on the disposal of Sanofi-Aventis shares on November 14th, 2007, net profit after minority interests amounted to €2,656 million, representing growth of approximately 29%.

1.3.7. Strong growth in cash flow: +12.9%

Cash flow at December 31st, 2007 amounted to €2,720 million, up by some 13%. Working capital requirement remained well under control at €76 million. Capital expenditure at €776 million decreased slightly as a percentage of sales to 4.5% compared with 4.7% in 2006. Net debt, at December 31st, 2007, amounted to €2,373 million, some €1 billion lower than on December 31st, 2006. Gearing has been reduced significantly and is now 17.4%.

1.3.8. Proposed dividend increased by +16.9%

The Board of Directors has decided to propose that the Annual General Meeting of Shareholders of April 22nd, 2008 should approve a dividend of €1.38 per share, representing an increase of +16.9% compared with the dividend paid in 2007.

1.4. Prospects

L'Oréal's ambition is to continue to win positions and to grow more quickly than the market. The percentage of sales generated in new, booming markets is now significant and acts as a powerful global growth driver. These prospects are described by each of the group's divisions in Volume 1 of the Annual Report.

1.5. Research and Development

The world of beauty is changing. The increase in longevity and the migration of populations have led to the emergence of new beauty expectations. At the same time, the avenues of beauty are becoming more diversified. Men and women turn to surgeons, dermatologists and herbalists but also to beauty parlours, chemists, hairdressers, perfume shops or supermarkets. Research at L'Oréal takes into account all these factors to anticipate beauty trends, seize growth opportunities and invent the products of tomorrow, without making any concessions in terms of quality, safety and performance.

€560 million were invested in Research in 2007, 576 patents were filed and 3,095 employees are engaged in cosmetics and dermatology research for L'Oréal. See also the chapter in Volume 1 of the Annual Report on Research and Development, pages 52 *et seq*.

1.6. Production and Technology

The newly created General Operations Division now brings together the production teams and the commercial logistics staff under a single authority. At the same time, the entire supply chain has been redeployed in four geographic zones (Europe, Asia, Latin America, North America) enjoying wide autonomy, which will make it possible to accelerate projects aimed at sharing resources. Constant efforts are made to simplify and optimise production facilities and to reduce costs of purchases on a recurring basis. The ongoing process of reorganising production and logistics structures is continuing, in order to improve return on investments and feed the spiral of cost reduction in a less favourable context in terms of raw material prices. See also the chapter in Volume 1 of the Annual Report on Operations, pages 56 and 57.

1.7. Sustainable development

Beyond its financial results and the success of its business model, L'Oréal develops its activity in the framework of values shared by all staff members. The group's approach is in line with rules of conduct which are based on founding ethical principles and firm convictions. L'Oréal's objective is to ensure sustainable, responsible growth.

1.8. 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 2007, it consisted mainly of the following (annual data):

2007	Total
Waste (tonnes) (excluding exceptional waste) (1)	2,407.8
Recycled waste (tonnes)	2,384.2
Recycling ratio (%)	99.02
Direct CO_2 (tonnes)	5,672
SO_2 (tonnes)	0.16
Water consumption (m^3)	151,380
Energy consumption (MWh)	82,779
Including: electricity (MWh)	51,639
gas (MWh)	30,678
fuel oil (MWh)	462

Note: The reporting scope includes 7 administration sites and Research centres.

The group data are provided in the "Social & Environmental Responsibility" chapter of Volume 1 of the Annual Report (pages 14 to 17). With regard to all the group's factories and distribution centres (excluding recent acquisitions), the main data are as follows:

2007	Total
Waste (tonnes) (excluding exceptional waste) (1)	144,566
Recycled waste (tonnes)	137,188
Recycling ratio (%)	95
Direct CO_2 (tonnes)	82,582
SO_2 (tonnes)	56.3
Water consumption (m^3)	3,137,000
Energy consumption (MWh)	816,647
Including: electricity (MWh)	380,618
gas (MWh)	400,407
fuel oil (MWh)	35,622

(1) Exceptional waste is the result of works or operations that are outside the normal scope of operation of the sites concerned.

Additional information is also provided in the section on "Industrial and environmental risks" of the chapter on risk factors which follows.

1.9. Risk factors

The group's Internal Control, which is based on reference texts, charters, standards, procedures, and good practices, is aimed at creating and maintaining an organisation which enables the prevention and management of risks, particularly those of an economic, financial and legal nature, to which the company and its subsidiaries are exposed inside and outside France, even though no absolute guarantee of a total absence of risk can ever be provided.

1.9.1. Business risks

Intellectual property: trademarks and models

L'Oréal has a large portfolio of trademarks and models which are one of the group's strategic assets. 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 vigilance 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' organisation, the Union des Fabricants, and the International Chamber of Commerce.

Before filing trademarks and models, 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 or a production process, L'Oréal has set up a specific structure, the International Industrial Property Department as part of the Research and Development Division; this department is responsible for filing the group's patents, exploiting them and defending them on a worldwide basis.

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.

Image and reputation

The company's reputation and its brand image may be compromised from one moment to the next in a globalised world where the report of an incident is conveyed from one continent to the next at the speed of the Internet.

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 task is to prevent, manage and limit the consequences of undesirable events on the company. Likewise, the deployment of the Ethics Charter throughout the group as a whole is aimed at reinforcing the distribution of the rules of good conduct which ensure L'Oréal's integrity and enforce its ethics. The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and employ the group's values in the everyday acts of every one of its employees.

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 employees to comply with the regulations of the countries in which the company operates.

Being an active member of professional associations in the countries where our 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.

Geographic presence

L'Oréal is present in over 130 countries with 54% of its sales being generated outside Western Europe. Besides the currency risks mentioned on pages 44 to 46 and 68 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.

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 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 would help 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 permanent struggle to obtain the best positions and the most attractive and most effective product ranges, with an optimal quality-price ratio, winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge.

Information systems

The day-to-day management of activities which notably include production and distribution, invoicing, reporting and consolidation operations, 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.

1.9.2. Liquidity risks

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 confirmed credit lines from first-rate banks totalling €2,625 million for terms ranging from 1 to 5 years depending on the case.

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 note 23, on page 42 *et seq.*).

The L'Oréal group is rated by the Standard & Poor, Moody's and Fitch credit rating agencies which have respectively given it the following short-term credit ratings: A1+, Prime 1 and F1+.

1.9.3. Financial and market risks

Financial risks include currency risk, interest rate risk, share risk and accounts receivable 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 forbids its subsidiaries from speculating in currency and adopts a conservative approach of hedging at year-end nearly 100% of 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. Currency risk management is centralised with the Treasury Department at head office (Financial Services Department) to offer better visibility of the flows generated. 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 on pages 44 and 45 of this document called *Hedging of Currency Risk*.

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings. The group mainly refinances at floating rates. 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 note 24.2 on page 46 of this document called *Hedging of interest rate risk*.

L'Oréal does not invest its cash in shares. For L'Oréal, the main share risk lies in the 8.7% stake that it holds in the capital of Sanofi-Aventis, as described in note 24.5 on page 47 of this document called *Share 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. Due to the large number and variety of distribution channels at worldwide level, the risk for L'Oréal is disseminated and the likelihood of occurrence of significant damage on the scale of the group remains limited. At the level of the subsidiaries, group policy is to recommend customer insurance cover in as much as this is permitted by local conditions. 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 (on page 33 of this document). It represents less than 2% of gross accounts receivable.

1.9.4. Legal risks

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, in particular the 25 major international brands described in its 2007 annual report, with the exception of a few brands that have been licensed to it and most of which are currently used by the Luxury Products Division, primarily the Giorgio Armani, Ralph Lauren and Cacharel brands.

Moreover, the group is not in a situation of significant technical or commercial dependence in relation to third parties.

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. The group sets aside a provision whenever a risk is found to exist and an estimate of its cost is possible. To date, there is no exceptional event nor any governmental procedure, legal or arbitration proceeding which has recently materially affected, or is seriously likely to materially affect, the results, financial situation, assets or operations of the company and the L'Oréal group.

1.9.5. Industrial and environmental risks

Industrial risks

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 40 factories, which specialise in a specific type of technology. Furthermore, products must be made available on the market on fixed dates to meet launch plans 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. Furthermore, L'Oréal is dependent on its external suppliers for the delivery of materials 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 are aimed in particular at attempting to find replacement solutions (for example: supplier back-up, availability of several moulds for strategic products).

Environmental risks

To manufacture its products, L'Oréal uses chemical raw materials and the packaging of certain products requires them to be handled with special care. Like in the case of any industrial process, L'Oréal is exposed to safety and environmental issues (relating, for example, to the use of machines or electrical equipment for production or storage, waste water treatment, handling operations that are liable to cause accidents that may involve bodily injury, etc.).

To ensure that the group complies with its commitments to protect the environment and improve occupational health and industrial safety conditions, and to achieve specific targets, a rigorous Safety, Health and Environment (SH&E) policy has been implemented throughout the group for several years. The General Operations Division issues internal rules fixing the principles of the L'Oréal policy with regard to SH&E. A Safety, Health and Environment representative is appointed at each industrial site. The L'Oréal group operates a total of 105 manufacturing sites, of which 3 have the "High Seveso" classification.

The SHAP (Safety Hazard Assessment Procedure) is a hazard prevention programme based on the assessment of risks by employees at grassroots level. It helps define the risks associated with each workstation, and assesses the corresponding danger, so that a highly detailed risk mapping of each factory's hazards can be drawn up. Using this method, a record is kept of all risks, the level of each risk is assessed, and new ways of limiting residual risks are found. It is applied uniformly throughout the group, and is supported by dialogue between managers, thus contributing to a significant collective improvement in risk management.

1.9.6. Insurance

The group's overall insurance policy

The objective of the group's policy on insurance is to protect the group's balance sheet and profit and loss account 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 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. The majority of 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.

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 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.

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.

1.10. Significant events that have occurred since the beginning of 2008

Canan

Following the agreement signed in November 2007 to acquire 100% of the Turkish hair products company Canan, which was the subject of a news release published on November 15th, 2007, L'Oréal finalised this acquisition in January 2008, after approval by the relevant authorities (see chapter on "Subsidiaries and Holdings" page 71).

L'Oréal USA acquires Columbia Beauty Supply

L'Oréal USA, a subsidiary of L'Oréal, acquired 100% of Columbia Beauty Supply on January 7th, 2008. Established in four states of the southeastern part of the US, Columbia Beauty Supply achieved sales of about $60 million in 2007, supplying hair salons in this region through Distributor Sales Consultants and outlets reserved for professionals. The acquisition of Columbia Beauty Supply – which will operate within the Professional Products Division – follows that of Beauty Alliance and Maly's West acquired by L'Oréal USA in April and July 2007 respectively. With its geographical complementarity, Columbia Beauty Supply will be managed by Beauty Alliance. This acquisition demonstrates L'Oréal's determination to offer a better service to US hair salons.

Proposed strategic agreement between L'Oréal and PPR regarding Yves Saint Laurent Beauté

Following the authorisation of its Board of Directors which met on January 23rd, 2008, L'Oréal made a firm offer to PPR the same day to:

• acquire the shares of YSL Beauté Holding including the Roger & Gallet brand, for €1,150 million in terms of enterprise value,

• obtain an exclusive and very long-term worldwide licence for the use of the Yves Saint Laurent and Boucheron brands in the category of perfumes and cosmetics, under conditions conforming to usual market practice,

• take over the licences for the Stella McCartney, Oscar de la Renta and Ermenegildo Zegna brands in the category of perfumes and cosmetics.

On the basis of this offer, PPR has granted exclusive negotiation rights to L'Oréal.

2. REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

The financial statements of the L'Oréal parent company were reviewed by the Audit Committee and the Board of Directors and then closed off by the Board of Directors at its meeting on February 13th, 2008, in the presence of the Statutory Auditors.

2.1. Net sales

€ millions **Net sales**	2007	2006	Change as a %
1st quarter	522.0	515.3	1.30%
2nd quarter	576.1	526.8	9.37%
3rd quarter	471.8	467.1	1.01%
4th quarter	503.8	494.2	1.94%
Total	**2,073.8**	**2,003.4**	**3.51%**

N.B: These net sales figures include sales of goods and finished products, accessories, sales of 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 intercompany sales from a consolidated standpoint.

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 in the Parent Company Financial Statements Chapter of this document.

At December 31st, 2007, total assets amounted to €11,498.0 million, compared with €11,348.5 million at December 31st, 2006.

The parent company financial statements are presented in accordance with the 1999 French General Accounting Plan adopted by the *Comité de la Réglementation Comptable* on April 29th, 1999 and approved by the ministerial order of June 22nd, 1999.

At December 31st, 2007, the share capital consisted of 617,975,610 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 and those with respect to technology are included in the *Net sales* item.

A certain proportion of the above amounts are taxed at a reduced rate.

The profit and loss account shows net profit of €2,822.4 million compared with €1,690.3 million at December 31st, 2006.
The year-on-year change in profit can mainly be accounted for by the after-tax capital gain of €1,376.5 million on the sale of Sanofi-Aventis shares and by a decrease in net financial income of €270.9 million (due to a decrease in reversals of provisions for impairment of treasury stock and an increase in interest expense on loans in particular).

Net profit amounts to €2,822.4 million for 2007:
• after reversal of the provision for capital expenditure set aside in 2002 with regard to the 2001 financial year amounting to €7.1 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 profit-sharing,
• a reserve for the benefit of employees amounting to €17.2 million for which a provision of €17.5 million was booked in 2006,
• and a provision of €19.3 million booked for employee profit-sharing for 2007,
• 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 €2.7 million, compared with €0.8 million in 2006.

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: €0.7 million,
• corresponding tax amount: €0.2 million.

2.3. Subsidiaries and holdings

Information concerning the activities of subsidiaries is provided at the beginning of this Report, in the description of the activities of the zone to which they belong, as well as in Volume 1 of the Annual Report. Financial data concerning them are also contained in the table showing subsidiaries and holdings at December 31st, 2007, which is attached to the parent company financial statements.

Beauty Alliance
In April 2007, L'Oréal USA, a subsidiary of L'Oréal, acquired 100% of Beauty Alliance, in which it had taken a 30% minority interest in July 2006. Beauty Alliance is one of the largest and fastest-growing professional salon distributorships in the US. The company sells to 125,000 salons through 870 Distributor Sales Consultants and through 400 professional outlets. Beauty Alliance achieved sales of $372 million in 2006 and was consolidated as of April 12th, 2007.

PureOlogy
In May 2007, L'Oréal acquired, through its subsidiary L'Oréal USA, PureOlogy Research, a luxury American haircare brand sold through hairdressers in the professional haircare market. Based in Irvine, California, the company sells, in hairdressers' salons, a luxury brand of high performance haircare products uniquely developed for hair colourists to use and recommend to their clients. PureOlogy's sales were $57 million for the last 12 months prior to the acquisition, and the company is one of the fastest-growing in the sector. PureOlogy was consolidated as of May 8th, 2007.

Maly's West
In July 2007, L'Oréal USA acquired 100% of Maly's West, the third largest professional salon distributorship in the US. With facilities in the western United States, the company sells to 30,000 salons through 340 Distributor Sales Consultants and through more than 100 professional outlets. Maly's West achieved sales of $187 million in 2006 and was fully consolidated as of August 1st, 2007.

Sanofi-Aventis
On November 14th, 2007, L'Oréal sold a stake of 1.8%, consisting of approximately 25 million shares, in the share capital of Sanofi-Aventis. This disposal took place in the form of a private placement through accelerated bookbuilding and was made at a price of €60.5 per share. This placement earned approximately €1.5 billion for L'Oréal. Following this transaction, L'Oréal's stake in Sanofi-Aventis was reduced to 8.7%.

Canan
On November 15th, 2007, L'Oréal signed an agreement to acquire 100% of the Turkish haircare products company Canan, and concerning the following companies: Canan Kozmetik, Canan Pazarlama and Seda Plastik. Founded in 1981, Canan achieved sales of €26 million in 2006, mainly through its Ipek brand which is in 4th position in the mass-market haircare segment (see chapter on Significant events that have occurred since the beginning of 2008 on page 70).

3. INFORMATION CONCERNING THE SHARE CAPITAL

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

None.

3.2. Issued share capital and authorised unissued share capital

The share capital amounts to €123,595,122.00 as of December 31st, 2007. It is divided into 617,975,610 shares with a par value of €0.20 each, all of the same class and ranking pari passu.

The table set out below summarises the currently valid authorisations granted to the Board of Directors by the Annual General Meeting concerning capital increases, in application of Articles L.225-129-1 and L.225-129-2 of the French Commercial Code, and shows the use made of these authorisations during the financial year.

Nature of the authorisation	Date of authorisation by the AGM	Length of the authorisation	Maximum share issue	Utilisation made of the authorisation in 2007
Capital increase by the issue of shares with maintenance of preferential subscription rights or via the capitalisation of share premiums, reserves, profits or other amounts	April 24th, 2007 (8th resolution)	26 months	Authorisation to increase the share capital to a maximum amount of €185,000,000	None
Allocation of share purchase or subscription options	April 24th, 2007 (9th resolution)	26 months	2% of the share capital on the date of the Board of Directors' decision	4,000,000 share subscription options exercisable from December 1st, 2012 to November 30th, 2017 on the basis of one share per option a price of €91.66 (1)
Free grant of shares to employees	April 24th, 2007 (10th resolution)	26 months	0.2% of the share capital on the date of the Board of Directors' decision	None
Increase in share capital for the benefit of employees	April 24th, 2007 (11th resolution)	26 months	1% of share capital existing at the date of the AGM that granted the authorisation (i.e. a maximum of 6,261,269 shares)	None

(1) Board of Directors' meeting of November 30th, 2007.

At December 31st, 2007, 24,255,850 share subscription options were exercisable (of which 20,255,850 were granted within the framework of authorisations prior to that voted by the Annual General Meeting of April 24th, 2007). 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 €128,446,292, divided into 642,231,460 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.

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

In euros Date	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
12.31.2002	–	–	–	135,212,432	–	676,062,160
04.29.2004	Merger with Gesparal	72,808,580	907,375,804	208,021,012	364,042,900	1,040,105,060
	Cancellation of shares previously held by Gesparal	–72,808,580	–907,312,807	135,212,432	–364,042,900	676,062,160
04.26.2005	Cancellation of shares	–3,460,000	–	131,752,432	–17,300,000	658,762,160
04.27 to 12.31.2005	Exercise of share subscription options	1,500	433,750	131,753,932	7,500	658,769,660
01.01 to 04.24.2006	Exercise of share subscription options	5,600	1,683,395	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	127,923,282	48,000	639,616,410
01.01 to 02.14.2007	Exercise of share subscription options	250	78,525	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	3,516,222	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	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

3.4. Legal entities or individuals exercising control over the company to the company's knowledge

Acting in concert, the Bettencourt family, on the one hand, and Nestlé S.A., on the other hand, held, at December 31st, 2007, 58.91% of the share capital and 61.15% of voting rights in the company (see "Shareholders' agreements relating to shares in the company's share capital" hereafter).

3.5. 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:

	12.31.2005			12.31.2006			12.31.2007		
	Number of shares	% of capital	% of voting rights (2)	Number of shares	% of capital	% of voting rights (2)	Number of shares	% of capital	% of voting rights (2)
Bettencourt family (1)	185,661,879	28.18%	29.95%	185,661,879	29.03%	30.65%	185,661,879	30.04%	31.19%
Nestlé S.A. (1)	178,381,021	27.08%	28.77%	178,381,021	27.89%	29.45%	178,381,021	28.87%	29.96%
Public	255,930,710	38.85%	41.28%	241,679,210	37.78%	39.90%	231,267,773	37.42%	38.85%
Treasury stock	38,796,050	5.89%		33,894,300	5.30%		22,664,937	3.67%	

(1) The Bettencourt family and Nestlé S.A. act in concert (see "Shareholders' agreements relating to shares in the company's share capital" hereafter).
(2) 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, 2007, the members of the Management Committee directly 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 notes to the Management Report concerning "Information about corporate officers".

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, 2007, the company held, on this basis, 22,664,937 of its own shares, which, if they were to be valued at their purchase price, represented €1,785.8 million, of which:

- 16,383,937 (2.65% of the share capital) were used to cover the existing stock option plans for the purchase of shares allocated to employees and corporate officers of group companies,
- 6,281,000 (1.02% of the share capital) were intended for cancellation.

3.6. Employee share ownership

The employees of the company and its affiliates held 3,511,015 shares as at December 31st, 2007, that is 0.57% of the share capital, through the company savings plan. The chairmen of the Supervisory Boards of each fund exercise the voting rights attributed to the shares held by the said fund.

3.7. Disclosures to the company of thresholds crossed

During 2007, the company was not informed of any crossing of the legal thresholds for the holding of its shares or voting rights.

However, the following disclosures were made of the crossing of thresholds provided for in the Articles of Association:

Date of disclosure	Date of crossing of the threshold	Entity making the disclosure	Threshold crossed	Way the threshold was crossed	Holding after crossing of the threshold
February 22nd, 2007	February 22nd, 2007	CNP Assurances	1% of the capital	Upwards	1.01 of the capital and 0.99% of the voting rights
July 5th, 2007	July 2nd, 2007	Natixis Asset Management	1% of the capital	Upwards	1.44% of the capital
July 18th, 2007	July 13th, 2007	CNP Assurances	1% of the voting rights	Downwards	0.97% of the capital and of the voting rights

3.8. 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:

3.8.1. 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

- 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.
- 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*).
- 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 operation.

• 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 30 trading sessions prior to notification of exercise of the pre-emption right.

3.8.2. Board of Directors

The 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 "Strategy and Implementation" 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 independent director. The committee meets six times a year.

3.8.3. Term

Unless otherwise stipulated, the 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.

3.8.4. Concerted action between the parties

The parties have declared that they will act in concert for a period of five years from April 29th, 2004 onwards.

3.9. Authorisation granted to the Board of Directors in 2007 for the purpose of increasing 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 authorisation granted to the Board of Directors to increase the share capital either through the issue of shares in cash with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts, that may be used on one or more occasions, was renewed in 2007, for a period of 26 months. The maximum nominal amount beyond which the capital may not be increased is €185,000,000, thus enabling a nominal capital increase of a maximum of 47.7% with regard to the share capital at the time of voting of the resolution.

In 2007, the Board did not decide to carry out a capital increase under the conditions specified in this resolution.

3.10. Authorisation granted to the Board of Directors in 2007 for the purpose of carrying out a capital increase reserved for employees

The Ordinary and Extraordinary General Meeting of April 24th, 2007 decided, in application of Article L.225-129-6 of the French Commercial Code, on a resolution for a capital increase reserved for employees, in that it also granted the Board of Directors an authorisation to increase the share capital and authorised the Board of Directors to grant share subscription options and to make free grants of shares to be issued.

The Annual General Meeting authorised the Board of Directors to carry out an increase in the share capital in cash, in accordance with the provisions of Article L.225-129-2 of the French Commercial Code, on one or more occasions, in accordance with the conditions stipulated in Article L.225-138 of the French Commercial Code and Article L.443-5 of the French Labour Code. This authorisation was granted for a period of 26 months from the date of the decision of the Annual General Meeting and the total number of shares that can be subscribed by employees may not exceed 1% of the share capital on the date of the decision of the Board of Directors. The subscription price is set in accordance with the provisions of Article L.443-5 of the French Labour Code.

In 2007, the Board of Directors did not decide to carry out a capital increase reserved for employees.

4. EMPLOYEE INFORMATION

4.1. Human relations

Human relations have the task of fuelling lasting growth in the company by assisting men at women at L'Oréal throughout their careers. Identifying and hiring the great talents of the future, developing them, promoting them and fostering their loyalty are at the core of the forward-looking strategy adopted by Human relations. In order to do so, efforts are made all across the board to attract the best people and to communicate to them L'Oréal's passion for its business and its brands. Working conditions, remuneration policies, attentiveness to employee concerns and career opportunities help to retain employees and thus to capitalise on the energy displayed by everyone.

4.2. L'Oréal parent company employee information

Pursuant to Article L.225-102-1 of the French Commercial Code, L'Oréal includes in the Management Report information about the way the company monitors the social and employee-related consequences of its activity in 2007.

4.2.1. Number of employees and number of persons hired

Total number of employees at December 31st, 2007

L'Oréal had a total of 5,797 employees at December 31st, 2007. L'Oréal hired 353 persons on permanent contracts, 380 on fixed-term contracts and 227 persons on work and training contracts (174 apprenticeship contracts and 53 contracts offering professional experience). In addition, 360 persons were hired on a short-term basis during the holiday period or for a single season.

2007	Men	Women	All
Executives	1,242	1,427	2,669
Supervisors and technical staff	461	1,667	2,128
Administrative staff	138	250	388
Manual workers	196	104	300
Sales representatives	200	112	312
Total	**2,237**	**3,560**	**5,797**

For information, the total number of group employees (including all consolidated group companies worldwide) was 63,358 as of December 31st, 2007.

Difficulties in recruiting

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

Redundancies or dismissals

In 2007, there were no redundancies for economic reasons. Out of a total of 5,797 employees, 44 persons 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 2007 was 21,287 hours for a gross amount of €409,501, representing the equivalent of 13.40 persons, that is 0.23% of the total number of employees.

Temporary workers

Temporary workers at L'Oréal represent 3.06% of the total number of employees on average, for an average monthly total of 180 temporary workers and an average length of contract of 11 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 2007.

4.2.2. Work organisation

L'Oréal applies the National Collective Bargaining Agreement for the Chemical Industries and various company-level agreements, of which the most recent, 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 484 part-time employees, the great majority work for 4/5 of the working week, 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	32,083	1,452,913	2.21%
Accidents in the workplace/ on the way to work – occupational diseases	2,197	1,452,913	0.15%
Maternity leave – adoption	19,409	1,452,913	1.34%
Family events	8,088	1,452,913	0.56%
Other absences	97	1,452,913	0.01%
Total	**61,874**	**1,452,913**	**4.27%**

% absenteeism:

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

4.2.3. 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 included in the category to which they belonged in the 2nd year.

In euros	2006			2007			
	Men	Women	All	Men	Women	All	Change
Executives	5,597	4,513	5,008	5,887	4,746	5,267	5.17%
Supervisors and technical staff	2,676	2,666	2,666	2,769	2,751	2,755	3.25%
Administrative staff	2,024	1,910	1,954	2,074	1,960	2,003	2.53%
Manual workers	2,166	2,100	2,143	2,219	2,154	2,196	2.50%
Sales representatives	3,769	3,307	3,619	3,938	3,502	3,796	4.89%

Employer payroll contributions

Total employer payroll contributions for 2007 amounted to €141,109 thousand.

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 2006. The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items, and weighed 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.

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

€ thousands	2004	2005	2006
	82,388	84,935	89,141
Of which the L'Oréal parent company represents	43,350	45,573	48,137

For an annual gross salary of:	The gross incentive amount for 2006 paid in 2007 represented:
€25,000	€5,936 i.e. 2.85 months
€32,000	€6,741 i.e. 2.53 months
€45,000	€8,235 i.e. 2.20 months
€60,000	€9,960 i.e. 1.99 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 2006.

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 payments are mandatorily frozen for a period of 5 years.

Changes in employee profit-sharing in France for all companies covered by the L'Oréal group agreement:

€ thousands	2004	2005	2006
	31,465	27,881	31,211
Of which the L'Oréal parent company represents	17,075	15,386	17,292

Profit-sharing for 2006 paid in 2007 represented the equivalent of 0.78 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 R.442-12 of the French Labour Code,

• since 2004, to invest 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 consisting of seven investment funds offering a wide range of possibilities and great flexibility of use. Four of the funds are diversified (shares, bonds, French and international securities, etc.) and three are funds consisting entirely of L'Oréal shares. One of the funds is only intended to receive incentive payments and an additional employer contribution of +25% is paid. Another fund may receive, under the terms of the 35-hour working week agreement, a voluntary payment of the equivalent amount of days worked and an employer contribution of +100% is added.

In 2007, the employees of L'Oréal in France invested €33,578,072 and €1,467,615 respectively, net of the compulsory social levies – CSG (the general social contribution) and CRDS (the contribution to reimbursement of the French social security debt) – in the two funds that consist entirely of L'Oréal shares, "*L'Oréal Intéressement*" and "*L'Oréal à Versements Personnels Protégés*". The employer contributions added to these payments were €7,713,772 and €1,354,651 which, at the opening trading price for the L'Oréal share on the date of each of these employer contributions, namely €86.76 on June 29th, 2007 for "*L'Oréal Intéressement*" and €79.50 on February 28th, 2007 for "*L'Oréal à Versements Personnels Protégés*", represents the equivalent of 105,949 L'Oréal shares. As the total net amount of incentives allocated in 2007 was €82,344,180, L'Oréal therefore proposed nearly 240,000 shares free of charge to its employees in France in 2007, in the form of this additional employer's contribution.

Company savings plan and frozen current account for all companies covered:

€ thousands	2004	2005	2006	2007
Company savings plan and frozen current account	352,692	438,550	514,112	620,743

At December 31st, 2007, 52% of the savings of L'Oréal employees were invested in L'Oréal shares, and 10,590 group employees in France were shareholders of L'Oréal through the savings plan.

Incentive schemes worldwide

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 2006, L'Oréal paid in 2007 €49.2 million, which represents approximately 2.7 weeks' salary (for all subsidiaries combined).

Professional equality

Professional equality between men and women is a principle to which L'Oréal has always been very much attached. Non-discrimination is one of the fundamental principles asserted in the company's ethics charter.

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.432.3.1 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).

Ten study groups on Diversity have been created at L'Oréal and are made up of employee representatives, representatives of management and other employees in certain of the study groups.

The purpose of these study groups is to exchange and share information on the measures implemented in order to combat all forms of discrimination and to promote diversity and equal opportunities.

The question of promoting professional equality is one of the questions handled by the study groups on Diversity. For example, 53,5% of L'Oréal executives are women.

4.2.4. 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	2007
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: 12.

List of collective agreements

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

Employee savings

Amendment Agreement No.1 to the special group profit sharing agreement for 2006-2007-2008, signed on May 4th, 2007.

