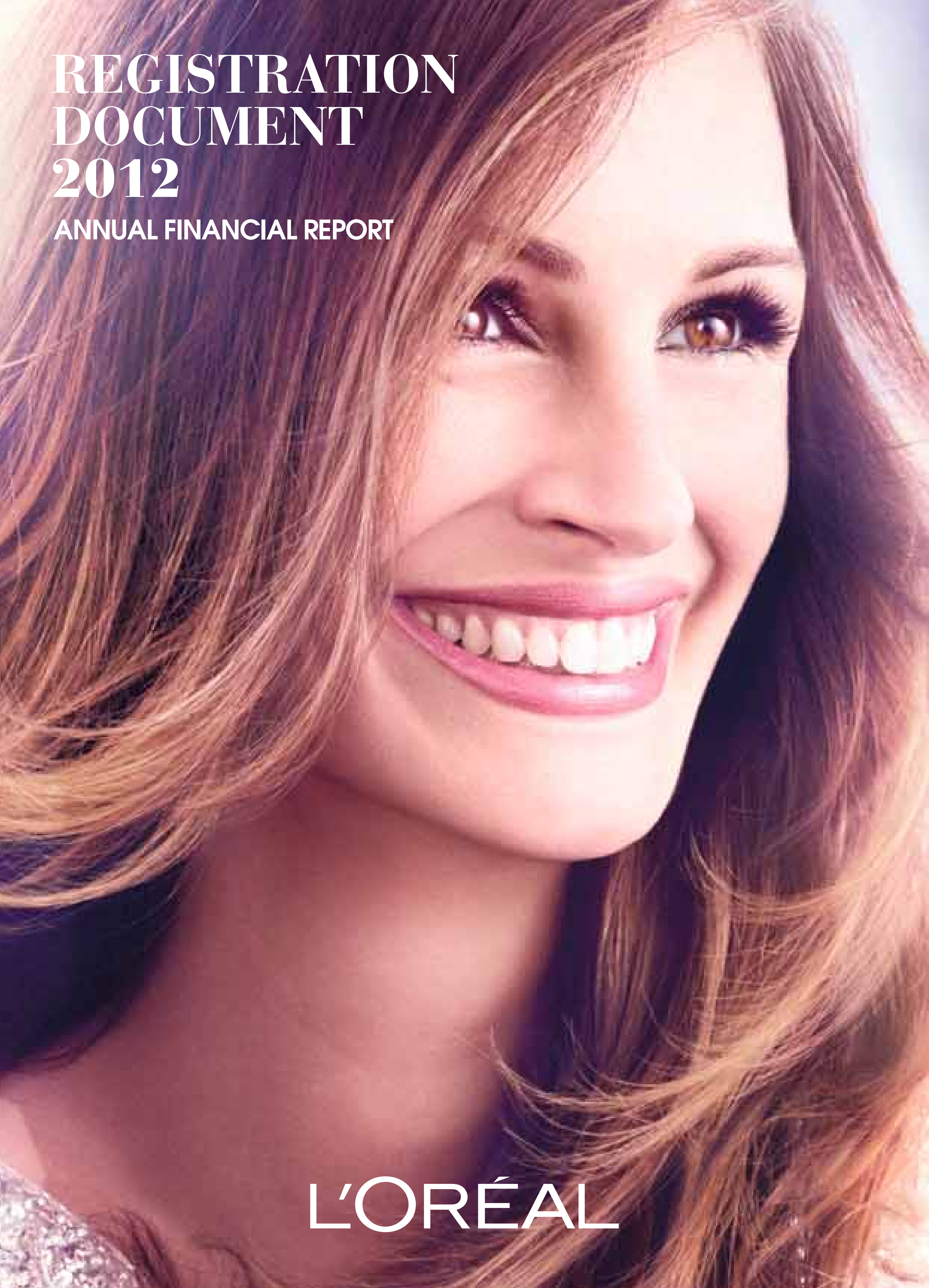
REGISTRATION DOCUMENT 2012

ANNUAL FINANCIAL REPORT



L'ORÉAL

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

L'ORÉAL

2012
REGISTRATION DOCUMENT

Annual Financial Report

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

In application of Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers* (AMF), this Registration Document was filed with the AMF on March 18th, 2013.

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2012 has been another year of strong performance by L'Oréal. The Group has continued to demonstrate its ability to outperform the market and strengthen its worldwide leadership of the beauty sector.

Message from the Chairman and Chief Executive Officer

2012 has been another year of strong performance by L'Oréal. The Group has continued to demonstrate its ability to outperform the market and strengthen its worldwide leadership of the beauty sector.

A very good vintage for innovations

This year was a very good vintage for innovations in our Group, which, by creating the finest products in all channels and categories, has revived the product offer and driven the market forward. Innovation is at the heart of our profession. It is the quality and performance of our products that enables us to attract and win ever-growing numbers of consumers, and ensure their loyalty. 2012 was also a year of renewal for some of our major brands, such as Lancôme, Vichy, Garnier and The Body Shop. Meanwhile, L'Oréal enriched its brand catalogue—with acquisitions such as Cadum in France, Vogue in Colombia and Urban Decay in the United States—to further intensify its coverage of the beauty market.

> "A YEAR OF GREAT PROGRESS IN ADAPTING L'ORÉAL TO A RAPIDLY CHANGING WORLD"

Accelerated international development

In geographic terms, L'Oréal has built up its position, even in the most difficult markets, such as Western Europe and the United States, where we have achieved record market share gains. In North America, the Group grew roughly twice as fast as the market, driven by the aim of matching our market share level in Western Europe, where we continue to strengthen our position, while also improving our profitability. At the same time, L'Oréal has taken internationalisation to the next level. 2012 marked a major step forward, as the New Markets have become, for the first time ever, the Group's number one sales zone, representing some 40% of total cosmetics sales.

Strong value creation

2012 was also a year of strong value creation and growth in financial results, with our sales growth attaining double-digit figures. Operating profit and net profit reached record levels, and there was a spectacular increase in cash flow. These results illustrate the strength & efficiency of the L'Oréal business model. Thanks to the solidity and quality of our results and the Company's very favourable prospects, the Board of Directors will propose a further substantial dividend increase of +15% to 2.30 euros at the next Annual General Meeting.

Balance of power

The quality of our results is also underpinned by the very high standards of governance which we strive to raise year after year. The freedom and independence which this brings to the Board of Directors guarantees the balance of power with General Management. The Board holds the resources it needs to deal freely with the questions at hand and in particular to approve, monitor and ensure the implementation of the Company's strategic orientations, while overseeing the good management thereof. The balance of power within the Board of Directors is guaranteed by clearly defining the individual remits of the Chairman and Chief Executive officer on the one hand, and on the other, the 13 board members who have complete freedom of judgement. At the Annual General Meeting, the Board will propose the appointment of Mrs Virginie Morgon as new Board Director. Mrs Morgon is an Executive Board Member of Eurazeo, one of the leading investment companies listed in Europe. All the directors have been provided with appropriate resources, within the framework of a code of operation, with carefully structured specialist committees whose remits have been broadened. The Board greatly appreciates the quality of the contributions made by the four Committees, whose work is increasingly thorough. L'Oréal's streamlined governance mode simplifies decision-making, which is crucial in the beauty sector, where innovation and adaptation are fundamental requirements.

Preparing L'Oréal for tomorrow's challenges

The Board of Directors actively supports the changes now taking place in the company. In relation to this, 2012 has been a year of great progress in adapting L'Oréal to a rapidly changing world, and sucessfully preparing the Group for tomorrow. Research & Innovation has undergone a spectacular upgrade with the inauguration of the largest Hair Research Centre in the world at Saint-Ouen, in France and a fifth regional research hub at Mumbai, in India, which is essential to our universalisation strategy. Not only have production facilities been modernised, two new plants have been added, in Indonesia and Mexico, to support the conquest of the New Markets. The digital revolution has continued unwaveringly, with growth in digital communication and rapid advances in e-commerce. Digital communication is both a lever for sales growth and a way of strengthening brand-consumer relationships. Finally, the L'Oréal Group has continued to make optimum use of growth drivers (media, etc.), which represent a major economic opportunity for the coming years.

Targeting sustainable, responsible and inclusive growth

Transforming the company also means redefining its position and its role in relation to the social, economic and environmental issues it faces. This is why we have integrated the principles of sustainable development into our business model to make societal responsibility a priority and build growth that is sustainable, responsible and inclusive.

In 2012, we continued to progress in all fields of social responsibility in which it is our duty –as a leading company– to excel in: social and ethical matters, diversity and environmental issues.

> “WE HAVE CONFIDENCE IN THE BUOYANCY OF OUR PROFESSION AND OUR MARKET”

We have continued our efforts in innovation and sustainable production in order to guarantee an ever-increasing responsible growth. L'Oréal has thus reduced its CO_2 emissions by nearly 39% since 2005, even though the Group's growth has risen substantially over this period.

L'Oréal and its subsidiaries throughout the world are committed to making sure that the social and economic performance of the Group go hand in hand. This goal is now part of a worldwide reporting system which allows us to orientate our action plans in the future and to measure our progress year by year. Furthermore in 2012, more than 70% of the Group's employees yet again answered an opinion survey conducted by the Group worldwide. The survey reflects the progress made over the last four years, but also identifies areas for further improvement, in order to meet the concerns and expectations of each of our employees. We also want to build growth that fosters inclusiveness and generosity. Through the programmes of the L'Oréal Foundation, our philanthropic initiatives and our "Solidarity Sourcing" project, which encourages social inclusion through purchasing, we are strengthening our commitment to sharing our success with the communities around us every day. Our commitment to societal and environmental responsibility has led to several awards from ratings agencies, which are a tribute to our efforts and our achievements in these areas.

Confidence in the future

We have confidence in the buoyancy of our profession and our market. Beauty is an essential, timeless and universal need. Cosmetics is both a supply-led market driven by innovation, and a demand-led market, bolstered by the rise of middle classes all over the world. This makes it a structurally dynamic market, and so it will remain in the future.

We also believe in our universalisation growth strategy, which embodies our essential mission—to offer women and men all over the world the best in beauty, in terms of quality, efficacy and safety, while respecting their differences—and provides an objective that motivates the whole company: to conquer a billion new consumers over the next 10 years.

Finally, we have faith in L'Oréal's fundamental strengths. Its Research & Innovation, the most powerful in the industry. Its ability to constantly invent high-quality products that boast cutting-edge performance and ensure complete consumer satisfaction. Its unique catalogue of brands, the richest and most comprehensive in the industry. The strength of its business model, which creates value and generates cash flow, and of our very solid financial situation. And above all, we believe in our talented and committed teams, who all share the culture, spirit and values of L'Oréal.

The great L'Oréal adventure continues, the future is in our hands.

M. Jean-Paul Agon
Chairman and Chief Executive Officer

1

PRESENTATION OF THE GROUP

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

1.1. Mission

Beauty for all

For more than a century, L'Oréal has devoted itself solely to one business: beauty. It is a business rich in meaning, as it enables all individuals to express their personalities, gain self-confidence and open up to others.
Beauty is a language.

L'Oréal has set itself the mission of offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety. It pursues this goal by meeting the infinite diversity of beauty needs and desires all over the world.
Beauty is universal.

Since its creation by a researcher, the Group has been pushing back the frontiers of knowledge. Its unique Research arm enables it to continually explore new territories and invent the products of the future, while drawing inspiration from beauty rituals the world over.
Beauty is a science.

Providing access to products that enhance well-being, mobilising its innovative strength to preserve the beauty of the planet and supporting local communities are exacting challenges, which are a source of inspiration and creativity for L'Oréal.
Beauty is a commitment.

By drawing on the diversity of its teams, and the richness and the complementarity of its brand portfolio, L'Oréal has made the universalisation of beauty its project for the years to come.
L'Oréal, offering beauty for all.

1.2. History

1909	Creation of Société Française des Teintures Inoffensives pour Cheveux by Eugène Schueller.
1929	Imédia, the first quick oxidation hair colour.
1935	Ambre solaire, the first sun protection oil with filtering.
1954	Cosmair is named as L'Oréal's agent in the United States.
1957	Launch of Elnett hair lacquer.
1963	L'Oréal enters the Paris Stock Market.
1964	Acquisition of Lancôme.
1965	Acquisition of Laboratoires Garnier.
1970	Acquisition of Biotherm.
1973	Acquisition of Gemey, an open door to the consumer make-up market.
1979	The first model of a reconstructed epidermis from L'Oréal Research.
1981	Creation of Laboratoires dermatologiques Galderma.
1989	Acquisition of La Roche-Posay.
1993	Acquisition of Redken 5th avenue in the United States.
1994	Acquisition of American agents Cosmair.
1996	Acquisition of Maybelline in the United States.
1998-2000	Acquisition of Softsheen and Carson in the United States and in South Africa.
2000	Acquisition of Matrix and Kiehl's since 1851 in the United States.
2003	L'Oréal becomes the majority shareholder in Shu Uemura in Japan.
2004	Takeover of the Gesparal holding company.
2006	Acquisition of The Body Shop.
2007	Creation of the L'Oréal Corporate Foundation.
2008	Acquisition of YSL Beauté.
2009	L'Oréal celebrated its centenary and set itself the target of winning over one billion new consumers.
2010	Acquisition of Essie Cosmetics in the United States.
2011	Acquisition of Q-Med by Galderma, and of Clarisonic.
2012	Acquisition of Urban Decay in the United States.

1.3. Business activities and strategy

1.3.1. *THE FOUNDATIONS OF A WINNING STRATEGY*

1.3.1.1. A growth market: an immense potential

The world cosmetics market is worth approximately 180 billion euros in net manufacturer prices. Over the last fifteen years, its average annual growth is estimated at approximately 4.3%. This market, which has experienced strong, regular growth, is also particularly solid and resilient: at the peak of the world economic crisis in 2008-2009, it continued to progress by nearly +3% in 2008 and +1% in 2009 before picking up again in 2010. This market grew +4.6% in 2011 and +4.6% in 2012 (1). Because the world will always need beauty, the world cosmetics market has a glowing future. Under the combined effects of population growth, urbanisation, progress in infrastructure and growth in world GDP, the population with access to modern cosmetics could grow by 50% over the next twenty years, boosted by the rapid rise of the urban middle class in the New Markets.

1.3.1.2. One Purpose: beauty for everyone

For more than a century, L'Oréal has been pushing back the boundaries of science to invent beauty and to offer men and women all over the world the best of cosmetics in terms of quality,

(1) *Source: L'Oréal estimates of worldwide cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.*

efficacy and safety. Giving everyone access to beauty by offering products in harmony with their needs, culture and expectations in their infinite diversity. This is the true meaning of our activity.

1.3.1.3. Research and Innovation: inventing the future of beauty

L'Oréal places research and innovation at the centre of its development model. With 22 research and 17 evaluation centres on all continents, the Group has developed more than 130 molecules during the last 40 years. 3,817 researchers play their part in developing new formulas and filed 611 patents in 2012. L'Oréal is now entering the era of universalisation and beauty for everyone. The exploration of new scientific and technological territories is being enriched by this global dimension: with its in-depth knowledge of skin and hair in all latitudes, L'Oréal research creates cosmetics products adapted to the world's diversity.

1.3.1.4. The portfolio of cosmetics brands: offering the best of beauty in each distribution channel

With 27 international brands with diverse cultural backgrounds present in all distribution channels, L'Oréal is able to meet the aspirations of all consumers whatever their origins, beauty habits or revenue levels. The L'Oréal teams design new products in all areas of cosmetics: hair care, hair colour, skin care, make-up and perfumes.

1.3.1.5. The internationalisation of development: attracting a billion new consumers

Present in 130 countries, the Group has shown its ability over the first 100 years of its existence to attract nearly 1 billion consumers, representing around 15% of the population of the planet. With accelerating globalisation, L'Oréal's mission is being enlarged: based on its international positions and its power of innovation, the Group's ambition is to conquer nearly a billion new consumers over the next 10 to 15 years.

1.3.1.6. A commitment to responsible, shared and sustainable growth

With a particularly robust balance sheet and a solid financial situation, the Group can look forward to the future with confidence. Supported by loyal shareholders, vigilant governance and stable management, L'Oréal has always targeted constant, sustainable growth. Based on a solid business model, L'Oréal is also a company which strives to be exemplary, exacting in limiting its footprint on the planet, and increasingly creative in inventing new models of sustainable consumption.