Amendment Agreement No.1 to the group incentive agreement for 2006-2007-2008, signed on May 14th, 2007.
Amendment Agreement No.2 to the agreement relating to the intercompany collective retirement savings plan, signed on May 4th, 2007.
Group savings plan agreement, signed on May 4th, 2007.
Amendment Agreement No.2 to the special group profit sharing agreement for 2006-2007-2008, signed on December 7th, 2007.
Amendment Agreement No.1 to the group savings plan agreement, signed on December 7th, 2007.
Amendment Agreement No.3 to the agreement relating to the intercompany collective retirement savings plan, signed on December 7th, 2007.

Maternity leave
Agreement on the provisions relating to maternity leave and adoption leave applicable as of July 1st, 2007.

Healthcare costs
Amendment agreement to the collective agreement of August 30th, 2002 and to its appendices and supplemental agreements on the healthcare benefits scheme, signed on June 26th, 2007.

Provident schemes
Amendment agreement to the provident scheme agreement of June 10th, 1993 applicable to L'Oréal employees who fall within the scope of Amendment Agreement No.2 to the National Collective Bargaining Agreement for the Chemical Industries and Article 36 of the National Collective Bargaining Agreement for Executives who have a coefficient of 300, signed on September 24th, 2007.
Amendment agreement to the provident scheme agreement of December 10th, 2004 effective as of January 1st, 2005 applicable to Executives and similar employees of L'Oréal who fall within the scope of Article 4 and Article 4bis of the National Collective Agreement on Pension and Provident Schemes for Executives, signed on September 24th, 2007.
Amendment agreement to the provident scheme agreement of December 10th, 2004 effective as of January 1st, 2005 and to its supplemental agreements applicable to Executives and similar employees of L'Oréal who fall within the scope of Article 4 and Article 4bis of the AGIRC Agreement of March 14th, 1947, signed on December 17th, 2007.
Amendment agreement to the provident scheme agreement of June 10th, 1993 and to its supplemental agreements 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, signed on December 17th, 2007.
Amendment agreement to the provident scheme agreement of October 29th, 1992 and to its supplemental agreements applicable to administrative staff, manual workers, supervisors and technical staff of L'Oréal who do not fall within the scope of Article 36 of Appendix I and Articles 4 and 4bis of the AGIRC Agreement of March 14th, 1947, signed on December 17th, 2007.
Amendment agreement to the provident scheme agreement of April 13th, 1995 and to the agreement of March 3rd, 1997 and to its supplemental agreements applicable to sales representatives of L'Oréal affiliated with the IRREP, signed on December 17th, 2007.
Amendment agreement to the provident scheme agreement of April 13th, 1995 and to its supplemental agreements applicable to sales representatives of L'Oréal affiliated with the IRP/VRP, signed on December 17th, 2007.

Pension schemes
Amendment Agreement No.8 to the early retirement plan agreement of December 7th, 1983, signed on April 5th, 2007.
Supplementary defined contribution pension scheme agreement, signed on December 14th, 2007.

4.2.5. 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 2007, 77 meetings of the CHSCTs (health, safety and working conditions committees) were held, in the 14 such committees that exist at L'Oréal.
Five occupational doctors are present on all the company's sites and 6,211 medical examinations were conducted in 2007 (medical examinations upon hiring, return to work after sick leave or regular medical examinations).
In 2007, there were 57 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 enables 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.

4.2.6. Training

Percentage of total salaries allocated to continuing education in 2007

Amount allocated to training (€ thousands)	13,913
% of total salaries	4.4%

Number of persons receiving training: 4,096 i.e. 70.6% of the total number of employees at December 31st, 2007.

Number of training units: 8,181 or 2 units of training on average per person trained.

Number of hours of training: 132,528 hours.

Number of employees who made use of the Individual Training Entitlement (*Droit Individuel à la Formation* - "*DIF*"): 107.

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

4.2.7. Employment and job opportunities for disabled workers

The number of disabled workers was 108 at December 31st, 2007, as compared with 100 persons at December 31st, 2006. Subcontracting to special workshops for disabled workers and occupational therapy centres represented an amount of €266,000, a +50% rise as compared with 2006.

4.2.8. Welfare

Breakdown of the company's expenses:

€ thousands	2007
Accommodation	
Payment to the "1% housing fund"	1,337
Transport	
Shuttle services	153
Catering	
Company restaurant facilities	6,698
Miscellaneous	
Special social events for personnel	1,156
Total	**9,344**

Payment to the L'Oréal Central Works Council and to the three works councils at its establishments: €1,489 thousand.

4.2.9. Amount of subcontracting

€ thousands	2007
Subcontracting purchases	4,878
Special contract work	307,850

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 adopt, uphold and implement, in its sphere of influence, the ten fundamental principles relating to human rights, labour standards, the environment and anti-corruption.
L'Oréal respects and promotes the Universal Declaration of Human Rights. In this area, Mr Lulin, the Director of Ethics, has the task of ensuring that all the values set out in the group's Ethics Charter are strictly complied with, particularly as regards human rights.

L'Oréal refers to the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, which covers freedom of association, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation. Particular attention is paid to the eradication of child labour and forced labour. 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 ILO Declaration on Fundamental Principles and Rights at Work. 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 ILO Declaration on Fundamental Principles and Rights at Work. Regular audits are performed to check on this compliance: nearly 600 supplier audits were performed in 2007. Besides L'Oréal's vast programme of audits with regard to supplier 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.

4.2.10. Territorial impact on employment and regional development

L'Oréal's establishments are situated in the Paris region: Paris, Clichy-la-Garenne, Roissy Charles-de-Gaulle, Saint-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 2,183 employees on permanent and fixed-term contracts and has thus contributed to regional development.

In 2007, an amount of €16,243 thousand was paid in business tax.

4.2.11. 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 some 500 internships across all its professions each year.

In 2007, 587 students joined L'Oréal under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

479 young people on work and training contracts (307 apprenticeship contracts and 172 contracts offering professional experience) were present in the group in France at December 31st, 2007, 234 of whom worked at L'Oréal.
87% of the apprentices are preparing for qualifications at "bac+2" level (equivalent to a 2-year course after "A levels") or higher. Their pass rate is 80%.

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

L'Oréal paid €2,095 thousand in apprenticeship tax in 2007.

Environmental protection associations
L'Oréal is a member of environmental protection associations at national level (e.g. Eco-Emballages), European level (e.g. European) 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.

4.2.12. 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 Safety Health & Environment 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.

4.3. Authorisation granted to the Board of Directors in 2007 to grant share purchase and/or subscription options

The Ordinary and Extraordinary General Meeting of April 24th, 2007 authorised the Board of Directors to grant to employees and some of the corporate officers of the company of its French and foreign affiliates as defined by Article L.225-180 of the French Commercial Code, stock options that give entitlement to the purchase of existing shares of the company or the subscription of new shares. This authorisation was granted for a period of twenty-six months.
The beneficiaries are employees and certain corporate officers. The total number of stock options that may be granted may not give entitlement to purchase or subscribe for a total number of shares representing over 2% of the share capital on the date of the Board of Directors' decision. The exercise price is in line with the legal provisions, except for the possibility to grant a discount, and this is clearly specified in the resolution.

General Management and the Board of Directors wish to stress the importance of stock options in bringing together the interests of the beneficiaries and those of the shareholders themselves. The employees and corporate officers who receive the options and the shareholders share the same confidence in the strong, steady development of the company.

They give the Board of Directors the means to involve, motivate and foster the loyalty particularly of employees and corporate officers who, through their abilities and their commitment, contribute most to the group's performances. Stock options also form part of L'Oréal's strategy of encouraging or attracting new talents.

Potential stock option grants are decided by the Board of Directors, on the basis of the proposals made by General Management and reviewed by the Management and Remuneration Committee.

Stock options are subject to a contractual non-exercise period of five years. The validity of a stock option granted is ten years. This ensures that the stock option plan is a durable driving force for the group's long-term development.

Stock options have been granted once a year, twice a year or three times a year to beneficiaries according to rules which take into consideration their performances and their levels of responsibility within the group's worldwide organisation. Special attention has been paid to ensure an equitable balance between the different populations within the group for the same level of position.

In November 2007, the Board of Directors decided on a plan to grant entitlement to subscribe for 4 million shares at a price of €91.66 per share for 839 beneficiaries. This leads, at December 31st, 2007, to 3,246 beneficiaries of stock option plans since the outset.

Beneficiaries of stock options are required to comply with the stock market Code of ethics which is brought to their attention when they receive the regulations of the plan concerned. If they wish to sell shares after exercising their options, they must ensure they are not doing so during a sensitive period, or in a situation in which, due to their access to privileged information, decisions taken on the basis of such information could have an impact on the L'Oréal share price.

Currently existing L'Oréal parent company share purchase or subscription options (1)

The situation of the share purchase or subscription option plans that existed at L'Oréal as at December 31st, 2007 was as follows:

Date of grant	10.15.1998	12.08.1998	10.14.1999	12.07.1999	04.05.2000	09.28.2000	12.07.2000	03.28.2001	09.18.2001	10.08.2001
Total number of options granted	1,400,000	1,100,000	2,250,000	1,500,000	1,200,000	3,800,000	450,000	2,500,000	2,500,000	225,000
Of which to Management Committee members (2)	150,000	–	550,000	525,000	–	310,000	–	360,000	655,000	–
Number of senior managers/Total number of beneficiaries	2/70	0/110	8/133	6/200	0/234	7/707	0/109	4/521	7/441	0/109
First date of exercise	10.16.2003	12.09.2003	10.15.2004	12.08.2004	04.06.2005	09.29.2005	12.08.2005	03.29.2006	09.19.2006	10.09.2006
Number of options yet to be exercised at 12.31.2007	161,100	125,795	603,292	652,400	401,800	2,502,300	368,500	1,682,600	1,746,500	157,750
Of which by Management Committee members (2)	0	–	214,000	365,000	–	310,000	–	360,000	605,000	–
Date of expiry	10.15.2008	12.08.2008	10.14.2009	12.07.2009	04.05.2010	09.28.2010	12.07.2010	03.28.2011	09.18.2011	10.08.2011
Acquisition price*	39.41	48.46	57.60	61.00	65.90	83.00	89.90	79.60	77.60	76.50

Date of grant	03.26.2002	09.04.2002	12.03.2003 (3)	03.24.2004	12.01.2004	06.29.2005	11.30.2005 (4)	04.25.2006	12.01.2006	11.30.2007
Total number of options granted	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000	400,000	6,000,000	2,000,000	5,500,000	4,000,000
Of which to Management Committee members (2)	360,000	280,000	1,000,000	435,000	1,555,000	300,000	2,275,000	2,000,000	1,530,000	1,245,000
Number of senior managers/Total number of beneficiaries	8/410	6/394	1/693	6/257	10/274	2/3	10/771	1/1	9/788	13/839
First date of exercise	03.27.2007	09.05.2007	12.04.2008	04.25.2009	12.02.2009	06.30.2010	12.01.2010	04.26.2011	12.02.2011	12.01.2012
Number of options yet to be exercised at 12.31.2007	1,930,800	1,876,000	4,836,250	1,974,000	3,955,000	400,000	5,957,300	2,000,000	5,494,000	4,000,000
Of which by Management Committee members (2)	335,000	255,000	1,000,000	435,000	1,555,000	300,000	2,275,000	2,000,000	1,530,000	1,245,000
Date of expiry	03.26.2012	09.04.2012	12.03.2013	03.24.2014	12.01.2014	06.29.2015	11.30.2015	04.25.2016	12.01.2016	11.30.2017
Acquisition (A) or subscription (S) price*	81.65	76.88	63.02 (S) 71.90 (A)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S) 62.94 (A)	72.60 (S)	78.06 (S)	91.66 (S)

* In euros.
(1) There are no share purchase or subscription option plans at subsidiaries of L'Oréal.
(2) Management Committee members in office on the date of grant: 9 people in 2006; 13 people in 2007.
(3)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 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.
(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 shares.
N.B: the number of stock options and the acquisition prices indicated take into account the adjustments relating to the financial transactions carried out with regard to the share capital, such as the ten-for-one share split in 2000.

4.4. Main grants of stock options to employees other than corporate officers of L'Oréal and the exercise of such options

The total number of stock options granted in 2007 to the ten employees who are not corporate officers and who received the largest number of stock options amounts to 830,000 share subscription options at an average price of €91.66 per share, all granted to members of the Management Committee.

The total number of stock options exercised, in 2007, by the ten employees who are not corporate officers and who exercised the largest number of stock options amounts to 560,900 share purchase options at an average price of €67.48 per share, 360,000 of which were exercised by four members of the Management Committee, at an average price of €61.98 per share.

4.5. Authorisation granted to the Board of Directors in 2007 to make free grants of shares

A proposal was made to the Annual General Meeting on April 24th, 2007 to authorise the Board of Directors to make, on one or more occasions, free grants of existing shares or shares to be issued.

The authorisation requested from the Annual General Meeting was granted for a period limited to 26 months as from the date of the decision by the Annual General Meeting. This expiry date coincides with the end of the authorisation to grant share purchase or subscription options which was also voted by the Annual General Meeting.

A free grant of shares offers the advantage of not requiring any payment to be made by beneficiaries. It is considered either as a replacement for, or a means of supplementing, grants of small numbers of stock options as the attractiveness of such a grant may appear limited. The free grant of shares will be performance-related.

No free grants of shares will be made to corporate officers or to members of the Management Committee of L'Oréal.

The number of shares that may be granted free of charge may not represent over 0.2% of the share capital on the date of the Board of Directors' decision.

Any free grants of shares will be decided by the Board of Directors on the basis of the proposals by General Management reviewed by the Management and Remuneration Committee.

In 2007, the Board of Directors did not decide on any free grant of shares.

4.6. Summary of incentives granted

It should be noted that, in 1988, L'Oréal put in place an incentive agreement in France that has been regularly renewed since then, and involves the beneficiaries directly in the group's results.

€ thousands (gross)	2004	2005	2006
	82,388	84,935	89,141
Of which L'Oréal parent company	43,350	45,573	48,137

Depending on the level of their annual gross salary, the gross amount of incentives for 2006 paid in 2007 represented the following amounts for beneficiaries:

For an annual gross salary of:	Gross incentives for 2006 paid in 2007:
€25,000	€5,936 i.e. 2.85 months
€32,000	€6,741 i.e. 2.53 months
€45,000	€8,235 i.e. 2.20 months
€60,000	€9,960 i.e. 1.99 month

4.7. Summary information on L'Oréal share funds with a contribution by the company

L'Oréal offers each beneficiary of the incentive scheme a choice of investing the amount of the incentive in the "*L'Oréal Intéressement*" fund. Within the scope of the 35-hour working week agreement, L'Oréal also offers its employees the possibility to invest the equivalent amount of days worked in another fund, "*L'Oréal à Versements Personnels Protégés*". These funds both consist entirely of L'Oréal shares and the payments made by the beneficiaries are added to by employer contributions made by the company of 25% for the first fund and 100% for the second fund, within the limit of a total amount of €4,140.

In 2007, the employees of L'Oréal in France invested €33,578,072 and €1,467,615 respectively, net of the compulsory social levies – CSG (the general social contribution) and CRDS (the contribution to reimbursement of the French social security debt) – in these two funds, "*L'Oréal Intéressement*" and "*L'Oréal à Versements Personnels Protégés*".

The employer contributions added to these payments were €7,713,772 and €1,354,651 respectively, net of CSG and CRDS, which, at the opening trading price for the L'Oréal share on the date of each of these employer contributions, namely €86.76 on June 29th, 2007 for "*L'Oréal Intéressement*" and €79.50 on February 28th, 2007 for "*L'Oréal à Versements Personnels Protégés*", represents the equivalent of 105,949 L'Oréal shares. As the total net amount of incentives allocated in 2007 was €82,344,180, L'Oréal therefore put itself in a position to offer the equivalent of approximately 240,000 L'Oréal shares by making such contributions in France in 2007 to be added to investments made by its employees.

5. ORGANISATION OF THE BOARD OF DIRECTORS IN 2007

5.1. Corporate governance

L'Oréal applies the recommendations of the AFEP and the MEDEF under the terms and conditions described in the Chairman's Report attached to this Management Report, which describes the way in which the work of the Board is prepared and organised. The Board adopts an organisational approach and a *modus operandi* which enable it to discharge its duties as effectively as possible.

The Board sets out here the measures taken concerning the organisation of the Board, to follow on from the presentation provided in this respect at the beginning of Volume 1 of the Annual Report, and just before the Chairman's Report.

The Board of Directors updated its Internal Rules at its meeting on February 13th, 2008. These rules are attached to this Report.

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.

The L'Oréal Board of Directors comprised 14 members at December 31st, 2007: 6 are appointed by the majority shareholders, 3 representing the family of Mrs Bettencourt and 3 representing Nestlé. Two Vice-Chairmen of the Board are chosen from among these members. Alongside the Chairman and the Chief Executive Officer, 6 other directors meet the independence criteria on the basis of the recommendations in force, one of whom has been a director for over 12 years. On the strength of their responsibilities and their extensive professional experience, they are personalities who are available, have complementary profiles, participate actively in debates and have complete freedom of judgment.

The list of offices and directorships held in all companies, during the 2007 financial year and over the last five years, by each of the directors and corporate officers, is included in the notes to this Management Report.

Three internal review committees were given responsibility by the Board for preparing its deliberations in 2007. The Strategy and Implementation Committee, the Management and Remuneration Committee, and the Audit Committee. The membership of these Committees is set out in the introduction to the Annual Report (Volume 1), their remits are set out in the Internal Rules of the Board of Directors, and their work in 2007 is described in detail in the Chairman's Report. The Committees act within the framework of the powers delegated to them by the Board, and do not therefore have any decision-making powers.

The Board wanted to set up a specific Committee for the selection of new Board members and corporate officers. It therefore decided, at the end of 2007, to split the Management and Remuneration Committee into two different Committees.

The Appointments Committee will make proposals to the Board for the choice of directors, issue an opinion on proposals made by the Chairman for the appointment of the Chief Executive Officer, ensure the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy, supervise the method of evaluation of the Board and conduct the reflection process with regard to the Committees that are in charge of preparing the Board's work.

The Remuneration Committee will make proposals to the Board concerning the Chairman's fixed and variable remuneration 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 and the method of distribution of such fees, and the implementation of long-term incentive plans, such as for example, those providing for the distribution of stock options or for free grants of shares.

At the end of 2007, Mrs Liliane Bettencourt, the Chairman of the Management and Remuneration Committee, informed the Board of Directors that she wished to leave the Committee. Mr Jean-Pierre Meyers was appointed by the Board as a member of the newly created Appointments Committee and Remuneration Committee, and Mr Bernard Kasriel was appointed as Chairman of both Committees.

5.2. Renewal of the tenure of a director in 2007

The Board of Directors proposed to the Annual General Meeting of April 24th, 2007 the renewal of the tenure as director of Mrs Liliane Bettencourt.

The tenure of this director, covering a period of four years as provided for by the Articles of Association, was renewed and her directorship will expire at the close of the Ordinary General Meeting to be held in 2011 and called to review the financial statements for the 2010 financial year.

5.3. Appointment of a director in 2007

The Board of Directors proposed the appointment of Mrs Annette Roux as a new director to the Annual General Meeting on April 24th, 2007.

Mrs Annette Roux, Vice-Chairman of the Supervisory Board of Bénéteau S.A., took over the helm of Bénéteau in 1964, then a family business, and showed her ability to build an international group, the world leader in its market sector. This extraordinary success owes a lot to the personal qualities of Mrs Roux, a woman of conviction, who is open and energetic and has demonstrated her ability to put her talents to good use in developing her business, which has been listed on the Paris stock exchange since 1984. Mrs Roux embodies one of the resounding success stories in French industry. Her skills, her experience and her independence help to strengthen and enrich the Board of Directors of L'Oréal.

Mrs Annette Roux was appointed as director for a term of four years as provided for by the Articles of Association, expiring at the close of the Ordinary General Meeting to be held in 2011 and called to review the financial statements for the 2010 financial year.

5.4. Resignation of a director in 2007

At its meeting on November 30th, 2007, the Board of Directors was informed of Mr Franck Riboud's resignation from his office as director of L'Oréal on November 15th, 2007. Mr Franck Riboud was appointed as director in May 2002 and his tenure was renewed in 2006. He played an active role in the Board's work by contributing his experience in international business. He played a part in the reflection on strategy through his participation in the discussions and his stimulating comments.

5.5. Cooptation of a director in 2007

The members of the Board of Directors duly noted Mr Franck Riboud's resignation and the resulting vacancy of a seat on the Board of Directors. As the number of directors remaining in office continued to exceed the minimum provided for by law, it was proposed that the Board make a provisional appointment through cooptation, in accordance with paragraph 1 of Article L.225-24 of the French Commercial Code.

Mr Charles-Henri Filippi, 55 years of age, a graduate of the IEP (Institute of Political Studies) in Paris and of ENA (the French national school of administration), first worked for the French government for 10 years. In 1987, he joined CCF (which became HSBC France in 2000). He was appointed Chief Executive Officer for HSBC France in 1995, Head of Corporate Banking in London and member of the Executive Committee of the HSBC group in 2001, then Chairman and Chief Executive Officer of HSBC France in 2004.

He has been Chairman of the Board of Directors of HSBC France since September 1st, 2007.

On November 30th, 2007, the Board decided to appoint Mr Charles-Henri Filippi as a director on a provisional basis, subject to ratification of his appointment by the next Annual General Meeting, for the remainder of his predecessor's tenure, that is until the General Meeting to be held in 2010 and called to review the financial statements for the 2009 financial year.

6. REMUNERATION OF CORPORATE OFFICERS

The Management and Remuneration Committee, a review committee of the Board of Directors to which the Chairman refers in his Report on the way in which the Board's work is prepared and organised, held four meetings in 2007, on February 8th, March 29th, June 26th and November 29th, in a completely independent manner.

The Management and Remuneration Committee is primarily instructed by the Board of Directors to examine the conditions in which the remuneration of the corporate officers is established, and to report to the Board in this respect.

The remit of the Management and Remuneration Committee also includes preparing for the Board of Directors, in respect of each corporate officer appointed by the Board, proposals of remuneration that include a fixed part and a variable part, and proposals to grant stock options.

These proposals are reviewed in a completely independent manner by the whole of the Board of Directors which deliberates and votes on each of these proposals on a collegial basis.

The Board always 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 with the remuneration offered for similar levels of responsibility by large international companies operating in similar markets. 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, in a way that reflects their contribution to this increase in value.

Based on this approach, the Management and Remuneration Committee makes its proposals to the Board on completion of two independent analyses:
• one based on the performance of the company and the performance of each of the corporate officers, which forms the basis of its remuneration proposals,
• the second one based on the prospects for an increase in the share price, which guides it in preparing its stock option grant proposals.

The Committee is attentive to formulating:
• its remuneration proposals to the Board without taking the share price into account,
• its stock option grant proposals without referring to the short-term performance of the company.

At the end of each year, the Committee proposes to the Board the amount of the fixed part of the remuneration of the corporate officers for the next financial year and decides on the allocation of the variable part of remuneration for the current financial year based on previously defined criteria.

For the Chief Executive Officer, the variable remuneration is determined as follows:
• half is based on an analysis of the company's performance by reference to significant economic indicators, reflecting in particular the trend in sales, market share and earnings and,
• half is based on an assessment of the qualitative aspects of management, such as the appropriateness of strategic choices, prospects for products and markets, research projects, renewal of structures, the ability to generate team spirit, the image of the company projected, or the quality of communication.

The variable remuneration of the Chairman of the Board is based on achievement of specific objectives linked to his responsibilities as described in the Internal Rules of the Board of Directors (see notes to the Management Report) and particularly:
• his ability to put into play, in the most constructive possible manner, the separation of the roles between the Chairman and the Chief Executive Officer,
• his contribution to the performance of the company.

At the same time, the Management and Remuneration Committee formulates proposals for the grant of stock options to the corporate officers appointed by the Board.
In 2007, the Management and Remuneration Committee made the following proposals to the Board, which reviewed and accepted them.

6.1. Remuneration of the Chairman

The Board of Directors' meeting of April 25th, 2006 set the fixed part of the Chairman's remuneration at €2,000,000 on an annual basis for 2007. To this was added a variable remuneration of €1,500,000 decided by the Board of Directors at its meeting of November 30th, 2007, in accordance with the objective that was initially set.

For 2008, the Board kept the fixed remuneration unchanged at €2,000,000 on an annual basis.
The Chairman has a secretary, a company car and a chauffeur at his disposal.

The total gross remuneration of the Chairman for 2007 and previous years was as follows:

In euros	2004	2005	2006 (1)	2007 (2)
Items of remuneration				
Fixed remuneration paid	3,500,000	3,750,000	1,250,000	2,000,000
Variable remuneration paid	3,000,000	3,500,000	1,250,000	1,500,000
Attendance fees due	75,874	87,937	47,544	87,279
Benefits in kind	20,509	20,406	6,273	10,127
Total gross remuneration	6,596,383	7,358,343	2,553,817	3,597,406
	+0.3%	+11.6%	NC	NC

(1) The remuneration for 2006 comprises all the amounts received by the Chairman and Chief Executive Officer up until the end of his term of office on April 30th, 2006. He received no remuneration thereafter until the end of 2006.
(2) Since May 1st, 2006, Sir Lindsay Owen-Jones has been entitled to the "*Garantie de Retraite des Membres du Comité de Conjoncture*" (Pension Cover of the Members of the "*Comité de Conjoncture*"); the impact which such scheme would have for him was described on p. 75 of the 2006 Management Report of the Board of Directors.

6.2. Remuneration of the Chief Executive Officer

The remuneration of the Chief Executive Officer was set by the Board of Directors on April 25th, 2006 at €2,000,000 on an annual basis.
This amount remained unchanged in 2007 and, in addition to this fixed remuneration, variable remuneration was set by the Board of Directors on November 30th, 2007 at €2,000,000 in accordance with the method of assessment of performance described above.
The Board of Directors' meeting of November 30th, 2007 also increased the fixed part of the remuneration to €2,100,000 on an annual basis as of January 1st, 2008.
The Chief Executive Officer has a company car and a chauffeur at his disposal.
The total gross remuneration of the Chief Executive Officer since his appointment on May 1st, 2006 is as follows:

In euros	2006	2007
Items of remuneration		
Fixed remuneration paid	1,333,336 (1)	2,000,000
Variable remuneration paid	1,900,000	2,000,000
Attendance fees due	35,000	57,279
Benefits in kind	–	–
Total gross remuneration	3,268,336	4,057,279

(1) As of May 1st, 2006.

6.3. Stock options granted to the corporate officers appointed by the Board

The Chairman did not receive any stock options for 2007.
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 not yet exercised	1st possible date of exercise	Date of expiry	Purchase (A) or subscription (S) price (in €)
12.07.1999	200,000	12.08.2004	12.07.2009	61.00 (A)
04.05.2000	–	–	–	–
09.28.2000	150,000	09.29.2005	09.28.2010	83.00 (A)
12.07.2000	–	–	–	–
03.28.2001	200,000	03.29.2006	03.28.2011	79.60 (A)
09.18.2001	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	12.04.2008	12.03.2013	63.02 (S)
	500,000			71.90 (A)
03.24.2004	–	–	–	–
12.01.2004	1,000,000	12.02.2009	12.01.2014	55.54 (S)
06.29.2005	–	–	–	–
11.30.2005	700,000	12.01.2010	11.30.2015	61.37 (S)
	300,000			62.94 (A)
04.25.2006	2,000,000	04.26.2011	04.25.2016	72.60 (S)

The Board of Directors granted on November 30th, 2007, to Mr Jean-Paul Agon in his capacity as Chief Executive Officer, 350,000 share subscription options (i.e. 0.057% of the share capital at the attribution date), at a price of €91.66, which may normally be exercised between December 1st, 2012 and November 30th, 2017.

The cost relating to these stock options was recorded in the profit and loss account as at December 31st, 2007 on the basis of €25.88 per option determined using the Black & Scholes method.

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 has 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.

The stock options granted 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 not yet exercised	1st possible date of exercise	Date of expiry	Subscription price (in €)
12.01.2006	500,000	12.02.2011	12.01.2016	78.06
11.30.2007	350,000	12.01.2012	11.30.2017	91.66

6.4. Undertakings made in relation to the corporate officers appointed by the Board

The Board of Directors of L'Oréal has an ongoing policy of treating the corporate officers it appoints, who have an employment contract with the company, as equivalent to senior managers for all matters which are linked to their remuneration (1).
These corporate officers are therefore covered by the same benefit systems as senior managers of L'Oréal, particularly relating to pension and provident schemes. The Board keeps itself regularly informed of these schemes.

The undertakings with regard to pension and provident schemes from which Mr Jean-Paul Agon benefits due to the fact that he is treated in the same way as a senior manager for the duration of his term of office and which were submitted to the Annual General Meeting on April 24th, 2007 remain in full force and do not need to be subject to performance conditions or reiterated pursuant to the last paragraph of Article L.225-42-1 of the French Commercial Code. These undertakings are set out in detail in the statutory auditors' special report.

Furthermore, the Board of Directors' meeting of February 13th, 2008 authorised the signature of an agreement with Mr Jean-Paul Agon providing that:
• In the event of non-renewal or removal from his corporate office, except for gross misconduct or gross negligence, Mr Jean-Paul Agon will be entitled to an indemnity for termination of his corporate office limited to a maximum of 12 months of the last fixed remuneration received in respect of his corporate office, subject to fulfilment of performance conditions defined in accordance with the legal provisions.
This indemnity will be combined, where applicable, with the severance payment to which he would be entitled pursuant to his reinstated employment contract.

• In the event of retirement at the company's request or voluntary retirement which takes place at the time of termination of his corporate office or thereafter, Mr Jean-Paul Agon will be entitled to a departure or retirement indemnity determined in accordance with the same terms and conditions as those applicable to a senior manager of L'Oréal(2).
This indemnity will be calculated on the basis of the fixed and variable remuneration received as a corporate officer and the total length of service accrued pursuant to his employment contract and his corporate office, subject to fulfilment of performance conditions defined in accordance with the legal provisions.
This indemnity may not be lower than the departure or retirement indemnity to which he would be entitled pursuant to his resumed employment contract, and will not be received cumulatively with such indemnity.

The performance conditions adopted by the Board of Directors on February 13th, 2008 will be based as follows: one-half will be based on the rate of growth in L'Oréal's sales as compared to the market growth rate while the other half will be based on the increase in earnings per share (diluted net profit per share excluding non-recurrent items attributable to the group).

These undertakings, that are submitted for the approval of the Annual General Meeting of April 22nd, 2008, are described in detail in the statutory auditors' special report.

Authorisation of this commitment by the Board of Directors and its approval by the Annual General Meeting will be required at the time of each renewal of Mr Jean-Paul Agon's term of office as Chief Executive Officer.

It is stressed that as the Chairman, Sir Lindsay Owen-Jones, is not entitled to any departure indemnity in connection with the termination of his corporate office, he is not concerned by these provisions.

The Board of Directors has not made any specific undertaking with regard to the corporate officers appointed by it other than those specified above.

6.5. Attendance fees and other benefits

Each of the directors of L'Oréal received attendance fees on the following basis in respect of 2007:
• a fixed annual sum of €30,000 as attendance fees,
• an amount of €5,000 for each Board meeting which the director attended,
• an amount of €15,000 for each of the members of the Strategy and Implementation Committee and the Management and Remuneration Committee and an additional amount of €15,000 for the Chairmen of these Committees,
• an amount of €20,000 for each of the members of the Audit Committee and an additional amount of €20,000 for the Chairman of this Committee.

The total amount of attendance fees for 2007 was €975,000 and was broken down as follows for each of the directors, as compared with 2006:

In euros	2007	2006
Mr Jean-Paul Agon	55,000	35,000
Mr Werner Bauer	55,000	60,000
Mrs Liliane Bettencourt	90,000	100,000
Mrs Françoise Bettencourt Meyers	55,000	55,000
Mr Peter Brabeck-Letmathe	75,000	85,000
Mr Francisco Castañer Basco	90,000	95,000
Mr Xavier Fontanet	95,000	95,000
Mr Bernard Kasriel	85,000	82,500
Mr Marc Ladreit de Lacharrière	55,000	50,000
Mr Jean-Pierre Meyers	90,000	95,000
Sir Lindsay Owen-Jones	85,000	45,000
Mr Franck Riboud	45,000	50,000
Mrs Annette Roux	50,000	–
Mr Louis Schweitzer	50,000	60,000

(1) Cf. § 3.5.2 of the Internal Rules of the Board of Directors.
(2) For further information, please refer to the "additional information" section on pages 156-158.

6.6. Stock options exercised by the corporate officers appointed by the Board

On December 20th, 2007, Sir Lindsay Owen-Jones exercised 200,000 stock options out of the total number of stock options granted by the Board of Directors on October 14th, 1999, which consisted of 200,000 share purchase options, at a price of €57.60 per share, as well as 100,000 stock options out of the total number of stock options granted by the Board of Directors on December 7th, 1999, which consisted of 300,000 share purchase options, at a price of €61.00 per share.

On February 19th, 2007, Mr Jean-Paul Agon exercised 30,000 stock options out of the total number of stock options granted by the Board of Directors on October 17th, 1997, which consisted of 30,000 share purchase options, at a price of €34.01 per share.

6.7. Summary of trading by the corporate officers in L'Oréal shares in 2007

(Article 223-26 of the General Regulation of the *Autorité des Marchés Financiers.*)

Date of the transaction	Person concerned	Nature of transaction (1)	Price per share	Total amount
December 20th, 2007	Sir Lindsay Owen-Jones, Chairman of the Board	Purchase of shares	57.60	11,520,000
December 20th, 2007		Purchase of shares	61	6,100,000
February 19th, 2007	Jean-Paul Agon, Chief Executive Officer	Purchase of shares	34.01	1,020,300
February 19th, 2007		Sale of shares	81.76	1,635,200
July 13th, 2007	Marc Ladreit de Lacharrière, Director	Purchase of shares	85.36	597,520
June 7th, 2007			86.42	432,100
December 21st, 2007	Charles-Henri Filippi, Director	Purchase of shares	97.92	99,050

(1) Purchase or sale of shares following the exercise of stock options.

7. BUYBACK BY THE COMPANY OF ITS OWN SHARES

7.1. Information concerning share buybacks made since January 1st, 2007

In 2007, the company bought back 15,373,100 of its own shares for an amount of €1,336 million, representing an average purchase price of €86.91 per share. Furthermore, between January 1st and February 13th, 2008, 906,000 shares were purchased, for a total amount of €83.9 million, representing an average purchase price of €92.64 per share. In all, between January 1st, 2007 and February 13th, 2008, the company purchased 16,279,100 of its own shares, for an amount of €1,420 million, and an average purchase price of €87.23 per share.

These share buybacks were all made directly by the company, without being entrusted to an investment services provider, and without the use of derivatives. They gave rise, in 2007, to €2,456,138.96 in trading fees and, from January 1st to February 13th, 2008, to trading fees of €152,250.70, namely, for the entire period from January 1st, 2007-February 14th, 2008, an amount of trading fees of €2,608,389.66.

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 25th, 2006 (12th resolution)	April 24th, 2007 (7th resolution)
Expiry date of the authorisation	October 24th, 2007	October 23rd, 2008
Maximum amount of authorised buybacks	10% of the capital at the date of the Annual General Meeting, i.e. 65,876,966 shares, for a maximum amount of €6,258 million	10% of the capital at the date of the Annual General Meeting, i.e. 62,612,691 shares, for a maximum amount of €7,500 million
Maximum purchase price per share	€95	€120
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	June 28th, 2006	June 27th, 2007
Purpose of buybacks	Cancellation	Cancellation
Period of buybacks made	January 1st-June 22nd, 2007	July 2nd, 2007-February 13th, 2008
Number of shares purchased	7,114,100	9,165,000
Average purchase price per share	€83.15	€90.39
Use of shares purchased	Cancellation: 7,114,100 (1) Other: none	Cancellation: 9,165,000 (2) Other: none

(1) 867,000 shares cancelled by the Board of Directors at is meeting of February 14th, 2007, and 6,247,100 shares cancelled by the Board of Directors at its meeting on August 30th, 2007.

(2) 1,978,000 shares cancelled by the Board of Directors at is meeting of August 30th, 2007, and 7,187,000 shares by the Board of Directors at its meeting on February 13th, 2008.

7.2. Transactions carried out by L'Oréal with respect to its shares between February 15th, 2007 (the day after the date on which the report on the previous programme was prepared) and February 13th, 2008:

(The information and figures provided take into account the cancellation of 7,187,000 shares decided by the Board of Directors on February 13th, 2008.)

Percentage of share capital held by the company directly and indirectly at February 13th, 2008 (all intended to cover existing share purchase option plans)	2.66%
Number of shares cancelled during the last 24 months	48,132,100
Number of shares held in the portfolio	16,258,137
Net book value of the portfolio (€ millions)	1,196.8
Market portfolio value (€ millions)	1,407.0

	Total gross transactions	
	Purchases	Sales/ Transfers (1)
Number of shares	15,412,100	4,839,513
Average transaction price (in euros)	87.82	
Average exercise price (in euros)		69.73
Amounts (€ millions)	1,353.4	337.4

(1) Exclusively the exercise of share purchase options granted to employees and corporate officers of group companies.

No use was made of derivatives to make the share buybacks. There is no open buy or sell position as of February 12th, 2008.

7.3. 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 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 €7.9 billion, 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 February 13th, 2008 representing 2.66% of the capital, i.e. 16,258,137 shares, the maximum percentage of share buybacks that may be made as of February 14th, 2008 amounts to 7.34%, i.e. an amount of €5,826.7 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.

The Board of Directors

CHAPTER III

NOTES TO THE MANAGEMENT REPORT

*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.

NOTES TO THE MANAGEMENT REPORT

1. 2007 REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF L'ORÉAL

Under the terms of Article L.225-37 of the French Commercial Code, paragraph 6, 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 ways in which the Board's work is prepared and organised, and on the internal control procedures put in place by the company. Without prejudice to the provisions of Article L.225-56, the report also indicates any limitations that the Board of Directors exercises on the powers of the Chief Executive Officer."

1.1. 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 since 1996 by the directors during their last meeting of the year, are dealt with in the Annual Report in the chapter on Corporate Governance (Volume 1), in the Management Report, and in this Report of the Chairman of the Board of Directors (Volume 2).

The L'Oréal Board of Directors carries out its work on a collective basis, in accordance with ethical principles and in compliance with the legal provisions, regulations and recommendations.

The Board conducts its work in accordance with Internal Rules (published hereafter) designed to reflect legal, regulatory and statutory rules upheld by the Board as a whole and by each director individually. The Internal Rules define the operating procedures of the Board, in accordance with the interests of the company and all its shareholders and its Committees made up of directors to which it gives preparatory assignments with regard to its work.

These Rules were 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. The Chairman of the Board of Directors organises and oversees the Board's work and reports thereon to the shareholders' Annual General Meeting. He is actively involved in defining the company's growth strategy and encourages and strengthens, *inter alia*, links between the company and the main economic 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.

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 the shareholders' General Meetings and the Board of Directors. The Chief Executive Officer represents the company in its dealings with third parties.

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.

Directors, who are required to act with due care and attention, again exercised their complete freedom of judgement in 2007. This freedom of judgement allowed them in particular 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.

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.

1.1.1. Best practices, ethical behaviour

The Board met five times in 2007, with an average attendance rate of 91%. The directors are diligent in performance of their duties and also attend the shareholders' Annual General Meeting.

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

The Board, 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, these rules point 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 of the company. At L'Oréal, confidential information may 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 of a financial nature; 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 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.

1.1.2. A Board that regularly reviews its *modus operandi* and assesses its organisation and the quality of its work

Since 1996, the Board has, on an annual basis, officially reviewed its *modus operandi*, its organisation and its composition through individual interviews organised by the Secretary of the Board and based on regulations, recommendations and best market practices. This work is conducted, in particular, within the framework of the AFEP/MEDEF recommendations of October 2003 on corporate governance in listed companies, to which the Board refers.

With regard to improvements adopted the previous year and within the strict framework of its responsibilities, the Board discusses the conclusions of this review and defines new avenues of possible progress, where applicable.

Organisation of the Board

In 2007, the Board of Directors proposed to the Annual General Meeting the renewal of the tenure of one director and the appointment of a new director, which were voted at a very large majority. The Board also co-opted a new director after recording a resignation and therefore a vacant seat on the Board of Directors, subject to ratification by the next Annual General Meeting.

The Board moreover appreciates its organisation with the separation of the roles of Chairman and Chief Executive Officer.

Board meetings

The Board considered that the quality of its meetings has continued to improve. It takes a more wide-ranging look at strategy and directors 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.

Information provided to directors

Finally, in 2007, in accordance with its wishes, the Board was provided with regular, high-quality information on the company's business activities. However, the directors still want to improve the quality and broaden the scope of their debates even further, with the provision of prior, relevant, targeted information in relation with the decisions that the Board is being asked to take.

1.1.3. Review committees actively preparing the Board's work

The Board's discussions and decisions are facilitated by the preparatory work performed by its Review Committees, which report to it regularly.

The Strategy and Implementation Committee

The remit of the Strategy and Implementation Committee is to clarify, through its analyses and debates, the group's strategic orientations as submitted to the Board of Directors, and to monitor the implementation and progress of significant operations in progress.

In particular, 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. More generally, the Committee debates all issues considered to be essential for the future strategy of the group, and for maintaining key aspects of its financial structure.

The Committee is composed of six L'Oréal directors, of whom two represent the Bettencourt family and two represent Nestlé. It is chaired by the Chairman of the Board of Directors; moreover, an independent director is also part of this committee.

The Strategy and Implementation Committee met five times in 2007.

In addition to trends in sales and results for L'Oréal, the Committee particularly reviewed the share buyback programme and the situation with regard to the stake held by the group in Sanofi-Aventis. It continued its reflections on proposed acquisitions, which were then submitted to the Board for its decision, in most cases in the presence of the senior managers concerned. Information on acquisitions that are completed is then provided to the Board. Moreover, various aspects of the business of L'Oréal were presented and discussed first of all by the Committee, then at a Board meeting.

The Audit Committee
The role of the Audit Committee is to ensure 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. To successfully carry out its work, the Audit Committee interviews senior managers of the company, particularly those who are responsible for the preparation of the financial statements and for internal control. It also interviews Internal Audit team members.

The Audit Committee may be consulted on any question relating to procedures for controlling unusual risks, particularly when the Board or General Management considers it appropriate to submit such questions to it. 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.

The Audit Committee met three times in 2007, in the presence of all its members and the Statutory Auditors.

With regard to the information on results, the Committee reviewed in greater detail the aspects relating to provisions, litigation and pension commitments. With regard to Internal Control, the situation concerning the legal risks to which the company is exposed was presented to the Committee, together with the observations made by the Internal Audit Division. The Committee was also informed that L'Oréal's fundamental Internal Control rules had been updated and of the changes in the Chairman's Report, in line with the recommendations made by the relevant French bodies.

The Management and Remuneration Committee
The main roles of the Management and Remuneration Committee are to enquire about the general remuneration policies applied in the group, to assist the Chairman and the Board in their reflections on succession plans for the group's senior management positions, to consider the composition of the Board of Directors and any possible changes therein and to make proposals to the Board concerning the remuneration of corporate officers and the allocation of stock options.

The principles and rules adopted by the Board to determine the remuneration and benefits of any kind granted to the corporate officers are set out in the Management Report, in chapter on "Remuneration of corporate officers", on page 85 *et seq*.

The Committee met four times in 2007 in full independence.

The main priorities of the Committee's work, on which a report was made to the Board of Directors in order for it to make a decision, were:
• the proposals for remuneration and allocation of stock options for the corporate officers appointed by the Board, in light of the internal rules that have previously been established and the outside environment,
• succession plans for the Management Committee,
• cooptation of a new director following the resignation of a Board member,
• the principle of allocation and breakdown of attendance fees,
• the terms and conditions for the retention of shares by the corporate officers following the exercise of stock options,
• changes in the Committee's own organisation and its *modus operandi* with the creation of two separate Committees: firstly, an Appointments Committee and secondly, a Remuneration Committee.

1.2. 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 tasks carried out by departments working on internal control within the group. The resulting report was submitted to the Audit Committee.

1.2.1. 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 prevent and manage the risks to which the Group is exposed, the internal control system aims to enable the Group's industrial and economic development to take place in a steady and sustainable manner in a control environment appropriate for the Group's business. However, no absolute guarantee can be given that these objectives will be met.

1.2.2. Components of the system

Organisation and the internal control 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 make its reputation: integrity, loyalty, confidence and transparency, together with respect for the individual and diversity. The Code of Business Ethics 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. This document, which exists in 43 different languages, has been issued to all L'Oréal staff throughout the world and a copy will also be given to each new employee. The Director of Ethics, who reports directly to the Chief Executive Officer, has specific responsibility for ensuring that the Ethics Charter is duly complied with. An intranet site featuring additional information on ethics is accessible to employees. A widespread ethics training campaign is scheduled in 2008-2009.

Responsibilities of the Operational and Functional Divisions

The Group is structured into Operational 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. Functional Divisions bring their expertise to each Operational Division or geographical Zone and are represented within these structures by specialists dedicated to the service of the Divisions and the Zones.

Worldwide responsibilities for representation, co-ordination and internal control of the activities of their division are entrusted to each of the members of the Management Committee. A process for granting formal delegations of authority and responsibilities has been initiated by the Group. The powers of the legal representatives of group companies and of their delegatees are limited and controlled, notably in accordance with the provisions of the Legal Charter.

Furthermore, in order to optimise the management of physical flows of products and information flows throughout the supply chain, a new Supply Chain department was created in 2007. This department was integrated into the Production and Technology Division, which has now become the Operations Division. This new organisation, which gives the Operations Division sole authority over the whole of the supply chain, is intended to unify and clarify responsibility with regard to activities and costs, and to improve cross-functional performance management.

In the Divisions and Zones, specialists in financial control, information systems, human relations or industrial and logistics techniques, who provide support to operational staff at all levels of the organisation, have a twofold reporting line, both operational and functional. This matrix organisational structure facilitates communication of best practices and control of operations, while incorporating the specific aspects of different markets and distribution channels.

Human resources policy

The quality and skills of staff 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. This also forms part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation. Management Development Centres offer programmes in technical areas or of assistance with integration or management that 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 for harmonisation of a single ERP (Enterprise Resource Planning), management software application for the great majority of subsidiaries, and which issues instructions regarding systems' security. The worldwide roll-out plan for the 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 Operations Division is also deploying an integrated production and management solution in the Group's industrial entities.

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 consolidated 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 were updated and supplemented in 2007, then validated by the experts in each area of expertise and presented to the Management Committee. A questionnaire per operational function is proposed to subsidiaries so that they can make an assessment and determine the areas of improvement within their own scope of activities.

Communication of information inside the Group

Sharing of information

The brochure "Fundamentals of Internal Control" has been circulated individually to the managers in charge of all the consolidated subsidiaries, including the industrial entities. Furthermore, the Fundamentals, 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

The Zones and Divisions have the task of passing on information about orientations provided by General Management to the subsidiaries. The Zones and Divisions regularly organise General Policy Committee (GPC) meetings or international meetings aimed at communicating directly with the heads of countries and entities. The Functional Divisions also coordinate their networks of experts through seminars and training sessions.

Risk management

In order to ensure the sustainability of its development and the achievement of its objectives, the Group constantly 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 page 66 *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."
A formal analysis of the main accounting and financial risks has been conducted in relation to the processes of subsidiaries which compose the Group's main accounts and impact the financial statements. The purpose of this analysis was to check on the existence of key control procedures with regard to each identified risk.

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 set out rules concerning the documents to be provided to employees, the way to book and report headcount and personal charges, and the procedures for recruitment, training and appraisal.
• 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 area of Safety and Quality, procedures relating to the protection of property, data and persons, including in particular the internal rules issued by the Group's Operations Division, set out the principles for covering industrial and logistical risks relating to organisation and safety. In addition, production quality standards define rules governing the quality of products, for all stages from design to production to distribution. Almost all the plants 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 business ethics provides guidelines for the behaviour to be followed with regard to the management of suppliers. The general terms of purchase are used as the framework for transactions with suppliers. The "Expense Commitment Request" procedure, which includes an approval prior to commitment, has the purpose of facilitating and strengthening control of the spending and investments of Group entities.
• In the area of the Supply Chain, the main logistics principles cover inventory management, subcontracting, transport, product traceability, business continuity plan, best practices related to general terms of sale, pricing and contracts, invoicing methods, control of sales policies, management of customer returns and customer disputes and management of customer credit.
• 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. In addition, the stock market Code of ethics referred to above, in the section concerning the way in which the Board's work is prepared and organised, are applicable to all employees.
• In the area of Consolidation and Financial Control, the applicable issues are described in the paragraph relating to accounting and financial internal control.

Ongoing oversight 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 Safety, Health & Environment department is responsible for checks related to site safety and environmental compliance while the Quality department measures performance and the progress made by the industrial entities with regard to the quality of production. Monthly reporting procedures enable the regular monitoring of the local activities of each of these Functional Divisions.

The role of Internal Audit

The Internal Audit teams carry out regular assignments to audit major processes and check on the application of Group principles and standards.
The Internal Audit Department carried out 48 assignments in 2007 of which 35 concerned commercial entities representing approximately 29% of the Group's sales. In addition, the Internal Audit Department carried out 5 audits of plants, representing around 14% of the worldwide production in units, and 8 specific assignments which were performed after a prior definition of their objectives. 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.
In addition, cross-functional analyses of possible weaknesses enable identification of areas for improvement and strengthening of procedures, in co-ordination with the Economic Affairs Department, the Internal Control Department, the Divisions and the Zones. Since 2006, a kit of specific transactions on the Group's integrated ERP software package has contributed to increased effectiveness of internal audit assignments. In 2007, specific assignments aiming at verifying certain key internal control points in the configuration of the ERP software were performed with the participation of a systems expert on 4 platforms. These assignments will continue and will be reinforced in 2008.
The Internal Audit Department shares the results of its audits with the Statutory Auditors. Conversely, the remarks made by

the external auditors within the scope of their annual audit of internal control procedures in the subsidiaries are also taken into consideration.

1.2.3. The players

The main players involved in monitoring internal control are:
• the General Management, and in particular the Management Committee,
• the Audit Committee,
• the Functional Divisions,
• the Internal Audit Department,
• the Internal Control Department.

General Management, and in particular 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. Senior 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, with General Management, to internal control and to its main areas of application. Since its creation, the Audit Committee is responsible for monitoring actions undertaken in the area of internal control and it reports thereon to the Board of Directors.

Each year, the Committee performs a review of the principles and methods, the programme, the objectives and the general conclusions of Internal Audit assignments. The Committee then prepares a report on its own deliberations for the Board of Directors.

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 main role of *the Administration and Finance Division* is to assist and control the Operational Divisions in their administrative, financial and legal activities. It sets the operating rules that apply to all entities in these areas and is responsible for the definition and promotion 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, non-production purchases and insurance. In the area of Insurance, the Group's choice is to only have recourse to first-rate insurers and to give preference to insurance of its customer debt. The results of audits performed by insurance companies in the plants and distribution centres are used to improve the internal control of these entities.

The *Operations Division* comprises the Quality, SH&E (Safety Health & Environment), Purchasing (operations), Information Systems (production), Human Resources (production), Supply Chain, Production Organisation, Industrial Financial Control and Real Estate departments. It defines standards and methods in the areas of production quality, safety and environment. It assists the Operational Divisions in the definition and implementation of their manufacturing and logistics policies.

The other *Functional Divisions* involved in internal control are the Human Resources Department, the Research and Development Division 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.

The Internal Audit Department

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 most important risks identified by the heads of the Divisions and the geographical Zones. The size, contribution to key economic indicators and length of existence of the entities, together with the pattern of their development, are factors that are also taken into consideration.
The action plans decided on at the time of the audit are followed up regularly by the Internal Audit Department, which measures the rate of implementation of recommendations, weighted by the risk levels assigned, in close co-ordination with the Divisions and Zones in question. The summary of performance and results of the assignments and the progress of the action plans are presented to the Audit Committee.

The Internal Control Department

This Department, which was created in 2005 and is separate from Internal Audit, ensures the distribution and the updating of the "Fundamentals of Internal control" guide. Training modules have been created and are designed to improve the way that operational staff use the tools made available to them.
The Internal Control Department, together with the Group's experts, strives to promote the understanding of internal control rules and, on this basis, will co-ordinate from 2008 onwards the work of a new Internal Control Committee in which the Economic Affairs Department and the Internal Audit Department will participate. The objective of this new Committee is to monitor the progress made in major organisational and internal control projects. This Department also monitors compliance with regulatory obligations on an ongoing basis.

1.2.4. Internal control systems 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 AMF Reference Framework. We carried out a detailed review of all the key principles and points of analysis that are described in that guide. 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.

Definition, scope and objectives

Internal Accounting and financial control covers the processes that contribute to accounting figures: i.e. the process of production of financial information, the process of accounts closing and actions of financial communication.
The internal control system 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,
• preservation 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, accounting 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").

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 matrix organisational structure, who has a twofold reporting line, both operational and functional, contributes to the strengthening of the internal control system. This network of subsidiary financial controllers is co-ordinated by the Economic Affairs Department in close liaison with the financial controllers of the Operational Divisions and the geographical Zones.
Processing and pooling of cash flows and hedging of exchange and interest rate risks is carried out by the Financial Services Department, which is in charge of identifying commitments and enabling their proper booking.

Accounting standards
The Group has put in place a set of accounting and management reporting policies and standards, which must be obligatorily applied by all consolidated subsidiaries, and which enable reliable financial information to be provided: these accounting policies are regularly updated, taking into account the changes in regulations with regard to accounting principles. The scope of consolidation is continuously updated.
• Accounting standards set out the principles required for harmonised accounting treatment of transactions. They specify in particular the methods of identification and valuation of off-balance sheet commitments. They are in accordance with IFRS standards, the accounting standards framework applicable to the consolidated financial statements since 2005. The Groups Accounting Department monitors, on an ongoing basis, new accounting standards under preparation, in particular IFRS, with a view to alerting the General Management as to their effects on the Group's financial statements, and anticipating such impacts as far as possible.
• 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 reporting standards specify the rules applicable to the valuation of certain significant accounts in the Balance Sheet and the Profit and Loss Account.

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 Information Systems Security Charter, together with the confidentiality precautions and the management of business continuity plans, contains rules providing for the proper use of workstations, the management and administration of the servers and the choice of software tools. The Framework Security Policy in line with the ISO17799 standard has been formally laid down and distributed to all Group entities together with a self-diagnosis tool.

Monitoring tools
The system for monthly reporting of various economic indicators enables developments in the performance of each entity or business unit to be monitored 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 figures are uploaded to Group level. In this regard, the operating profit and loss account by destination, which is common to both management accounting and general accounting, contributes to strengthening the control of accounts in the financial statements through the use of an identical reference framework for both areas.

In addition, the Group's organisation, which is based on reporting from each subsidiary that is provided directly to the parent company by each country, without any intermediate aggregates, enables optimisation of the data transfer and the completeness of the information, and in particular enables the accuracy of the exchange conversion rates. Twice a year, the Managing Director and the Finance Director of each subsidiary make a joint commitment as to the quality, reliability and completeness of the financial information that they have prepared and sent to the Group's Economic Affairs Department. They do this by jointly signing a representation letter.

The Audit Committee

The Audit Committee particularly analyses the procedures which contribute to:

• compliance with accounting standards and regulations and the correct application of the principles on which the financial statements are based,
• reporting and processing information,
• application of internal control standards in the area of preparation of financial information,
• compliance with stock market regulations, and more specifically with the correct application of the stock market Code of ethics within the company.

The points which have been covered in Audit Committee meetings in 2007 are described above in the paragraph on "Review Committees actively preparing the Board's work".

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. Audit engagements 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.

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, 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 compared to the accepted amounts 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. On a half-yearly basis, their purpose is to verify in particular that:

• intercompany 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 figures are harmonised and properly determined and that, in particular, general accounting figures and management accounting 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 is communicated within the Group and 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 transmit, 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.

Chairman of the Board of Directors

2. INFORMATION ABOUT CORPORATE OFFICERS

List of offices and directorships held by corporate officers and directors during the last five years established on February 13th, 2008

Sir Lindsay Owen-Jones — Expiry date of term of office: **2010**
Chairman of the Board
Chairman of the Strategy and Implementation Committee
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy Cedex – France
Holds 2,829,005 L'Oréal shares

Other corporate offices and directorships held

French companies	
Alba Plus SASU	Chairman
L'Air Liquide S.A.	Vice-Chairman of the Board
Sanofi-Aventis S.A.	Director
Foreign companies	
Ferrari Spa (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 (since October 8th, 2007) Director (since June 7th, 2007)

Main 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	May 2006
L'Oréal S.A.	Chief Executive Officer	April 2006
BNP Paribas S.A.	Director	December 2005
Gesparal S.A. (merged into L'Oréal)	Director	April 2004
Foreign company		
Galderma Pharma (Switzerland)	Director Chairman of the Board	May 2006 May 2004

Jean-Paul Agon — Expiry date of term of office: **2010**
Chief Executive Officer, Director
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy Cedex – France
Holds 11,500 L'Oréal shares

Other corporate offices and directorships held

Foreign companies	
Galderma Pharma S.A. (Switzerland)	Chairman of the Board and 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 (since June 7th, 2007)

Main corporate offices and directorships(1) 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 companies		
L'Oréal Canada (Canada)	Director and Chairman of the Board	June 2005
L'Oréal USA Inc. (United States)	President & Chief Executive Officer	June 2005

(1) Mr Jean-Paul Agon has also held various corporate offices and directorships over the last five years in group companies that are subsidiaries of L'Oréal USA where he was President and Chief Executive Officer until June 2005.