1.3.2. AN ORGANISATION THAT SERVES THE GROUP'S DEVELOPMENT

1.3.2.1. L'Oréal S.A.

L'Oréal parent company acts as a holding company and has a role of strategic, scientific and industrial coordination of the Group on a global basis. The role of most of the subsidiaries involves the marketing of the products produced by the Group's plants. L'Oréal parent company wholly owns the capital of the vast majority of its subsidiaries. In parallel, L'Oréal parent company, which has its head office in France, performs a sales activity that is specific to this market

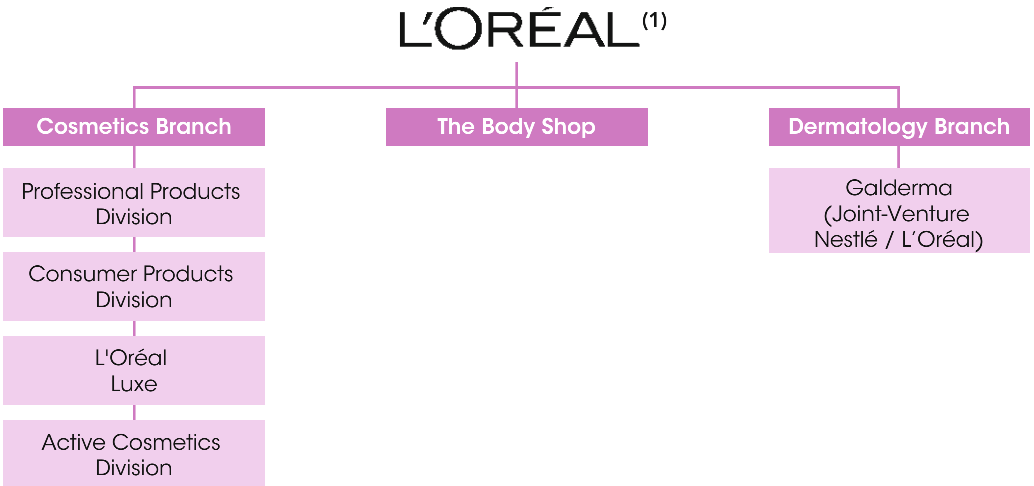
1.3.2.2. Branches and Divisions

The Cosmetics Branch, which represents most of the Group's activities (nearly 93% of its consolidated sales in 2012), is made up of 4 Operational Divisions which each correspond to a specific marketing channel:

- the Professional Products Division markets products used but also sold in hair salons. Privileged partner of hairdressers all around the world, it supports them in every facet of their development and offers them high-level training. Its portfolio of differentiated brands meets the needs of all types of salon. Professional Products Division brands: L'Oréal Professionnel, Redken, Kérastase and Matrix;
- the Consumer Products Division offers the best in cosmetic innovations at accessible prices in all mass-market retail channels (hypermarkets, supermarkets, drugstores and traditional stores) on every continent. Consumer Products Division brands: L'Oréal Paris, Garnier, Maybelline, Softsheen Carson and Essie;
- L'Oréal Luxury brings together a unique set of prestigious brands. These brands are sold through selective distribution, broken down between department stores, perfumeries, travel retail outlets, but also its own stores and through e-commerce websites. L'Oréal Luxury Division brands: Lancôme, Giorgio Armani, Yves Saint Laurent, Biotherm, Kiehl's, Ralph Lauren, Shu Uemura, Cacharel, Helena Rubinstein, Diesel, Clarisonic and Viktor & Rolf;
- the Active Cosmetics Division distributes its products worldwide in healthcare products distribution channels, primarily through pharmacies, drugstores, medispas and, in some countries, dermatologists. Its unique portfolio of brands, which meets all the needs of consumers in terms of health-beauty, and its privileged partnership with healthcare professionals have made this Division the world's No. 1 in dermocosmetics. Active Cosmetics Division brands: Vichy, La Roche-Posay, SkinCeuticals, Innéov and Roger & Gallet.

The Body Shop Branch represents approximately 4% of consolidated sales in 2012. Founded in 1976 in the United Kingdom by Dame Anita Roddick, The Body Shop is known for its ethical commitment and its products with natural ingredients. More than 87% of its products contain ingredients from its Community Fair Trade programme. With a presence in 65 countries, the brand distributes its products and expresses its values through a network of exclusive stores but also complementary distribution channels: Internet sales and airport shops.

The Dermatology Branch which represents approximately 3% of consolidated Group sales (share attributable to L'Oréal), consists of Galderma, a joint venture set up by L'Oréal and Nestlé over 30 years ago. After posting regular growth for many years, the Galderma laboratory crossed the threshold of one billion euros in sales in 2010, confirming its place as one of the leaders in dermatology.



(1) *Almost all subsidiaries are directly attached to L'Oréal parent company with a holding or control percentage equal to or close to 100%. The detailed list of these subsidiaries is set out in the notes to the consolidated and parent company financial statements on pages 148 to 152 and 175 to 178.*

1.3.2.3. Support Divisions

Several specialist Divisions provide their expertise and support to the Branches and Operational Divisions:

- the Research and Innovation Division, in charge of fundamental and applied research;
- the Operations Division, in charge of coordination of production and the supply chain;
- the Human Resources Division, in charge of recruitment, training and talent development policies and co-ordination of social policy;
- the Administration and Finance Division, in charge of the Group's financial policy, controlling and consolidation, information systems and legal and tax co-ordination;
- the Communication, Sustainability and Public Affairs Division, in charge of co-ordination of corporate communication, co-ordination of communication by the Operational Divisions and brands and Sustainable Development.
- The Strategic Marketing department provides the operational Divisions and Zones with support to help them identify and implement new marketing developments, particularly in the area of digital communications.

1.3.2.4. Geographic zones

The Group's international development has naturally meant that L'Oréal has had to adapt its organisation to the need to co-ordinate the establishment and development of its brands on every continent.

Thus, various geographical zones have been created, each with operational responsibility for the subsidiaries in the countries of its region:

- Western Europe Zone;
- North America Zone;
- Asia, Pacific Zone;
- Latin America Zone;
- Eastern Europe Zone;
- Africa, Middle East Zone.

1.3.2.5. Executive Committee

Members of L'Oréal's Executive Committee

First name/Last name	Position
Jean-Paul Agon	Chairman and Chief Executive Officer
Laurent Attal	Executive Vice-President Research and Innovation
Jean-Philippe Blanpain	Executive Vice-President Operations
Nicolas Hieronimus	President L'Oréal Luxe
Jean-Jacques Lebel	President Consumer Products Division
Brigitte Liberman	President Active Cosmetics Division
Marc Menesguen	Executive Vice-President Strategic Marketing Department
Christian Mulliez	Executive Vice-President Administration & Finance
Alexandre Popoff	Executive Vice-President Latin America Zone
Sara Ravella	Executive Vice-President Communication, Sustainability and Public Affairs
Frédéric Rozé	Executive Vice-President North America Zone
Geoff Skingsley	Executive Vice-President Africa-Middle East Zone
Jérôme Tixier	Executive Vice-President Human Resources and Advisor to the Chairman
An Verhulst-Santos	President Professional Products Division
Jochen Zaumseil	Executive Vice-President Asia, Pacific Zone

1.4. International and cosmetics market

1.4.1. A HISTORICAL PRESENCE IN DEVELOPED MARKETS

L'Oréal is present in 130 countries in all 5 continents. Founded in France in 1909, the Group developed rapidly in Western Europe. In 2012, it made nearly 36% of its cosmetics sales in this territory in which the Group is long established.

In the first half of the 20th century, L'Oréal gained a foothold in North America. Initially, the Group entrusted distribution companies with distributing its products, these companies being united in 1953 around an exclusive agent, Cosmair. Following the company's takeover in 1994, it ensured the Group's development on the North American continent with the status of subsidiary. The acquisition of brands like Maybelline (1996), Matrix and Kiehl's (2000), or more recently Clarisonic and Urban Decay (2011–2012) have firmly anchored the Group in North America. In 2012, its sales on that continent increased by 7.2% like-for-like to reach 25% of world sales.

1.4.2. RAPID DEVELOPMENT OUTSIDE WESTERN EUROPE

Beginning in the 1970s, the Latin America Zone developed with a multi-divisional organisation that the Group has reproduced in the other major regions of the world.

Present in Japan for nearly 50 years, the L'Oréal Group has developed its presence in that country by choosing the brands to be given priority for this extremely specific market: Kérastase in hair salons, Lancôme in Luxury products and Maybelline and L'Oréal Paris in mass-market products.

The 1990s witnessed the opening up of New Markets with the fall of the Berlin wall which gave the brands access to the markets in Eastern European countries.

L'Oréal was among the first foreign groups to obtain an authorisation from the Indian government in 1994 for the creation of a wholly-owned subsidiary.

In 1997, the Group created a large multi-divisional zone in Asia and opened new subsidiaries, particularly in China where L'Oréal holds 100% of the capital of its entity.

Africa and the Middle East where the Group had a weak presence is a new frontier for development in the New Markets: the number of subsidiaries in that region has increased from 7 to 12 over the last four years.

The mid 2000s was the turning point: the strong acceleration of the development of New Markets is leading to a shift of the point of gravity in the economic world.

In all, the percentage of cosmetics sales generated by the Group in the New Markets was 15.5% in 1995, 27.1% in 2006 and 39.4% in 2012. This progress is expected to continue.

1.4.3. A COMMITMENT TO SHARED AND SUSTAINABLE GROWTH

Anxious to protect the future and to lay the foundations for lasting growth, the Group is striving to develop its presence in the New Markets by applying the fundamental rules of a good corporate citizen:

- the products offered to consumers meet the highest quality standards;
- the Group's commitments in social matters are the same in all its subsidiaries;
- all production centres comply with the same rules aimed at a reduction in environmental footprint. Social audits are carried out at suppliers of factories;
- each subsidiary participates, as far as its resources permit, in the large corporate philanthropy programmes of the L'Oréal Foundation such as For Women In Science, Hairdressers against AIDS and Beauty for a Better Life.

This global approach is in line with the Group's ambition as the world leader in cosmetic products: helping to make the world more beautiful.

1.4.4. IMMENSE DEVELOPMENT POTENTIAL

Besides the major countries known as the BRIMC countries (Brazil, Russia, India, Mexico and China), L'Oréal has notably identified among its "growth markets" the following countries: Poland, Ukraine, Argentina, Colombia, Indonesia, Thailand, Vietnam, Philippines, Turkey, Egypt, Saudi Arabia, Pakistan, Kazakhstan, South Africa and Nigeria.

In many of these countries, the consumption of cosmetics products per inhabitant is 10 to 20 times lower than in mature countries. Several tens of millions of inhabitants have access every year to levels of revenues which make them part of the "middle classes" and allow them to consume modern cosmetics products.

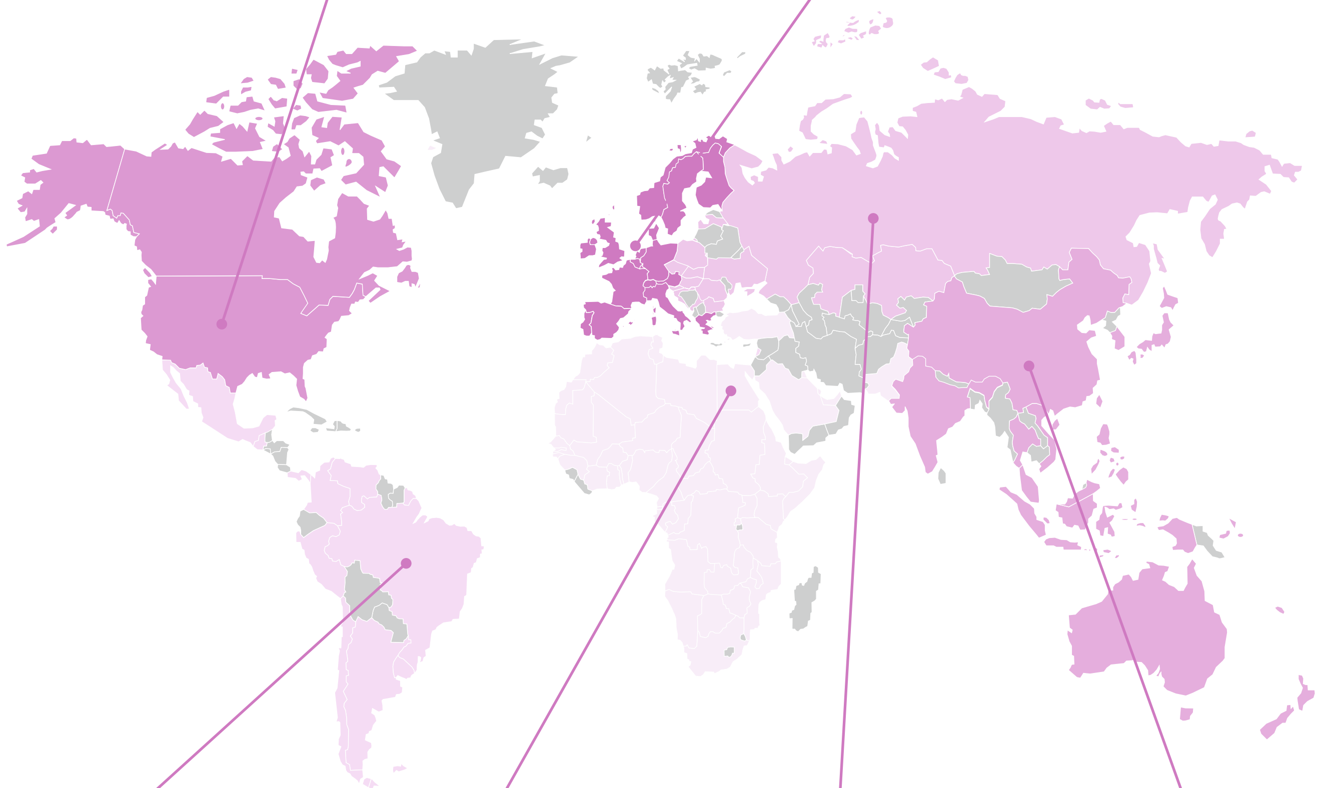
The marketing teams, in particular in large countries, pay heed to these new consumers. The laboratories on all continents study their specificities. The Group's innovation policy is based on the accessibility and adaptation of products to the beauty habits and rituals of all men and women in their infinite diversity. These form the basis for the universalisation of beauty.

NORTH AMERICA

25% OF GROUP COSMETICS SALES
+7.2% Sales growth in 2012 (1)
+4.4% Market growth in 2012 (2)
Sales: €5,211 M
Operating profit: 18.4% (% of sales)

WESTERN EUROPE

35.6% OF GROUP COSMETICS SALES
+0.6% Sales growth in 2012 (1)
Stable market in 2012 (2)
Sales: €7,400 M
Operating profit: 21.3% (% of sales)



LATIN AMERICA

8.8% OF GROUP COSMETICS SALES
+10.4% Sales growth in 2012 (1)
+10.2% Market growth in 2012 (2)
Sales: €1,827 M

AFRICA, MIDDLE EAST

3.3% OF GROUP COSMETICS SALES
+14.7% Sales growth in 2012 (1)
+7.5% Market growth in 2012 (2)
Sales: €683 M

EASTERN EUROPE

6.7% OF GROUP COSMETICS SALES
+3.9% Sales growth in 2012 (1)
+3.0% Market growth in 2012 (2)
Sales: €1,405 M

ASIA, PACIFIC

20.6% OF GROUP COSMETICS SALES
+9.6% Sales growth in 2012 (1)
+5.9% Market growth in 2012 (2)
Sales: €4,287 M

NEW MARKETS

39.4% OF GROUP COSMETICS SALES
+9.2% Sales growth in 2012 (1)
+6.5% Market growth in 2012 (2)
Sales: €8,202 M
Operating profit: 18.5% (% of sales)

(1) *Like-for-like.*
(2) *Source: L'Oréal estimates of worldwide cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.*

Worldwide cosmetics market from 2003 to 2012 (1)

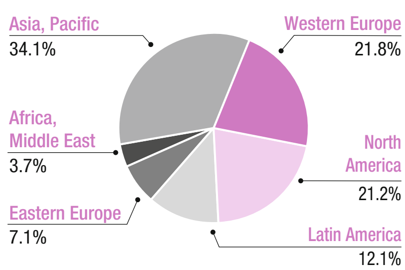
(Annual growth rate as %)

The worldwide cosmetics market represents approximately 180 billion euros, and in 2012 it grew by an estimated +4.6% (1). It is a particularly robust market, which is steadily expanding, while proving very resilient when economic conditions are at their most difficult. The cosmetics consumer's behaviour has not changed since the crisis. There has been no devaluation, banalisation or massification of the market. On the contrary, consumers' aspirations for quality are higher than ever, and they are always eager for technology and new ideas. The cosmetics market remains a supply-led market, driven by innovation, and consumers are always looking for quality, performance and perceived results.

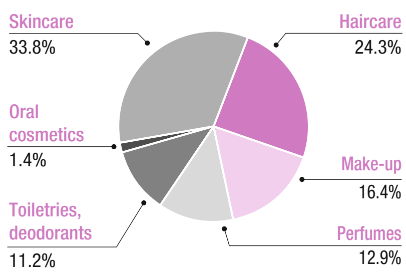
Breakdown of the world cosmetics market in 2012 (1)

(As %)

By geographic zone



By product category

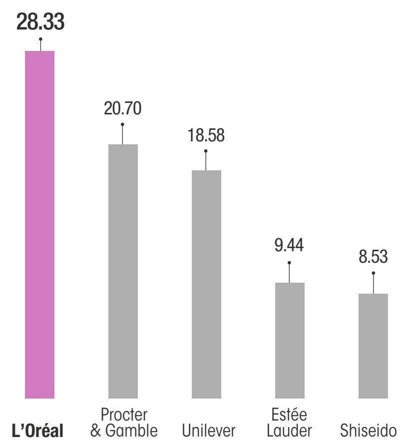


For the worldwide cosmetics market, 2012, like 2011, was boosted by luxury products. With +6.3% growth, the selective market maintains a rapid pace of growth; carried by Asia, North America and the Travel Retail sector, it made a 25% contribution to worldwide growth (1). Mass-market retail channels, with growth of +4.7%, have accelerated as compared to 2011 and contribute 53% to growth in the world cosmetics market.

From a geographic viewpoint, the New Markets continue to attain increasing levels of growth: excluding Japan, they represented 77% of worldwide market growth this year (1), primarily due to Asia Pacific, but also with the contribution of Latin America, up by +10.2%.

Main worldwide players (2)

(In billions of US dollars)



Competitive positions and market share held by the Group's Divisions and brands mentioned in this report are based on studies, panels and polls obtained from specialised organisations and companies, or, in the absence of comprehensive studies, are the result of estimates made by L'Oréal on the basis of available statistical data.

(1) *Source: L'Oréal estimates of worldwide cosmetics market based on net manufacturer prices excluding soap, toothpaste, razors and blades. Excluding currency fluctuations.*

(2) *Source: "Beauty's Top 100" WWD, August 2012, 2011 sales.*

1.5. Research and innovation: excellence, to meet the needs of all markets

1.5.1. RESEARCH, IN THE GROUP'S GENES

Over a century ago, a scientist called Eugène Schueller founded L'Oréal by launching a major innovation: a harmless hair dye. Research immediately became one of the components of the Group's DNA and very quickly one of the keys to its success. By always keeping one step ahead in this area, L'Oréal has integrated research into a Sustainable Development process. The ingredients used and the work carried out respect consumers, the environment and biodiversity.

Today, to engage in the conquest of a billion new consumers, the Group has rethought its innovation model and increased its investments. With a budget of 791 million euros in 2012, up by 9.7% as compared to the previous year, L'Oréal's research teams innovate to meet beauty aspirations all over the world in their infinite diversity.

1.5.2. ONE STEP AHEAD IN ACTIVE PRINCIPLES

L'Oréal's Fundamental Research Department was set up in 1963. Its conviction: knowledge of skin and hair enables L'Oréal's researchers to think up new concepts which lead to the synthesis of new molecules. The Group subsequently multiplied the number of patent filings (611 in 2012) and developed a large number of active principles, the main ones being at the source of the Group's flagship products.

This capacity to implement long-term research programmes now enables L'Oréal to remain ahead of its competitors.

Among these major molecules, it is possible to cite Ionene G, launched in 1978 in hair colour with Majirel to ensure real respect of the integrity of hair; Mexoryl SX, a sun filter launched in 1993 in the Vichy Capital Soleil range; Pro-Xylane, which, launched for the first time in 2006, became part of the Lancôme Absolue BX range to treat deep wrinkles; and more recently, LR2412, used in Lancôme Visionnaire, a star product launched in 2011, which reduces wrinkles while offering a more even skin tone and, finally, Stemoxydine launched in 2012 in the Vichy Neogenic product range which favours follicular regrowth.

1.5.3. SETTING UP NEW TECHNOLOGICAL PLATFORMS: A DECISIVE COMPETITIVE ADVANTAGE

L'Oréal's research team makes breakthrough innovations for all Divisions, all brands, and all product categories. The Group creates formulas with textures which enhance the efficacy of active ingredients. For example, in 2009, L'Oréal Professionnel launched the INOA hair colouring range with the ODS (Oil Delivery System), which makes it possible to avoid ammonia in the oxidation colouring. The ODS is now a technological platform rolled out in the hair products businesses. The teams have thus developed the second-generation ODS which led to Garnier's home hair colour OLIA in 2012.

1.5.4. A PERMANENT COMMITMENT TO PREDICTING THE HARMLESSNESS AND EFFICACY OF PRODUCTS

The harmlessness and efficacy of L'Oréal's technological innovations are essential. To meet these requirements, the research team embarked in the 1980s on developing alternative methods to animal testing for the evaluation of the safety of its products.

Much progress has been made thanks to tissue engineering, which made it possible to reconstruct the first human epidermis in 1983 and then the first complete skin (epidermis and dermis) in 1996. Thanks to these models, L'Oréal was able to put an end to animal testing for finished products in 1989, *i.e.* 14 years before it was required by law in Europe. In three decades, the Group has created genuine expertise in the field of reconstructed tissues. Up until now, twelve reconstructed skin and cornea models have been developed.

These models are fabulous tools to predict the safety and efficacy of products and make it possible to reduce the time-to-market.

Research and innovation budget
(€ million, including 50% of Galderma research expenses)

2010	665
2011	721
2012	**791**

Research employees
(including 50% of Galderma research employees)

2010	3,420
2011	3,676
2012	**3,817**

Number of patents
(cosmetics and dermatological research)

2010	612
2011	613
2012	**611**

1.5.5. TWO CUTTING EDGE INVESTMENTS

1.5.5.1. The world production centre for reconstructed biological tissues

In 2011, L'Oréal inaugurated its global predictive evaluation centre in Gerland (Lyon, France). Dedicated to the predictive evaluation of the safety and efficacy of ingredients and products, this centre is the first cosmetics industry site to produce reconstructed biological tissues (around 130,000 units per year).

The Group's performances, in terms of predictive evaluation, also benefit from the considerable amount of historical data that L'Oréal has developed over the 100 years of exclusive innovations in cosmetics. The Group currently has a large database on several tens of thousands of molecules. Thanks to a computer modelling system, the cross-comparing of all this data makes it possible to predict the efficacy and safety of the ingredients and the products, increasing the reliability and improving the cost of the formulas.

1.5.5.2. The Global Hair Research Centre

In 2012, L'Oréal inaugurated its Global Hair Research Centre in Saint-Ouen (France). This 25,000 square metre building, representing an investment of 100 million euros, hosts 500 people responsible for developing, formulating and evaluating products in the three main categories of hair products (hair colouring, hair care and styling).

The centre houses the international divisions of these businesses which define global innovation strategies throughout the world and coordinate the global portfolio of new products. But it is also the regional centre for Europe along the same lines as the five other regional centres in Brazil, North America, Japan, China and India.

All the necessary skills for the development of high performing products are brought together in the centre:

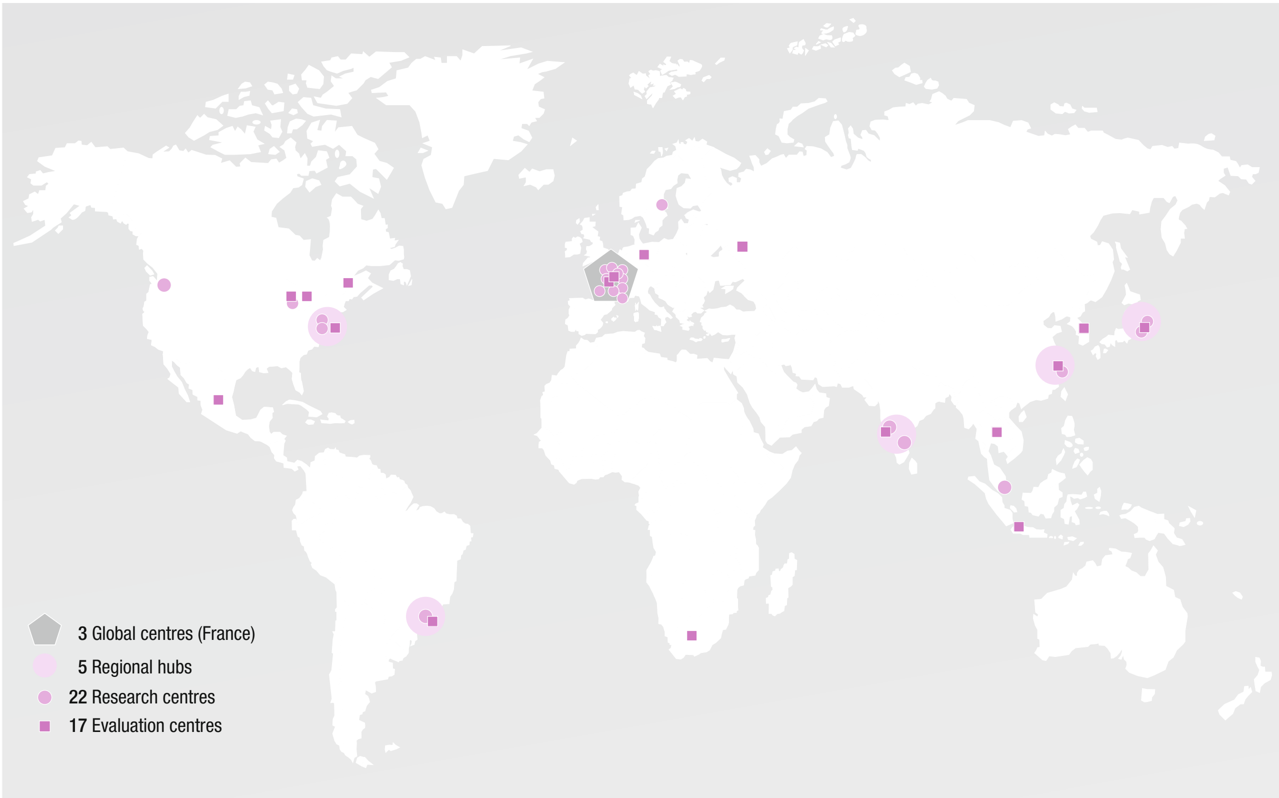
- applied Research grouped together on the same floor to create innovative prototypes and yield a regular flow of innovations for our markets;
- development teams working together by major product categories to create effective formulae based on major technologies and offer consumers products that respond to the diversity of their expectations;
- an instrumental, expert, sensory evaluation which accompanies future products from design to launch, thanks to a whole range of competencies at the service of performance perceived by the consumer;
- key expertise in the fields of physics and chemistry or formulation, automation and modelling processes;
- all the essential support and back office functions to support all the centre's activities.

1.5.6. RESEARCH IN TUNE WITH THE MARKET

All stages of research which lead up to the launch of an innovative product are connected to the market. There is a veritable interaction between research and marketing.

This approach is closely related to the Group's development strategy in the New Markets. Consumers in India are not the same as those in China or in Europe. Their cosmetic needs and aspirations differ. To pay heed to the needs of its customers in their diversity, L'Oréal has created a Consumer & Market Insights Department in the Innovation Department to build up a global consumer data bank per product category and per major region of the world. The cosmetic needs and expectations of consumers all over the world in 15 priority markets for the Group are identified through these studies.

Research sites worldwide



Local research and adaptation of products

To adapt to consumers all over the world, L'Oréal's research teams are present in all geographic zones through its 22 cosmetics and dermatological research centres and 17 evaluation centres. The research centres are grouped together in 3 global centres in France (Advanced Research, Hair *métiers* and Cosmetic *métiers*) and 5 regional hubs: the United States, China, Japan, Brazil and India. In symbiosis with the local environment, these regional hubs identify needs, scientific expertise and cosmetic practices. The richness of their science ecosystem promotes cooperation and partnerships for excellence. The data collected then enable the researchers to develop new products that are perfectly in tune with needs. The innovations developed will then be shared with the other research centres in a coordinated manner, and needs identified in one country may subsequently lead to success on a global scale.

1.6. Operations

1.6.1. FROM SOURCING TO DELIVERY, CONTINUOUS IMPROVEMENT OF INDUSTRIAL EFFICIENCY

L'Oréal offers Men and Women worldwide the best of cosmetics. Operations develop, produce on an industrial scale and distribute the products corresponding to this offering, by guaranteeing the most effective and the most responsible solutions and those most suited to the specific natures of our brands and markets.

The Operations Division comprises seven areas of expertise with regard to industrial production and logistics: procurement, packaging, production, quality, supply chain, environment, health and safety, and real estate. Three support functions complete the Division's resources: Information Systems, Finance and Human Resources.

1.6.2. A WELL-OILED INDUSTRIAL MODEL

With locations all over the world, the Group's factories produce 88% of cosmetics units sold. This choice of essentially in-house production offers a guarantee of quality, traceability and corporate social responsibility, which reduces risks. Plants are generally dedicated to the production of one Operational Division and specialised in major industrial technologies located close to the markets that they serve. The rotation of brands on the packaging lines is furthermore assisted by an increased standardisation of industrial processes.

This industrial model helps to improve output year on year and guarantees continuous activity on each site.

1.6.3. CONTINUOUS IMPROVEMENT AND OPTIMISATION OF PRODUCTION

L'Oréal has set itself the target of continually improving output and optimising production costs. This ambition is accompanied by a demanding quality system that extends from design to customer, and which aims to guarantee the integrity of the formulation of products all over the world and ensures compliance with social and environmental responsibility standards on each production site in accordance with national regulations.

In 2008, L'Oréal launched a global programme to improve the efficiency of its production facilities called "Operational Excellence". Based on a set of best practices, this programme is shared by all sites. This triggered sharing of the support and procurement functions in the major geographic zones. Efficiency has been improved while the specificities of each region have been maintained. This productive, highly responsive organisation model is particularly adapted to L'Oréal's objective of accelerated growth in the New Markets.

1.6.4. LONG-TERM PARTNERSHIPS WITH SUPPLIERS

L'Oréal's industrial success can also be accounted for by the Group's exacting standards in the choice of its suppliers and the sustainable relationships that it sets up with them. The Group organised its first World Suppliers' Day in 2012 in order to share the Group's vision and strategy with L'Oréal's most strategic suppliers. Durable links with suppliers also require the development of local procurement in strong growth zones. In 2010, the Group initiated the "wall-to-wall" programme which consists in setting up a production unit for packaging items operated by a supplier within the plant itself. This partnership develops responsiveness and industrial flexibility, while reducing the transportation of packaging items and the generation of waste related to their packaging. It is aimed at plants with highly specialised technologies that produce very large volumes and have ongoing needs for external resources.

1.6.5. L'ORÉAL AND ITS PARTNERS: WORKING TOGETHER TO INNOVATE

Packaging is a major environmental and industrial challenge for the Operations Division. The Group responded to this challenge in 2010 by creating a packaging fair called "Cherry Pack". International suppliers are able to propose their latest innovations at this event on an exclusive basis. At the end of the two days of presentation, projects are selected by the brands and the Research & Innovation Division. This event, which takes place about once every 18 months. demonstrates L'Oréal's intention to reinforce its links with its suppliers by gambling on collaborative intelligence. External innovation is also boosted through partnerships with highly creative and innovative schools.

1.6.6. STRONG COMMITMENTS WITH REGARD TO SOCIAL RESPONSIBILITY AND SAFETY

The Operations Division, like the Group as a whole, plays a predominant role in the field of social responsibility and safety. Through its "Buy & Care" programme, L'Oréal incites its suppliers to be more responsible and carries out rigorous monitoring of their commitments through a large number of social audits carried out on suppliers throughout the world. Since the programme was put in place, close to 4,400 social audits have been carried out in 3,700 of the Group's suppliers' sites. The objective is not to impose sanctions on suppliers but to help them to improve their safety standards and their environmental and social performances. The Group received a prize from VIGEO [1] in 2012 for the prevention of social dumping in the supply chain.