Jean-Pierre Meyers **Director** **Vice-Chairman of the Board** **Member of the Audit Committee** **Member of the Strategy and Implementation Committee** **Member of the Appointments Committee and the Remuneration Committee (since November 30th, 2007)** **Professional Address:** Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France **Holds 15,332 L'Oréal shares**	**Expiry date of term of office** **2009**

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
Fondation Ophtalmologique Adolphe de Rothschild	Director

Main corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Gesparal S.A. (merged into L'Oréal)	Director	April 2004
Gespral S.A.	Director	July 2007

Peter Brabeck-Letmathe	**Expiry date of term of office**
Director	**2009**
Vice-Chairman of the Board	
Member of the Management and Remuneration Committee (until November 30th, 2007)	
Member of the Strategy and Implementation Committee	
Member of the Appointments Committee and the Remuneration Committee (since November 30th, 2007)	
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland)	Chairman of the Board CEO « *Administrateur délégué* »

Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland

Other corporate offices and directorships held

Foreign companies	
Credit Suisse Group (Switzerland)	Director
Roche Holding S.A. (Switzerland)	Director
Uprona (Canada) Ltd (Canada)	Director and Chairman
Other	
Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board
Forum Economique Mondial (Switzerland)	Member of the Foundation Board
Table Ronde des Industriels Européens (Belgium)	Member
ECR Europe (Belgium)	Co-Chairman of the Executive Board

Main corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Gesparal S.A. (merged into L'Oréal)	Director	April 2004
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
Credit Suisse (Switzerland)	Vice-Chairman of the Board	April 2005
Credit Suisse First Boston (Switzerland)	Vice-Chairman of the Board	April 2005
Credit Suisse Group (Switzerland)	Vice-Chairman of the Board	April 2005
Winterthur Insurance Company (Suisse)	Vice-Chairman of the Board	April 2005
Winterthur Life (Switzerland)	Vice-Chairman of the Board	April 2005
Other		
Fondation Avenir Suisse (Switzerland)	Board Member	December 2004
Fondation pour la Fédération Internationale des sociétés de la Croix-Rouge et du Croissant-Rouge (Switzerland)	Board Member	November 2005
Prince of Wales International Business Leaders Forum (United Kingdom)	Deputy Chairman	March 2005

Liliane Bettencourt — **Expiry date of term of office 2011**
Director
Chairwoman of the Management and Remuneration Committee (until November 30th, 2007)
Member of the Strategy and Implementation Committee
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France
5,633 L'Oréal shares held in absolute ownership and 185,654,833 L'Oréal shares held in absolute ownership or beneficial ownership by Téthys, a company of which Mrs Bettencourt is the Chairwoman and of which she holds almost all the shares and attached voting rights in absolute ownership or beneficial ownership

Other corporate offices and directorships held

French companies	
Clymene SAS	Chairwoman
Eugène Schueller SARL	Managing Director
Téthys SAS	Chairwoman Chairwoman of the Strategy Committee Member of the Supervisory Board
Other	
Fondation Bettencourt Schueller	Chairwoman

Main corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Compagnie Nouvelle d'Investissement S.A.	Director	June 2005
Gesparal S.A. (merged into L'Oréal)	Director	April 2004
Gespral S.A.	Chairwoman of the Board of Directors	July 2007

Françoise Bettencourt Meyers — **Expiry date of term of office 2009**
Director
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 283 L'Oréal shares in absolute ownership and 76,440,541 shares in bare ownership

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

Main corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Gesparal S.A. (merged into L'Oréal)	Director	April 2004
Gespral S.A.	Director	July 2007

Werner J. Bauer **Director** **Holds 1,100 L'Oréal shares**	**Expiry date of term of office** **2009**

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland)	Executive Vice-President

Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland

Other corporate offices and directorships held

Foreign companies

Alcon, Inc. (Switzerland)	Director
Life Ventures S.A. (Switzerland)	Director and Vice-Chairman of the Board
Nestlé Deutschland AG (Germany)	Member of the Supervisory Board Chairman of the Supervisory Board (since May 11th, 2007)
Nutrition-Wellness Venture AG (Switzerland)	Director
Sofinol S.A. (Switzerland)	Director and Chairman
Uprona (Canada) Ltd. (Canada)	Director

Other

Cereal Partners Worldwide (Switzerland)	Member of the Supervisory Board
Bertelsmann Foundation (Germany)	Member of the Board of Trustees
Société Suisse des Industries Chimiques (Switzerland)	Board Member

Main corporate offices and directorships over the last five years that have expired — Expiry date of term of office

Foreign companies

Nestlé Foods Kenya Limited (Kenya)	Director	January 2003
Hans Rychiger AG (Switzerland)	Director	February 2007

Francisco Castañer Basco **Director** **Member of the Audit Committee** **Member of the Strategy and Implementation Committee** **Holds 1,500 L'Oréal shares**	**Expiry date of term of office** **2010**

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland)	Executive Vice-President

Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland

Other corporate offices and directorships held

Foreign companies

Alcon, Inc. (Switzerland) [formerly Alcon Universal]	Director Vice-Chairman
Galderma Pharma S.A. (Switzerland)	Director
Uprona (Canada) Ltd. (Canada)	Director

Main corporate offices and directorships over the last five years that have expired — Expiry date of term of office

French company

Gesparal S.A. (merged into L'Oréal)	Director	April 2004

Foreign company

Galderma Pharma S.A. (Switzerland)	Chairman of the Board	May 2006

Charles-Henri Filippi **Director (1)** **Holds 1,000 L'Oréal shares**	**Expiry date of term of office** **2010**

Main corporate office held outside L'Oréal

HSBC France	Chairman of the Board

Professional address: 103 avenue des Champs-Elysées – 75008 Paris – France

Other corporate offices and directorships held

French companies	
Altadis	Director and Member of the Executive Commission
France Telecom	Director (since February 5th, 2008)
Octagones SASU	Chairman (since April 17th, 2007)
Nexity	Observer (since July 23rd, 2007)
Foreign companies	
HSBC Bank plc (United Kingdom)	Director
HSBC Private Banking Holdings (Suisse) S.A. (Switzerland)	Director
Other	
Centre National d'Art et de Culture Georges Pompidou	Director

Main corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Galeries Lafayette	Member of the Supervisory Board	May 2005
HSBC Asset Management Holding	Director	June 2006
HSBC France	Chief Executive Officer	September 2007
HSBC Private Bank France	Chairman of the Supervisory Board	June 2007
Foreign companies		
HSBC Holdings plc (United Kingdom)	Group Managing Director and Member of the Group Management Board	September 2007
HSBC Trinkaus & Burkhardt AG (Germany)	Member of the Supervisory Board	September 2007

(1) Mr Charles-Henri Filippi is a Director since November 30th, 2007. His tenure is to be ratified by the Annual General Meeting of April 22nd, 2008 and will expire at the end of the tenure of his predecessor, in 2010.

Xavier Fontanet	**Expiry date of term of office**
Director	**2010**
Chairman of the Audit Committee	
Holds 1,150 L'Oréal shares	

Main corporate office held outside L'Oréal

Essilor International S.A.	Chairman and Chief Executive Officer

Professional address: 147 rue de Paris – 94227 Charenton Cedex – France

Other corporate offices and directorships held

French company	
Crédit Agricole S.A.	Director
Foreign companies	
EOA Holding Co. Inc. (United States)	Director Chairman (since March 2007)
Essilor India PVT Ltd (India)	Director (since January 1st, 2007)
Essilor of America Inc. (United States)	Director
Essilor Manufacturing India PVT Ltd (India)	Director
Nikon Essilor Co. Ltd (Japan)	Director
Shanghai Essilor Optical Company Ltd (China)	Director
Transitions Optical Holding B.V. (Netherlands)	Director
Transitions Optical Inc. (United States)	Director

Main corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Chantiers Beneteau S.A.	Director	January 2005
Foreign companies		
Essilor Laboratories of America Holding Co. Inc. (United States)	Director	March 2004
Transitions Optical Ltd (Ireland)	Director	July 2004
Other		
IMS – Entreprendre pour la Cité	Director	October 2005

Bernard Kasriel
Director
Member of the Management and Remuneration Committee (until November 30th, 2007)
Member of the Strategy and Implementation Committee
Chairman of the Appointments Committee and the Remuneration Committee (since November 30th, 2007)
Holds 1,510 L'Oréal shares

Expiry date of term of office
2008

Main corporate office held outside L'Oréal

LBO France	Partner and Member of the Management Board

Professional address: 148 rue de l'Université – 75007 Paris – France

Other corporate offices and directorships held

French companies

Lafarge S.A.	Director
Arkema S.A.	Director

Foreign company

Nucor (United States)	Director

Main corporate offices and directorships over the last five years that have expired

French company

		Expiry date of term of office
Lafarge S.A.	Vice-Chairman and Chief Executive Officer Chief Executive Officer	May 2003 December 2005

Foreign companies

Blue Circle North America (United States)	Director	December 2006
Compagnie Coppée de Développement Industriel (Belgium)	Director	May 2004
Lafarge North America (United States)	Vice-Chairman of the Board Director	December 2005 November 2006
Lafarge Roofing GmbH (Germany)	Member of the Supervisory Board *("Aufsichtsratsvorsitzender")*	July 2006
Sabelfi (Belgium)	Director	May 2006
Sonoco Products Company (United States)	Director	February 2007
Ybitas Lafarge (Turkey)	Director	March 2004

Marc Ladreit de Lacharrière Director Holds 40,040 L'Oréal shares	Expiry date of term of office 2010

Main corporate office held outside L'Oréal

F. Marc de Lacharrière (Fimalac)	Chief Executive Officer

Professional address: 97 rue de Lille – 75007 Paris – France

Other corporate offices and directorships held

French companies	
Agence France Museums	Chairman of the Board (since July 11th, 2007)
Casino	Director
Fimalac Participations	Managing Director
Groupe Marc de Lacharrière	Chairman of the Management Board
Renault S.A.	Director
Renault SAS	Director
Foreign companies	
Algorithmics (Canada)	Director
Fitch Group Inc. (United States)	Chairman
Fitch Inc. (United States)	Chairman
Other	
American Friends of the Louvre	Member
Association Les Amis de Vaux-le-Vicomte	Member
Association des Amis de l'Ecole Nationale Supérieure des Beaux-Arts de Paris	Member (since 2007)
Banque de France	Member of Consultative Council
Casa de Velasquez	Member (since January 1st, 2007)
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 (since January 27th, 2007)
Fondation Bettencourt Schueller	Member
Fondation d'Entreprise L'Oréal	Director (since October 8th, 2007)
Fondation des Sciences Politiques	Member
Institut de France	Member
Le Siècle	Member (since July 1st, 2007)
Musée des Arts Décoratifs	Member
Société des Amis du Louvre	Member
Société des Amis du Musée du Quai Branly	Member

Main corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Casino	Member of the Supervisory Board	September 2003
Canal+ S.A.	Director	August 2003
Euris	Observer	November 2003
Fimalac Investissements S.A.	Director	November 2003
Groupe Marc de Lacharrière	Managing Director	December 2006
SCI Onzain-Ars	Managing Director	June 2003
Sibmar SC	Managing Director	February 2004
Foreign companies		
Cassina (Italy)	Director	June 2005
Fitch Group Holdings (United States)	Chairman	2006
Other		
Conseil Stratégique pour l'Attractivité de la France	Member	March 2005
Musée du Louvre	Member	March 2005
Le Siècle	Member	June 2005

Franck Riboud
Director (until November 30th, 2007)
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal

Groupe Danone	Chairman & Chief Executive Officer and Chairman of the Executive Committee

Professional address: 17 boulevard Haussmann – 75009 Paris – France

Other corporate offices and directorships held

French companies	
Accor S.A.	Member of the Supervisory Board
Lacoste France S.A.	Director
Renault S.A.	Director Chairman of the Remuneration Committee
Renault SAS	Director
Foreign companies	
Bagley LatinoAmerica S.A. (Spain)	Director
Danone S.A. (Spain)	Director
ONA (Morocco)	Director
Wadia BSN India Ltd (India)	Director
Other	
Association Nationale des Industries Agroalimentaires	Director
Conseil National du Développement Durable	Member, representative of Danone Group
Fondation Gain (Global Alliance for Improved Nutrition)	Director
International Advisory Board HEC	Director

Main corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Compagnie Gervais Danone S.A.	Chairman of the Board	October 2006
Danone Finance S.A.	Director	February 2005
Eurazeo S.A.	Member of the Supervisory Board	April 2005
Finalim III SAS	Representative of Cie Gervais Danone, Chairman	October 2006
Finalim IV SAS	Representative of Cie Gervais Danone, Chairman	October 2006
Générale Agro-Alimentaire de Participations SAS	Representative of Cie Gervais Danone, Chairman	October 2006
Générale Biscuit S.A.	Chairman of the Board	October 2006
Lu France	Permanent representative of Générale Biscuit	August 2004
Produits Laitiers Frais Nord Europe (formerly Sageb SAS)	Representative of Cie Gervais Danone, Chairman	March 2005
Foreign companies		
Abi Holdings Limited (ABIH) (United Kingdom)	Director	December 2004
Associated Biscuits International Ltd (ABIL) (United Kingdom)	Director	December 2004
Danone Asia Pte Ltd (Singapore)	Chairman and Director	November 2006
PT Tirta Investama (Indonesia)	Commissioner	January 2005
Quiksilver (United States)	Director	August 2006
Scottish & Newcastle Plc (United Kingdom)	Director	November 2003
Sofina S.A. (Belgium)	Director	May 2006
Other		
ANSA	Director	February 2005
Banque de France	Member of the Consultative Council	May 2004

Annette Roux	**Expiry date of term of office**
Director	**2011**
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Bénéteau S.A.(1) (2)	Vice-Chairwoman of the Supervisory Board

Professional address: Les Embruns – 16 boulevard de la Mer – 85800 Saint-Gilles-Croix-de-Vie – France

Other corporate offices and directorships held

French companies	
Beri 21 S.A.	Chairwoman of the Supervisory Board
Beri 3000 S.A.	Chairwoman and Chief Executive Officer
Chantiers Bénéteau S.A.(2)	Director
Chantiers Jeanneau S.A.(2)	Director
Construction Navale Bordeaux S.A.(2)	Director
O'Hara S.A.(2)	Director
Foreign company	
Beneteau España(2)	Chairwoman
Other	
Fédération des Industries Nautiques	Chairwoman
Fondation d'Entreprise Bénéteau	Chairwoman

Main corporate offices and directorships over the last five years that have expired

		Expiry date of term of office
French companies		
Bénéteau S.A.	Chairwoman of the Board	January 2005
Caisse Régionale de Crédit Maritime Mutuel de Vendée "La Vendéenne" SC	Director	December 2006

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

Louis Schweitzer **Director** **Holds 2,000 L'Oréal shares**	**Expiry date of term of office** **2009**

Main corporate office held outside L'Oréal

Renault	Chairman of the Board

Professional address: 860 quai de Stalingrad – 92513 Boulogne-Billancourt – France

Other corporate offices and directorships held

French companies	
BNP Paribas	Director
Electricité de France	Director
Renault	Director
Veolia Environnement	Director
Foreign companies	
AB Volvo (Sweden)	Director
Allianz AG (Germany)	Member of the Consultative Council
AstraZeneca (United Kingdom)	Director Chairman of the Board
Philips (Netherlands)	Vice-Chairman of the Supervisory Board
Other	
SNC Le Monde	Chairman of the Supervisory Board (since February 11th, 2008)
Banque de France	Member of the Consultative Council
Comité des Salons	Chairman
Festival d'Avignon	Chairman
Fondation Nationale des Sciences Politiques	Member of the Board
Haute Autorité de Lutte contre les Discriminations et pour l'Egalité	Chairman
Institut Français des Relations Internationales	Member of the Board
Le Cercle de l'Orchestre de Paris	Chairman of the Board
Musée du Louvre	Member of the Board
Musée du Quai Branly	Director
Société des Amis du Musée du Quai Branly	Chairman

Main corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Compagnie Financière Renault (dissolved)	Director	June 2003
RCI Banque (formerly called Renault Crédit International)	Director	February 2005
Renault	Chairman and Chief Executive Officer	April 2005
Foreign company		
Renault-Nissan B.V. (Netherlands)	Chairman of the Management Board	April 2005
Other		
Medef	Member of the Executive Committee	October 2005
Medef International	Chairman	November 2005

Family ties between the corporate officers
Mrs Françoise Bettencourt Meyers is the daughter of Mrs Liliane Bettencourt and the wife of Mr Jean-Pierre Meyers.

Potential conflict of interest between the duties of the corporate officers with regard to L'Oréal and their private interests and/or other duties
None except to specify that Mrs Liliane Bettencourt, Mrs Françoise Bettencourt Meyers and Mr Jean-Pierre Meyers are acting in concert, holding a majority share of L'Oréal's capital and voting rights and that Mr Brabeck-Letmathe, Mr Castañer Basco and Mr Bauer fulfil a management role at Nestlé, which is acting in concert with the above parties (see "Information concerning the share capital" section of the Management Report).

Arrangements or agreements concluded with main shareholders, customers, suppliers or other parties in accordance with which the corporate officers were nominated as directors of L'Oréal
Agreement signed on February 3rd, 2004 ("the Agreement") on the one hand by Mrs Liliane Bettencourt and her family, and on the other hand by Nestlé, published on February 5th, 2004 (see details in the "Information concerning the share capital" section of the Management Report), providing for an undertaking by the parties to vote in favour of the appointment as directors of three members put forward by the other party.

Restrictions accepted by the corporate officers concerning the disposal, over certain time periods, of their share in L'Oréal's capital
Restrictions accepted by both Mrs Liliane Bettencourt and her family and Nestlé according to the terms of the Agreement (see details in the "Information concerning the share capital" section of the Management Report) and rules relating to the prevention of Insider Trading (see the Internal Rules of the Board of Directors, "Rights and obligations of Directors").

Other information dealt with in points 14 and 16.2 of Annex 1 of European Regulation No.809/2004
The corporate officers do not have a service contract with L'Oréal or any of its subsidiaries providing for the granting of benefits at the end of such a contract and have not, during the last five years and to the best of the company's knowledge, been convicted of fraud, declared bankrupt, gone into receivership or been liquidated, been the subject of an accusation or official public sanction issued by the statutory or regulatory authorities (including designated professional bodies) or a court ruling preventing them from acting as a member of a board of directors, management or supervisory board or been prevented from being involved in managing or conducting the business of an issuer.

3. 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.

3.1. Duties and authority of the Board of Directors

3.1.1. Board of Directors
The Board of Directors determines the company's business strategy and oversees the implementation thereof.

Subject to the powers expressly conferred in 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 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.

3.1.2. 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.

3.1.3. 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.

3.1.4. 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).

3.2. *Modus operandi* of the Board of Directors

3.2.1. 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 office or any other venue.

3.2.2. 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.

3.2.3. 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.

3.2.4. 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.

3.2.5. 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.

3.3. 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.

3.3.1. Audit Committee

Remit

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 routine and exceptional operations. This is in order to avoid the possibility of any impairment of the value of the company's assets.

In this context, the Committee analyses the procedures put in place inside the group with a view to ensuring:
• compliance with accounting regulations and the correct application of the principles governing the preparation of the company's financial statements,
• the feedback of information and the processing of information at all levels,
• the identification, evaluation, anticipation and management of the economic, financial and legal risks to which the company and its subsidiaries are exposed inside and outside France,
• the application of the internal auditing standards that apply to financial information in force at all levels of the organisation,
• compliance with stock market regulations, and more particularly the correct application of the stock Market Code of Ethics in force in the company.

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.

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, 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. 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 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.

Activity report

The Audit Committee reports to the Board on its work whenever necessary and in all cases before the definitive closing of the annual financial statements, and takes note of the Board's observations.

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.

Each year the Audit Committee carries out a review of its *modus operandi* and, taking into account any remarks made to it by the Board and the General Management, formulates within the framework of its remit all proposals aimed at improving the quality of its work.

3.3.2. Appointments Committee

Remit

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

• make proposals to the Board concerning the choice of directors,

• issue an opinion on proposals made by the Chairman of the Board of Directors for the appointment of the Chief Executive Officer,

• ensure the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy,

• supervise the Board evaluation process,

• conduct the reflection process with regard to the Committees that are in charge of preparing the Board's work.

Work organisation

The Appointments 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.

Activity report

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

3.3.3. Remuneration Committee

Remit

The main missions of the 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.

Work organisation

The 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.

Activity report

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

3.3.4. Strategy and Implementation Committee

Remit

The remit of the Strategy and Implementation 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.

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

Work organisation

The Strategy and Implementation 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.

Activity report

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

3.4. Rights and obligations of directors

The directors must demonstrate total moral integrity.

3.4.1. 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 3.4.6.

3.4.2. 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.

3.4.3. 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.

3.4.4. 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.

3.4.5. 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.

It should be noted that 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.

3.4.6. Rules governing insider trading
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.

Periods of abstention
In addition to the period preceding the publication of any privileged information to which directors have access, during which insiders must by law refrain from all trading in L'Oréal securities, it is recommended that directors refrain from all trading in the company's securities for the 30 days preceding:
• the release concerning the annual results,
• the release concerning the first-half results.

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).

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.

3.4.7. 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.

3.5. Remuneration of the corporate officers

3.5.1. Remuneration of directors

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.

3.5.2. Remuneration of the corporate officers appointed by the Board

The Board of Directors sets the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers as it sees fit.

Upon the appointment by the Board of Directors of a corporate officer who has an employment contract with the company, the terms of the contract that also relate to his tenure are suspended.

To ensure good corporate governance, the Board of Directors considers that, upon the appointment of a corporate officer who has an employment contract with the company, the rights to indemnities or benefits arising from said contract must not be increased or reduced; they must simply be maintained in accordance with French law.

Therefore, the Board has an ongoing policy of considering corporate officers who have an employment contract with the company as senior managers within the meaning of the company's employment-related practice with regard to any amounts ancillary to their remuneration.

In this respect, these corporate officers will, in particular, be covered by the same pension and welfare funds as senior managers. During their tenure, these pension and welfare fringe benefits are determined based on their total length of service (in relation with their employment contract and corporate office) within the company.

In order to calculate the basis for these benefits, in particular where this is a multi-annual basis, periods of activity in relation with both the employment contract and corporate office are taken into account.

In the event of non-renewal or removal from a corporate office, an undertaking may be provided to pay a corporate officer who has an employment contract with the company an indemnity based on the fixed remuneration received with respect to the corporate office, under conditions set by the Board, and subject to fulfilment of performance conditions defined, in accordance with the legal provisions. This indemnity may be combined, where applicable, with the severance payment to which the corporate officer could potentially be entitled pursuant to his reinstated employment contract.

In the event of retirement at the company's request or voluntary retirement, an undertaking may be provided to pay a corporate officer who has an employment contract with the company the departure indemnity provided for in respect of senior managers calculated in accordance with the collective agreements in force on the date of retirement, and assessed on the basis of the fixed and variable remuneration received as a corporate officer, depending on the total length of service accrued pursuant to both the employment contract and the corporate office under conditions set by the Board, and subject to fulfilment of performance conditions defined. This indemnity may not be lower than the departure or retirement indemnity to which the corporate officer would be entitled pursuant to his employment contract, and will not be received cumulatively with such indemnity or with any indemnity received due to non-renewal or removal from his corporate office.

3.6. 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.

3.7. Amendments to the Internal Rules

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

4. TABLE OF INVESTMENTS

Main changes including shareholding threshold changes

€ millions	Situation at 12.31.2006		Acquisitions		Subscriptions		Cessions		Situation at 12.31.2007	
Headings	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Beautycos International	44,313.1	90%			1,882	0.41%			46,195.1	90.41%
Créa Mundi	45,422.2	100%					45,422.2	100% (2)	0	0%
Laboratoire Bioexigence					37	100% (2)			37.0	100%
Laboratoire Sanoflore	14.7	0.04%	360.1	0.80%	4,467.4	98.27% (2)			4,842.2	99.11%
Laboratoire Innéov	9,800.0	50%			2,250	50%			12,050.0	50%
L'Oréal Danmark	7,382.2	100%			953.3	100% (3)			8,335.5	100%
Lancarome	953.3	100%					953.3	100% (3)	0	0%
L'Oréal Deutschland	71,831.8	99.99%	23.3	0.01%					71,855.1	100%
L'Oréal Italia	161,800.8	99.99%	3	0.01%					161,803.8	100%
L'Oréal Norge	3,197.5	100%			852.6	100% (3)			4,050.1	100%
L'Oréal Luxury Products Norge	852.6	100%					852.6	100% (3)	0	0%
L'Oréal Osterreich GmbH	2,239.7	100%			1,578.6	100% (3)			3,818.3	100%
Cosmétique Active Osterreich	1,578.6	100%					1,578.6	100% (3)	0	0%
L'Oréal Portugal	1,368.8	99.08%			1,025.7	100% (3)			2,394.5	98.35%
L'Oréal Produits de Luxe Portugal	316.9	99.90%					316.9	99.90% (3)	0	0%
Cosmétique Active Portugal	708.8	95%					708.8	95% (3)	0	0%
L'Oréal Sverige	2,139.4	100%			107.8	100% (3)			2,247.2	100%
L'Oréal Luxury Products Sverige AB	107.8	100%					107.8	100% (3)	0	0%
L'Oréal Middle East	2,507.4	100%			34,776.3	100% (1)			37,283.7	100%
Parmobel	34,776.3	100%					34,776.3	100% (1)	0	0%
L'Oréal USA	2,875,384.9	100%			536,546.8	100%			3,411,931.7	100%
L'Oréal Vietnam					74.6	100%			74.6	100%
Sanofis-Aventis	512,853.2	10.52%					88,966.6	1.80%	423,886.6	8.66%
Total	**3,779,550**		**386.4**		**584,552.1**		**173,683.1**		**4,190,805.4**	

(1) Dissolution without liquidation.
(2) Transfer of all the assets and liabilities (to the company's sole shareholder).
(3) Merger.

5. FIVE YEAR FINANCIAL SUMMARY

L'Oréal parent company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2003	2004	2005	2006	2007
I. Financial position at financial year-end					
Share capital	135.2	135.2	131.8	127.9	123.6
Number of shares	676,062,160	676,062,160	658,769,660	639,616,410	617,975,610 (1)
II. Overall results of operations					
Net sales	1,706.1	1,774.2	1,856.6	2,003.4	2,073.8
Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and profit sharing reserve)	1,261.5	1,341.1	1,403.0	1,484.4	2,841.7
Income tax	124.2	–20.8	–58.8	–54.5	–68.7
Net income	939.5	1,230.1	1,589.6	1,690.3	2822.4
Amount of distributed profits	493.5	554.4	658.8	738.8	842.9 (2)
III. Results of operations per share					
Profit after tax and profit sharing, but before depreciation, amortisation and provisions	1.66	1.99	2.20	2.38	4.68
Net earnings	1.39	1.82	2.41	2.64	4.57
Dividend paid on each share (not including tax credit)	0.73	0.82	1.00	1.18	1.38 (2)
IV. Personnel					
Number of employees (3)	5,731	5,746	5,759	5,793	5,862
Total salaries	325.7	331.8	339.2	345.4	370.3
Amount paid for welfare benefits (social security, provident schemes etc.)	134.4	133.9	138.8	142.3	158.7

(1) The share capital comprises 617,975,610 shares with a par value of €0.2, following the cancellation of 13,490,750 shares of treasury stock held by the company as of February 14th, 2007 and of 8,225,100 shares of treasury stock held by the company as of August 30th, 2007, and the subscription of 75,050 shares following the exercise of stock options.
(2) The dividend will be proposed to the Annual General Meeting of April 22nd, 2008.
(3) Employee monthy average.

CHAPTER IV

2007 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.

2007 PARENT COMPANY FINANCIAL STATEMENTS

COMPARED BALANCE SHEETS

€ millions

Assets	12.31.2007	12.31.2006	12.31.2005
Intangible assets (note 1)	444.1	400.5	420.3
Tangible assets (note 2)	231.9	237.5	232.7
Financial assets (note 4)	8,437.8	8,424.1	7,164.4
Fixed assets	**9,113.8**	**9,062.1**	**7,817.4**
Inventories	33.8	39.4	47.5
Prepayments to suppliers	11.0	15.7	7.5
Trade accounts receivable (note 7)	342.5	326.4	303.4
Other current assets (note 7)	104.3	93.9	166.1
Marketable securities (note 6)	1,117.9	1,418.4	1,418.4
Cash and cash equivalents	743.3	363.4	296.8
Current assets	**2,352.8**	**2,257.2**	**2,239.7**
Prepaid expenses	**22.1**	**23.2**	**24.7**
Unrealised exchange losses (note 11)	9.3	6.0	4.6
Total assets	**11,498.0**	**11,348.5**	**10,086.4**

€ millions

Liabilities and shareholders' equity	12.31.2007	12.31.2006	12.31.2005
Capital stock	123.6	127.9	131.8
Additional paid-in capital	963.2	958.5	953.9
Reserves and retained earnings	3,537.9	4,263.7	4,537.5
Net profit	2,822.4	1,690.3	1,589.6
Regulated provisions	51.8	52.9	50.3
Shareholders' equity	**7,498.9**	**7,093.3**	**7,263.1**
Provisions for liabilities and charges (note 8)	**149.3**	**123.1**	**147.6**
Borrowings and debts (note 9)	3,267.3	3,581.8	2,159.3
Trade accounts payable (note 10)	300.1	298.8	292.8
Other current liabilities (note 10)	278.0	247.5	220.8
Other liabilities	**3,845.4**	**4,128.1**	**2,672.9**
Unrealised exchange gains (note 11)	4.4	4.0	2.8
Total liabilities and shareholders' equity	**11,498.0**	**11,348.5**	**10,086.4**

COMPARED PROFIT AND LOSS ACCOUNTS

€ millions

	12.31.2007	12.31.2006	12.31.2005
Revenue	**2,179.2**	**2,108.3**	**1,956.6**
Net sales (note 14)	2,073.8	2,003.4	1,856.6
Reversals of provisions and transfers of charges	20.9	25.5	23.1
Other revenue (note 15)	84.5	79.4	76.9
Expenses	**–2,040.1**	**–1,990.3**	**–1,809.7**
Purchases and change in inventories	–227.7	–255.0	–258.4
Other purchases and external charges	–1,070.3	–1,017.1	–907.4
Taxes and similar payments	–70.0	–71.2	–43.6
Personnel costs (note 16)	–529.0	–487.7	–478.1
Depreciation, amortisation and charges to provisions (note 17)	–77.7	–92.5	–66.5
Other charges	–65.4	–66.8	–55.7
Operating profit	**139.1**	**118.0**	**146.9**
Net financial revenues	1,247.4	1,316.2	1,244.3
Net charges to/(reversals of) provisions and transfers of charges	10.8	217.7	165.7
Exchange gains and losses	–11.1	–15.9	–27.9
Net financial income (note 18)	**1,247.1**	**1,518.0**	**1,382.1**
Profit before tax and exceptional items	**1,386.2**	**1,636.0**	**1,529.0**
Exceptional items (note 19)	**1,386.6**	**17.2**	**16.6**
Employee profit-sharing	–19.1	–17.4	–14.8
Income tax (note 20)	68.7	54.5	58.8
Net profit	**2,822.4**	**1,690.3**	**1,589.6**

CHANGES IN SHAREHOLDERS' EQUITY

The share capital of €123,595,122 comprises 617,975,610 shares with a par value of €0.2 following transactions carried out in 2007:
• cancellation of 21,715,850 treasury shares,
• subscription to 75,050 shares following the exercise of options.