In creating the "Solidarity Sourcing" programme, the Group took the initiative of using local suppliers who make commitments in favour of minorities: disabled workers or workers from deprived communities. It may also involve very small suppliers or fair trade players that L'Oréal calls on to contribute with the help of its suppliers. This programme was officially launched in 2012 to the Group's suppliers in order to encourage them to develop the same approach with their own suppliers.

With regard to safety, the Operations Division pays particular attention to employees who work on production sites. They are trained in compliance with safety rules and observe "a safety minute" every day in order to prevent and avoid accidents.

(1) European ratings agency.

1.6.7. *ENVIRONMENTAL PROTECTION AT THE HEART OF PRODUCTION*

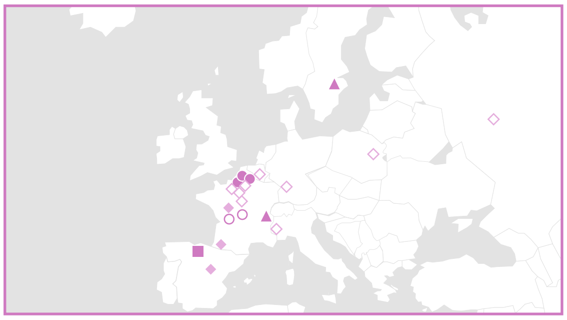
Throughout the whole of the production chain, innovative measures with regard to Sustainable Development are implemented all over the world, from projects with regard to efficient everyday use of resources to breakthrough projects. Many initiatives that are most suited to the local ecosystem are being introduced at the Group's sites (geothermal energy in Vichy, photovoltaic panels in Mexico, biomethanation in Belgium, phytorestoration in Mourenx (France), and so on).

All these initiatives respond to the three goals that the Group has set itself for the 2005-2015 period for its factories and distribution centres: reducing greenhouse gas emissions by 50%, reducing waste generated per finished good by 50% and reducing water consumption per finished good by 50% (see section 6.2. on pages 200 *et seq.*).

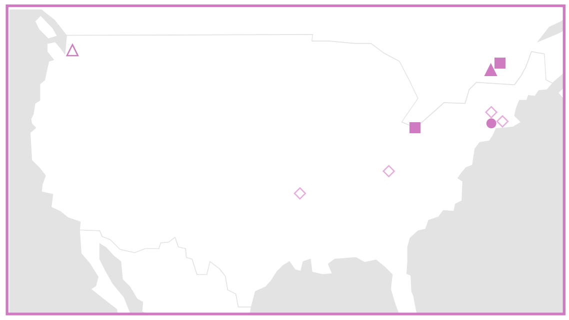
Furthermore, the environmental impacts related to packaging, transport and buildings are also taken into consideration.

42 industrial sites worldwide

EUROPE

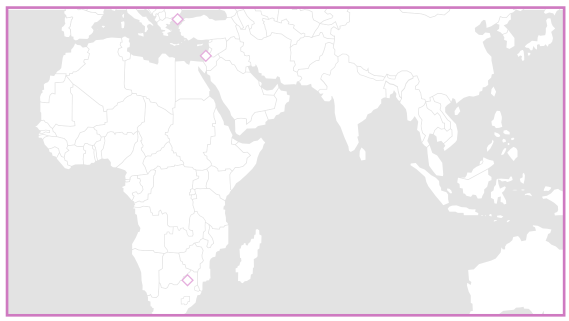


NORTH AMERICA

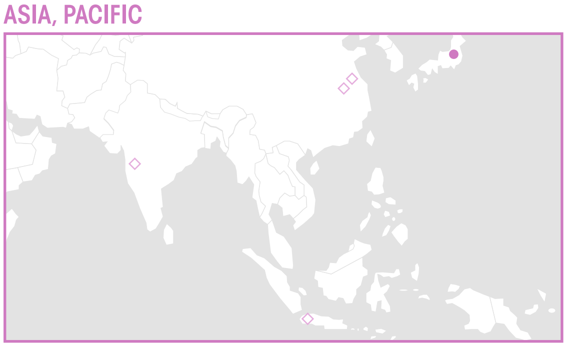


LATIN AMERICA

AFRICA, MIDDLE EAST



ASIA, PACIFIC



Active Cosmetics: 2 factories
Professional Products: 3 factories
L'Oréal Luxury : 5 factories
Consumer Products: 24 factories
Raw Materials: 3 factories
Devices: 1 factory
Dermatology: 4 factories

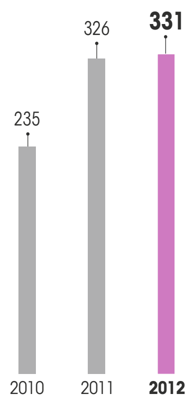
1

Producing and consuming locally

The Group's factories are spread out all over the world in order to fulfil a very simple objective: to reduce as far as possible the distance between consumers and the production zones. The Group's 42 factories are located in areas enabling a rapid supply of all the countries in which the Group is present. The strong growth of products in the Consumer Products Division, particularly in the New Markets, accounts for the number and geographical breakdown of this Division's factories. Furthermore, in order to support the conquest of another billion consumers in the emerging markets, the Group started up a new factory in Russia in 2010. In 2012, two new factories opened in Indonesia and Mexico. In 2013, a new plant will be opened in Egypt.

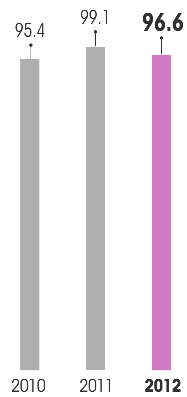
Cosmetics investments

(production and supply chain commitments, € millions)



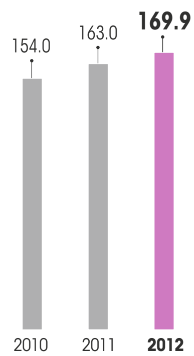
Comparable annual product purchasing price index

(index base 100: year N-1)



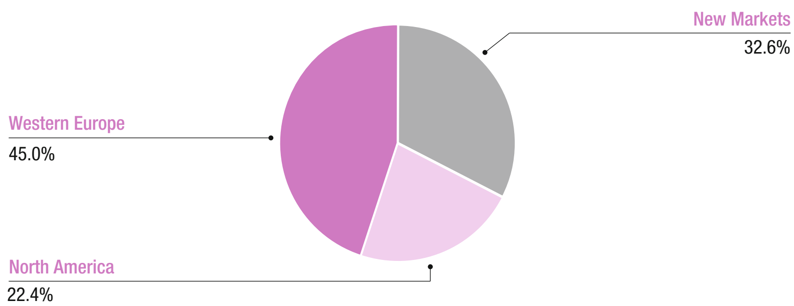
Cosmetics factories workforce cumulated productivity index

(index base: 100 in 2002, acquisitions included)

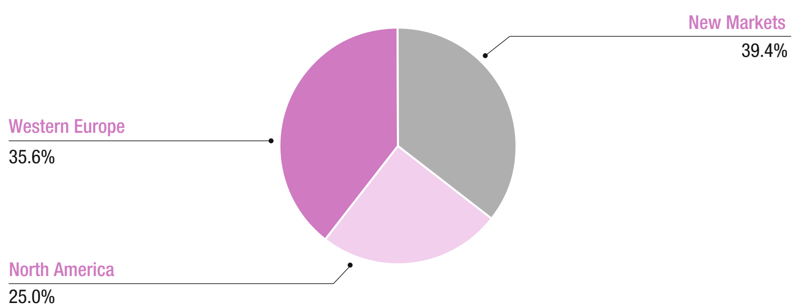


Cosmetics branch production and sales by geographic zone in 2012

PRODUCTION



SALES



1.7. Investment policy

L'Oréal's investment policy responds to long-term objectives.

L'Oréal is an industrial company whose development is governed by two types of investment in particular:

1. scientific investments and investments in equipment which are explained at length in several sections of this document (see, in particular, section 1.5. on pages 14 *et seq.* and section 1.6. on pages 16 *et seq.*);
2. marketing investments which are made on an ongoing basis and are inherent to the Group's activities, particularly in the cosmetics industry. Indeed, in order to win new market share, thorough research has to be conducted all over the world, and advertising and promotional expenses need to be modulated depending on the familiarity of the brands and their competitive position; finally, investments in point-of sale (POS) advertising materials ensure optimal presence for our brands in points of sale.

For reasons relating to strategy and competition, L'Oréal cannot therefore provide any systematic information on future investments.

In 2012, the Group's investments amounted to 955 million euros; *i.e.* 4.3% of its sales, a very similar percentage to the levels before the financial crisis. This evolution reflects the constant efforts made by the Group, in particular in the fields of improvement of industrial efficiency, the performance of research teams and enhancement of the value of brands.

The 955 million euros that were invested in 2012 can be broken down as follows:

- production and physical distribution represent approximately 34% of total investments;
- marketing investments, including moulds, POS advertising materials and stores account for 41%;
- the remainder concerns Research and the head offices in different countries;
- IT investments spread over all these categories represented 15% of total investments

(See note 12 on page 122, note 14 on page 125 and note 26 on page 145 of the chapter on the *Consolidated Financial Statements*).

1.8. Risk factors

The Group operates in a changing environment. Like any company, it is necessarily exposed to risks which, if they were to materialise, could have a negative impact on its business activities, its financial situation and its assets. This chapter presents the main risks to which the Group considers that it is exposed: those specific to the business activities of L'Oréal, then the legal, industrial and environmental risks, and finally the risks of an economic and financial nature.

Faced with these risks, L'Oréal has set up an Internal Control system to prevent and control them better. The Internal Control and risk management procedures are thus described in section 2.5., as provided for by Article L. 225.37 of the French Commercial Code (cf. pages 66 *et seq.*).

However, it is not possible to guarantee total absence of risk. Furthermore, other risks of which the Group is not currently aware or which it does not consider as material at the date of this report could have a negative effect.

Risks which the Group considers it is exposed to:

1.8.1. *BUSINESS RISKS*

1.8.1.1. Image and reputation

The Company's reputation and its brand image may be compromised at any time in a globalised world where information is disseminated rapidly. No company is safe from an undesirable event whether this involves the use or misuse of a product or reprehensible individual conduct. The circulation in the media of detrimental information, whether founded or not, which has been facilitated by the introduction of new technologies and development of the social networks, could also affect the Company's reputation and its brand image.

In order to reduce the risks that may arise from events of this kind, L'Oréal has set up a crisis management procedure, whose global task is to prevent, manage and limit the consequences of undesirable events on the Company. The Group crisis management officer reports directly to the Chief Executive Officer. Furthermore, the deployment of the Code of Business Ethics throughout the whole Group aims at reinforcing the spreading of the rules of good conduct which ensure L'Oréal's integrity and strengthen its ethics. The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and make sure that the Group's values are reflected in the everyday acts of each employee. In addition, L'Oréal has implemented a charter of good practices for use of social media by its employees.

1.8.1.2. 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 of ingredients in the event of a proven risk or a strongly suspected risk.

1.8.1.3 Responsible Communication

L'Oréal provides consumers with innovative products, and the success of these products is based on their quality and performance. The resulting benefits are highlighted in our communications. In spite of all the care we take to guarantee the accuracy and fairness of the claims made in these communications, there is always a possibility that they may be challenged by the authorities, organisations or consumers.

In order to reduce the risk of challenges of this kind being made, the International Product Communication Evaluation Department makes sure of the conformity of product communications before they are put on the market. The Group's Code of Business Ethics sets out the fundamental principles of responsible communication and L'Oréal has made a commitment to implement the Cosmetics Europe Charter on responsible advertising and marketing communication, to which the key global cosmetics industry players in Europe adhere.

1.8.1.4. Seasonal nature of the business

The pace of sales may, in certain cases, and for specific products, be linked to climate conditions, such as for example suncare products. The products and brands sought after by consumers as gifts are reliant on a strong concentration of sales at year-end and during holiday periods. This is the case in particular for fragrances and The Body Shop products. Any major disruption in either of these factors could affect L'Oréal's sales.

L'Oréal endeavours to mitigate these risks through the diversity and enrichment of its product offerings and by arranging product launches and special product promotional events throughout the entire year.

1.8.1.5. Geographic presence and economic and political environment

L'Oréal has subsidiaries in 69 countries, with 64% of its sales being generated outside Western Europe. Global growth in the cosmetics markets has led L'Oréal to develop its activities in countries of the "New Markets" Zone, which represent over 39% of its cosmetic sales in 2012. The breakdown and changes in L'Oréal's sales are given in paragraph 1.4.4. on pages 11 *et seq.*

Besides the currency risks mentioned in chapter 4 in note 24.1. *Hedging of currency risk* on pages 140 to 142 and in paragraph 1.8.7.2. on page 26, political or economic disturbances in countries where the Group generates a significant portion of its sales could have an impact on its business activities.

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

1.8.1.6. Distribution network

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

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

1.8.1.7. 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 the Group's brands. In the context of a constant struggle to obtain the best positions and launch the most attractive and most effective product ranges, with an optimal price/quality ratio, winning market share, improving operating profitability and thereby ensuring growth are a permanent challenge.

1.8.1.8 Innovation and consumer expectations

The development of innovative products and their adaptation to market requirements is an ongoing priority for the Group. If the Group fails to anticipate or interpret changes in consumer behaviour and new trends, its sales could be affected.

The Consumer & Market Insights Department, which is part of the Innovation Division, constantly watches for changes in consumers' cosmetic expectations by product category and major regions of the world. This work enables the Group's researchers to develop new products that are in line with market needs as mentioned in 1.5.6. *Research in tune with the market* on page 15.

1.8.1.9. External growth transactions

Within the scope of its development strategy, L'Oréal has made, and may have occasion to make acquisitions or sign licence agreements.

Implementation of this strategy nevertheless requires that L'Oréal is able to find development opportunities at an acceptable cost and under acceptable conditions.

The Group has introduced a process for the upstream oversight of these transactions which includes:

- the setting-up of multidisciplinary teams for the preparation of projects and "due diligence" work; and
- a review by the Strategy and Sustainable Development Committee of the Board of Directors, then by the Board of Directors, of the opportunities for acquisitions or for equity investment for a significant amount or falling outside the scope of the Group's usual business activities, and the conditions for their implementation.

These operations may have a negative impact on the Group's results if the Group does not succeed in integrating the activities of the companies that have been purchased, their personnel, their products and their technologies under the anticipated conditions, in achieving the expected synergies and in handling liabilities which have not been anticipated at the time of completion of the transaction and for which L'Oréal has little or no protection from the seller.

Acquisitions that have been decided by the Board of Directors are regularly monitored by the Board of Directors which is informed of the conditions of integration and the performances achieved.

1.8.1.10. Information systems

The day-to-day management of activities which notably include purchasing, production and distribution, invoicing, reporting and consolidation operations as well as exchanges of internal data and access to internal information relies on the proper functioning of all the technical infrastructures and IT applications. The risk of a malfunction or breakdown in these systems for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) 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 and access to confidential data and security with regard to both computer hardware and software applications. In order to adapt to the evolution of new communication methods, L'Oréal has introduced an Information and Communication Technologies Charter. These measures are described in paragraph 2.5.2.4. on page 68 (*Control activities – The measures recommended by the Group*).

1.8.1.11. Risks related to Human Resources management

One of the keys to the success of L'Oréal lies in the talent of its staff. Should L'Oréal not succeed in identifying, attracting, keeping and training competent employees who behave responsibly, the development of its activities and its results could be affected.

The Group therefore develops a motivating, engaging professional environment, and encourages the attachment to its values, including those put forward by the Code of Business Ethics. L'Oréal's Human Resources policy is moreover described in paragraph 2.5.2.1. *The Internal Control organisation and environment* on pages 66 *et seq.* and in paragraph 6.1.1. *The L'Oréal Group's Human Resources policy* on page 187.

1.8.1.12. Risk of an Internal Control failure

L'Oréal has set up an Internal Control system which, even though it is adequate, can only provide a reasonable assurance and not an absolute guarantee of achievement of the Company's objectives due to the inherent limitations of any control. Thus, the Group cannot rule out the risk of an Internal Control failure that may expose it to an act of fraud in particular.