The changes in shareholders' equity are as follows:

€ millions

	Capital stock	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	Total
Balance at December 31st, 2005 before appropriation of net income	**131.8**	**953.9**	**46.0**	**4,491.5**	**1,589.6**	**50.3**	**7,263.1**
Changes in capital stock	–3.9	4.6		–1,247.3			–1,246.6
Appropriation of 2005 net income				973.5	–973.5		0.0
Dividends paid for 2005					–616.1		–616.1
2006 net profit					1,690.3		1,690.3
Other movements during period						2.6	2.6
Balance at December 31st, 2006 before appropriation of net income	**127.9**	**958.5**	**46.0**	**4,217.7**	**1,690.3**	**52.9**	**7,093.3**
Changes in capital stock	–4.3	4.7		–1,704.4			–1,704.0
Appropriation of 2006 net income				978.6	–978.6		0.0
Dividends paid for 2006					–711.7		–711.7
2007 net profit					2,822.4		2,822.4
Other movements during period						–1.1	–1.1
Balance at December 31st, 2007 before appropriation of net income	**123.6**	**963.2**	**46.0**	**3,491.9**	**2,822.4**	**51.8**	**7,498.9**

The reserves include an amount of €27.2 million in 2007 corresponding to dividends not paid, as a consequence of L'Oréal's retaining some of its own shares, compared with €25 million in 2006.

The regulated provisions consist mainly of the provision for investment that amounted to €15.3 million at December 31st, 2007, compared with €19.7 million at December 31st, 2006. In 2007, a charge of €2.7 million was made to the provision for investment in respect of employee profit-sharing for 2006 (compared with €0.8 million in 2006). This provision includes the transfer to the company of some of the provisions set aside by our subsidiaries under a group agreement. There was a reversal in 2007 of a provision of €7.1 million set aside in 2002 (compared with €8.1 million in 2006).

Accelerated tax-driven depreciation at December 31st, 2007 amounted to €36.5 million, compared with €33.1 million at December 31st, 2006.

The details of share-subscription option plans are provided in the Management Report.

CASH FLOW STATEMENT

€ millions

	12.31.2007	12.31.2006	12.31.2005
Operating activities			
Net profit	**2,822.4**	**1,690.3**	**1,589.6**
Depreciation and amortisation	59.6	58.4	54.1
Charges to provisions (net of reversals)	9.3	–215.6	–196.4
Gains and losses on disposals of fixed assets	–6.4	–1.2	–0.3
Capital gain on Sanofi-Aventis sale, net of tax	–1,376.5		
Gross cash flow	**1,508.4**	**1,531.9**	**1,447.0**
Changes in working capital (note 23)	8.5	81.3	–58.5
Net cash provided by operating activities	**1,516.9**	**1,613.2**	**1,388.5**
Investing activities			
Investments in fixed assets	–1,934.0	–2,554.1	–1,453.9
Changes in other financial assets (note 24)	344.4	192.3	48.6
Disposals of fixed assets	11.8	9.2	16.1
Proceeds of Sanofi-Aventis sale, net of tax	1,465.5		
Net cash used in investing activities	**–112.3**	**–2,352.6**	**–1,389.2**
Financing activities			
Capital increase	4.7	4.6	0.4
Dividends paid	–711.6	–616.2	–518.8
Changes in financial debt	–327.7	1,419.2	494.1
Net cash provided by (used in) financing activities	**–1,034.6**	**807.6**	**–24.3**
Change in cash and cash equivalents	370.0	68.2	–25.0
Cash and cash equivalents at beginning of year	360.7	292.5	317.5
Cash and cash equivalents at end of year (note 25)	**730.7**	**360.7**	**292.5**

NOTES

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

1. ACCOUNTING PRINCIPLES

The financial statements are presented in millions of euros; the figures in the tables of subsidiaries and holdings are expressed in thousands of euros.
The annual financial statements are prepared in accordance with the 1999 General Accounting Plan and with generally accepted accounting principles.

The items recorded in the financial statements are valued at historical cost, except for fixed assets revalued in accordance with legal requirements.

1.1. 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.
Application of regulation 2004-06 on assets has made it necessary to identify a number of trademarks as depreciable in accordance with their forecast life cycle.
Non-depreciable trademarks are subject, at least once a year, to impairment tests on the basis of the valuation model used at the time of their acquisition; this can lead to recognition of a provision for impairment.
Initial trademark registration costs have been recorded as expenses since 2005.
Patents are amortised over five years.
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 recognition of accelerated tax-driven amortisation using the declining balance method over a twelve month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

1.2. Tangible assets

Tangible assets are recognised at purchase cost.

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 years

Depreciation, whether calculated using the straight-line or declining balance method, represents depreciation calculated over the period of actual use of the asset. Industrial machinery and equipment is however an exception as it is depreciated using the straight-line method over ten years, with all additional depreciation being considered to be of an accelerated tax-driven nature.

1.3. Financial assets

1.3.1. 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 based in particular on the current and forecast profitability of the subsidiary in question and the share of shareholders' equity owned. If the value in use falls below the purchase cost, a provision for impairment is recognised.

1.3.2. 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 made against these items to reduce them to their value in use at the end of the financial year.

Treasury stock acquired in the context of buyback programmes is recognised in other fixed asset securities.

At the end of the financial year, other fixed asset securities are compared with their probable sale price, and a provision for impairment is recognised if necessary.

1.4. Inventories

Inventories are valued using the weighted average cost method.

A provision for impairment of obsolete and slow-moving inventories is recognised on the basis of actual and forecast sales.

1.5. 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.

1.6. 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.

In the case of stock option plans prior to 2000, a provision for impairment has been made to cover 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 below the carrying amount of the treasury stock; the provision is calculated as the difference between the carrying amount of the treasury stock and the average share price over the month preceding the balance sheet date.

1.7. 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.

1.8. Accounting for foreign currency transactions and hedging of exchange rate risks

In accordance with group policy, the company does not take any speculative positions on financial markets.

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 traded in order to cover commercial transactions recognised in the balance sheet or future transactions that are considered to be highly probable. The losses and gains generated by these instruments are recognised symmetrically with recognition of 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.

Operating transactions forecasted for the next financial year are already covered by hedges whose impact will be recorded during the same accounting period as the transactions hedged.

1.9. Accounting for interest rate instruments

With regard to the interest rate risk, profit and loss on interest rate swaps and caps hedging financial liabilities are recorded symmetrically with profit and loss on the debts hedged, on a time-proportion basis.

1.10. Employee retirement obligations and related benefits

L'Oréal participates in and provides 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.

Partial external hedging has been put in place in respect of these obligations, in order to gradually build up a fund through contributions paid. The contributions are included in the charges for the financial year under the "Other purchases and external charges" caption.

The related obligations are measured using an actuarial valuation method based on the final salary.

Net unfunded obligations are not recognised as a provision in the balance sheet. They remain as 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, whose amount is based on an actuarial valuation, is recognised in the balance sheet.

1.11. Net sales

These are comprised of sales of goods (net of rebates and discounts) as well as services (including technological royalties).

1.12. Advertising and promotion expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses in the year during which the advertisement or promotion takes place.

1.13. Research and development costs

Research and development costs are recognised in other purchases and external charges in the year in which they are incurred.

1.14. Income tax

The company has opted for the French tax group regime. As from 2004, 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.

2. NOTES TO THE BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

NOTE 1_INTANGIBLE ASSETS

€ millions	12.31.2006	Increase/Acquisition	Decrease/Disposal	12.31.2007
Patents and trademarks	345.5	3.1	2.0	346.6
Business goodwill	3.0	44.7	–	47.7
Software	94.1	17.9	0.2	111.8
Other intangible assets	78.9	–	–	78.9
Intangible assets in progress	10.8	11.8	13.1	9.5
Gross value	**532.3**	**77.5**	**15.3**	**594.5**
Patents and trademarks	30.5	2.4	–	32.9
Business goodwill	0.3	–	–	0.3
Software	57.0	13.7	0.1	70.6
Other intangible assets	24.7	2.6	–	27.3
Amortisation	**112.5**	**18.7**	**0.1**	**131.1**
Patents and trademarks	15.8	–	–	15.8
Other intangible assets	3.5	–	–	3.5
Provision for impairment	**19.3**	**–**	**–**	**19.3**
Net book value	**400.5**	**58.8**	**15.2**	**444.1**

NOTE 2_TANGIBLE ASSETS

€ millions	12.31.2006	Increase/Acquisition	Decrease/Disposal	12.31.2007
Land	44.7	0.7	0.5	44.9
Buildings	374.8	13.4	9.9	378.3
Industrial machinery and equipment	151.5	14.2	2.5	163.2
Other tangible assets	82.3	7.6	4.4	85.5
Fixed assets in progress	7.5	22.1	19.9	9.7
Advances and prepayments	2.4	0.6	0.2	2.8
Gross value	**663.2**	**58.6**	**37.4**	**684.4**
Buildings	246.6	21.0	7.6	260.0
Industrial machinery and equipment	120.5	11.0	2.5	129.0
Other tangible assets	58.6	9.0	4.1	63.5
Depreciation	**425.7**	**41.0**	**14.2**	**452.5**
Net book value	**237.5**	**17.6**	**23.2**	**231.9**

The annual depreciation charge on a straight-line basis amounts to €43 million.
The annual depreciation charge on a tax-driven declining balance basis amounts to €16 million.
Exceptional depreciation of €0.2 million was also recognised.

NOTE 3_**FIXED ASSETS UNDER FINANCE LEASES**

€ millions	Fixed assets under finance leases at 12.31.2007				Balance sheet total including fixed assets under finance leases		
Balance sheet captions	Cost on initial recognition (1)	Depreciation (2)		Net book value	Gross value	Accumulated depreciation	Net book value
		For year	Accumulated				
Land and buildings	41.7	1.4	18.7	22.9	464.8	278.7	186.10
Industrial machinery and equipment	–	–	–	–	163.2	129.00	34.20
Total at 12.31.2007	**41.7**	**1.4**	**18.7**	**22.9**	**628.0**	**407.7**	**220.31**
Total at 12.31.2006	**95.7**	**3.6**	**56.8**	**38.8**	**666.7**	**424.0**	**242.7**

(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 if they had been acquired - Depreciation method used: straight-line 5% to 2%.

€ millions	Finance lease commitments						
Balance sheet captions	Lease payments made		Lease payments outstanding at year end				Residual purchase price under the lease
	In the year	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	
Land and buildings	3.9	54.6	3.9	16.4	15.2	35.5	1.4
Industrial machinery and equipment	–	–	–	–	–	–	–
Total at 12.31.2007	**3.9**	**54.6**	**3.9**	**16.4**	**15.2**	**35.5**	**1.4**
Total at 12.31.2006	**12.8**	**144.1**	**4.0**	**16.0**	**19.8**	**39.8**	**1.4**

These tables do not take account of a contract providing for payment, as from 2009, of €11.3 million of additional lease payments corresponding to a building of a value of €9.1 million.

NOTE 4_**FINANCIAL ASSETS**

€ millions	12.31.2006	Increase/ Acquisition/ Subscription	Decrease/ Disposal	12.31.2007
Investments	7,516.1	541.1	130.2	7,927.0
Loans and other receivables	101.6	56.6	65.5	92.7
Treasury stock	1,033.8	1,336.1	1,691.7	678.2
Other	8.5	0.5	0.3	8.6
Gross value	**8,660.0**	**1,934.2**	**1,887.7**	**8,706.5**
Investments	230.4	45.3	12.5	263.2
Loans and other receivables	–	–	–	–
Treasury stock	–	–	–	–
Other	5.5	–	n/s	5.5
Provision for impairment	**235.9**	**45.3**	**12.5**	**268.7**
Net book value	**8,424.1**	**1,888.9**	**1,875.2**	**8,437.8**

In 2007, L'Oréal purchased 15,373,100 shares of treasury stock in the context of buyback programmes and cancelled 21,485,100 shares. A total of 7,650 options were exercised under share purchase option plans.

At year end, L'Oréal owns 8,067,350 shares of treasury stock, compared with 14,187,000 shares at December 31st, 2006.

The total market value of treasury stock amounted to €778.5 million at the average share price for December and to €790.4 million at the closing share price on December 31st, 2007.

The table of subsidiaries and holdings is presented at the end of the notes to the financial statements.

NOTE 5_TRANSACTIONS AND BALANCES WITH RELATED ENTITIES

€ millions	12.31.2007	12.31.2006
Financial assets	7,742.7	7,371.4
Trade accounts receivable	207.5	180.4
Other accounts receivable	20.7	10.3
Borrowings	11.9	75.2
Trade accounts payable	58.8	60.4
Other payables	0.1	0.1
Financial expenses	5.4	17.1
Financial revenues	1,402.8	1,411.7

NOTE 6_MARKETABLE SECURITIES

This account is broken down as follows:

€ millions	12.31.2007	12.31.2006
L'Oréal shares	1,107.5	1,462.5
Financial instruments	3.9	2.4
Premiums paid on options	9.7	5.8
Gross value	**1,121.1**	**1,470.7**
L'Oréal shares	3.2	52.3
Financial instruments	–	–
Premiums paid on options	–	–
Provision for impairment	**3.2**	**52.3**
Net book value	**1,117.9**	**1,418.4**

The 14,597,587 L'Oréal shares of treasury stock held for the employee share purchase option plans have a net value of €1,104.3 million (after taking account of a reversal in the year of €48.8 million in the provision for impairment through profit and loss, and of €0.3 million through equity corresponding to shares cancelled), compared with €1,410.2 million at December 31st, 2006.

During 2007, stock options were exercised in respect of 4,878,963 shares and 230,750 shares were cancelled.

For 2007, the total market value of treasury stock amounted to €1,408.7 million based on the average price in December and to €1,430.3 million at the closing share price on December 31st.

For 2006, the total market value of treasury stock amounted to €1,504.3 million based on the average price in December and to €1,495.8 million at the closing price on December 31st.

NOTE 7_MATURITIES OF RECEIVABLES

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
Fixed assets					
Loans and other receivables	75.5	17.2	92.7	–	92.7
Other financial assets	–	8.4	8.4	5.3	3.1
Current assets					
Trade accounts receivable	346.2	–	346.2	3.7	342.5
Other current assets, of which:	104.3	–	104.3	–	104.3
Tax and employee-related receivables	51.4				
Group and shareholders	20.3				
Other receivables	32.6				
Prepaid expenses	22.1	–	22.1	–	22.1

Accrual accounts included in current assets amounted to €12.2 million at December 31st, 2007, compared with €11.9 million at December 31st, 2006.

NOTE 8_PROVISIONS FOR LIABILITIES AND CHARGES

€ millions	12.31.2006	Charges	Reversals (provisions used)	Reversals (provisions not used)	12.31.2007
Provisions for litigation	40.8	0.4	0.1	0.2	40.9
Provision for exchange losses	2.0	4.9	2.0	–	4.9
Provisions for charges	23.7	20.8	14.7	2.2	27.6
Other provisions for liabilities (1)	56.6	40.6	4.7	16.6	75.9
Total	**123.1**	**66.7**	**21.5**	**19.0**	**149.3**

(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 changes in provisions for liabilities and charges impacted different levels of the profit and loss account as follows:

€ millions	Charges	Reversals (provisions used)	Reversals (provisions not used)
Operating profit	15.2	10.7	3.4
Net financial income	16.3	10.6	–
Exceptional items	35.3	0.2	15.7
Income tax	–	–	–
Total	**66.8**	**21.5**	**19.1**

NOTE 9_BORROWINGS AND DEBTS

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.

Liquidity on the commercial paper issues is ensured by confirmed short-term credit facilities with banks for an amount of €2,625 million at December 31st, 2007, being the same amount as at December 31st, 2006. These short-term credit facilities, like the medium-term loans, are not subject to any financial ratio clauses or ratings clauses.

Total borrowings and debts are broken down as follows:

Breakdown by type of debt

€ millions	12.31.2007	12.31.2006
Bonds	n/s	n/s
Borrowings and debts due to financial institutions	2,550.8	1,794.8
Perpetual loan (1)	71.8	77.4
Commercial paper	567.2	1,577.8
Other borrowings and debts	65.6	130.5
Overdrafts	11.9	1.3
Total	**3,267.3**	**3,581.8**

(1) In accordance with OEC recommendation no.28, the perpetual loan is recorded under the Borrowings and Debts caption. This loan matured in 2007 leading to the recognition of an additional tax charge of €9.7 million.

Breakdown by maturity

€ millions	12.31.2007	12.31.2006
Less than 1 year	738.3	1,749.6
1 to 5 years	2,527.8	1,831.1
More than 5 years	1.2	1.1
Total	**3,267.3**	**3,581.8**

During the financial year, the main changes recognised were as follows:

€ millions	
Borrowings taken out	1,343.5
Borrowings repaid	1,665.9

During 2007, the perpetual loan taken out by L'Oréal in 1992 generated an overall expense of €1.6 million.

NOTE 10_MATURITIES OF PAYABLES

€ millions	Total
Trade accounts payable	**300.1**
Other current liabilities, of which:	**278.0**
Tax and employee-related payables	172.6
Fixed asset related payables	18.4
Group and shareholders	–
Other payables	87.0

No payables are due within more than one year, with the exception of €3 million of the fixed asset related payables.
Accrual accounts included in trade accounts payable amount to €151.8 million at December 31st, 2007, compared with €146.2 million at December 31st, 2006.
Accrual accounts included in tax and employee-related payables amount to €100.9 million at December 31st, 2007, compared with €92 million at December 31st, 2006. They are mainly comprised of the provision for employee profit sharing (€19.3 million at December 31st, 2007) and of the provision for incentives (€51.1 million at December 31st, 2007).
Accrual accounts included in fixed asset related payables amount to €5.8 million.
Accrual accounts included in other payables amount to €50.1 million.

NOTE 11_UNREALISED EXCHANGE GAINS AND LOSSES

The revaluation of receivables and payables denominated in foreign currencies at exchange rates prevailing at December 31st led to the recognition of the following unrealised exchange gains/unrealised exchange losses:

€ millions	Unrealised exchange gains		Unrealised exchange losses	
	12.31.2007	12.31.2006	12.31.2007	12.31.2006
Financial receivables	0.4	0.3	–	–
Trade accounts receivable	1.8	0.9	0.2	0.2
Borrowings and debts	–	–	0.1	0.8
Trade accounts payable	–	0.2	0.6	0.6
Financial instruments	7.1	4.6	3.5	2.4
Total	**9.3**	**6.0**	**4.4**	**4.0**

The overall foreign exchange position, determined in accordance with the accounting principles described earlier in the notes, is an unrealised loss, mainly on the US dollar, of €4.9 million, which has been recognised through profit and loss.

NOTE 12_DERIVATIVES

The financial instruments held to hedge exchange rate risks are mainly related to forward transactions, and are broken down as follows:

€ millions	Notional		Market value	
	12.31.2007	12.31.2006	12.31.2007	12.31.2006
Currency forwards, net				
Purchase of EUR/Sale of ARS	4.0	0.2	–	–
Purchase of EUR/Sale of AUD	9.6	8.8	0.2	–0.2
Purchase of EUR/Sale of BRL	37.3	14.0	–1.0	–0.1
Purchase of EUR/Sale of CAD	15.2	13.0	–0.1	0.6
Purchase of EUR/Sale of GBP	20.2	15.1	0.8	–0.4
Purchase of EUR/Sale of PLN	8.1	5.7	–0.4	–0.2
Purchase of EUR/Sale of MXN	8.0	8.8	0.5	0.1
Purchase of EUR/Sale of CHF	3.3	4.9	–	–
Purchase of EUR/Sale of SEK	5.2	4.0	–	–0.1
Purchase of EUR/Sale of NOK	5.0	4.7	–	0.1
Purchase of EUR/Sale of CNY	87.7	83.0	3.2	0.7
Purchase of EUR/Sale of other currencies	22.7	19.9	0.3	–0.2
Purchase of USD/Sale of EUR	53.3	22.0	–6.2	–3.3
Purchase of USD/Sale of BRL	21.6	7.4	–1.9	–0.3
Purchase of USD/Sale of ARS	42.8	26.5	–0.2	–0.9
Purchase of USD/Sale of UAH	4.6	3.6	0.1	–
Purchase of USD/Sale of CNY	–	4.0	–	–
Purchase of JPY/Sale of CNY	5.5	6.2	0.1	–0.3
Sale of EUR/Purchase of JPY	13.0	15.5	–1.2	–1.4
Sale of EUR/Purchase of other currencies	2.5	1.8	–	0.1
Sale of USD/Purchase of CNY	27.5	–	–	–
Total currency forwards	**397.1**	**269.1**	**–5.8**	**–5.8**
Currency options				
USD/EUR	71.2	43.8	5.5	3.0
GBP/EUR	4.9	6.4	0.4	0.1
CAD/EUR	3.1	3.9	0.1	0.3
BRL/USD	–	7.0	–	0.3
EUR/BRL	34.8	33.4	1.2	1.5
EUR/CNY	59.2	22.4	1.8	0.4
Other currencies/EUR	3.9	6.1	0.2	0.1
Other currencies/Other currencies	–	2.5	–	0.1
Total currency options	**177.1**	**125.5**	**9.2**	**5.8**
Of which: call options	186.5	135.0	9.4	5.9
put options	–9.4	–9.5	–0.2	–0.1
Total forward instruments	**574.2**	**394.6**	**3.4**	**0.0**

Total put options correspond exclusively to the resale of previously purchased options when it appeared appropriate to replace them with other hedging instruments.

Financial instruments held to hedge interest rate risks are as follows:

€ millions	Notional		Market value	
Interest rate derivatives	12.31.2007	12.31.2006	12.31.2007	12.31.2006
Interest rate swaps – borrower floating rate				
EUR Euribor/fixed rate	121.8	128.8	1.5	3.6
Interest rate swaps – borrower fixed rate				
EUR Euribor/fixed rate	2.5	2.5	n/s	n/s
Interest rate swaps – floating/floating				
EUR Euribor/Euribor	–	7.1	–	n/s
Total	**124.3**	**138.4**	**1.5**	**3.6**

NOTE 13_OFF-BALANCE SHEET COMMITMENTS

a) Off-balance sheet commitments are as follows:
Confirmed credit facilities are set out in note 9.

€ millions	12.31.2007	12.31.2006
Commitments granted in the area of employee retirement obligations and related benefits (1)	461.1	571.0
Commitments to buyout minorities	64.2	67.4
Guarantees given (2)	627.0	656.7
Guarantees received	7.6	4.8
Capital commitments	69.7	51.3
Documentary credits	5.1	6.9

(1) The discount rate used to measure these commitments in 2007 is 5% for plans providing a capital sum and 5.25% for plans providing an annuity, compared with 4.25% and 4.50% respectively in 2006. An agreement for the mutualisation of employee-related liabilities was put in place in 2004. This agreement leads to the allocation of commitments among the different French companies in the group and to organising their financing in proportion to the companies respective payroll costs (personalised by plan) so that the companies are severally responsible for meeting the aforementioned commitments within the limit of the collective funds constituted.
(2) This caption includes miscellaneous guarantees and warranties, including €582.5 million at December 31st, 2007 on behalf of direct and indirect subsidiaries, compared with €649.7 million at December 31st, 2006. Warranties regarding liabilities are also included in this amount.

b) In addition, operating lease commitments amount to €47.3 million within less than one year, to €116.5 million between 1 and 5 years and €45.3 million after 5 years.
The breakdown of finance lease commitments is provided in note 3.

c) Contingent liabilities
In its normal course of business, L'Oréal is involved in legal actions and is subject to tax audits, customs controls and administrative audits. The company sets aside a provision wherever a risk is found to exist, and an estimate of its cost is possible.

At the present time, there is no exceptional event or dispute which could materially and with a serious level of probability affect the results, financial situation, assets or operations of the company.

3. NOTES TO THE INCOME STATEMENT

NOTE 14_NET SALES

€ millions	12.31.2007	12.31.2006
Goods	880.0	908.4
Raw materials, packaging	27.2	18.4
Services [1]	995.4	928.4
Rental	36.6	36.7
Other revenues of ancillary activities	134.6	111.5
Total	**2,073.8**	**2,003.4**

(1) Mainly concerns invoicing of technological assistance.

The amount of net sales in France was €1,299.2 million in 2007, compared with €1,224.3 million in 2006.

NOTE 15_OTHER REVENUE

This account caption mainly includes royalties from brands.

NOTE 16_BREAKDOWN OF THE AVERAGE HEADCOUNT

Average headcount is broken down as follows:

	2007	2006
Executives	2,664	2,537
Supervisors	2,145	2,146
Administrative staff	423	469
Workers	311	316
Sales representatives	319	325
Total	**5,862**	**5,793**
Of which: apprentices	145	144
external temporary workers	180	190

NOTE 17_DEPRECIATION, AMORTISATION AND CHARGES TO PROVISIONS

Depreciation, amortisation and charges to provisions are broken down as follows:

€ millions	12.31.2007	12.31.2006
Depreciation and amortisation	59.4	57.9
Impairment of fixed assets	–	19.3
Impairment of current assets	3.1	3.0
Provisions for liabilities and charges	15.2	12.3
Total	**77.7**	**92.5**

NOTE 18_NET FINANCIAL INCOME

Net financial income amounts to €1,247.4 million at December 31st, 2007, compared with €1,316.2 million at December 31st, 2006, and mainly includes the following items:

€ millions	12.31.2007	12.31.2006
Dividends received	1,402.2	1,410.8
Revenues on other receivables and marketable securities	18.3	30.8
Interest expense on loans	–168.1	–118.7
Losses paid to partnership entities (SNCs)	–2.7	–2.6

The "Net charges to/(reversals of) provisions and transfers of charges" caption amounts to €10.8 million at December 31st, 2007, compared with €217.7 million at December 31st, 2006 and mainly includes:

€ millions	12.31.2007	12.31.2006
Charges to provisions for impairment of financial assets net of reversals (excluding treasury stock)	–32.8	–17.6
Reversals of provisions for impairment of treasury stock	48.8	230.1
Net charges to provisions for liabilities and charges of a financial nature	–5.7	1.8

NOTE 19_EXCEPTIONAL ITEMS

Exceptional items amount to €1,386.6 million and notably include the capital gain of €1,400.7 million on the sale of Sanofi-Aventis shares and a net charge of €19.6 million to provisions for liabilities and charges.

On 14th November 2007, L'Oréal sold a stake of 1.8% in Sanofi-Aventis' capital. This sale was made at a price of €60.5 per share and generated a capital gain net of tax of €1,376.5 million. Following this sale, L'Oréal's shareholding in Sanofi-Aventis has been reduced to 8.7%.

NOTE 20_INCOME TAX

The tax income for the year breaks down as follows:

€ millions	12.31.2007	12.31.2006
Tax on profit before tax and exceptional items	–86.9	–53.6
Tax on exceptional items and employee profit-sharing	–6.0	–12.6
Tax on the Sanofi-Aventis capital gain	24.2	
Net provisions for taxes		11.7
Income tax	**–68.7**	**–54.5**

The tax income booked by L'Oréal S.A. takes account of savings of €102.4 million resulting from tax consolidation, compared with €98.4 million in 2006: these savings mainly result from the use of tax losses of member companies.

The application of tax legislation led to an increase in profit for the year of €13.8 million, mainly because of the charge to regulated provisions and research, sponsorship and family tax credits.

NOTE 21_INCREASES OR REDUCTIONS IN FUTURE TAX LIABILITIES

€ millions	Opening balance		Changes		Closing balance	
	Asset	Liability	Asset	Liability	Asset	Liability
Temporary differences Regulated provisions		11.7	3.2	5.0		13.5
Temporarily non-deductible charges	44.1		19.4	35.7	27.8	
Charges deducted (or revenue taxed) for tax purposes but not yet accounted for		0.7	3.6	4.6		1.7
Temporarily non-taxable revenue		0.4	0.4			
Items deductible Tax losses, etc.						
Items potentially taxable Special reserve for long-term capital gains		176.8				176.8

The figures have been calculated taking account of the social contribution of 3.3% which increases both the standard and reduced rates of tax.

NOTE 22_RESEARCH COSTS

Amounts invested in Research activities in 2007 totalled €502.2 million compared with €481.6 million in 2006.

4. NOTES TO THE CASH FLOW STATEMENT

NOTE 23_CHANGES IN WORKING CAPITAL

Changes in working capital were €8.5 million at December 31st, 2007, compared with €81.3 million at December 31st, 2006. They are broken down as follows:

€ millions	12.31.2007	12.31.2006
Inventories	5.7	7.8
Receivables	–34.8	40.5
Payables	37.6	33.0
Total	**8.5**	**81.3**

NOTE 24_CHANGES IN OTHER FINANCIAL ASSETS

This caption includes flows related to treasury stock in the year, classified in marketable securities.

NOTE 25_CASH AND CASH EQUIVALENTS AT END OF YEAR

Cash and cash equivalents at end of year amount to €730.7 million at December 31st, 2007 compared with €360.7 million at December 31st, 2006 and are broken down as follows:

€ millions	12.31.2007	12.31.2006
Cash, excluding accrued interest	741.7	362.0
Bank overdrafts, excluding accrued interest	–11.0	–1.3
Total	**730.7**	**360.7**

5. POST-BALANCE SHEET EVENTS

In November 2007, L'Oréal signed an agreement to acquire 100% of the share capital of Canan Kozmetik, Canan Pazarlama and Seda Plastik, which are Turkish haircare products companies. The acquisition was finalised in January 2008 having obtained the necessary authorisations.

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

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

The acquisition should be concluded after consultation of the employee representative bodies of the PPR group and subject to the approval of the appropriate authorities notably those relating to antitrust law.

TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31st, 2007

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	161	(1)
RE.GE.FI.	19,250	62,389	100	75,670	75,670	16,861	9,381
Beauté Créateurs	612	–42	50	3,425	3,425	3,056	
Biotherm Distribution & Cie	182	415	99.9	472	472	6,405	5,452
Centrex	1,800	29	100	3,532	3,532	28	(1)
Chimex	1,958	29,238	100	21,501	21,501	5,560	
Cosmétique Active France	21	7,155	69.91	130	130	13,992	12,040
Cosmétique Active International	17	4,045	87.94	15	15	11,119	8,531
Cosmétique Active Production	186	22,385	80.14	5,081	5,081	3,679	537
Episkin	6,662	0	100	6,662	6,662	451	(1)
Exclusive Signatures International	10	0	99	10	10	42	(1)
Fapagau & Cie	15	5,880	79	12	12	5,099	(1)
Faprogi	15	5,438	59.9	9	9	–349	(1)
Finval	2	0	99	2	2	1,240	(1)
Gemey Maybelline Garnier	50	1,077	66.61	34	34	46,984	33,381

(€ 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		
Gemey Paris-Maybelline NY	35	7,489	99.96	46	46	18,049	17,151
Goldys International	15	0	99.9	15	15	–2	(1)
Helena Rubinstein	30	1	99.95	46,661	46,661	4,515	4,171
Holdial	1	0	98	1	1	1,514	(1)
L & J Re	1,500	8,360	100	1,500	1,500	2,389	
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	6,437	8,261
Laboratoire Bioexigence	37	17	100	37	37	–500	
Laboratoire Garnier & Cie	580	2	99.97	5,784	5,784	8,688	5,849
Laboratoires Innéov	500	3,904	50	12,050	2,202	–7,176	
Laboratoire Sanoflore	1,122	1,852	99.11	4,842	4,842	–800	
Lancôme Parfums et Beauté & Cie	1,192	–2,613	100	3,235	3,235	52,890	
Lascad	18	11	99.17	18	18	47,904	42,607
Lehoux et Jacque	39	56	100	263	263	167	335
L'Oréal Produits de Luxe France	63	4,083	74.33	46	46	24,404	13,540
L'Oréal Produits de Luxe International	76	2,139	99.2	76	76	58,799	49,375
Par-Bleue	2	0	99	2	2	–859	(1)
Parfums Cacharel & Cie	1	1	99	2	2	–938	(1)
Parfums Guy Laroche	332	5,417	100	1,656	1,656	165	23
Parfums Paloma Picasso & Cie	2	0	99	2	2	–63	(1)
Parfums Ralph Lauren	2	0	99	2	2	–337	(1)
Prestige et Collections International	32	3,952	56.67	18	18	21,850	7,897
Sicos & Cie	375	8,523	80	999	999	3,969	(1)
Société de développement artistique	2	0	99	2	2	101	(1)
Soprocos	8,250	10,322	100	11,904	11,904	1,447	1,378
Soproreal	15	8,492	99.9	15	15	1,106	(1)
Sparlys	750	1,498	100	3,826	3,826	1,050	978
Viktor & Rolf Parfums	2	0	99	1	1	–602	(1)
B. Main french investments – Holdings of less than 50%							
Galderma International	932	63,366	26.67	2	2	–5,902	
Innéov France	150	–1,214	n/s	n/s	n/s	–2,226	(1)
Sanofi-Aventis	2,731,833	(2)	8.66	423,887	423,887	(2)	250,322

(1) The SNCs (general partnership), GIEs (economic interest groupings) and *Sociétés Civiles* (non trading companies), that are not tax consolidated, distribute all their profits.
(2) Sanofi-Aventis: this information is not available.

(€ 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 foreign subsidiaries – Holdings of over 50%							
Avenamite S.A. (Spain)	242	48	100	6,216	6,216	122	91
Beautylux International Co Ltd (China)	43,716	4,877	90.41	46,195	46,195	1,830	
Beautylux International Cosmetics (Shanghai) China	5,629	–6,467	100	16,871	16,871	2,132	

(€ 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		
Beautytech International Cosmetics (Yi Chang) China	3,070	–4,685	100	131,239	131,239	124	
Biotherm (Monaco)	152	16	99.8	3,542	3,542	3,063	1,774
Caribel Fragrances Inc. (Porto Rico)	0	0	100	0	0	0	
Club Créateurs Beauté Japon K.K.	4,309	–6,362	50	2,173	802	–819	
Cosmelor Ltd (Japan)	3,554	18,445	100	35,810	35,810	19	718
Cosmephil Holdings Corporation (Philippines)	171	–145	100	400	14	0	
Cosmétique Active Belgilux (Belgium)	3,240	1,323	86.71	3,423	3,423	2,353	2,567
Cosmétique Active Hellas (Greece)	705	322	99.97	14,468	14,468	7,419	5,484
Cosmétique Active Ireland Ltd (Ireland)	82	457	100	732	732	973	124
Cosmétique Active (Switzerland)	32	294	100	4,645	4,645	3,374	2,932
Elebelle (Propriatary) Ltd (South Africa)	806	45,736	100	61,123	49,123	0	
Erwiton (Uruguay)	739	1,732	100	17	17	3,777	2,243
Galderma Pharma S.A. (Switzerland)	31,388	448,960	50	10,124	10,124	102,122	
Kosmepol Sp. Z.O.O. (Poland)	38,844	25,823	99.73	48,965	48,965	4,776	
Lai Mei Cosmetics Int. Trading Shanghai Co Ltd (China)	9,500	3,796	100	11,197	11,197	675	11,027
Le Club des Créateurs de Beauté (Belgium)	250	–1,093	50	251	0	–879	
Le Club des Créateurs de Beauté Co Ltd (Taiwan)	234	–323	50	328	32	–312	
L'Oréal Adria d.o.o. (Croatia)	131	1,342	100	1,503	1,503	2,348	275
L'Oréal Argentina S.A.	13,081	5,770	100	81,068	35,154	6,718	3,583
L'Oréal Australia PTY Ltd	2,711	13,086	100	18,794	18,794	26,624	21,999
L'Oréal Balkan d.o.o. (Serbia)	1,241	315	100	1,285	1,285	164	
L'Oréal Baltic SIA (Latvia)	387	4,443	100	529	529	2,501	859
L'Oréal Belgilux (Belgium)	10,000	15,996	99.99	35,583	35,583	27,724	37,396
L'Oréal Bulgaria EOOD	102	10	100	102	102	–412	
L'Oréal Canada Inc.	1,784	19,192	100	144,226	144,226	46,276	56,781
L'Oréal Ceska Republica (Czech Republic)	5,939	2,035	100	8,678	8,678	5,409	3,880
L'Oréal Chile (Chile)	20,888	1,407	100	43,784	42,398	12,841	8,385
L'Oréal China Co Ltd (China)	23,745	–38,928	100	37,482	37,482	45,138	
L'Oréal Colombia (Colombia)	1,931	1,986	94	6,395	5,136	1,988	0
L'Oréal Danmark A/S (Danemark)	270	4,937	100	8,336	8,336	14,140	11,339
L'Oréal Deutschland GmbH (Germany)	12,647	57,228	100	71,855	71,855	85,285	102,432
L'Oréal Espana S.A. (Spain)	59,911	67,848	63.86	228,809	228,809	36,106	23,089
L'Oréal Finland Oy (Finland)	673	13	100	1,280	1,280	8,623	8,268
L'Oréal Guatemala S.A.	1,044	763	100	2,162	2,162	591	350
L'Oréal Hellas (Greece)	3,465	4,552	77.41	2,112	2,112	15,415	9,289
L'Oréal Hong-Kong Limited	3	1,333	99.97	604	604	49,459	41,396

(€ 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 India Private Limited	39,908	–21,318	100	54,902	26,412	4,956	
P.T. L'Oréal Indonesia	1,510	–16	99	2,305	2,305	852	
L'Oréal Investments B.V. (Netherlands)	18	8	100	18	18	0	
L'Oréal Israel Ltd	4,119	8,293	92.97	38,497	33,597	3,076	2,592
L'Oréal Italia Spa	153,818	30,805	100	161,804	161,804	79,655	79,769
L'Oréal Japan Ltd (Japan)	370	–560	100	275	0	–128	
L'Oréal Korea Limited (South Korea)	1,991	–4,245	100	20,794	0	–266	
L'Oréal Liban SAL	3,139	650	99.88	7,698	7,698	2,822	1,437
L'Oréal Luxe Producten Nederland B.V.	908	748	100	1,937	1,937	6,368	12,878
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,249	1,021	100	7,815	7,815	3,601	2,320
L'Oréal Malaysia SDN BHD (Malaysia)	4,749	3,485	94.34	6,456	6,456	5,035	1,965
L'Oréal Mexico S.A. de C.V	2,349	32,897	100	8,443	8,443	38,415	39,228
L'Oréal Middle East (United Arab Emirates)	2,752	636	100	37,284	37,284	22,559	12,247
L'Oréal Nederland B.V. (Netherlands)	34	3	100	4,894	4,894	21,451	18,385
L'Oréal New Zealand Ltd	42	1,958	100	624	624	4,855	4,477
L'Oréal Norge A/S (Norway)	1,384	2,860	100	4,050	4,050	12,616	10,687
L'Oréal Osterreich Gmbh (Austria)	2,915	191	100	3,818	3,818	13,464	10,938
L'Oréal Panama S.A.	159	1,289	100	168	168	3,113	
L'Oréal Peru S.A. (Peru)	2,096	235	100	3,739	3,533	1,361	766
L'Oréal Philippines Inc.	2,062	618	95.38	12,478	2,481	184	
L'Oréal Polska Sp. Z.O.O. (Poland)	21,686	30,069	100	38,210	38,210	21,466	20,377
L'Oréal Portugal LDA	145	2,727	98.35	2,394	2,394	23,297	18,873
L'Oréal Produits de Luxe Belgilux	250	733	99.97	2,885	2,885	8,293	7,188
L'Oréal Produits de Luxe Hellas A.E.	1,026	1,698	99.89	2,135	2,135	4,743	4,331
L'Oréal Produits de Luxe Suisse	257	756	100	556	556	3,963	2,978
L'Oréal Romania SRL (Romania)	2,187	799	100	5,883	5,883	4,856	1,927
L'Oréal Singapore Pte Ltd (Singapore)	1,165	–97	100	18,991	18,991	7,273	5,807
L'Oréal Slovenija Kosmetica d.o.o. (Slovenia)	465	405	100	856	856	2,946	2,212
L'Oréal Slovensko S.R.O. (Slovakia)	1,598	638	100	1,673	1,673	3,711	2,818
L'Oréal Suisse	193	–64	100	116,776	116,776	18,090	14,405
L'Oréal Sverige AB (Sweden)	2,038	3,217	100	2,247	2,247	14,306	10,199
L'Oréal Taiwan (Taiwan)	16,532	–1,671	100	40,942	40,942	10,778	
L'Oréal Thailand	3,992	–1,401	100	5,238	5,238	3,787	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	16,235	4,003	100	22,207	22,207	4,266	6,200
L'Oréal UK Ltd	24,740	11,333	100	47,372	47,372	95,359	82,791
L'Oréal Ukraine	1,483	–475	100	1,390	1,390	11,648	
L'Oréal Uruguay	2,262	–1,418	100	5,435	677	–449	
L'Oréal USA Inc. (4)	4,402	1,750,934	100	3,411,932	3,411,932	305,514	84,034

(€ 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 Venezuela C.A.	1,733	–919	100	12,502	7,781	5,874	3,962
L'Oréal Vietnam Co Ltd	76	10	100	75	75	–228	
Maybelline Suzhou Cosmetics (China)	53,652	–25,528	66.75	49,601	19,371	1,366	
Nihon L'Oréal K.K. (Japan)	138,845	4,462	100	377,752	323,752	7,903	2,364
Parbel of Florida Inc. (USA)	40	–231	100	100,317	100,317	25,607	22,202
Procosa Productos de Beleza Ltda (Brazil)	102,462	57,684	100	170,243	170,243	45,509	33,412
Scental Limited (Hong-Kong)	5	149	100	8	8	0	
Sofamo (Monaco)	160	2,088	99.97	1,851	1,851	1,223	599
The Body Shop International PLC (3)	15,468	918,594	100	992,445	992,445	29,378	20,619
Venprobel (Venezuela)	20	–201	100	2,722	0	0	
P.T. Yasulor Indonesia	4,769	8,081	99.98	40,854	15,871	521	
Yue-Sai Kan Cosmetics (Shenzhen) China	4,167	6,005	100	168,403	168,403	1,383	
B. Main foreign investments – Holdings of less than 50%							
	n/s	n/s	n/s	n/s	n/s	n/s	n/s

(3) The Body Shop : Consolidated figures for the sub-group.
(4) Figures from the sub-consolidation of L'Oréal USA Inc., prepared in accordance with US Gaap.

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 exchange rate for 2007.

It is specified that the list of companies set out above is not exhaustive.

Information relating to all subsidiaries and investments

(€ thousands)	Subsidiaries		Investments	
	French	Foreign	French	Foreign
Book value of shares held: • gross restated	240,316	7,262,816	423,889	1
• net	228,069	7,011,819	423,889	1
Amount of loans and advances granted	73,812	8,191		
Amount of guarantees and security granted	3,225	578,074		
Amount of dividends booked	220,975	914,320	250,322	1

CHAPTER V

2008 ANNUAL GENERAL MEETING

2008 ANNUAL GENERAL MEETING

1. REPORT OF THE BOARD OF DIRECTORS ON THE DRAFT RESOLUTIONS SUBMITTED FOR APPROVAL TO THE ANNUAL GENERAL MEETING ON TUESDAY APRIL 22nd, 2008

1.1. Ordinary part

1.1.1. Approval of the annual financial statements, allocation of the company's net income for 2007 and declaration of the dividend (first, second and third resolutions)

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

• the parent company financial statements, with a profit and loss account which shows net income of €2,822.4 million for 2007 compared with €1,690.3 million at December 31st, 2006,

• and the 2007 consolidated financial statements, the main details of which are set out in the 2007 Annual Report, together with the main information included in the file for calling the Annual General Meeting on Tuesday April 22nd, 2008.

The Board of Directors proposes to the Annual General Meeting a net dividend of €1.38 per share, representing an increase of 16.9% compared with the net dividend for 2006.

The dividend for the 2007 financial year will be detached from the share on April 25th, 2008 and will be payable in cash as from April 30th on positions established as of the evening of April 29th.

1.1.2. Regulated agreements and regulated commitments (fourth resolution)

Two regulated commitments referred to in Article L.225-42-1 of the French Commercial Code that received the prior authorisation of the Board of Directors on February 13th, 2008 are submitted for the approval of the Annual General Meeting:

In this regard, in order to comply with French Law No. 2007-1223 of August 21st, 2007 to promote work, employment and purchasing power (known as the TEPA law) undertakings made by the company to its corporate officers corresponding to elements of remuneration, indemnities or benefits due or that may become due in respect of the termination or change in the duties of the corporate officer or thereafter, must be authorised by the Board of Directors and subject to performance conditions and then approved by the general meeting.

These commitments submitted for approval by the Annual General Meeting are as follows:

• in the event of non-renewal or removal from his corporate office, except for gross misconduct or gross negligence, Mr Jean-Paul Agon will be entitled to an indemnity for termination of his corporate office equal to 3 months' remuneration (solely his fixed remuneration) per year of performance of the corporate office of Chief Executive Officer, as from 2006 inclusive, and limited to a maximum of 12 months of the fixed part of the last remuneration received in respect of his corporate office, subject to fulfilment of performance conditions.
This indemnity will be added to the indemnities payable, where applicable, in the event of subsequent termination of his resumed employment contract calculated on the basis of the applicable collective bargaining agreement,

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

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

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

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

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

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

1.1.3. Ratification of the cooptation as director of Mr Charles-Henri Filippi (fifth resolution)

Having reviewed the Report of the Board of Directors, the Annual General Meeting is asked to ratify the cooptation decided by the Board of Directors at its meeting on November 30th, 2007, of Mr Charles-Henri Filippi as director to replace Mr Franck Riboud who was resigning, for the remainder of his tenure, that is until the end of the Annual General Meeting to be held in 2010 to review the financial statements for the previous financial year.

1.1.4. Renewal of the tenure as director of Mr Bernard Kasriel (sixth resolution)

The Annual General Meeting is asked to renew the tenure as director of Mr Bernard Kasriel for a period of four years as provided for by the Articles of Association.

This tenure will expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the previous financial year.

1.1.5. Authorisation for the company to buy back its own shares (seventh resolution)

During 2007 and up until February 13th, 2008, the Board of Directors continued with the implementation of its policy of buying back then cancelling shares: 16.28 million shares were bought back, for a total amount of €1,420 million while 28.9 million shares were cancelled.

As the existing authorisation is due to expire in October 2008, a proposal is made to the Annual General Meeting that it should grant the Board a further authorisation enabling it to continue with its share buyback policy, depending on the opportunities that may arise, and except during periods of public offers with regard to the company's capital.

A detailed report on the transactions carried out and a description of the authorisation that is being put to your vote are included in the chapter of the Management Report entitled "Buyback of its own shares by the Company".

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 for a maximum amount of €7.9 billion, it being stipulated that the company may at no time hold over 10% of its own capital.

1.2. Extraordinary part

1.2.1. Authorisation for the Board of Directors to cancel shares purchased by the company under Articles L.225-209 and L.225-208 of the French Commercial Code (eighth resolution)

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

The authorisation given to the Board of Directors to cancel shares purchased by the company under Article L.225-209 of the French Commercial Code is due to expire.
A proposal is made to the Annual General Meeting that it should grant the Board a further authorisation enabling it to continue with its cancellation policy, within the limits provided for by law.
This authorisation would be valid for a period of 26 months, as from the date of the Annual General Meeting.

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

The authorisation given to the Board of Directors to cancel shares purchased by the company under Article L.225-208 of the French Commercial Code is due to expire.
Certain share purchase options allocated in the past can no longer be exercised, for example as a result of the fact that the beneficiary of such stock 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 does not allow for these shares to be cancelled, as the legal rules governing their cancellation are different.
A proposal is made that, for a maximum of 500,000 shares, the shares corresponding to share purchase options that can no longer be exercised should be covered by the cancellation policy currently being conducted by the Board of Directors.
This authorisation would be valid for a period of 26 months, as from the date of the Annual General Meeting.

1.2.2. Powers for formalities (ninth resolution)

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

The Board of Directors

2. STATUS OF FINANCIAL AUTHORISATIONS IN FORCE GRANTED BY THE ANNUAL GENERAL MEETING TO THE BOARD OF DIRECTORS AND PRESENTATION OF THE AUTHORISATIONS PROPOSED TO THE ANNUAL GENERAL MEETING ON TUESDAY APRIL 22nd, 2008

	Authorisations in force				Authorisations proposed to the AGM of April 22nd, 2008		
	AGM (Resolution No.)	Length (Expiry date)	Maximum authorised amount	Use made of the authorisation at February 29th, 2008	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 reserves	2007 AGM (8th)	26 months (June 24th, 2009)	An increase in the share capital to €185,000,000	None		None	
Capital increase reserved for employees	2007 AGM (11th)	26 months (June 24th, 2009)	1% of the share capital at the time of the AGM (6,261,269 shares)	None		None	
Buyback by the company of its own shares				Treasury shares held by the company at February 29th, 2008			
Buyback by the company of its own shares (maximum purchase price per share proposed for the 2008 AGM: €130)	2007 AGM (7th)	18 months (October 24th, 2008)	10% of the share capital (62,612,691 shares on February 14th, 2007)	2.76% of the share capital	7th	18 months	10% of the share capital on the date of buyback
Reduction in the share capital via cancellation of shares				Use made of the authorisation at February 29th, 2008			
Cancellation of shares purchased by the company within the scope of Art. L.225 209 of the French Commercial Code	2003 AGM (10th)	5 years (May 22nd, 2008)	10% of the share capital on the date of cancellation per 24-month period	63,632,100 shares (9.41% of the initial share capital)	8th	26 months as from the AGM	10% of the share capital
Cancellation of shares purchased by the company within the scope of Art. L.225 208 of the French Commercial Code	2006 AGM (15th)	26 months (June 25th, 2008)	1.8 million shares	1,800,000 shares (0.27% of the initial share capital)	8th	26 months as from the AGM	500,000 shares
Stock options and free grant of shares				Stock options allocated at February 29th, 2008			
Allocation of share purchase options (no discount with regard to exercise price) Allocation of share subscription options (no discount with regard to exercise price)	2007 AGM (9th)	26 months (June 24th, 2009)	2% of the share capital on the date of the Board of Directors' decision	4,000,000 share subscription options		None	
Free grant of existing shares or shares to be issued	2007 AGM (10th)	26 months (June 24th, 2009)	0.2% of the share capital on the date of the Board of Directors' decision	None		None	

3. DRAFT RESOLUTIONS SUBMITTED FOR APPROVAL TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING ON TUESDAY APRIL 22nd, 2008

3.1. Ordinary part

1st resolution:
Approval of the 2007 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 2007 parent company financial statements showing net income of €2,822,429,471.46 compared with €1,690,255,720.74 for 2006.

2nd resolution:
Approval of the 2007 consolidated financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the 2007 consolidated financial statements.

3rd resolution:
Allocation of the company's net income for 2007 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 2007 financial year, amounting to €2,822,429,471.46, as follows:

In euros	
No allocation to the legal reserve which already represents over one-tenth of the share capital	–
An amount of will be allocated to shareholders as a dividend (1)	€842,888,281.80
The balance, that is will be allocated to the "*Other reserves*" item	€1,979,541,189.66

(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.

These amounts take into account the total number of shares forming the capital at February 13th, 2008, the date of the Board Meeting which adopted this proposal for allocation of the company's income, and will be adjusted to reflect the number of shares issued following the exercise of share subscription options with 2007 dividend rights on the dividend payment date.

The Annual General Meeting therefore declares a net dividend to be paid for the financial year of €1.38 per share.

The Annual General Meeting decides that this dividend will be paid on Wednesday, April 30th, 2008, the amount of distributable income corresponding to the dividends on treasury shares held by the company on such date being allocated to the *Ordinary reserve* item.

It is to be noted that 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:

In euros	2004	2005	2006
Dividend per share	0.82	1.00	1.18

4th resolution:
Regulated agreements and regulated commitments

The Annual General Meeting, having reviewed the special report of the Statutory Auditors provided for in Article L.225-40 of the French Commercial Code, decides on the basis of this report and approves, in accordance with Article L.225-42-1 of the French Commercial Code, the commitments made with regard to the Chief Executive Officer as set out in this report.

5th resolution:
Ratification of the cooptation of Mr Charles-Henri Filippi as director

The Annual General Meeting, having reviewed the report of the Board of Directors, ratifies the cooptation made by the Board of Directors at its meeting on November 30th, 2007, of Mr Charles-Henri Filippi as director to replace Mr Franck Riboud, who was resigning, for the remainder of his tenure, that is until the end of the General Meeting to be held in 2010 to review the financial statements for the previous financial year.

6th resolution:
Renewal of the tenure as director of Mr Bernard Kasriel

The Annual General Meeting renews the tenure as director of Mr Bernard Kasriel for a period of four years as provided for by the Articles of Association.

His tenure will expire at the end of the Annual General Meeting to be held in 2012 to review the financial statements for the previous financial year.

7th resolution:
Authorisation for the company to buy back its own shares

The Annual General Meeting, having reviewed the reports of the Board of Directors, decides to authorise the Board of Directors, effective as of the date set out hereinafter, with the possibility for it to delegate under the conditions provided for by law, to trade in the company's shares on the Stock Exchange or otherwise, in accordance with the requirements of 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 pursuant to this authorisation 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 13th, 2008, 61,078,861 shares for a maximum amount of €7.9 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, in particular through capitalisation of reserves followed by the issue and grant of free shares, and/or share splits or reverse share splits, the amounts indicated above will be adjusted on the basis of the characteristics of the transaction.

The company may buy its own shares for the following purposes:
• their cancellation for purposes of optimising shareholders' equity and net earnings per share by a reduction in the capital, subject to adoption of the eighth resolution set out below,
• their allocation to employees and corporate officers of the company and affiliates, under the terms and conditions provided for by French law, and in particular within the scope of employee profit-sharing schemes, share purchase options, free grants of shares or company savings schemes,
• animating 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:
• shall take effect on the date when the Board of Directors decides on its implementation, and that this decision will automatically lead to expiry of the authorisation to buy back the company's shares granted by the Annual General Meeting on April 24th, 2007, which shall remain in force until such date,
• shall expire at the end of a period of 18 months following this Annual General Meeting.

The Annual General Meeting grants full powers to the Board of Directors, with the possibility for it to delegate, to make all trades, enter into all agreements, prepare all documents, particularly for information purposes, carry out all formalities, including assigning and reassigning the shares purchased to the different goals pursued, and make all declarations and filings with all organisations and, in general, take all actions that are necessary for the implementation of this resolution.

3.2. Extraordinary part

8th resolution:
Authorisation given to the Board of Directors to cancel shares purchased by the company under Articles L.225-209 and L.225-208 of the French Commercial Code
The Annual General Meeting, deciding under the quorum and majority requirements for Extraordinary General Meetings, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors:
• authorises the Board of Directors, in accordance with Article L.225-209 of the French Commercial Code, to cancel, on one or more occasions, the shares held by the company pursuant to Article L.225-209 of the French Commercial Code, within the limit of 10% of the capital as of the date of cancellation, per twenty-four month period. This authorisation is given for a period of twenty-six months as from the date of this Annual General Meeting and renders ineffective any prior authorisation for the same purpose,
• authorises the Board of Directors, for a period of twenty-six months as from the date of this Annual General Meeting, in accordance with Articles L.225-204 and L.225-205 of the French Commercial Code, to cancel, on one or more occasions, a maximum of 500,000 shares purchased by the company on the basis of Article L.225-208 of the French Commercial Code to cover share purchase options which currently correspond, or will correspond in future, to options that are no longer exercisable.

Full powers are given to the Board of Directors, with the possibility for it to delegate, to:
• reduce the share capital by cancelling shares,
• decide on the final amount of the reduction in the share capital,
• set the methods and record the completion of such reduction in the share capital,
• offset the difference between the book value of the shares cancelled and their par value against all reserves and available share premiums,
• amend the Articles of Association accordingly,
• and more generally, do all that is necessary to implement this resolution.

9th 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.

CHAPTER VI

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

1. GENERAL INFORMATION RELATING TO THE COMPANY

1.1. Share capital

See information on pages 72 to 75 of this Document.

1.2. Legal form

L'Oréal is incorporated in France as a *"société anonyme"*.

1.3. Law governing the issuer

French law.

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. In the other subsidiaries, minority interests are not material (pages 55 to 56). It also has substantial investments in non-consolidated companies (pages 51 and 54 and pages 140 to 144).

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."

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."

1.7. Company registration number

632 012 100 Paris Trade and Companies Registry.

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.

1.9. Fiscal year (Article 14 of the Articles of Association)

"Each fiscal year shall have a duration of twelve months, to begin on January 1st and to end on December 31st of each year."

1.10. 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 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 or investment certificates in the company, or to redeem in whole or in part such shares or investment certificates.

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.

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."

1.11. Annual General Meetings

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection. Since the Annual General Meeting of April 29th, 2004, double voting rights have been eliminated.

1.12. Statutory share ownership threshold

"Any holder, whether direct or indirect, of a fraction of the company's share capital equal to 1%, or 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, one-third, one-half, twothirds, 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).

2. THE L'ORÉAL SHARE

2.1. Information on the L'Oréal share

Isin code: FR0000120321.
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.

2.2. Share price

Price at December 31st, 2007	€97.98
High	€99.97 at December 27th, 2007
Low	€74.25 at January 22nd, 2007
Annual rise at December 31st, 2007:	
• L'Oréal	+29.09%
• CAC 40	+1.31%
• Euronext 100	+3.36%
• DJ Euro Stoxx 50	+6.79%
Market capitalisation at December 31st, 2007	€60,55 billion
At December 31st, 2007, the L'Oréal share accounted for:	
• of the CAC 40	2.67%
• of the Euronext 100	2.73%
• DJ Euro Stoxx 50	1.07%

3. L'ORÉAL SHARE MARKET

3.1. Trading volume and change in the price of the company's shares

Date	Price in euros			Average daily trading volume (€ millions)
	High	Low	Average	
2005				
January	58.10	54.50	56.40	89.07
February	60.20	57.30	58.55	84.03
March	62.15	58.75	60.07	84.37
April	62.20	55.10	59.17	98.79
May	59.65	55.60	57.66	87.54
June	61.50	58.35	60.15	79.41
July	65.95	56.20	62.45	109.07
August	65.80	62.15	64.53	77.45
September	67.45	62.75	65.17	106.38
October	65.90	59.40	62.75	83.57
November	62.70	59.40	61.26	74.65
December	64.20	60.95	62.22	79.58
2006				
January	67.05	62.30	64.86	108.90
February	76.45	65.15	69.57	129.66
March	75.90	71.90	74.08	101.46
April	74.80	70.60	72.75	101.54
May	75.00	66.70	71.08	147.08
June	73.90	65.60	69.30	99.91
July	79.30	71.65	74.68	98.66
August	84.05	76.60	78.68	109.66
September	82.00	76.65	79.20	105.47
October	80.90	74.55	77.48	116.94
November	79.90	75.65	77.88	82.26
December	79.00	74.35	76.33	87.91
2007				
January	81.85	74.25	77.00	118.56
February	83.24	79.10	81.12	112.01
March	82.30	76.40	79.10	131.51
April	89.20	81.42	85.93	142.89
May	88.50	84.07	86.72	143.90
June	90.24	84.85	87.45	127.14
July	88.74	81.11	85.11	135.64
August	88.87	81.17	84.32	143.39
September	93.49	82.89	88.63	135.67
October	94.90	87.90	91.83	117.97
November	95.80	86.50	91.72	118.48
December	99.97	93.30	96.50	115.86
2008				
January	99.26	74.25	86.62	205.43
February	87.89	79.52	81.85	135.27

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).

3.2.1. 10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons with completion in cash in order to round up to a whole number of shares

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1997	Purchase of 41 shares at €359.02	14,719.82		41
06.12.1998	Dividend: €2.44 per share, excluding tax credit Reinvestment: purchase of 1 share at €473.05	 473.05	100.01	41 42
06.15.1999	Dividend: €2.82 per share, excluding tax credit Reinvestment: purchase of 1 share at €586.50	 586.50	118.45	42 43
06.15.2000	Dividend: €3.40 per share, excluding tax credit Reinvestment: purchase of 1 share at €825.00	 825.00	146.20	43 44
07.03.2000	Ten-for-one share split			440
06.08.2001	Dividend: €0.44 per share, excluding tax credit Reinvestment: purchase of 3 shares at €78.15	 234.45	193.60	440 443
06.04.2002	Dividend: €0.54 per share, excluding tax credit Reinvestment: purchase of 4 shares at €74.95	 299.80	239.22	443 447
05.27.2003	Dividend: €0.64 per share, excluding tax credit Reinvestment: purchase of 5 shares at €61.10	 305.50	286.08	447 452
05.14.2004	Dividend: €0.73 per share, excluding tax credit Reinvestment: purchase of 6 shares at €63.65	 381.90	329.96	452 458
05.11.2005	Dividend: €0.82 par share Reinvestment: purchase of 7 shares at €56.50	 395.50	375.56	458 465
05.10.2006	Dividend: €1.00 par share Reinvestment: purchase of 7 shares at €72.65	 508.55	465.00	465 472
05.03.2007	Dividend: €1.18 par share Reinvestment: purchase of 7 shares at €87.95	 615.65	556.96	472 479
Total		**19,345.72**	**2,811.04**	
Total net investment		**16,534.68**		

Portfolio value at December 31st, 2007 (479 shares at €97.98): €46,932.42.
The initial capital has thus been multiplied by 3.19 over 10 years (10-year inflation rate = 17.8% - Source: INSEE) and the final capital is 2.84 times the total net investment.
The Total Shareholder Return of the investment is thus 11.26% per year (assuming that the shares are sold on December 31st, 2007, 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.