Deployment to all the Management Committees of the Group's subsidiaries of a programme to raise awareness of the risk of fraud (presenting the main operational scenarios that could be envisaged, the alert systems and the existing procedures and controls) is intended to reduce the Group's exposure to this risk. In addition, the Group is preparing a corruption prevention guide which will complete the commitments and principles set out in L'Oréal's Code of Business Ethics and which are described in paragraph 6.3.4. *Ethical practices,* pages 211 *et seq.*

1.8.2. LEGAL RISKS

1.8.2.1. Intellectual property: trademarks and models

L'Oréal is the owner of the major intangible assets on behalf of the Group's companies, to which it grants licences in exchange for the payment of royalties. Thus, L'Oréal is the owner of most of its brands, which are a strategic asset for the Group, in particular the major international brands described in paragraph 1.3.2.2. *Branches and Divisions* on page 8, with the exception of a few brands for which L'Oréal has obtained a license and most of which are currently used by L'Oréal Luxury, primarily the Giorgio Armani, Yves Saint Laurent, Ralph Lauren, Cacharel, Viktor & Rolf and Diesel brands.

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

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

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

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

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

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

1.8.2.2. Industrial property: patents

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

In order to protect the Group against the risk of another company claiming one of its molecules, a production process or packaging, L'Oréal has set up a specific structure, the International Industrial Property Department as part of the Research and Innovation Division; this department is responsible for filing the Group's patents, exploiting them and defending them on a worldwide basis. However, it cannot be excluded that third parties could contest the validity of certain patents held by the Group.

1.8.2.3. Changes in the regulations

L'Oréal is subject to the laws which apply to all companies and strives to adopt an attitude beyond reproach. L'Oréal asks its subsidiaries to comply with the regulations of the countries in which the Company operates. Being an active member of professional associations in the countries where its industry is represented, L'Oréal plays an active role in the ongoing dialogue with the national or regional authorities in charge of the specific regulations governing the products in its industrial sector in order to prevent or accompany any risks that may result from changes in regulations.

The European REACH regulations (Registration, Evaluation and Authorisation of Chemicals) that came into force in June 2007 are aimed at increasing human and environmental safety of chemicals by requiring all user companies to prove that they have implemented appropriate risk management measures. L'Oréal plays an active role in this process for the substances manufactured or imported by its European legal entities concerned. Within the framework of national and European associations, L'Oréal contributes to the analysis and drafting of practical guides for implementation of these regulations.

L'Oréal is also subject in Europe to the 7th amendment to the European Cosmetics Directive on animal testing of cosmetic ingredients. An action plan has been drawn up at L'Oréal in order to improve the conception and the methods of evaluation of the safety of raw materials. This plan is subject to an accelerated implementation in order to prepare in the best way possible for the application of these regulations which is scheduled for 2013. With regard to tests on finished products, L'Oréal put an end to animal testing in 1989 thanks to the use of alternative/predictive methods as described in paragraph 1.5.4. *A permanent commitment to predicting the harmlessness and efficacy of products* on page 14.

1.8.2.4. Other legal risks and litigation

In the ordinary course of its business, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. It is also the subject of proceedings initiated by national competition authorities, in particular in European countries (see note 22 *Provisions for liabilities and charges* on page 137 in chapter 4).

In order to better prevent this risk, the Group's Legal Department has introduced a training session on competition law for the employees concerned. In 2011, it also distributed an ethical and legal guide on the conditions of fair competition, called "The way we compete".

A provision is set aside in the parent company and consolidated financial statements whenever the Group has an obligation towards another party and will have to face a probable outflow of economic resources whose cost can be reliably estimated.

We consider that there is currently no exceptional event nor any governmental procedure, legal or arbitration proceeding which has recently materially affected, or is seriously likely to materially affect, the financial situation, assets or operations of the Company and the L'Oréal Group.

1.8.3. INDUSTRIAL AND ENVIRONMENTAL RISKS

In order to improve the efficiency and productivity of its industrial processes, L'Oréal carries out most of its production in 42 factories, each specialising in a specific type of technology.

1.8.3.1. Production and supply Chain

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

Therefore, a major stoppage of activity in a factory or a distribution centre could have an adverse effect on the achievement of commercial objectives.

In order to prevent this risk, business continuity plans exist for each operational site. They aim at anticipating the unavailability of part of the Group supply chain as far as possible and at restarting activities as quickly as possible.

1.8.3.2. Supplier dependence

L'Oréal is dependent on its external suppliers for the delivery of materials (raw materials and packaging items) that are essential for the manufacture of finished products, which may therefore suffer disruption as the result of a default by an important supplier.

In order to prevent these risks, L'Oréal has prepared business continuity plans for production which aim notably at looking for replacement solutions (for example: supplier back-up, availability of several moulds for strategic products).

1.8.3.3. Environment and safety

The cosmetics industry has a limited environmental risk profile. However, as is the case for any production, distribution, research and general administration operation, L'Oréal is exposed to safety and environmental issues (relating, for example to the use of certain raw materials, the use of machines or electrical equipment in production or storage areas, handling operations liable to cause accidents involving bodily injury, waste water treatment etc.). The main risk faced in the Group's industrial sites is fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals.

To ensure that the Group complies with its commitment to protect the environment and improve occupational health and industrial safety conditions, and to achieve concrete targets, a rigorous Environment, Health and Safety (EHS) policy has been implemented throughout the Group for many years. It was updated in 2010 as described in paragraph 6.2. *Environmental Information* on pages 200 *et seq.*

The Operations Division issues Internal Rules providing for the principles of L'Oréal's EHS policy. An EHS representative is appointed at each site. Training programmes are systematically organised. EHS performance indicators are collected monthly from all production sites, all distribution centres and all research centres. The collection is carried out on a quarterly basis for most of the administrative sites.

The fire risk is dealt with in the framework of very strict fire prevention standards (National Fire Protection Association standards).

L'Oréal Group operates 116 manufacturing sites, of which two are classified as "Seveso high threshold" and are therefore subject to strict regulations through the European Union Seveso Directive on the prevention of major accident hazards due to the storage of chemicals or inflammable products.

1.8.3.4. EHS risk map and audits

Within the scope of this EHS policy, for the industrial sites, the SHAP (Safety Hazard Assessment Procedure) is a hazard prevention programme based on the assessment of risks by employees at grassroots level under the responsibility of the Site Manager. This programme contributes to identifying the dangers overall and for each workstation and assessing the corresponding risks. The SHAP method thus makes it possible to prepare a risk mapping for the sites, to evaluate the level of risks and to put in place the necessary means of control. It is supported by dialogue between persons in charge, thus contributing to a significant collective improvement in risk management. This approach is constantly evolving and is updated regularly depending on changes at sites and experience on the ground. EHS audits are conducted every three or four years in each factory and distribution centre. The site risk map is reviewed within the scope of this audit. In 2012, an EHS risk audit was carried out at 11 factories and 14 distribution centres.

1.8.3.5. Constant concern for the safety of employees

Preservation of employee health and safety is one of L'Oréal's priorities and is an integral part of the EHS policy and the Group's human and social policy. It rests on the evaluation and prevention of professional risks in the Company as described in detail in paragraph 6.1.2.4. *Health and Safety* on page 195. Nevertheless, the risk of accidents at the workplace or occupational diseases cannot be entirely ruled out.

The Group implements the necessary means to ensure that it is in compliance with the legal provisions and the regulations relating to health and safety in the various countries where it operates. The Group is also vigilant about the general safety of its employees in the countries where they work.

An International business travel assistance programme provides our employees with health and safety information on the countries they are visiting.

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1.8.3.6. Natural disasters

The Group's presence at more than 300 sites (excluding our own shops and the sales outlets of our distributor customers) throughout the world exposes it to risks with regard to natural disasters, climate uncertainties or earthquakes, which could have a negative impact on its activities.

In 2010, the Real Estate Department classified countries according to their seismic risk and launched a campaign to assess the vulnerability of the most exposed sites. At the same time, the Information Systems Department initiated a procedure to ensure that the seismic risk is taken into consideration in the IT continuity plans of the most exposed countries.

1.8.4. COUNTERPARTY RISK

The Group enters into financial relations in priority with international banks and insurance companies given the best ratings by the three main specialised rating agencies.

When the Group makes financial investments, in the form of either bank deposits or marketable securities (see note 19 *Cash and cash equivalents* on page 127 in chapter 4), it gives priority to short-term transferable instruments from first-rate financial institutions.

The Group therefore considers that its exposure to the counterparty risk is weak (see note 24.4. *Counterparty risk* on page 143 in chapter 4).

1.8.5. CUSTOMER RISK

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

However, this risk is limited by Group policy which is to take out customer insurance cover inasmuch as this is permitted by local conditions. The risk associated with credit insurance is mentioned below in paragraph 1.8.8. *Insurance* on page 27.

Furthermore, due to the large number and variety of distribution channels at worldwide level, the likelihood of occurrence of significant damage on the scale of the Group remains limited. The 10 largest customers/distributors represent around 19% of the Group's sales. The amount considered as posing a risk of non-collection for which a provision for liability is therefore booked is set out in note 17 *Trade accounts receivable* on page 127 in chapter 4. It does not exceed 2% of gross accounts receivable.

1.8.6. LIQUIDITY RISK

The Group's Financial Services Department centralises all the subsidiaries' financing needs and also negotiations with financial institutions in order to have better command over financing conditions. Any transactions that may be carried out directly by subsidiaries are closely supervised.

The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.

To this effect, the Group has unused confirmed credit lines from several first-rate banks totalling €2,550 million. Their terms are less than 1 year for €250 million and ranging from 1 to 4 years for €2,300 million (see note 23.9. *Confirmed Credit lines* on page 140 in chapter 4).

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. None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants) (see notes 23.1. *Debt by type* and 23.2. *Debt by maturity* date on page 139 and note 24.5. *Liquidity risk* on page 143 in chapter 4).

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

- A-1+, awarded in June 2012 by Standard & Poor's;
- Prime 1, awarded in June 2012 by Moody's; and
- F1+, awarded in June 2012 by FitchRatings.

These ratings are unchanged compared to those assigned in 2011.

1.8.7. FINANCIAL AND MARKET RISKS

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

1.8.7.1. Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term papers. The Group mainly refinances at floating rates, as mentioned in note 23.4. *Breakdown of fixed rate and floating rate debt* on page 140 in chapter 4. Other details with regard to debt and interest rates are also provided in notes 23.5. *Effective interest rates*, 23.6. *Average debt interest rates* and 23.7. *Fair value of borrowings and debts* on page 140 in chapter 4.

None of these debts contains an early repayment clause linked to compliance with financial ratios (covenants).

In order to limit the negative impact of interest rate variations, the Group has a non-speculative interest rate management policy using derivatives, as described in notes 24.2. *Hedging of interest rate risk* and 24.3. *Sensitivity to changes in interest rates* on pages 142 and 143 in chapter 4.

1.8.7.2. Currency risk

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

In order to limit currency risk, the Group adopts a conservative approach of hedging at year-end a significant portion 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. In order to benefit from better visibility of the flows generated, currency risk management is centralised with the Treasury Department at head office (Financial Services Department) which uses a specific tool for centralising the subsidiaries' requirements by currency (FX report).

The system of foreign exchange risk hedging is presented to the Audit Committee. The hedging methodology and the values involved are described in note 24.1. *Hedging of currency risk* on pages 140 to 142 in chapter 4.

The breakdown of consolidated sales for 2012 by currency is specified in section 3.2. *Financial Highlights* on page 84.

Significant changes in the monetary environment could have an impact on the Group's results and on its shareholders' equity. The analysis of sensitivity to currency fluctuations and the impact on equity are set out in detail in note 20.4. *Items directly recognised in equity* on page 132 in chapter 4. Finally, the impact of foreign exchange gains and losses on the income statement is described in note 6 *Foreign exchange gains and losses* on pages 113 and 114 in chapter 4.

1.8.7.3. Risk relating to the impairment of intangible assets

As stated in paragraph 1.8.2. above relating to legal risks, L'Oréal's brands are a strategic asset for the Group.

As described in note 1.15 *Intangible assets* on page 104 in chapter 4, goodwill and brands with an indefinite life span are not subject to depreciation but to periodic impairment tests which are carried out at least once a year. Where the recoverable value of the brand is lower than its net book value, an impairment loss is recognised. Similarly, any variance between the recoverable value of each Cash-Generating Unit and the net book value of the assets including goodwill would lead to an impairment loss in respect of the asset, recorded in the income statement. The amounts for the last 3 financial years are provided in note 7 *Other operational income and expenses* on page 114 in chapter 4.

The data and assumptions used in the impairment tests for the Cash-Generating Units with significant goodwill and non-depreciable brands are described in note 13 *Impairment tests on intangible assets* on page 124 in chapter 4.

1.8.7.4. Equity risk

L'Oréal does not invest its cash in shares. For L'Oréal, the main equity risk lies in the 8.91% stake that it holds as of December 31st, 2012 in the capital of Sanofi, for an amount described in note 15 *Non-current financial assets* on page 126 in chapter 4.

If the Sanofi share price were to fall below the initial share price significantly or on a prolonged basis, this would potentially expose L'Oréal to impairing its assets through the income statement as explained in note 24.6. *Shareholding risk* on page 143 in chapter 4.

1.8.7.5. Risks with regard to the assets hedging employee commitments

The assets used as financial hedges for employee commitments are, by nature, exposed to the fluctuations on the markets on which such assets are invested.

Pursuant to the provisions of the *Charter on the Management of assets dedicated to the hedging of the Group's employee commitments*, the allocation by category of assets is subject to limits aimed in particular at reducing volatility risks and correlation risks between these different categories of assets. A Supervisory Committee for the pension and benefit schemes offered by the Group's subsidiaries, ensures that these principles are implemented and monitored, as described in chapter 6 *Benefit and Pension schemes and other benefits* on page 191.

However, a large, lasting fall in the financial markets could have an impact on the value of the portfolios set up (see note 21 *Post-employment benefits, termination benefits and other long-term employee benefits* on pages 133 *et seq.* in chapter 4). Furthermore, the Group adopts a conservative policy for the choice of insurers and custodians for these assets (see counterparty risk in paragraph 1.8.4.).

1.8.7.6. Risk relating to the change in tax regulations

The Group is exposed to risks of an increase in existing taxes, the introduction of new taxes, or double taxation concerning in particular corporate income tax, customs duties, and import taxes, the repatriation of dividends or social levies, which could have an adverse impact on the Company's results.

1.8.7.7. Core commodity risk

The production of cosmetics depends on the purchase of raw materials, at fluctuating prices. These raw materials or components enter into the composition of products or their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally large increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. It is nevertheless estimated that the impact of this rise on gross margin would remain limited.

In order to anticipate the effect of these fluctuations and as a preventive measure, L'Oréal negotiates price indices with its main suppliers of raw materials and packaging items. The Group therefore does not use hedging.

Also, in order to offset market volatility, L'Oréal makes ongoing efforts by carrying out purchase actions and actions to improve industrial productivity. Furthermore, the pooling of responsibility for purchases has made it possible to reinforce these measures.

1.8.8. INSURANCE

1.8.8.1. The Group's overall insurance policy

The objective of the Group's policy on insurance is to protect the Group's assets and property from the occurrence of identified material risks that could adversely affect it. This risk transfer forms an integral part of the Group's risk management process. This policy is applied at two levels:

- at parent company level, the Group has negotiated worldwide insurance programmes to cover its main risks after reviewing the cover available;
- in a local context, subsidiaries have to purchase insurance cover to meet their local regulatory obligations and supplement the Group's worldwide programmes for any specific risks.

The financial solvency of the insurers chosen is an important criterion in the Group's insurer selection process. Each insurance programme subscribed by the Group involves the participation of a pool of insurers. Overall, the main global insurance companies are involved in one or more of these Group programmes.

1.8.8.2. Integrated worldwide programmes

Third party liability

The Group has had an integrated global programme covering all its subsidiaries for several years. This programme covers the financial consequences of the third party liability of Group entities. In particular, it covers operating liability, including sudden and accidental environmental pollution, product liability and product recall costs.

Claim activity under this programme has historically been low, which shows the extremely high quality requirements and safety standards applied by the Group in managing its operations and in designing and manufacturing its products. The health and safety of consumers and employees is a constant priority at all levels of Group operations.

Directors' liability

Group companies benefit from a Directors' and officers' liability insurance programme.

Property damage and interruption of operations

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

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

Transport

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

Customer credit risk

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

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

Self-insurance

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

2

CORPORATE GOVERNANCE*

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

This chapter describes the way in which the Board of Directors' work is prepared and organised and includes, in particular, a summary of the principles of organisation guaranteeing a balance of powers (§ 2.2). It includes the complete text of the Internal Rules of the Board of Directors (§ 2.2.2.3). All components of the remuneration of Directors and corporate officers are mentioned (§ 2.3.) as well as the trading by Directors and corporate officers in L'Oréal shares in 2012 (§ 2.4). The internal control procedures implemented by the Company are also described (§ 2.5). The Statutory Auditors' Reports related to Corporate Governance, namely their report on the report prepared by the Chairman (§ 2.6) and that on regulated agreements and commitments (§ 2.7), are included here.