3.2.2. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons and fractional allocation and with completion in cash in order to round up to a whole number of shares

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1987	Purchase of 38 shares at €389.51	14,801.38		38
06.30.1988	Dividend: €5.64 per share, excluding tax credit Reinvestment: purchase of 1 share at €509.18	 509.18	214.34	38 39
06.30.1989	Dividend: €7.62 per share, excluding tax credit Reinvestment: purchase of 1 share at €697.61	 697.61	297.28	39 40
06.29.1990	Dividend: €9.15 per share, excluding tax credit Reinvestment: purchase of 1 share at €827.80	 827.80	365.88	40 41
07.06.1990	Ten-for-one share split			410
06.28.1991	Dividend: €1.07 per share, excluding tax credit Reinvestment: purchase of 6 shares at €87.20	 523.21	437.53	410 416
06.26.1992	Dividend: €1.28 per share, excluding tax credit Reinvestment: purchase of 4 shares at €140.25	 561.01	532.72	416 420
06.25.1993	Dividend: €1.46 per share, excluding tax credit Reinvestment: purchase of 4 shares at €167.69	 670.76	614.67	420 424
06.28.1994	Dividend: €1.65 per share, excluding tax credit Reinvestment: purchase of 5 shares at €167.69	 838.45	698.09	424 429
06.28.1995	Dividend: €1.86 per share, excluding tax credit Reinvestment: purchase of 5 shares at €185.84	 929.20	797.89	429 434
06.28.1996	Dividend: €2.03 per share, excluding tax credit Reinvestment: purchase of 4 shares at €260.54	 1,042.16	879.97	434 438
07.01.1996	Issue of bonus shares (1 for 10)			481
07.31.1996	Compensation for 8 unused share attribution rights at €22.86 per right. Reinvestment: purchase of 1 share at €236.91	 236.91	182.85	481 482
07.01.1997	Dividend: €2.13 per share, excluding tax credit Reinvestment: purchase of 3 shares at €393.93	 1,181.79	1,028.73	482 485
06.12.1998	Dividend: €2.44 per share, excluding tax credit Reinvestment: purchase of 3 shares at €473.05	 1,419.15	1,183.00	485 488
06.15.1999	Dividend: €2.82 per share, excluding tax credit Reinvestment: purchase of 3 shares at €586.50	 1,759.50	1,376.31	488 491
06.15.2000	Dividend: €3.40 per share, excluding tax credit Reinvestment: purchase of 3 shares at €825.00	 2,475.00	1,669.40	491 494
07.03.2000	Ten-for-one share split			4,940
06.08.2001	Dividend: €0.44 per share, excluding tax credit Reinvestment: purchase of 28 shares at €78.15	 2,188.20	2,173.60	4,940 4,968
06.04.2002	Dividend: €0.54 per share, excluding tax credit Reinvestment: purchase of 36 shares at €74.95	 2,698.20	2,682.72	4,968 5,004
05.27.2003	Dividend: €0.64 per share, excluding tax credit Reinvestment: purchase of 53 shares at €61.10	 3,238.30	3,202.56	5,004 5,057
05.14.2004	Dividend: €0.73 per share, excluding tax credit Reinvestment: purchase of 58 shares at €63.65	 3,691.70	3,691.61	5,057 5,115
05.11.2005	Dividend: €0.82 par share Reinvestment: purchase of 75 shares at €56.50	 4,237.50	4,194.30	5,115 5,190
05.10.2006	Dividend: €1.00 par share Reinvestment: purchase of 72 shares at €72.65	 5,230.80	5,190.00	5,190 5,262
05.03.2007	Dividend: €1.18 par share Reinvestment: purchase of 71 shares at €87.95	 6,244.45	6,209.16	5,262 5,333
Total		**56,002.26**	**37,622.61**	
Total net investment		**18,379.65**		

Portfolio value at December 31st, 2007 (5,333 shares at €97,98): €522,527.34.
The initial capital has thus been multiplied by 35.3 over 20 years (20-year inflation rate = 47.8% – Source: INSEE) and the final capital is 28.43 times the total net investment.
The Total Shareholder Return of the investment is thus 19.00% per year (assuming that the shares are sold on December 31st, 2007, 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.

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.

4. INVESTMENT POLICY

L'Oréal is an industrial company whose development is governed by two 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 54 and 56),
2. ongoing marketing investments and occasional financial investments about which no systematic information can be given, particularly in advance, for reasons relating to strategy and competition:
- marketing investments 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,
- financial investments are strictly occasional. They reflect a strategy of moderate external growth which is implemented essentially with a view to exploiting long term opportunities.
For the reasons given above, L'Oréal cannot therefore answer questions relating to future investments.

5. EMPLOYEE RETIREMENT OBLIGATIONS AND ADDITIONAL BENEFITS

All over the world, depending on the legislation and practices in each country, L'Oréal adheres to pension, retirement benefit and employee benefit schemes offering a variety of additional coverage for its employees.

5.1. 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.

5.1.1. 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 "*Garantie de Retraite des Membres du Comité de Conjoncture*" (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 Executives 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, excluding any paid notice period and paid holiday, less the amount of all payments due as a result of termination of the employment contract and all salaries paid under an early retirement leave plan, if such a capital is the result of these operations. Around 400 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. The Pension Cover may not exceed 40% of the calculation basis for the Pension Cover, plus 0.5% per

year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the salaries of the three years used for the calculation basis. Around 120 Senior Managers 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.

5.1.2. 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.
All executives and sales representatives affiliated with the IRPVRP are beneficiaries of this scheme.
The basis for contributions, which remains unchanged, amounts to between 1 and 6 times the French social security ceiling, with a contribution of 4% in 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.

In euros	12.31.2005	12.31.2006	12.31.2007
Number of members (1)	8,628	9,224	9,637
Total net contributions	2,768,544	3,916,000	5,118,997

(1) Estimated.

5.2. Early retirement benefit

L'Oréal pays particular attention to the retirement conditions of its employees and the specific retirement benefits or advantages made available to them.

Early retirement leave ("Congé de fin de carrière" – *C.F.C.)*
Within the framework of a company-level agreement, employees who meet the conditions for a full-rate pension and who retire between the ages of 60 and 63 benefit from special leave, ranging from three months for 20 years' service to nine months for 30 years' service. They remain salaried employees of L'Oréal and their income is maintained (subject to a ceiling of €8,805 per month), as well as employee profit-sharing, incentives and paid holidays.

End-of-career 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 since 2001 under the C.E.T., to benefit from the possibility to terminate their 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 schedule for calculating retirement indemnities applied by L'Oréal is more favourable than that provided for under the French National Collective Bargaining Agreement for the Chemical Industries (L'Oréal agreement of October 1st, 2002).
Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from one month's salary for five years' service, to six months' salary for 35 years' service, with this length of service being calculated up to the employee's 65th birthday.

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.

	12.31.2005			12.31.2006			12.31.2007		
	M	W	Total	M	W	Total	M	W	Total
Early retirement leave	118	166	284	117	189	306	67	148	215
Compulsory retirement on the company's initiative			20			21	17	12	29
Voluntary retirement			200			256	122	185	307

(Source: HR France statistics 2005, 2006 and 2007.)

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 early retirement benefits 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	12.31.2005	12.31.2006	12.31.2007
Provision for pension commitments in consolidated balance sheet liabilities	570.9	567.1	525.2

(For France.)

5.3. Employees Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4bis 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:**

- 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,
- 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,
- for executives, comparable categories of employees, and sales representatives, the payment of an Education Annuity to each dependent child, according to an age-based schedule. For the other employees, this guarantee is optional and, if chosen, replaces part of the Lump Sum Death Benefit.

The total amount of the Lump Sum Equivalent for these guarantees may not exceed €2.3 million per event.
The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

€ millions	12.31.2005	12.31.2006	12.31.2007
Net benefit scheme contributions	8,019,843	8,197,298	8,400,000 (1)

(1) Estimated.

5.4. 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.

5.5. Healthcare expenses

Additional healthcare schemes are offered to the employees of L'Oréal parent company and its French subsidiaries.
These schemes are generally optional and 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.

Since October 1st, 2007, L'Oréal parent company's healthcare scheme has been improved substantially. This improvement mainly covers visits to specialists, optical and dental care and hospitalisation costs.
Furthermore, to anticipate for future regulatory and legal constraints, the scheme became mandatory for all L'Oréal employees as of that date.

Retirees can generally continue to benefit from the healthcare scheme, with a contribution by L'Oréal, subject to a membership duration clause.
The scheme for L'Oréal retirees has been specified in the regulations for the additional defined-benefit pension scheme and is applicable as form January 1st, 2008.

5.6. Corporate officers appointed by the Board of Directors

It is an ongoing policy of L'Oréal's Board of Directors to treat corporate officers, who have an employment contract with the company and appointed by it, in the same way as senior managers for all additional benefits relating to their salary. These corporate officers are therefore covered by the same pension and benefit schemes as the L'Oréal senior managers.

5.7. 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 departments of the Divisions and zones.

The characteristics of the pension schemes and other 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 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.

6. MAIN SHAREHOLDERS – OPERATIONS WITH RELATED PARTIES

The stakes held by Mrs Liliane Bettencourt and her family on the one hand, and by Nestlé on the other hand, in the share capital of L'Oréal, the changes in these stakes and the provisions of the agreement signed between these shareholders on February 3rd, 2004 are presented in the Management Report (cf. section on "Shareholders' agreements relating to shares in the company's share capital" page 74). The six directors appointed upon a proposal by the two main shareholders are subject to the same obligations as the company's other directors, notably with regard to compliance with corporate interests, as stated in the Internal Rules of the Board of Directors.

The method of organisation and operation adopted by the Board of Directors would enable it, if applicable, to prevent any potential abusive exercise of control by a shareholder, notably by the presence of six independent members on the Board of Directors.

Furthermore, the system of "Regulated Agreements and Regulated Commitments" laid down by law provides for a triple control (prior authorisation of the Board of Directors, Statutory Auditors' Special Report [cf. pages 177-178 of this document], and approval by the General Meeting [cf. pages 146 and 149, fourth resolution submitted to the vote of the General Meeting to be held on April 22nd, 2008]). This system covers agreements reached between the company and one of its corporate officers, those entered into with one of its shareholders which holds more than 10% of the voting rights and the commitments made by the company with regard to the corporate officers appointed by the Board of Directors. In this regard, the Annual General Meeting of April 24th, 2007 approved a regulated agreement concerning the pension plan and benefit scheme applicable to the Chief Executive Officer.

It is to be noted that the information on "Transactions between related parties" (page 49) is given in note 29 of the Notes to the Consolidated financial statements.

7. INFORMATION POLICY

Ever since its first listing on the Paris Stock Exchange over 44 years ago, L'Oréal has constantly been improving the sources of information available to its French and international shareholders and investors.

In 2007, L'Oréal set up a new organisation to better meet the needs of its shareholders, enhance its availability and put improved financial and strategic information at the disposal of all those who follow its performance. The Financial Communications Department has now been organised into three different departments: the Investor Relations Department, the Individual Shareholders and Market Authorities Relations Department and the Economic Information Department.

Thanks to its "evolving shareholder panel" and several surveys carried out over the year, L'Oréal allows its shareholders to participate in the changes to its financial communications and to their enrichment.

The group's shareholder information policy centres on several key events:

• 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 are broadcast live online on the financial website www.loreal-finance.com, and the charts presented at these financial information meetings are also made available online on the same day, both for the annual results and the half-year results. Widely used by everyone, our website won the second Boursoscan prize for financial information. This prize is awarded by Boursorama, the leading stock market information site in France and Opinionway, a specialist survey firm.

• The Annual General Meeting, which is the high point in the dialogue between senior managers and shareholders.

• The presentation of the group to shareholders in several large provincial cities in France, in collaboration with the French Investment Club Federation (*Fédération Française des Clubs d'Investissement* – FFCI) and the Society of Investor Relation Managers in France (*Cercle de Liaison des Informateurs Financiers en France* – CLIFF).

• Outside France, numerous meetings with institutional investors in the main international financial centres are organised throughout the year.

• Participation in the Actionaria Fair at the Palais des Congrès in Paris on November 16th and 17th, 2007, where each shareholder was able to meet representatives of the L'Oréal group face-to-face and get to know more about its business through a make-up demonstration by Lancôme and a skin diagnosis by Vichy.

L'Oréal also offers its shareholders a wide range of documents presenting the group, its strategy and recent developments, revised annually to provide a more accurate presentation. The Annual Report, filed as a Reference Document, is translated into English. Three Letters to Shareholders are also published each year, in French and English, together with a Shareholder Digest. All these documents are available on request and can be downloaded from the financial website www.loreal-finance.com. News releases and financial announcements complete the list of available information.

In 1997, L'Oréal created the specialised financial website www.loreal-finance.com for the use of international finance professionals and all its shareholders. This interactive resource, which was entirely revamped in 2007, contains all the group's financial and stock market information, and indicates the price of the L'Oréal share in real time. Tens of thousands of visits are made to the site each month. A special corner is dedicated to shareholders, and can be entered with a single click.

Since 2005, electronic information (RSS Flow) has enabled L'Oréal to advise systematically and in real-time of the publication of new financial information. Moreover, 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). This service provides practical information and enables shareholders to keep track of their L'Oréal share account; it also enables holders of pure registered shares to access a share trading service. (See also Volume 1, page 18.)

8. ANNUAL INFORMATION DOCUMENT

This Annual Information Document has been drawn up in application of Article 451-1-1 of the French Monetary and Financial Code and Article 221-1-1 of the General Regulation of the AMF *(Autorité des Marchés Financiers)*. This document lists the information published or made public by L'Oréal from January 1st, 2007 to February 29th, 2008 to meet its legal or regulatory obligations.

Information available on the www.loreal-finance.com website

8.1. Press releases

Date	Press releases
Weekly from January 8th, 2007 to March 3rd, 2008	Disclosure of trading in own shares (available online on www.loreal-finance.com)
Monthly from February 5th, 2007 to March 3rd, 2008	Disclosure of monthly trading in own shares and of the total number of voting rights and number of shares forming the share capital
January 11th, 2007	L'Oréal boosts diversity of its Senior Management Team
January 25th, 2007	2006 sales
February 15th, 2007	Strong growth in 2006 annual results
February 15th, 2007	Proposed appointment of Mrs Annette Roux as a director
March 30th, 2007	Extraordinary and Ordinary General Meeting of April 24th, 2007 - 2006 Annual Report
April 12th, 2007	L'Oréal USA acquires Beauty Alliance
April 17th, 2007	First quarter 2007 sales
April 25th, 2007	Extraordinary and Ordinary General Meeting
May 9th, 2007	L'Oréal acquires PureOlogy
June 27th, 2007	News release on share buybacks of June 27th, 2007
July 11th, 2007	L'Oréal USA acquires Maly's West
July 12th, 2007	First half 2007 sales
August 30th, 2007	First half 2007 results
August 31st, 2007	First half 2007 financial report
October 24th, 2007	Sales at September 30th, 2007
November 14th, 2007	News releases concerning L'Oréal's participation in Sanofi-Aventis
November 15th, 2007	L'Oréal signs agreement for acquisition of Turkish hair products company Canan
November 30th, 2007	Proposed appointment of Mr Charles-Henri Filippi as a director
December 12th, 2007	L'Oréal and Light BioScience sign collaboration agreement
January 7th, 2008	L'Oréal USA acquires Columbia Beauty Supply
January 23rd, 2008	Project for Strategic Agreement between L'Oréal and PPR regarding Yves Saint Laurent Beauté
January 24th, 2008	2007 annual sales
February 13th, 2008	Strong growth in 2007 annual results
February 19th, 2008	Disclosure of the total number of voting rights and number of shares forming the share capital at February 13th, 2008
February 26th, 2008	Galderma reaches agreement to acquire CollaGenex Pharmaceuticals

8.2. Reference Document

Date	Type of document
March 29th, 2007	2006 Reference Document D.07-0241 (AMF registration)

8.2.1. "*Bulletin des annonces légales et obligatoires*"

Date	Issue No.	Publication
February 5th, 2007	16	2006 sales
March 16th, 2007	33	Published notice of Shareholders' and Equity Interest holders' meeting
April 4th, 2007	41	Notice to attend the Shareholders' and Equity Interest Holders' Meeting
April 4th, 2007	41	2006 annual financial statements
May 7th, 2007	55	1st quarter 2007 sales
May 7th, 2007	55	Approval of 2006 financial statements
August 6th, 2007	94	2nd quarter 2007 sales
September 21st, 2007	114	Half-year report
November 14th, 2007	137	3rd quarter 2007 sales
Feburary 8th, 2008	17	2007 sales

8.2.2. Publications of notices in journals of legal notices

Journal of legal notices	Publication date	Purpose of notice
Les Petites Affiches	February 21st, 2007, no. 38	Capital increase, capital reduction, amendment of the Articles of Association
Gazette du Palais	April 5th, 2007, no. 94-95	Notice to attend the Extraordinary and Ordinary General Meeting of Shareholders
Les Petites Affiches	May 3rd, 2007, no. 89	Appointment of a director
Journal Spécial des Sociétés	May 3rd, 2007, no. 123	Voting rights
Les Petites Affiches	September 10th, 2007, no. 181	Change in share capital and amendment of the Articles of Association
Les Petites Affiches	December 20th, 2007, no. 254	Change of director
Les Petites Affiches	February 22nd, 2008, no. 39	Change in share capital and amendment of the Articles of Association

8.2.3. Information registered with the Paris Commercial Court (www.infogreffe.fr)

Publication date	Purpose of notice
02.22.2007, registration no. 18332	Updated Articles of Association at February 14th, 2007
02.22.2007, registration no. 18332	Capital increase and capital reduction (extract from the minutes of the Board of Directors' Meeting of February 14th, 2007)
04.26.2007, registration no. 19564	2006 annual parent company financial statements
04.26.2007, registration no. 19565	2006 consolidated annual financial statements
05.10.2007, registration no. 41894	Updated Articles of Association at April 24th, 2007
05.10.2007, registration no. 41894	Amendments to the Articles of Association (extract from the minutes of the Board of Directors' Meeting of April 24th, 2007)
05.10.2007, registration no. 41894	Appointment of a director (extract from the minutes of the Board of Directors' Meeting of April 24th, 2007)
09.12.2007, registration no. 80849	Updated Articles of Association at August 30th, 2007
09.12.2007, registration no. 80849	Capital reduction (extract from the minutes of the Board of Directors' Meeting of August 30th, 2007)
12.26.2007, registration no. 116568	Change in director (extract from the minutes of the Board of Directors' Meeting of November 30th, 2007)
02.25.2008, registration no. 17982	Updated Articles of Association at February 13th, 2008
02.25.2008, registration no. 17982	Capital increase and capital reduction (extract from the minutes of the Board of Directors' Meeting of February 13th, 2008)

9. RECENT EVENTS AND PROSPECTS

9.1. New release of Monday January 7th, 2008

L'Oréal USA acquires Colombia Beauty Supply
L'Oréal USA, a subsidiary of L'Oréal, has acquired 100% of Columbia Beauty Supply.

Established in 4 states of the southeastern part of the US, Columbia Beauty Supply achieved sales of about $60 million in 2007, supplying hair salons of this region through distributor sales consultants and outlets reserved for professionals.

The acquisition of Columbia Beauty Supply – which will operate within the Professional Products Division – follows that of Beauty Alliance, and Maly's West acquired by L'Oréal USA in April and July 2007 respectively. Geographically complementary, Columbia Beauty Supply will be managed by Beauty Alliance.

This acquisition demonstrates L'Oréal's determination to offer a better service to US hair salons.

9.2. New release of January 23rd, 2008

Project for Strategic Agreement between L'Oréal and PPR regarding Yves Saint Laurent Beauté
Following the authorization of its Board of Directors which met on 23rd January, 2008, L'Oréal has, this same day, made a firm offer to PPR to:
• acquire the shares of YSL Beauté Holding including the Roger & Gallet brand, for 1,150 million euros in terms of enterprise value,
• obtain an exclusive and very long-term worldwide licence for the use of the Yves Saint Laurent and Boucheron brands in the category of perfumes and cosmetics, under conditions conforming to usual market practice,
• take over the licences for the Stella McCartney, Oscar de la Renta and Ermenegildo Zegna brands, in the category of perfumes and cosmetics.
On the basis of this offer, PPR has granted exclusive negotiation rights to L'Oréal.

YSL Beauté reached sales of around 630 million euros in 2006 with its Yves Saint Laurent brand as well as with its Roger & Gallet, Boucheron, Stella McCartney, Oscar de la Renta and Ermenegildo Zegna brands.

- Mr Jean-Paul Agon, CEO of L'Oréal, said: *"This proposed agreement represents a great opportunity for L'Oréal and its Luxury Products Division. Yves Saint Laurent is a mythical French luxury brand. It is admired the world over and is particularly complementary with our current brands. We are convinced that its integration into our Luxury Products Division would speed up its development. This strategic agreement will reinforce our position in the luxury cosmetics market."*

- Mr François-Henri Pinault, PPR Chairman & CEO, said: *"With this strategic agreement with the world leader in cosmetics, Gucci Group gives YSL Beauté the opportunity to take full advantage of its upside potential. It also enables the Yves Saint Laurent brand, in the field of beauty, to fully align its ambition with its worldwide reputation. Yves Saint Laurent would thus boost its position as a great luxury brand. With its expertise and knowledge of international markets, L'Oréal would be able to continue and step up the work already achieved to date. L'Oréal would also offer a unique development platform for the Roger & Gallet, Boucheron, Stella McCartney, Oscar de la Renta and Zegna brands. With this projected agreement, PPR reasserts its ambition to bolster the development of the Gucci Group's brands."*

The agreement should be signed in the coming weeks, once the institutions representing PPR's staff have been consulted.
This operation will be submitted for approval by the appropriate authorities.

9.3. New release of Thursday January 24th, 2008

2007 annual sales: 17.1 billion euros
Strong growth: +8% like-for-like
Exceptional 4th quarter: +9% like-for-like
High growth in all divisions and all geographic zones
2007 results targets confirmed

• The sales of the L'Oréal group, at December 31st, 2007, amounted to 17.063 billion euros, an increase of +8.1% (based on reported figures).
Like-for-like (i.e. based on a comparable structure and identical exchange rates), the increase in the group's sales was +8.0%.
The impact of changes in consolidation, as a result of the acquisitions of The Body Shop, Sanoflore, Beauty Alliance, PureOlogy and Maly's West, amounted to +3.6%.
The currency fluctuations had a negative impact of –3.5% for the full year 2007.
Growth excluding the exchange rate impact was +11.6%.
• Commenting on these figures, Mr Jean-Paul Agon, Chief Executive Officer of L'Oréal, said: *"We achieved a quite exceptional 4th quarter, bolstered by a large number of initiatives, enabling us to end 2007 at +8%, right at the top of our target range.*
All the Divisions proved highly successful and made strong contributions to this result. All the zones played a part in this achievement. Western Europe confirmed its return to growth; performance in North America was satisfactory over the year as a whole; and our growth in the Rest of the World accelerated, with very strong increases in Eastern Europe, Asia and Latin America.
This solid organic growth, together with several strategic acquisitions, mean that the group has once again advanced significantly faster than the worldwide cosmetics market.
Overall, and despite the negative impact of exchange rates which was more pronounced in the 4th quarter, we are confirming our target of double-digit net earnings per share growth."

9.3.1. Sales by operational division and geographic zone

€ millions	12.31.2007			4th quarter 2007		
		Growth			Growth	
		Like-for-like	Reported		Like-for-like	Reported
By operational division						
Professional Products	2,392	+7.5%	+12.5%	622	+8.6%	+17.9%
Consumer Products	8,280	+7.9%	+4.8%	1,990	+7.3%	+3.5%
Luxury Products	3,928	+8.4%	+4.1%	1,156	+12.1%	+7.1%
Active Cosmetics	1,248	+10.8%	+10.7%	264	+14.2%	+13.1%
Cosmetics total	**15,908**	**+8.0%**	**+6.0%**	**4,045**	**+9.1%**	**+7.0%**
By geographic zone						
Western Europe	7,250	+4.1%	+3.7%	1,771	+5.3%	+4.1%
North America	4,004	+4.8%	+1.3%	1,036	+7.2%	+4.7%
Rest of the World	4,654	+17.9%	+14.5%	1,238	+17.0%	+13.7%
of which: Asia	1,580	+14.3%	+7.0%	412	+15.5%	+7.1%
Latin America	1,124	+14.6%	+10.1%	304	+13.1%	+9.7%
Eastern Europe	1,142	+29.4%	+34.4%	327	+28.6%	+32.0%
Other countries	808	+15.4%	+12.5%	196	+9.7%	+8.9%
Cosmetics total	**15,908**	**+8.0%**	**+6.0%**	**4,045**	**+9.1%**	**+7.0%**
The Body Shop	787	+5.7%	+80.9%	266	+4.1%	+1.2%
Dermatology (1)	368	+12.7%	+6.9%	112	+14.5%	+7.2%
Group total	**17,063**	**+8.0%**	**+8.1%**	**4,423**	**+9.0%**	**+6.6%**

(1) Group share, i.e., 50%.

9.3.2. Cosmetics Branch sales trends by division

• The **Professional Products Division** recorded strong like-for-like growth of +7.5%, consolidating its worldwide leadership.

- L'Oréal Professionnel is continuing its breakthrough in the seniors segment thanks to the success of two key product initiatives: Color Suprême hair colourant which is being rolled out worldwide, and the anti-ageing haircare range Age Densiforce.
- Redken has successfully launched its Fresh Curls range and has internationalised its Urban Experiment styling range.
- Matrix has accelerated its penetration outside the United States, particularly in Europe with the Biolage range.
- In the dynamic luxury hairdressing market, the Division is continuing to build a comprehensive offering to meet the needs of the most exclusive salons.

In addition to the very fast growth achieved by Kérastase with the launch of Noctogenist, the Division now includes the American brand PureOlogy acquired in May, and the newly created Shu Uemura Art of Hair range, whose launch in the United States and Europe is just beginning.

• **The Consumer Products Division** posted like-for-like growth of +7.9% in 2007, a very significant acceleration compared with previous years.

The dynamism of the different countries and the strong programme of new products enabled the three major brands - L'Oréal Paris, Garnier and Maybelline New York – to produce very similar performances.

- The skincare category was the division's number one growth driver with some major successes: for L'Oréal Paris they were Skin Genesis, a cell rejuvenation skincare line, Men Expert Hydra Energetic and the new Revitalift, world number one in the anti-wrinkle segment. Garnier is continuing to build up this category across the world by making use of the major franchises Ultralift, Nutritionist and Light while adapting them to each zone.
- Make-up was also very dynamic, with a large number of innovations: in mascara with Define-A-Lash from Maybelline and Telescopic from L'Oréal Paris, in foundations with Bare Natural by L'Oréal Paris and Superstay Silky by Maybelline, and in lipstick with Color Riche and Glam Shine 6h from L'Oréal Paris.

• **The Luxury Products Division** ended the year with +8.4% like-for-like growth, with a fourth quarter at +12.1%, driven by powerful product initiatives.

- Perfumes were particularly dynamic in the fourth quarter, thanks to the launches of Diesel Fuel for Life (for men and women), Emporio Diamonds, the new women's fragrance from Giorgio Armani and the men's fragrance Polo Explorer by Ralph Lauren. Sales were also excellent for Trésor by Lancôme, with American actress Kate Winslet as its new ambassador, and the strong development of Viktor & Rolf. The Division, already world number one in this category, is further strengthening its positions.
- The skincare category is doing well, particularly anti-ageing products. Lancôme is achieving worldwide success with the new Rénergie Morpholift R.A.R.E line, and Biotherm and Shu Uemura are having similar success with ReMinérale and Phytoblack Lift respectively. The premium skincare line Armani Crema Nera is being started up worldwide.
- In make-up, Lancôme sales accelerated in the 4th quarter thanks to Virtuôse mascara, which is consolidating the brand's position in the mascara market, and in the whole selective make-up segment. There was also a major success for the mascara Lash Queen Feline Blacks from Helena Rubinstein. Armani is continuing its global brand development with the very upmarket expansion of Giorgio Armani Cosmetics make-up. And the growth of Shu Uemura make-up accelerated at the end of the year, as it capitalised on its new foundation Face Architect.

• The growth of **Active Cosmetics** continued at the high rate of +10.8% like-for-like, with a strong 4th quarter at +14.2%:

- Vichy took advantage of the successful launch of Aqualia Thermal and the Vichy Homme range.
- The growth of La Roche-Posay accelerated thanks to the success of the facial skincare products and the launch of Biomédic, a new range of peeling products exclusively for use by dermatologists.
- Innéov also achieved strong growth, becoming number one in oral cosmetics sold in European pharmacies.
- Sanoflore and SkinCeuticals started their globalisation programmes in the fourth quarter.

9.3.3. Western Europe

Growth in Western Europe amounted to +4.1% like-for-like, as the market trend appears to have held up well. Sales trends rose very significantly in the United Kingdom and Spain. In France and Germany trends improved in the second half of the year.

• The Professional Products Division turned in good performances in all the countries, particularly in Germany and the United Kingdom. The American brands Matrix and Redken are growing strongly, fulfilling their role as growth relays.