2.1. Summary of the principles

AFEP-MEDEF CODE: THE REFERENCE CODE

The Board of Directors considers that the recommendations of the AFEP-MEDEF Code of Corporate Governance for listed companies of April 2010 fall within the Company's approach to corporate governance. Accordingly, this is the code referred to by the Company to prepare this Corporate Governance chapter, approved by the Board at its meeting on Monday, February 11th, 2013. The AFEP-MEDEF Code can be consulted over the Internet at the following address: http://www.medef.com/.

In accordance with Article L. 225-37 of the French Commercial Code, this chapter on Corporate Governance includes the report of the Chairman on the Board's composition and on the ways in which the Board's work is prepared and organised (section 2.2) as well as on the Internal Control procedures implemented by the Company (section 2.5).

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

> *"[ ] The Chairman of the Board of Directors gives an account, in a report attached to the report mentioned in Articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26, of the Board's composition and of the application of the principle of balanced representation of men and women on the Board, of the ways in which the Board's work is prepared and organised, and on the Internal Control and risk management procedures put in place by the Company, describing in particular those of its procedures that relate to the preparation and processing of accounting and financial information for the parent company financial statements and, where applicable, for the consolidated financial statements. Without prejudice to the provisions of Article L. 225-56, the report also indicates any limitations that the Board of Directors imposes on the powers of the Chief Executive Officer."*

This same article of the French Commercial Code states that:

> *"Where a Company voluntarily refers to a code of corporate governance drawn up by organisations representing businesses, the report […] also specifies the provisions which have not been applied and the reasons for this non-application […]*
>
> *The report provided for in this Article also describes the specific terms and conditions of participation by shareholders in the General Meeting or refers to the provisions of the Articles of Association which set out such terms and conditions.*
>
> *This report furthermore describes the principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers […]."*

In accordance with Article L. 255-37, paragraph 9, of the French Commercial Code, it is specified that the information provided for in Article L. 225-100-3 of the French Commercial Code is published on page 220 of chapter 7.

In application of this same Article, the Board of Directors of L'Oréal approved this chapter at its meeting on February 11th, 2013.

In accordance with the recommendations made by the Autorité des Marchés Financiers (French financial markets authority), this chapter identifies in a summary table (on page 65) those provisions of the AFEP-MEDEF Code which were not applied and explains the reasons for that choice pursuant to Article L. 225-37 of the French Commercial Code.

2.2. The Board's composition and the way in which the Board's work is prepared and organised

"Enriched by the experience and diversity of its members, the Board of Directors is demonstrating its unity and strong commitment to the L'Oréal corporate project: universalisation and beauty for all. It is fully assuming its role of validating the Company's strategic goals, while opening up new ways of further improving governance."

(Jean-Paul Agon, Chairman & CEO of L'Oréal)

THE BALANCE OF POWERS AT L'ORÉAL IN A BOARD OF DIRECTORS THAT IS INDEPENDENT, STRONGLY COMMITTED AND VIGILANT

The organisation of L'Oréal's Board of Directors is adapted to the Company's specificities and constant progress is always sought.

In 2006, the duties of Chairman of the Board of Directors were separated from those of Chief Executive Officer, at the time when Sir Lindsay Owen-Jones had announced that he wanted to hand over some of his responsibilities to devote some time to the position of Chairman of the Board of Directors. This separation of the duties, which lasted for five years, made it possible to completely ensure a smooth transition with Jean-Paul Agon, appointed as Chief Executive Officer.

In 2011, L'Oréal's Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and appointed Mr. Jean-Paul Agon to this office.

The Board of Directors considers that the unification of the duties is particularly adapted to the specificities of L'Oréal: a stable and loyal shareholder base, clear identification of its businesses, gradual, steady development of its international activities and top-quality financial and economic performances. An extreme loyalty that has always existed among its senior managers and executive officers, who have precise knowledge of the business. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times (see section 2.2.1.1. on page 32).

Within this general framework, the modus operandi of the Board of Directors has been subject to particular attention so that the Board is in a position to fully carry out its role and the balance of powers on the Board is ensured. At the end of 2012, like in 2011, at the time of the evaluation of their work and their relations with the general management, the Directors noted that the organisation that has been put in place works well. Decision-making processes are clear, as is the division of powers.

The balance of powers

The balance of powers on the Board is ensured through a very precise definition and sharing of the tasks to be carried out by everyone, with, on the one hand, the Chairman and CEO and, on the other, thirteen Directors who are free to exercise their judgment. All the Directors receive information on an ongoing basis and have suitable means, within the framework of a code of operation, with well-structured, specialised committees and remits that have been added to since their creation.

Well-informed, independent Directors

L'Oréal's Directors are informed on an ongoing basis of all the aspects of the state of the Company's business and its performances.

Beyond the presence of strongly committed Directors with complementary experience (financial, industrial or business expertise, etc.), some of whom carry the memory of the Company's history, as they have longstanding in-depth knowledge of the Company and its environment, the Directors are all assiduous in attending meetings and vigilant. The Board's work is carried out and deliberations are made perfectly independently of the operational commitments by the General Management (see section 2.2.1.2. on page 33).

A Board of Directors has a wide array of means

The Board has the means to enable it to handle the questions that concern it with complete freedom questions and particularly when this involves determining the Company's strategic orientations, ensuring and monitoring their implementation and overseeing the good management thereof. The General Management communicates transparently and has the support of the Board of Directors in the strategic choices that it proposes and which are finally decided by the Board. The Chairman conducts the Board's work to build this cohesion without which General Management and its Executive Committee would not be able to commit themselves completely and ensure the Company's development with complete confidence and tranquillity. It is naturally in the interest of all the shareholders but also of all the stakeholders for the Chairman to lead the debates and encourage discussions on the Board of Directors. It can hold meetings at any time depending on topical issues that may arise (see section 2.2.2.1.1. on page 48).

A Board of Directors whose action is fully organised

The Board acts in all circumstances in the Company's corporate interests. This mission is reinforced inasmuch as the Board has adopted a code of operation defining rules with regard to conduct and formally providing for the conditions in which it will be given the means it needs to fully perform its role, for example, by deciding to handle any issue with regard to the good running of the Company, within the framework of the law.

Thus, L'Oréal's Board of Directors has adopted Internal Rules which it updates from time to time, both with regard to the formal aspects of its missions and with regard to the rights and obligations of the Directors (knowledge of the regulatory provisions and compliance with them, respect of the Company's interests, a duty of diligence, confidentiality and secrecy, responsibility in the field of insider trading, etc.), in the light of the findings of the evaluation of its work and within the scope of good corporate governance practices that it has put in place. The complete text of the Internal Rules, which were last updated in February 2011, is published in this present Registration Document on pages 53 *et seq.* It may be amended by the Board in light of the changes in the laws and regulations, but also in its own *modus operandi*.

Finally, a Director formally reports potential conflicts of interest which might concern him/her and, in any event, in this case he/she does not take part in the voting in this respect (see section 2.2.1.2. on pages 33 and 46).

Well-structured, specialised Board Committees, whose remits have been added to

In 2011, additions were made to the remits of the Board's Committees, with a greater number of Directors serving on these committees and more opportunities to meet with high-level managers. Only the Strategy and Sustainable Development Committee is chaired by the Chairman and CEO, who does not serve on any other committee.

They include independent Directors, who represent half of the members of the Audit Committee and the Remuneration Committee and include the Chairman of each committee. These committees are completely free to define their respective agendas. They report regularly on their work to the Board of Directors, prepare for its meetings and make proposals to it. Within the scope of the review of its own work at the end of 2012, the Board once again appreciated the quality of the contribution made by its committees in relation with the decisions that it takes, in an increasingly detailed manner (see section 2.2.2.1.2. on page 49).

The Board periodically evaluates the quality of its organisation and its work

Within the framework of the annual evaluation of its modus operandi, on the basis of the best corporate governance practices, the Directors set themselves new targets for improvement of the quality of their organisation and their deliberations every year, for example by enlarging the agenda for their meetings and those of their committees. They seek to adopt the best possible *modus operandi* and ensure that they have all the necessary assets to successfully perform their tasks, with complete freedom.

2.2.1. COMPOSITION OF THE BOARD OF DIRECTORS

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

The Board of Directors comprises 14 members: the Chairman and Chief Executive Officer, the Honorary Chairman, six Directors appointed by the majority shareholders, three of whom are appointed by Mrs. Bettencourt's family group and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent Directors: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

Four elected employee representatives also attend Board meetings and have a consultative vote.

The allocation of L'Oréal's share capital at December 31st, 2012 is shown in this Registration Document in section 7.3.2. on page 225.

2.2.1.1. Method of General Management chosen

At its meeting on Thursday, February 10th, 2011, the Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and entrusted Mr. Jean-Paul Agon with such duties. This transfer of responsibilities has been effective since March 18th, 2011. Sir Lindsay Owen-Jones, who continues to be a Director of L'Oréal, has been appointed as Honorary Chairman.

The separation of the duties of Chairman of the Board of Directors from those of Chief Executive Officer from 2006 to 2011 made it possible to ensure a smooth transition between Sir Lindsay Owen-Jones and Mr. Jean-Paul Agon. In 2011, the Board of Directors considered that the environment was favourable to reunifying these duties. This governance model is indeed specifically adapted to the specificities of L'Oréal and its shareholder structure: a stable and loyal shareholder base, clear identification of its businesses, gradual, steady development of its international activities, and top-quality financial and economic performances. L'Oréal has always had senior managers and executive officers who are loyal to the Company and have precise knowledge of the business. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times.

At the end of 2012, at the time firstly of the evaluation of their work (see section 2.2.2.2. on page 53), and secondly of that of their relations with the Company's executives, the Directors confirmed that this organisation operated in a balanced manner.

2.2.1.2. Corporate officers

The 14 Directors of L'Oréal, who are strongly committed and responsible, exercise complete freedom of judgment, both in terms of independence and gender parity. The composition of the Board of Directors is therefore in compliance with the recommendations of the AFEP-MEDEF Code of Corporate Governance.

List of offices and directorships held by Directors and corporate officers at December 31st, 2012

Jean-Paul Agon

French.
Age: 56.
He joined L'Oréal in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, President and CEO of L'Oréal USA, Jean-Paul Agon was appointed as Deputy Chief Executive Officer of L'Oréal in 2005 and then Chief Executive Officer in April 2006 and finally Chairman and CEO in 2011. A Director of L'Oréal since 2006, he is also Chairman of the L'Oréal Corporate Foundation and Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also a Director of Air Liquide.

Expiry date of term of office: 2014

Director since 2006
Chairman and Chief Executive Officer
Chairman of the Strategy and Sustainable Development Committee
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy Cedex – France
Holds 31,500 L'Oréal shares

Other corporate offices and directorships held	
French company	
L'Air Liquide S.A.*	Director
Foreign companies	
Galderma Pharma S.A. (Switzerland)**	Director
L'Oréal USA Inc. (United States)	Director
Other	
L'Oréal Corporate Foundation	Chairman of the Board of Directors [since April 24th, 2012] Director

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
Foreign companies		
Galderma Pharma S.A. (Switzerland)	Chairman of the Board	April 2012
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director	March 2012

* *Listed company.*
** *50% owned by L'Oréal.*

Françoise Bettencourt Meyers

French.
Age: 59.
The daughter of Mrs. Liliane Bettencourt, who is herself the daughter of the founder of L'Oréal, Eugène Schueller, she has been the Chairwoman of the family-owned holding company since January 31st, 2012 and is the Chairwoman of the Bettencourt Schueller Foundation. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since April 2012.

Expiry date of term of office: 2013

Director since 1997
Member of the Strategy and Sustainable Development Committee
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly sur Seine – France
Holds 283 L'Oréal shares in absolute ownership and 76,441,389 shares in bare ownership

Other corporate offices and directorships held

French companies	
Téthys SAS	Chairwoman [since January 31st, 2012] Chairwoman of the Supervisory Board
Financière de l'Arcouest SAS	Chairwoman
Société Immobilière Sebor SAS	Chairwoman
Other	
Bettencourt Schueller Foundation	Chairwoman of the Board of Directors

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Clymène SAS	Chairwoman	June 28th, 2012

Peter Brabeck-Letmathe

Austrian.
Age: 68.
His main position outside L'Oréal is that of Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal and Vice-Chairman of the Board of Directors since 1997. He has been a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee since 2007.

Expiry date of term of office: 2013

Director since 1997
Vice-Chairman of the Board of Directors
Member of the Appointments and Governance Committee
Member of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
Holds 27,500 L'Oréal shares

Main corporate office held outside L'Oréal		
Nestlé S.A. (Switzerland)*	Chairman of the Board	
Other corporate offices and directorships held		
Foreign companies		
Credit Suisse Group (Switzerland)*	Vice-Chairman of the Board Directors Director	
Delta Topco Limited (Jersey)	Chairman of the Board	
Exxon Mobil (USA)*	Director	
Nestlé Health Science S.A. in Lutry (Switzerland)	Director and Chairman of the Board	
Nestlé Institute of Health Science S.A. in Ecublens (Switzerland)	Member of the Steering Committee	
Others		
World Economic Forum (Switzerland)	Member of the Foundation Board	
European Industrialists Round Table (Belgium)	Member of the Executive Committee Chairman of the Working Group on External Economic Relations	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign company		
Roche Holding S.A. (Switzerland)	Director	March 2010
Others		
Uprona Ltd (Canada)	Director and Chairman	February 2011
World Economic Forum (Switzerland)	Chairman of IBC [Internat. Business Council]	November 2010
ECR Europe (Belgium)	Co-Chairman of the Executive Board	May 2008
Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board	April 2008

* *Listed company.*

Paul Bulcke

Belgian.
Age: 58.
He joined Nestlé in 1979, and has been its Chief Executive Officer since 2008. Paul Bulcke has been a Director of L'Oréal since 2012, a member of the Strategy and Sustainable Development Committee since April 2012 and is a Board member of Roche Holding in Switzerland.

Expiry date of term of office: 2016

Director since 2012
Member of the Strategy and Sustainable Development Committee
Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
Holds 1,000 L'Oréal shares

Main corporate offices held outside L'Oréal		
Nestlé S.A. (Switzerland)*	Chief Executive Officer	
Nestlé Health Science S.A. in Lutry (Switzerland)	Director	
Nestlé Institute of Health Science S.A. in Ecublens (Switzerland)	Member of the Steering committee	
Other corporate offices and directorships held		
Foreign companies		
Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board	
Roche Holding Ltd (Switzerland)*	Director	
Other		
The Consumer Goods Forum (France)	Director and Co-Chairman of the Governance Committee	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
Foreign company		
Alcon Inc. (Switzerland)	Director	August 2010

* *Listed company.*

Charles-Henri Filippi

French.
Age: 60.
He spent his career in particular within the HSBC Group, in which he was notably Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Charles-Henri Filippi has been a Director of L'Oréal since 2007 and is also a Board member of France Telecom, a member of the Supervisory Board of Euris and a non-voting member of the Board of Directors of Nexity. He is currently the Chairman of Citigroup for France. It is noted that Citigroup does not have, and has never had, a significant position with regard to L'Oréal's banking transactions. Nevertheless, Charles-Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent.
Chairman of the L'Oréal Audit Committee from May 23rd, 2008 to February 12th, 2013, a member of the Audit Committee, Mr. Filippi harmoniously and effectively supplements the Board's expertise in the field of finance. He has also been a member of the Human Resources and Remuneration Committee since April 2011.

Expiry date of term of office: 2015

Director since 2007
Member of the Audit Committee and Chairman of the Audit Committee until February 12th, 2013
Member of the Human Resources and Remuneration Committee
Professional address: Citigroup France – 1-5 rue Paul-Cézanne – 75008 Paris
Holds 2,000 L'Oréal shares

Main corporate office held outside L'Oréal	
Citigroup France	Chairman

Other corporate offices and directorships held	
French companies	
Euris	Member of the Supervisory Board
Femu Qui SA	Member of the Supervisory Board
France Telecom*	Director
Nexity*	Non-voting member of the Board of Directors
Piasa S.A.	Director
Others	
ADIE (Association pour le Droit à l'Initiative Economique)	Director
Association des Amis de l'Opéra-Comique	Chairman
Centre National d'Art et de Culture Georges Pompidou	Director

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Viveris Reim SA	Member of the Supervisory Board	July 2012
Octagones (parent company) and Alfina (Subsidiary)	Chairman	May 2012
CVC Capital Partners ("CVC")	Senior Advisor	December 2010
HSBC France	Chairman of the Board	December 2008
Altadis	Director Member of the Executive Commission	February 2008
Foreign companies		
HSBC Bank plc (United Kingdom)	Director	December 2008
HSBC Private Banking Holdings S.A. (Suisse)	Director	
Other		
Association des Amis du Festival d'Automne à Paris	Director	September 2009

* *Listed company.*

Xavier Fontanet

French.
Age: 64.
He is a former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012), member of the Supervisory Board of Schneider Electric, and he has been a Director of L'Oréal since 2002 and Chairman of the Appointments and Governance Committee since 2011.

Expiry date of term of office: 2014

Director since 2002
Chairman of the Appointments and Governance Committee
Professional address: Essilor – 147 rue de Paris – 94227 Charenton Cedex – France
Holds 1,050 L'Oréal shares

Main corporate office held outside L'Oréal		
Essilor International S.A.*	Director	
Other corporate offices and directorships held		
French company		
Schneider Electric SA*	Member of the Supervisory Board	
Other		
Association Nationale des Sociétés par Actions	Permanent representative of Essilor International and member of the Board of Directors	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French companies		
Crédit Agricole S.A.	Director	May 2012
Essilor International S.A.	Chairman of the Board of Directors	January 2012
Fonds Stratégiques d'Investissement S.A.	Director	June 2011
Essilor International S.A.	Chairman and Chief Executive Officer	January 2010
Foreign companies		
Essilor Amico (L.L.C) (United Arab Emirates)	Director	December 2011
Nikon and Essilor International Joint Research Center Co. Ltd	Chairman and Director	December 2011
Nikon Essilor Co. Ltd (Japan)	Director	December 2011
EOA Holding Co. Inc. (United States)	Chairman-Director	October 2010
Essilor India PVT Ltd (India)	Director	June 2010
Essilor Manufacturing India PVT Ltd (India)	Director	June 2010
Transitions Optical Holding B.V. (Netherlands)	Director	May 2010
Transitions Optical Inc. (United States)	Director	May 2010
Shanghai Essilor Optical Company Ltd (China)	Director	April 2010
Essilor of America Inc. (United States)	Director	March 2010

* *Listed company.*

Bernard Kasriel

French.
Age: 66.
He is a former Chief Executive Officer of Lafarge. He has been a Director of L'Oréal since 2004 and is Chairman of the Human Resources and Remuneration Committee and member of the Strategy and Sustainable Development Committee. He is also a Board member of Arkema and Nucor (United States).

Expiry date of term of office: 2016

Director since 2004
Chairman of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: 1 rue Saint-James – 92200 Neuilly-sur-Seine – France
Holds 1,525 L'Oréal shares

Other corporate offices and directorships held

French company	
Arkema S.A.*	Director
Foreign company	
Nucor (United States)*	Director

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
LBO France	Partner	September 2011
Lafarge S.A.	Director	May 2010
LBO France	Member of the Management Board	January 2010

* *Listed company.*

Christiane Kuehne

Swiss.
Age: 57.
Head of the Food Strategic Business Unit at Nestlé which she joined in 1977. Christiane Kuehne has been a member of L'Oréal's Board of Directors and the Audit Committee since April 2012.

Expiry date of term of office: 2016

Director since 2012
Member of the Audit Committee
Professional address: Nestlé – Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal

Nestlé S.A. (Switzerland)*	Head of Food Strategic Business Unit

Other corporate offices and directorships held

None

Corporate offices and directorships over the last five years that have expired

None

* *Listed company.*

Marc Ladreit de Lacharrière

French.
Age: 72.
A member of the Institut de France and with L'Oréal from 1976 to 1991, Marc Ladreit de Lacharrière has been a Director of L'Oréal since 1984, Chairman and Chief Executive Officer of Fimalac, Chairman of Fitch (United States), and a Board member of Casino, Lucien Barrière and Renault. His professional experience and his freedom of judgment, combined with a good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective.

Expiry date of term of office: 2014

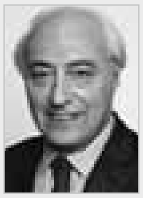
Director since 1984
Professional address: Fimalac – 97 rue de Lille – 75007 Paris – France
Holds 30,340 L'Oréal shares

Main corporate office held outside L'Oréal	
F. Marc de Lacharrière (Fimalac)	Chairman and Chief Executive Officer

Other corporate offices and directorships held	
French companies	
Agence France Museums	Chairman of the Board
Casino*	Director
Gilbert Coullier Productions SAS	Director
Groupe Lucien Barrière	Director
Groupe Marc de Lacharrière	Chairman of the Management Board
Renault S.A.*	Director
Renault s.a.s.	Director
Société Fermière du Casino Municipal de Cannes – SFCMC	Director [since March 15th, 2012]
Foreign companies	
Fimalac Participations Sarl (Luxembourg)	Managing Director
Fitch Group (United States)	Chairman
Other	
Comité National des Conseillers du Commerce Extérieur de la France	Honorary Chairman
Conseil Artistique des Musées Nationaux	Member
Fonds de dotation Abbaye de Lubilhac	Chairman
Fondation d'Entreprise Culture et Diversité	Member
Fondation des Sciences Politiques	Member
Institut de France	Member
Musée des Arts Décoratifs	Member

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Fimalac Participations	Managing Director	September 2010
Foreign companies		
Fitch Ratings (United States)	Chairman	2012
Algorithmics (Canada)	Director	2009
Others		
L'Oréal Corporate Foundation	Director	2012
Bettencourt Schueller Foundation	Member	May 2010
Banque de France	Member of the Consultative Council	2008

* *Listed company.*



Jean-Pierre Meyers

French.
Age: 64.
He has been a Director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, member of the Strategy and Sustainable Development Committee, the Audit Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned company Téthys, a Board member of Nestlé and Vice-Chairman of the Bettencourt Schueller Foundation.

Expiry date of term of office: 2016

Director since 1987
Vice-Chairman of the Board of Directors
Member of the Audit Committee
Member of the Appointments and Governance Committee
Member of the Human Resources and Remuneration Committee
Member of the Strategy and Sustainable Development Committee
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 15,332 L'Oréal shares

Other corporate offices and directorships held

French company	
Téthys SAS	Chief Executive Officer Vice-Chairman of the Supervisory Board
Foreign company	
Nestlé S.A. (Switzerland)*	Director
Other	
Bettencourt Schueller Foundation	Vice-Chairman of the Board of Directors

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French company		
Clymène SAS	Chief Executive Officer	June 28th, 2012

* *Listed company.*

Jean-Victor Meyers

French.
Age: 26.
He studied economics and management at universities in France and the United States. In the context of his professional experience, and over the last few years, he has spent several months in L'Oréal Divisions, in France and other countries. He has been a member of the Supervisory Board of the family holding company Téthys since January 2011 and was co-opted to L'Oréal's Board of Directors at its meeting on February 13th, 2012. This co-optation was ratified by the Annual General Meeting on April 17th, 2012.

Expiry date of term of office: 2016

Director since 2012
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine
Holds 1,500 L'Oréal shares

Other corporate offices and directorships held

French companies	
Téthys SAS	Member of the Supervisory Board
Exemplaire SAS	Chairman

Corporate offices and directorships over the last five years that have expired

None

Sir Lindsay Owen-Jones

British.
Age: 67.
He joined the L'Oréal Group in 1969. After a career in France, Chief Executive Officer of L'Oréal in Italy from 1978 to 1981, President (CEO) of L'Oréal USA from 1981 to 1984, he was appointed as a Director and Chief Executive Officer of L'Oréal in 1984 then Chairman and Chief Executive Officer in 1988. Honorary Chairman of L'Oréal since March 18th, 2011, Sir Lindsay Owen-Jones is a Board member of Ferrari (Italy).

Expiry date of term of office: 2014

Director since 1984
Honorary Chairman
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy cedex – France
Holds 2,998,095 L'Oréal shares

Other corporate offices and directorships held	
French company	
Alba Plus SASU	Chairman
Foreign company	
Ferrari S.p.A. (Italy)	Director [Amministratore]

Corporate offices and directorships over the last five years that have expired		Expiry date of term
French companies		
Sanofi	Director	May 2012
L'Oréal S.A.	Chairman of the Board of Directors	March 2011
L'Air Liquide S.A.	Vice-Chairman of the Board of Directors	May 2009
Foreign companies		
L'Oréal U.K. Ltd (United Kingdom)	Chairman & Director	March 2011
L'Oréal USA Inc. (United States)	Chairman & Director	March 2011
Other		
L'Oréal Corporate Foundation	Chairman of the Board of Directors Director	April 2012

Annette Roux

French.
Age: 70.
Chairperson and Managing Director of Bénéteau from 1976 to 2005, then Vice-Chairperson of the Supervisory Board, Annette Roux has been a member of L'Oréal's Board of Directors since 2007. She is also Chairperson of the Bénéteau Corporate Foundation.

Expiry date of term of office: 2015

Director since 2007
Professional address: Les Embruns – 16 boulevard de la Mer – 85800 Saint-Gilles-Croix-de-Vie – France
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal		
Bénéteau S.A.[1] [2]	Vice-Chairperson of the Supervisory Board	
Other corporate offices and directorships held		
French companies		
Beri 21 S.A.	Chairperson of the Supervisory Board	
BH S.A.S. [2]	Director	
Construction Navale Bordeaux S.A.S[2]	Director	
O'Hara S.A.[2]	Director	
SPBI S.A.[2]	Director	
Foreign company		
Bénéteau España[2]	Director	
Other		
Bénéteau Corporate Foundation	Chairperson	
Corporate offices and directorships over the last five years that have expired		**Expiry date of term of office**
French company		
Beri 3000 S.A.	Chairperson and Chief Executive Officer	August 2010
Other		
Fédération des Industries Nautiques	Chairperson	March 2009

(1) Company listed on compartment B of Eurolist.
(2) Companies controlled by Beri 21 S.A.

Louis Schweitzer

French.
Age: 70.
Chairman and Chief Executive Officer of Renault from 1992 to 2005, Chairman of the Board of Directors until 2009, Louis Schweitzer has been a Director of L'Oréal since 2005, a member of the Strategy and Sustainable Development Committee and the Audit Committee since 2011 and Chairman of the Audit Committee since February 12th, 2013. He is also a member of the Advisory Committees of Allianz AG (Germany) and Bosch (Germany).

Expiry date of term of office: 2013

2

Director since 2005
Member of the Audit Committee and Chairman of the Audit Committee since February 12th, 2013
Member of the Strategy and Sustainable Development Committee
Professional address: Renault – Bât. Pierre Dreyfus – 37 avenue Pierre Lefaucheux – 92109 Boulogne-Billancourt Cedex – France
Holds 2,000 L'Oréal shares

Other corporate offices and directorships held	
French companies	
BNP Paribas*	Director
Veolia Environnement*	Lead Director [since May 16th, 2012]
Foreign companies	
Allianz AG (Germany)*	Member of the Advisory Committee
Bosch (Germany)	Member of the Advisory Committee
Others	
Comité des Salons	Chairman
Festival d'Avignon	Chairman
Fondation Nationale des Sciences Politiques	Member of the Board
Initiative France	Chairman
Maison de la Culture MC93	Chairman
Musée du Quai Branly	Director
Société des Amis du Musée du Quai Branly	Chairman
French Institute of International Relations	Vice-President [since April 2012]

Corporate offices and directorships over the last five years that have expired		Expiry date of term of office
French companies		
Veolia Environnement	Vice-Chairman of the Board	May 2012
Le Monde (IMPA, IMSA, SEM)	Chairman of the Supervisory Board	December 2010
Renault	Chairman of the Board	April 2009
Electricité de France	Director	April 2008
Foreign companies		
AstraZeneca (United Kingdom)	Director Chairman of the Board	June 2012
AB Volvo (Sweden)	Chairman of the Board	April 2012
Philips (The Netherlands)	Vice-Chairman of the Supervisory Board	April 2008
Others		
Institut Français des Relations Internationales	Member of the Board	April 2011
Haute Autorité de Lutte contre les Discriminations et pour l'Egalité	Chairman	March 2010
Le Cercle de l'Orchestre de Paris	Chairman of the Board	June 2008
Musée du Louvre	Member of the Board	May 2008
Banque de France	Member of the Consultative Council	

* *Listed company.*

EXPERIENCED DIRECTORS WHO COMPLEMENT ONE ANOTHER

L'Oréal's Directors come from different backgrounds; they complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and strongly committed. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

REPRESENTATION OF WOMEN AND MEN THAT COMPLIES WITH THE PROVISIONS OF THE FRENCH LAW OF JANUARY 27TH, 2011

Out of a total of 14 Directors, three women have seats on L'Oréal's Board of Directors. The Board is thus in advance of the French Law of January 27th, 2011 relating to the balanced representation of men and women, which provides for a proportion of 20% of women to be reached by 2014. The Board is doing everything it can to appoint more female Directors.

The Appointments and Governance Committee initiated a selection process and made proposals to the Board of Directors in 2012. A female candidate will be proposed to the Annual General Meeting on April 26th, 2013, which will thereby lead to an increase in the proportion of women on the Board.

In any event, in 2017, the composition of the Board will be in compliance with French law which requires balanced representation of men and women, namely a proportion of 40% of Directors of the same gender.

INDEPENDENT DIRECTORS

The balance of powers on the Board is ensured through a very precise definition and sharing of the tasks to be carried out by everyone, with, on the one hand, the Chairman and CEO and, on the other, thirteen Directors who are free to exercise their judgment. All the Directors receive information on an ongoing basis and have suitable means, within the framework of the Internal Rules of the Board of Directors, with well-structured, specialised committees and remits that have been added to since their creation.

The directors have a duty of vigilance and have complete freedom of judgement, which enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its Review Committees.

At the end of 2012, the Board of Directors reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria provided for in the AFEP-MEDEF Code. A member of the Board is considered as independent when he/she does not maintain any relationship of any kind with the Company, its group or its General Management which may interfere with his/her freedom of judgment.

In this spirit, the criteria which guide the Board in determining whether a member can qualify as independent are the following criteria specified by the AFEP-MEDEF Code:

- the member must not be an employee or corporate officer of the Company, an employee or director of its parent company or a company which it consolidates in its financial statements, and must not have held any of these positions during the previous five years;
- the member must not be a corporate officer of a company in which the Company directly or indirectly holds the office of director or in which an employee designated as such or a corporate officer of the Company (either currently or having performed such duties within the last five years) holds an office as director;
- the member must not be a customer, supplier, investment banker or financial banker:
  - which is important for the Company or its group, or
  - for which the Company or its group represents a significant portion of activities;
- the member must not have any close family links with a corporate officer;
- the member must not have been the Company's auditor over the five previous years.

The Board failed to adopt one of the criteria specified by the AFEP-MEDEF Code as it considers that the fact that a member has performed a term of office for over 12 years does not lead to such member losing his independent status.

Thus, although Mr. Ladreit de Lacharrière has been a Director of L'Oréal for over 12 years, his professional experience and his freedom of judgment, combined with good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective.

Indeed, the quality of a director is also measured by his experience, his skills, his authority and his good knowledge of the Company, which are all assets which make it possible to conduct a long-term strategy.

Out of the 14 members of the Board of Directors, six Directors qualify as independent: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

It is furthermore specified that a review was carried out of the financial flows that took place in 2012 between L'Oréal and the companies in which the six independent Directors also hold an office. It appears from this that the nature of these business relationships is not significant.

The proportion of independent Directors is thus equal to at least one-third and in line with the recommendations of the AFEP-MEDEF Code. Under these conditions, the Board's tasks are carried out with the necessary objectiveness and independence and all the Directors take account of the interests of all the shareholders.

RESPONSIBLE DIRECTORS

Handling of conflicts of interest

Within the scope of the law and the rights and obligations of the Directors as defined in the Internal Rules of the Board of Directors of L'Oréal and in accordance with the AFEP-MEDEF Code, the Directors are subject to compliance with the rules in force with regard to conflicts of interest and stock market ethics.

Thus, "*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*". In this regard, on the basis of the declarations made by each Director, the Board has not identified any conflict of interests. The information pursuant to Annex I of European Regulation No. 809/2004 set out hereafter contains additional details in this respect."