• The Consumer Products Division won market share, strengthening its leadership thanks to the outstanding performance of L'Oréal Paris and Maybelline. Market share gains have been particularly substantial in facial skincare, foundation and lipstick. All the European countries have positive growth rates, even though the quarter was marked by substantial returns of sun protection products. In addition to very good performances in Spain, Great Britain and Sweden, sell-through increased substantially in Germany, particularly in facial skincare as the Division advanced significantly faster than the market.

• The Luxury Products Division is accelerating very strongly with excellent performances in Great Britain, France and Italy. It has been galvanised by the success of Diesel, and the men's fragrance in particular, which has made the top three in several European markets. The Kiehl's and Shu Uemura brands are clearly becoming growth relays for the Division.

• The Active Cosmetics Division recorded high growth in the 4th quarter, reflecting in particular the rapid growth of

La Roche-Posay and the launch of Sanoflore and SkinCeuticals in the major countries in the zone.

9.3.4. North America

With market growth slower than in 2006, the group's sales growth in North America amounted to +4.8%, with a strong 4th quarter (+7.2%).

• The Professional Products Division, already the market leader, continued to gain market share, particularly in hair colourants, and strengthened control of its distribution by acquiring professional distributors Beauty Alliance and Maly's West. With the acquisition of PureOlogy, the launch of Shu Uemura Art of Hair, and the strong growth of Kérastase, the Division is intensifying its presence in the booming segment of the most exclusive salons.

• The Consumer Products Division has continued to win market share, particularly in make-up with the major successes of Bare Naturale and Infallible Lip by L'Oréal Paris. Skincare products achieved strong growth thanks to the strategic launch of Nutritioniste by Garnier at the start of the year, and Skin Genesis from L'Oréal Paris.

• The Luxury Products Division sales grew slightly faster than the market trend; thanks to very robust sales in fragrances, the division consolidated its leadership in men's fragrances with the success of Diesel Fuel for Life and Ralph Lauren Explorer. Lancôme strengthened its number one position in anti-ageing skincare with the success of Absolue ßx Ultimate Serum, Collaser Eye and Renergie Morpholift R.A.R.E. and in mascara with the successful launch of Virtuôse.

• The Active Cosmetics Division has continued its roll-out, with the expansion of its drugstore distribution in the north-east of the USA and in California, and thanks to the high growth of SkinCeuticals.

9.3.5. New markets

The strong dynamism of markets continued in all the regions. With a growth rate of +17.9% in the Rest of the World zone over the whole year, the group has greatly increased its penetration.

• The **Asia Zone** accelerated in the 4th quarter to +15.5%, reaching +14.3% like-for-like over the full-year. Growth in Japan amounted to +1.8%; in the rest of Asia, growth totalled +17.8%.

- In the highly competitive Northern Asian markets (Japan and South Korea), the group's scores were positive, thanks in particular to the successes of the Professional Products Division in both countries, and the breakthroughs of Kiehl's, Shu Uemura and Biotherm in luxury products in South Korea.
- In China, growth has been very rapid across all the divisions. In Consumer Products, L'Oréal Paris is expanding particularly quickly with Dermo-Expertise skincare, and also with the great success of Men Expert, demonstrating how fast Chinese men are opening up to products in this category. The Luxury Products Division has further strengthened its number 1 position, thanks in large measure to the good skincare performances of Yue-Sai with Vital Essential.
- Lastly, in the ASEAN countries, conquests are continuing, particularly for Consumer Products and the Garnier brand. The Garnier facial skincare range, strong in Thailand, has been extended to other countries.

The new subsidiary, L'Oréal Vietnam has been created, covering the 4 divisions.

• In **Eastern Europe**, growth has remained at an extremely high level: the group ended the year with growth of +29.4%. All the countries are recording very rapid growth, particularly Russia and Poland. L'Oréal Ukraine is now the third largest subsidiary in this zone, two years after its creation.

- The Professional Products Division has become market leader in Russia, Poland and the Czech Republic. Matrix is now available in more than 10,000 salons in the zone; Redken has just been launched in Russia, the Czech Republic and Slovakia.
- The 3 brands of the Consumer Products Division are recording strong and evenly matched growth rates, driven in particular by L'Oréal Paris and Garnier skincare and by Maybelline and L'Oréal Paris make-up.
- The Luxury Products Division brands are growing twice as fast as the market, boosted by Lancôme, Biotherm and Giorgio Armani. The Division is reinforcing its number one position in the zone.
- In addition to the success of Vichy, long established as the market leader in pharmacy sales, La Roche-Posay is proving to be an important growth relay for the Division. Sanoflore and SkinCeuticals are just starting up operations.

• Sales in **Latin America** grew by +14.6% like-for-like. Alongside the two major countries Brazil and Mexico, L'Oréal is recording spectacular growth in Argentina, Colombia, Venezuela and Panama, where a subsidiary was created this year.

- In Professional Products, the launch of the American brands Redken and Matrix in several countries is adding to the success of the already well established brands.
- In Consumer Products, the Elsève Volume Control shampoo and haircare brand from L'Oréal Paris, created specifically for Latin American hair, has been rolled out in several countries.
- The Luxury Products Division is continuing its conquests in fragrances, and is rolling out new brands such as Kiehl's, which has opened 3 boutiques in Mexico.
- The Active Cosmetics Division is growing strongly, particularly in Brazil where it is number 1 in the dermocosmetics market. Brazil is now the second most important country in the world for the brand La Roche-Posay.

• In the **Other Countries**, like-for-like sales increased by +15.4%.

- In India, strong growth is continuing thanks to the performances in Garnier haircare and skincare with Light Matte.
- In South Africa, as in Australia, the L'Oréal Paris brand is growing strongly, particularly in make-up.
- All our brands are growing in the Maghreb and the Middle East.

9.3.6. The Body Shop

Like-for-like sales growth at The Body Shop amounted to +5.7%.

Retail sales [1] increased by +7.9%. With a comparable store base [2], the increase in sales amounted to +3.3%:

- Sales at the end of the year, traditionally the strongest period, were marked by a belated but good level of store frequentation, and the success of gift box sales. 4th quarter sales were held back by the difficulties of a large industrial subcontractor, causing disruptions in the availability of certain products.
- Over the full year, trends in retail sales with a comparable store base were favourable in Western Europe. Growth was rapid in the Rest of the Word, and in Russia, India, Hong-Kong and Japan. There were contrasting performance trends in the United States.
- 161 stores were opened during 2007, taking the total to 2,426. The brand is now established in 59 countries.

9.3.7. Galderma

During the last quarter of 2007, Galderma experienced solid development, yielding an annual turnover growth of +12.7% in 2007, like-for-like. Sales increased by +14.4% in the Americas and by +9.7% in Europe and the Rest of the World:

- This worldwide double digit increase was reinforced by the excellent performance of Differin® 0.1% and 0.3% (acne), Clobex® (psoriasis), Loceryl® (onychomycosis) and Cetaphil® (compromised skin).
- Epiduo®, Galderma's new highly effective acne product, recently received regulatory approval in Argentina and Europe.
- In the corrective and aesthetic dermatology segment, Galderma licensed the rights for a botulinum toxin A product. The Company also signed an agreement for the development and distribution rights of an innovative topical anesthetic for aesthetic medical procedures, which should be widely adopted by the industry as a new standard of care.

9.4. News release of February 13th, 2008

Strong growth in 2007 annual results.
Sales up by +8.1%.
Substantial improvement in operating profit: +11.3%.
Strong growth in net earnings per share [3]: +13.0%.
Exceptional rise in net profit after minority interests: +28.9%.
Strong increase in dividend [4]: +16,9%.

• The Board of Directors of L'Oréal met on February 13th, 2008 under the chairmanship of Sir Lindsay Owen-Jones and in the presence of the Statutory Auditors. The Board closed the consolidated financial statements and the financial statements of the L'Oréal parent company for 2007.

Commenting on the annual results, Mr Jean-Paul Agon, Chief Executive Officer of L'Oréal, said: *"The group's sales growth accelerated significantly in 2007 to reach +8% like-for-like, clearly faster than the growth of the worldwide cosmetics market; all divisions gained market share and the group improved its positions on all continents.*

The group's results have once again advanced substantially and are of a very high quality.

Based on a comparable structure [5], operating profit grew by 90 basis points, thanks to an improvement in gross profit and strict cost control.

All divisions and zones contributed to this achievement. The profitability of the Rest of the World zone has increased considerably; in absolute value, it is at the same level as North America.

Despite the negative impact of currency fluctuations, which was more pronounced in the 4th quarter, net earnings per share growth was very strong at +13%. Based on identical exchange rates, this growth rate would have reached +15.9%.

As for 2008, we are optimistic despite the uncertainties of the economic environment. In fact, our business has always proven extremely resilient during periods of crisis, we intend to continue strengthening our positions and growing faster than the market, and the large proportion of our sales now made in new and very fast-growing markets is providing a powerful relay for our global growth. We are confident therefore about our ability in 2008 to once again achieve sales growth in our target range of +6% to +8%, like-for-like."

• Furthermore, the Board of Directors has decided to propose to the Annual General Meeting on April 22nd, 2008 the payment of a dividend of €1.38 per share, an increase of +16.9% compared with 2006.

At the end of the Board meeting, Sir Lindsay Owen-Jones said: *"2007 marks a further very strong increase in the group's results, reflecting the quality of the management of Mr Jean-Paul Agon and his teams.*

The level of results achieved enables us to propose another substantial increase in dividend to the Annual General Meeting; in the space of five years, the dividend has more than doubled. This is further proof of the group's confidence for the coming year."

9.4.1. Sales up by +8.1%

L'Oréal group sales at December 31st, 2007 amounted to €17.1 billion, up by +8.1% based on reported figures.

Like-for-like (i.e. based on a comparable structure and identical exchange rates), the increase in the group's sales amounted to +8.0%.

The net impact of changes in consolidation, as a result of the acquisitions of The Body Shop, Sanoflore, Beauty Alliance, PureOlogy and Maly's West amounted to +3.6%.

(1) Retail sales: total sales to consumers through all channels.
(2) Retail sales with a comparable store base: total sales to consumers by stores which operated continuously from January 1st to December 31st, 2006 and over the same period in 2007.
(3) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interests.
(4) Dividend to be proposed to the Annual General Meeting of Shareholders on April 22nd, 2008.
(5) Comparable structure basis: excluding The Body Shop, and excluding professional distribution to the hair salons in the United States.

The negative impact of currency fluctuations amounted to –3.5% over the full-year 2007.

Growth excluding currency fluctuations amounted to +11.6%.

9.4.2. Strong improvement in operating profit on a comparable structure basis

The group consolidated for the first time in 2007, over a full year, The Body Shop, together with the distributors of professional products to American hair salons.

In the interest of visibility and comparability of the performance of the group, the table below sets out the consolidated profit and loss account excluding The Body Shop and excluding professional product distributors. In fact, these two businesses have an operating account structure which is different from that of the L'Oréal group.

Consolidated profit and loss account excluding The Body Shop and excluding professional distributors in the USA

€ millions	12.31.2007 excluding The Body Shop	As % of sales	12.31.2007 excluding The Body Shop & excluding USA professional distributors	As % of sales
Sales	**15,355**	**100%**	**16,110**	**100%**
Cost of sales	–4,414	28.7%	–4,592	28.5%
Gross profit	**10,941**	**71.3%**	**11,518**	**71.5%**
Research and development expenses	–531	3.5%	–557	3.5%
Advertising and promotion expenses	–4,718	30.7%	–4,950	30.7%
Selling, general and administrative expenses	–3,153	20.5%	–3,259	20.2%
Foreign exchange gains and losses	–56	0.4%	10	0.1%
Operating profit	**2,483**	**16.2%**	**2,762**	**17.1%**

Excluding The Body Shop and excluding professional distribution in the USA, sales amounted to €16,110 million.

Gross profit represented 71.5% of sales, an increase of 20 basis points compared with 2006. This improvement becomes even more clearly visible if the corresponding proportion of exchange gains and losses is allocated to gross profit in 2007 and 2006, that is 78% of the total. Adjusted for this factor, gross margin advanced by 50 basis points compared with 2006, reflecting the continuous striving to enhance product value, constant efforts to improve plant productivity, and control of ingredient purchasing and packaging costs.

Research and development expenses remained stable as a percentage of sales at 3.5%.

Advertising and promotion expenses represented 30.7% of sales in 2007, a level equivalent to 2006. This stability reflects an increase in volumes invested, improved cost management and more favourable media purchasing conditions.

Selling, general and administrative expenses represented 20.2% of sales, compared with 20.5% in 2006. This further improvement has been achieved through determined efforts in organisation, cost reduction and purchasing optimisation.

Operating profit amounted to €2,762 million, an increase of 11.3%. This represents 17.1% of sales, reflecting a further strong improvement in profitability.

9.4.3. 2007 consolidated profit and loss account (from sales to operating profit)

Including The Body Shop in 2006 and 2007 and professional distribution in the USA in 2007.

€ millions	12.31.2006	As % of sales	12.31.2007	As % of sales	Change
Sales	**15,790**	**100%**	**17,063**	**100%**	**+8.1%**
Cost of sales	–4,569	28.9%	–4,941	29.0%	+8.1%
Gross profit	**11,221**	**71.1%**	**12,122**	**71.0%**	**+8.0%**
Research and development expenses	–533	3.4%	–560	3.3%	+5.1%
Advertising and promotion expenses	–4,783	30.3%	–5,127	30.0%	+7.2%
Selling, general and administrative expenses	–3,309	21.0%	–3,618	21.2%	+9.3%
Foreign exchange gains and losses	–55	0.3%	+10	0.1%	n/s
Operating profit	**2,541**	**16.1%**	**2,827**	**16.6%**	**+11.3%**

Overall, the group's operating items, including The Body Shop and professional distribution in the USA can be summed up as follows:

- sales amounted to €17,063 million, up by +8.1%,
- gross profit amounted to €12,122 million, representing an increase of +8.0%,
- operating profit, at 16.6% of sales in 2007, has increased by 11.3%, representing a strong improvement of 50 basis points.

9.4.4. Good contribution from all cosmetics divisions

Operating profit by branch and division.

	2006		2007	
	€ millions	% of sales	€ millions	% of sales
By operational division				
Professional Products	443	20.8%	502	21.0%
Consumer Products	1,421	18.0%	1,582	19.1%
Luxury Products	776	20.6%	844	21.5%
Active Cosmetics	221	19.6%	256	20.5%
Cosmetics divisions total	**2,860**	**19.1%**	**3,180**	**20.0%**
Non-allocated (1)	–437	2.9%	–479	3.0%
Cosmetics branch total	**2,423**	**16.1%**	**2,701**	**17.0%**
The Body Shop	58	13.4%	64	8.1%
Dermatology branch (2)	**59**	**17.3%**	**62**	**16.9%**
Group	**2,541**	**16.1%**	**2,827**	**16.6%**

(1) Non-allocated = central group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total sales.
(2) Group share, i.e. 50%.

The profitability of each cosmetic Division grew substantially in 2007.

The profitability of The Body Shop is not comparable year-on-year, because this business was only consolidated in the second half of 2006; and each year almost all the profit is made in the second half.

The profitability of the dermatology branch, Galderma, edged down slightly to 16.9% of sales, as a result of research investment decisions in the first half of 2007.

9.4.5. Strong increase in operating profitability in all geographic zones, particularly in the Rest of the World

Cosmetics Branch: operating profit of geographic zones

	Operating profit			
	2006		2007	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,527	21.8%	1,633	22.5%
North America	744	18.8%	773	19.3%
Rest of the World	589	14.5%	774	16.6%
Cosmetics zones total	**2,860**	**19.1%**	**3,180**	**20.0%**

Profitability clearly increased in each geographic zone in 2007, particularly in the Rest of the World zone.

The contribution of this zone, in absolute value, reached the same level as North America.

9.4.6. Strong growth in net earnings per share: +13%

Consolidated profit and loss account from operating profit to net profit excluding non-recurrent items

€ millions	12.31.2006	12.31.2007	Change
Operating profit	**2,541**	**2,827**	**+11.3%**
Financial expense and income	–120	–182	
Sanofi-Aventis dividends	218	250	
Share in net profit (loss) of equity affiliates	–1	–	
Pre-tax profit excluding non-recurrent items	**2,638**	**2,896**	**+9.8%**
Income tax excluding non-recurrent items	–803	–856	
Minority interests	–1	–1	
Net profit excluding non-recurrent items after minority interests (1)	**1,833**	**2,039**	**+11.2%**
EPS (2) (in euros)	**2.98**	**3.36**	**+13.0%**
Net profit after minority interests	**2,061**	**2,656**	**+28.9%**
Diluted net profit per share (group share) (in euros)	3.35	4.38	+30.9%
Diluted average number of shares	**615,723,220**	**606,012,471**	

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

Finance costs increased from €116 million to €174 million in 2007. This reflects the cost of financing acquisitions, rising interest rates in the United States and Europe, and the continuation of the share buyback programme.
The dividends received from Sanofi-Aventis amounted to €250 million, an increase of 15% compared with 2006.
Tax amounted to €856 million. The tax rate in 2007 amounted to 29.5%, lower than in 2006 when the rate was 30.4%.
Overall, net profit excluding non-recurrent items after minority interests at €2,039 million, up by 11.2%.
After allowing for the positive effect of share buybacks, net earnings per share amounted to €3.36, up by +13%.
Exchange rate Impact: On an identical exchange rate translation basis, i.e. by applying the exchange rates recorded in 2007 to the 2006 figures, net earnings per share growth would have been +15.9%. This calculation shows the significant impact on the group's earnings of the strong currency fluctuations of 2007.

9.4.7. Exceptional growth in net profit after minority interests: +28.9%

Consolidated profit and loss account (from net profit excluding non-recurrent items to net profit)

€ millions	12.31.2006	12.31.2007	Growth
Net profit excluding non-recurrent items after minority interests	1,833	2,039	+11.2%
Non-recurrent items	228	617	NC
Net profit after minority interests	**2,061**	**2,656**	**+28.9%**
Diluted earnings per share (in euros)	3.35	4.38	+30.9%

After allowing for non-recurrent items, primarily the capital gain on the disposal of Sanofi-Aventis shares on November 14th, 2007, net profit after minority interests amounted to €2,656 million, representing growth of approximately 29%.

9.4.8. Strong growth in cash flow: +12.9%

Cash flow at December 31st, 2007 amounted to €2,720 million, up by some 13%.
Working capital requirement remained well under control at €76 million.
Capital expenditure at €776 million decreased slightly as a percentage of sales to 4.5% compared with 4.7% in 2006.
Net debt, at December 31st, 2007, amounted to €2,373 million, some €1 billion lower than on December 31st, 2006. Gearing has been reduced significantly and is now 17.4%.

9.4.9. Proposed dividend increased by +16.9%

The Board of Directors has decided to propose that the Annual General Meeting of Shareholders of April 22nd, 2008 should approve a dividend of €1.38 per share, representing an increase of +16.9% compared with the dividend paid in 2007.

9.5. News release of February 13th, 2008

Disclosure of total number of voting rights and number of shares in the capital at February 13th, 2008

Pursuant to article L.233-8 of French "Code de Commerce" and 223-16 of the AMF's General Regulations:

Total number of shares	610,788,610
Number of real voting rights (without treasury shares)	594,530,473
Theoretical number of voting rights (including treasury shares)	610,788,610

Pursuant to the authorization granted by the Annual General Meeting of May 22nd, 2003, the Board of Directors of L'Oréal, held on February 13th, 2008, has decided to cancel 7,187,000 shares.

9.6. News release of February 26th, 2008

Galderma reaches agreement to acquire CollaGenex Pharmaceuticals

Due to the legal and regulatory obligations, the content of this release is only available on the L'Oréal financial website www.loreal-finance.com

10. AUDITORS

<table>
<tr><th>2005, 2006 et 2007</th><th>Date of first appointment</th><th>Term of office</th><th>Expiry date</th></tr>
<tr><td>Auditors</td><td></td><td></td><td rowspan="5">AGM reviewing the financial statements for 2009 to be held in 2010</td></tr>
<tr><td>PricewaterhouseCoopers Audit
Auditor, member of the "Companie Régionale de Versailles",
represented by Etienne Boris
63 rue de Villiers
92200 Neuilly-sur-Seine (France)</td><td>April 29th, 2004</td><td>6 years</td></tr>
<tr><td>Deloitte & Associés
Auditor, member of the "Companie Régionale de Versailles",
represented by Etienne Jacquemin
185 avenue Charles de Gaulle
92200 Neuilly-sur-Seine</td><td>April 29th, 2004</td><td>6 years</td></tr>
<tr><td>Substitute auditors
Mr Yves Nicolas
63 rue de Villiers
92200 Neuilly-sur-Seine</td><td>April 29th, 2004</td><td>6 years</td></tr>
<tr><td>Mr Jean-Paul Picard
47 rue de Courcelles
75008 Paris (France)</td><td>May 29th, 2001(1)</td><td>6 years</td></tr>
</table>

(1) Renewed on April 29th, 2004.

10.1. Fees of Auditors and members of their networks charged to the group

€ thousands	PricewaterhouseCoopers Audit				Deloitte & Associés			
	Amount		%		Amount		%	
	2007	2006	2007	2006	2007	2006	2007	2006
Auditing	5,866	5,350	80%	82%	5,180	4,652	83%	81%
L'Oréal	1,086	918	15%	14%	1,171	1,015	19%	18%
Globally integrated subsidiaries	4,780	4,432	65%	68%	4,009	3,637	64%	63%
Other associated assignments	862	891	12%	14%	877	925	14%	16%
L'Oréal	14	155	0%	2%	449	226	7%	4%
Globally integrated subsidiaries	848	736	12%	11%	428	699	7%	12%
Sub-total	**6,728**	**6,241**	**92%**	**95%**	**6,057**	**5,577**	**97%**	**97%**
Other services (legal/tax/employee-related)	625	306	8%	5%	194	179	3%	3%
Total	**7,353**	**6,547**	**100%**	**100%**	**6,251**	**5,756**	**100%**	**100%**

11. HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European Regulation EC No. 809-2004 of April 29th, 2004, this Reference Document contains the following information by reference:

• the consolidated financial statements for the year ended December 31st, 2006, prepared in accordance with IFRS and the related Statutory Auditors' report presented on pages 7 to 50 of Volume 2 of the 2006 Reference Document filed with the *Autorité des Marchés Financiers* on March 29th, 2007 under the number D.07-0241, and also information extracted from the 2006 Management Report presented on pages 53 to 58 of Volume 2 of the Reference Document,

• the consolidated financial statements for the year ended December 31st, 2005, prepared in accordance with IFRS and the related Statutory Auditors' report presented on pages 7 to 50 of Volume 2 of the 2005 Reference Document filed with the *Autorité des Marchés Financiers* on April 6th, 2006 under the number D.06-0226, and also information extracted from the 2005 Management Report presented on pages 53 to 56 of Volume 2 of the Reference Document.

CHAPTER VII

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.

REPORTS AND DECLARATION

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31st, 2007)

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report on the financial statements includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. This report 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, 2007 on:

- the audit of the accompanying financial statements of L'Oréal,
- the justification of our assessments,
- the specific verifications and disclosures 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31st, 2007 and of the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

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 the notes to the Company's financial statements under "Accounting policies – Financial Assets – Investments and advances". As part of our audit, we reviewed whether these accounting methods were appropriate and, in relation to estimates, whether the assumptions used and the resulting valuations were reasonable.

These assessments were made in the context 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 disclosures

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding:

- 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,
- the fair presentation of the information provided in the Management Report of the Board of Directors in respect of remuneration and benefits granted to certain company officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in function.

In accordance with the law, we verified that information relating to acquisitions of investments and controlling interests and the identity of the shareholders were disclosed in the Management Report.

Neuilly-sur-Seine, February 27th, 2008

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Etienne Boris — Etienne Jacquemin

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31st, 2007)

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report on the consolidated financial statements 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 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 consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report on the consolidated financial statements should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Following our appointment as Statutory Auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended December 31st, 2007.

The consolidated 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our 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 as at December 31st, 2007, and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

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 matters:

• the company 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 note 1.15 to the consolidated financial statements. We have reviewed the terms and conditions for implementing this impairment test,

• 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 assessment methods of these obligations and the data used and the assumptions applied.

We also assessed whether the estimates used were reasonable.

These assessments were made in the context 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

In accordance with professional standards applicable in France, we have also verified the information given 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 27th, 2008

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Etienne Boris — Etienne Jacquemin

STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE *(CODE DE COMMERCE)* ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF L'ORÉAL, ON INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31st, 2007)

This is a free translation into English of the Statutory Auditors' report issued in the French language 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.

In our capacity as Statutory Auditors of L'Oréal and in accordance with Article L.225-235 of the French Commercial Code, we report to you on the report prepared by the Chairman of the Board of Directors of your Company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31st, 2007.

In his report, the Chairman reports, in particular, on the conditions for the preparation and organization of the Board of Directors' work and the internal control procedures implemented by the Company.
It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and treatment of financial and accounting information.

We performed our procedures in accordance with professional standards applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:
• obtaining an understanding of the internal control 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 existing documentation,
• obtaining an understanding of the work performed to support the information given in the report,
• determining if material weaknesses in the internal control relating to the preparation and processing of the financial and accounting information that we may have identified in the course of our audit are properly described in the Chairman's report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Report of the Chairman of the Board, prepared in accordance with Article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine, February 27th, 2008
The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Etienne Boris — Etienne Jacquemin

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

(Year ended December 31st, 2007)

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and regulated commitments issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and regulated commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and the report does not apply to those related party agreements described in IAS 24 or other equivalent accounting standards.

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

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

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

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

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

Board of Directors meeting of February 13th, 2008

Nature and purpose

Agreement providing for the termination benefits of the Managing Director.

Terms and conditions

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

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

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

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

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

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

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

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

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

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

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

Board of Directors meeting of April 25th, 2006

Nature and purpose

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

Terms and conditions

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

Neuilly-sur-Seine, February 27th, 2008
The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Etienne Boris — Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON THE CANCELLATION OF SHARES PURCHASED BY THE COMPANY

Ordinary and Extraordinary Shareholders' Meeting of April 22nd, 2008
(eighth resolution)

This is a free translation into English of the Statutory Auditors' special report on the cancellation of shares purchased by the Company issued in the French language and is provided solely for the convenience of English speaking readers. This report on the cancellation of shares purchased by the Company should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In our capacity as Statutory Auditors of your Company and pursuant to the provisions of Articles L.225-204 and L.225-209 of the French Commercial Code *(Code de commerce)* relating to capital decreases, in particular as concerns the cancellation of shares purchased by the Company, we hereby report to you on our assessment of the reasons for and the terms and conditions of the proposed share capital decreases.
We have performed the procedures deemed necessary with regard to the professional standards of the French National Institute of Statutory Auditors *(Compagnie Nationale des Commissaires aux Comptes)*. Those procedures consist in examining the fairness of the reasons for and the terms and conditions of the proposed capital decreases. Thus, with respect to the capital decrease proposed within the scope of Article L.225-204, our work consisted notably of verifying that the capital decrease would not bring the Company's share capital below the minimum legal threshold and that it would not violate shareholder equality.

Cancellation of shares held by your Company within the scope of Article L.225-204 of the French Commercial Code
The proposed capital decrease would take place further to the purchase of shares in accordance with the conditions of Article L.225-208 of the French Commercial Code.

Shareholders are asked to grant the Board of Directors full powers to cancel, on one or more occasions, a maximum of 500,000 shares purchased by the Company to cover share purchase options which currently correspond, or will correspond in the future, to options that are no longer exercisable. These powers would be exercisable for a period of twenty-six months from the date of this Meeting. This share capital decrease will reduce your Company's share capital by a maximum of €100,000.

We have no comment to make on the reasons for or terms and conditions of the proposed share capital decrease.

Cancellation of shares held by your Company within the scope of Article L.225-209 of the French Commercial Code
The proposed capital decrease would take place further to the purchase of shares representing a maximum of 10% of the Company's capital, in accordance with Article L.225-209 of the French Commercial Code. Under the seventh resolution, the Board of Directors is seeking an eighteen months authorization from the Shareholders' Meeting to perform this purchase.

Shareholders are also asked to grant the Board of Directors full powers to cancel, on one or more occasions, the shares acquired by the Company, within the limit of 10% of the capital as of the date of the cancellation, per twenty-four months period. These powers would be exercisable for a period of twenty-six months from the date of this Meeting.

We have no comment to make on the reasons for or terms and conditions of the proposed capital decrease, the implementation of which depends on the Shareholders' Meeting approving the purchase of the Company's shares (seventh resolution).

Neuilly-sur-Seine, February 27th, 2008
The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Etienne Boris — Etienne Jacquemin

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.

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 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."

Clichy, March 19th, 2008
On the authority of the Chief Executive Officer,
Christian Mulliez,
Executive Vice-President, Administration and Finance.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

In application of Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers*,
this Reference Document was filed with the *Autorité des Marchés Financiers* on March 27th, 2008.
This Reference Document may be used in connection with a financial transaction
if it is accompanied by an Information Memorandum approved by the *Autorité des Marchés Financiers*

TABLE OF CONTENTS

The two volumes listed below, together constitute the 2007 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*.

Volume 1: General report of the group

Volume 2: 2007 financial statements, Management Report and additional information

ANNUAL FINANCIAL REPORT

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

Schedule based on Article L.451-1-2 of the French Monetary and Financial Code	Tome	Pages
1. 2007 Annual Statements	2	122-144
2. 2007 Consolidated Financial Statements	2	5-56
3. 2007 Management Report of the Board of Directors	2	59-90,100-112,118,119
4. Declaration by the person responsible for the Annual Financial Report	2	180
5. Statutory Auditors' report on the 2007 financial statements	2	174
6. Statutory Auditors' report on the 2007 consolidated financial statements	2	175

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.

2007 ANNUAL REPORT // VOLUME 2

Incorporated in France as a "Société Anonyme"
with registered capital of €122,157,722
632 012 100 R.C.S. Paris

Headquarters:
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