Information relating to corporate officers pursuant to Annex I of European Regulation No. 809/2004 (see table of concordance of the Registration Document in section 9.5. Page 260)

FAMILY RELATIONSHIPS EXISTING BETWEEN THE CORPORATE OFFICERS OR DIRECTORS (ARTICLE 14.1 OF THE ANNEX)

Mrs. Françoise Bettencourt Meyers is Mrs. Liliane Bettencourt's daughter and Mr. Jean-Pierre Meyers' wife. Mr. Jean-Victor Meyers, Mrs. Liliane Bettencourt's grandson, is the son of Mrs. Françoise Bettencourt Meyers and Mr. Jean-Pierre Meyers.

NO CONVICTION OR INCRIMINATION OF THE CORPORATE OFFICERS AND DIRECTORS (ARTICLE 14.1 OF THE ANNEX)

To the Company's knowledge, over the last five years, the corporate officers and Directors have not been convicted for fraud, associated with a bankruptcy, receivership or liquidation, or the subject of any official public incrimination or sanction imposed by statutory or regulatory authorities (including designated professional bodies) or a decision by a court disqualifying them from acting as a member of an administrative, management or supervisory body or from acting in the management or conduct of the business of any issuer.

POTENTIAL CONFLICTS OF INTEREST BETWEEN THE DUTIES OF THE CORPORATE OFFICERS AND DIRECTORS WITH REGARD TO L'ORÉAL, AND THEIR PRIVATE INTERESTS AND/OR OTHER DUTIES (ARTICLES 14.2 AND 18.3 OF THE ANNEX)

Paragraph 2.2.1.2. on pages 33 *et seq.* reviews the situation of each of the Directors with regard to the independence criteria provided for in the AFEP-MEDEF Code. The method of organisation and modus operandi adopted by the Board would allow it, where applicable, to prevent any wrongful exercise of control by a shareholder, in particular due to the presence of six independent Directors on the Board of Directors. See also paragraph 7.3.5. on page 226 which concerns agreements relating to shares in the Company's capital.

INFORMATION ON SERVICES CONTRACTS WITH MEMBERS OF THE ADMINISTRATIVE BODIES (ARTICLE 16.2 OF THE ANNEX)

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

Stock market ethics

The Board took cognizance of the rules to be applied to prevent insider trading, in particular regarding the periods during which it is prohibited to trade in shares. It decided to amend its Internal Rules accordingly and issued recommendations to General Management to update L'Oréal's Stock Market Code of Ethics and the Fundamentals of Internal Control.

On the basis of the legal provisions, regulations and recommendations, this code points out that inside information must only be passed on and used for professional purposes.

Inside information is precise information of a non-public nature, which, if made public, could have a significant influence on the share price. Such inside information may, in particular, fall into one of three main categories: strategic, linked to the definition and application of the Group's growth strategy; recurring, linked to the annual schedule for production and publication of annual and interim financial statements, regular releases or periodic meetings devoted to financial information; exceptional, linked to a specific programme, project or financial transaction.

The Stock Market Code of Ethics states that any person in possession of inside 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 precisely in certain periods and when he/she has access to inside information.

Lastly, Directors are required to notify the Autorité des Marchés Financiers of each transaction carried out by them or their close relatives and friends relating to L'Oréal shares. The Company reminds them regularly of this obligation (see *Summary of trading by Directors and corporate officers in L'Oréal shares in 2012* in section 2.4. on page 66).

CORPORATE OFFICES AND DIRECTORSHIPS HELD BY CORPORATE OFFICERS AND DIRECTORS

The Board of Directors complies with the AFEP-MEDEF Code of Corporate Governance which provides that "*the staggering of the terms of office must be organised in order to avoid renewal all at once and favour the harmonious renewal of the Directors*".

END OF MRS. LILIANE BETTENCOURT'S TENURE AS DIRECTOR IN 2012

In February 2012, the Appointments and Governance Committee placed on record the end of Mrs. Liliane Bettencourt's tenure as Director and proposed to the Board, which accepted, the co-optation on the Board of her grandson, Mr. Jean-Victor Meyers. The Board of Directors expressed its profound gratitude to Mrs. Bettencourt for her active participation in the Board's meetings and for the great interest she has always shown in the Board's work and that of its committees.

Mrs. Bettencourt's loyalty and her personal support for L'Oréal's business affairs, her taste for entrepreneurship, her curiosity for everything new or modern within the scope of our businesses, are not only exceptional, they show her formidable attachment to this Company and her desire for it to enjoy lasting success, in a changing world. Her unfailing support for the group's management, its development and international success was precious and exemplary.

RENEWAL OF TENURES AS DIRECTORS IN 2012

The Annual General Meeting held on April 17th, 2012 renewed the tenures of Mr. Bernard Kasriel and Mr. Jean-Pierre Meyers for a term of four years.

APPOINTMENTS OF DIRECTORS IN 2012

The proposal by the Appointments and Governance Committee to appoint Mr. Jean-Victor Meyers as a Director of L'Oréal was unanimously acclaimed by the Board which stressed, on this occasion, the extent to which the Bettencourt family's strong attachment to L'Oréal is a considerable asset to ensure its harmonious development. The Annual General Meeting on April 17th, 2012 proceeded with the appointment of Mr. Jean-Victor Meyers as a Director for a term of four years.

Mr. Werner Bauer and Mr. Francisco Castañer Basco did not want their tenure to be renewed at the end of the Annual General Meeting on April 17th, 2012. The Board of Directors thanked them for their active participation in all the work of the Board and its committees over the last few years.

On the proposal of the Appointments and Governance Committee, the Board of Directors proposed the appointment of two new Directors, Ms. Christiane Kuehne and Mr. Paul Bulcke to the Annual General Meeting on April 17th, 2012. The Annual General Meeting on April 17th, 2012 appointed them as Directors for a term of four years.

TENURES AS DIRECTOR THAT ARE DUE TO EXPIRE IN 2013

The tenures as Director of Mrs. Françoise Bettencourt Meyers, Mr. Peter Brabeck-Letmathe and Mr. Louis Schweitzer are due to expire at the close of the Annual General Meeting on Friday, April 26th, 2013. The renewal of their tenures will be put to the vote of the shareholders on that occasion.

APPOINTMENT OF A NEW DIRECTOR IN 2013

Once again in 2012, the Appointments and Governance Committee looked at the changes in its composition in order to make sure that its composition in 2017 would be in line with the French Law of January 27th, 2011 requiring the balanced representation of men and women, namely a proportion of 40% of Directors of the same gender. The Board of Directors is already in advance of this law which provides for a proportion of 20% of women to be reached by 2014 and is doing everything it can to gradually appoint more female Directors. In 2012, female representation on the Board was 21.4%. With the help of the Appointments and Governance Committee, which has implemented a selection process in order to prepare the future proposals which will be presented to the Annual General Meeting when the time comes, the Board wishes to increase the representation of women on the Board as from 2013.

The appointment of Ms. Virginie Morgon will be proposed to the Annual General Meeting on April 26th, 2013.

- Ms. Virginie Morgon

  Age: 43. She worked for 16 years at Lazard, in particular as an investment banker in New York and London at the start of her career in 1991 and as a senior partner in Paris from 2001 to 2007. She advised a large number of French and international groups on mergers and acquisitions. Since 2008 with Eurazeo, one of the top listed investment companies in Europe, she is a member of the Executive Board and was appointed as Chief Investment Officer in December 2012. She is a Board member of Accor and Edenred* and a member of their Audit Committees. Virginie Morgon is a member of the Board of Directors of the Women's Forum for the Economy & Society. Virginie Morgon has concrete experience of the corporate world as an investor and will provide L'Oréal's Board of Directors with complementary experience and skills in this area.

This appointment of Ms. Virginie Morgon as an independent Director for a term of four years would lead to an increase in the number of Directors to 15 and the number of women on the Board to 4, thus leading to a percentage of representation of women of 26.7% as opposed to 21.4% in 2012, and the number of independent Directors to 7, thus giving a percentage of independent Directors of 46.7% as compared with 42.9% in 2012.

2.2.2. *THE WAYS IN WHICH THE BOARD'S WORK IS PREPARED AND ORGANISED*

2.2.2.1. General information on Board and Committee meetings in 2012

COMMITTED DIRECTORS

The preparation and holding of Board meetings and meetings of its committees require increasing availability and a significant investment by the Directors. This has led to an increase in the time devoted to Committee and Board meetings, and as the Board of Directors wished in 2011, more Directors have been involved in the Committee's work throughout the year.

2.2.2.1.1. The activities of the Board of Directors

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's work is based on Internal Rules (published in paragraph 2.2.2.3. on pages 53 *et seq.*) designed to supplement the legal, regulatory and statutory rules upheld by the Board as a whole and by each Director individually. The Internal Rules define the *modus operandi* of the Board, in the interest of the Company and all its shareholders, as well as that of its committees made up of Directors to which it gives preparatory assignments with regard to its work. These Internal Rules may be amended by the Board of Directors to reflect the changes in the laws and regulations, but also those made in its own *modus operandi*. In this case, the new Internal Rules are made public as soon as possible, initially via L'Oréal's website.

** Until March 6th, 2013.*

ASSIDUOUS ATTENDANCE AT MEETINGS BY DIRECTORS

In 2012, the Board, with 14 Directors in office throughout the year, met 7 times (as opposed to 5 times in 2011). Some Directors, who were either at the beginning or the end of their tenures, were only in office for part of the year. Of the 7 meetings held, 2 extraordinary meetings were called to examine the organisation of the Board and an acquisition project.

No variable amounts of attendance fees were paid for these short meetings, in accordance with the wishes expressed by all the Board members. The average attendance rate was 87.8% in 2012.

Allocation of the attendance fees, which is made on the basis of attendance by each Director at Board meetings and presence on the various Board Committees, is described in the paragraph 2.3.1. of this chapter dedicated to *Remuneration of the members of the Board of Directors* on pages 60 *et seq.*

THE BOARD'S WORK FOCUSED ON BUSINESS ACTIVITIES, STRATEGY AND THE COMPANY'S ENVIRONMENTAL, SOCIAL AND SOCIETAL RESPONSIBILITY COMMITMENTS

In 2012, the Board of Directors carried out a great deal of work analysing the components of strategy and following the business activities in the presence of several senior managers. The presentation at a Board meeting by a senior manager gives the Directors the opportunity to take stock, in an ever more detailed manner, of an aspect that characterises its business and its organisation, enabling them to forge an opinion and to make their decisions in full knowledge of the facts.

In this way, in 2012 for example, in the presence of senior managers, the Board reviewed and decided on certain acquisition projects, dealt with issues relating to the development of the Professional Products Division and the Consumer Products Division in France, the strategic orientations for L'Oréal Luxury, L'Oréal's policy and practices in the field of Ethics and the evolution of Digital methods in the Group with regard to communication and marketing.

Furthermore, as attested to by the preparatory work of its committees (see below), the Board examines all the other aspects of strategy, the Group's economic and financial management, Human Resources and the Company's commitments in the environmental, social and societal fields.

PROVISION OF INFORMATION TO THE BOARD ON THE FINANCIAL SITUATION, THE CASH SITUATION AND THE COMPANY'S COMMITMENTS

The financial situation and the cash situation are reviewed at least twice a year at a Board meeting, at the time of closing of the annual financial statements and the review of the interim financial statements or at any other time if necessary. The balance sheet structure remains solid and the Group is not in debt.

The Company's commitments are reviewed within the framework of the annual renewal of the authorisations given to the Chairman and Chief Executive Officer and the delegations he makes.

2.2.2.1.2. The activities of the Board Committees

The Board's discussions and decisions are assisted by the work performed by its Review Committees, which report to it after each of their meetings. The committees were again given responsibility by the Board for preparing its deliberations in 2012. The membership of these committees, their remits and their work in 2012 are described in detail in this chapter.

The Board's Committees act strictly within the framework of the remits given to them by the Board. They prepare actively for its work and make proposals but they do not have any decision-making powers. Their remits are set out in the Internal Rules of the Board of Directors (published in paragraph 2.2.2.3. on pages 53 *et seq.*).

THE STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

This committee clarifies, through its analyses, the strategic orientations submitted to the Board of Directors and monitors the implementation and progress of significant operations that are under way. It ensures that the main financial balances are preserved. Within this framework, the committee reviews the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences, acquisition opportunities, and financial transactions liable to significantly change the balance sheet structure. The committee also makes sure that the Company's commitments with regard to Sustainable Development have been duly taken into consideration, in light of the issues specific to the Group's business activities and its objectives. Within this framework, the committee looks at the means and resources put in place and reports on them to the Board.

In 2012, two new Directors, Mrs. Françoise Bettencourt Meyers and Mr. Paul Bulcke joined the committee, after the end of the tenures as Director of Mrs. Liliane Bettencourt and Mr. Francisco Castañer Basco.

Composition of the Committee

The committee, which consists of seven Directors, is chaired by the Chairman and Chief Executive Officer (Mr. Jean-Paul Agon). It is also composed of two members of the Bettencourt family (Mrs. Françoise Bettencourt Meyers and Mr. Jean-Pierre Meyers), two members from Nestlé (Mr. Peter Brabeck-Letmathe and Mr. Paul Bulcke) and two independent Directors (Mr. Bernard Kasriel and Mr. Louis Schweitzer). All these Directors participate in Committee meetings with complete freedom of judgment and in the interest of all the shareholders.

The committee met five times in 2012, with an attendance rate of 91.4%.

The Committee's work

As in the past, at each of its meetings in 2012, the committee examined the performance of the latest product launches, analysed business activities in terms of sales and income, and discussed the prospects and development opportunities of the Group and its Divisions within the scope of changes in markets and competition.

Approach to strategy

At the end of the year, in light of all the performances for the financial year, it was confirmed that the Group's development

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strategy rested in particular on major innovations within the framework of progress in research and increasingly international business.

Acquisitions

Throughout the year, acquisition projects were reviewed by the committee before some of them were presented to the Board for its decision. Thus, the Board of Directors authorised the General Management to enter into strategic acquisitions in 2012. L'Oréal thus confirmed the acquisition of Cadum in France in April, the signature of a contract with a view to the acquisition of the Vogue make-up brand in Colombia in October and the signature of an agreement for the acquisition of the Urban Decay make-up brand in the United States in November.

Sustainable Development

In 2012, the committee reviewed the Sustainable Development Report firstly in the form of an informative summary published with the Activity Report and the Registration Document, and secondly in the form of a complete website dedicated in particular to professionals such as investors, analysts, rating agencies or journalists, etc. The principle of reporting, making it possible to measure and monitor the performance of the corporate social, environmental and societal responsibility policies at L'Oréal, is based on the indicators and the Global Reporting Initiative (GRI) expert guidance which are published in full.

In November 2012, L'Oréal was designated by Vigéo, Europe's leading analysis and social rating agency, as the leading company in social responsibility in France.

Cosmetics claims

The committee was informed of the performance studies in support of the cosmetics claims of the products sold by the Group. Communication is above all fair and since and there must be nothing to mislead the consumer.

The committee reported to the Board on all its work.

THE AUDIT COMMITTEE

The main remit of the Audit Committee involves, in accordance with the ordinance of December 8th, 2008 and in line with the recommendations made by the AMF on July 22nd, 2010, monitoring the process for preparation of financial information, the effectiveness of the Internal Control and risk management systems, the statutory audit of the annual and consolidated financial statements by the Statutory Auditors and finally the Statutory Auditors' independence.

Furthermore, if, in the course of its work, the committee detects a substantial risk, which in its view is not adequately dealt with, it warns the Chairman of the Board accordingly. The committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its duties, particularly managers with economic and financial responsibilities and those in charge of processing financial information.

Composition of the Committee

The Chairman and Chief Executive Officer is not a member of the Audit Committee.

In 2012, another Director, Ms. Christiane Kuehne, was appointed to the committee, thus maintaining the number of Committee members at four, following the end of Mr. Francisco Castañer Basco's tenure as Director in 2012.

From May 23rd, 2008 to February 12th, 2013, the committee was chaired by Mr. Charles-Henri Filippi, an independent Director who had recognised financial expertise. It is also composed of Mr. Jean-Pierre Meyers, a member of the committee since its creation in 1999, and Mr. Louis Schweitzer, an independent Director, appointed as a member of the committee in 2011 and who chairs it since February 12th, 2013. Mr. Filippi is currently the Chairman of Citigroup for France. It is noted that Citigroup does not have, and has never had, a significant position with regard to L'Oréal's banking transactions. Nevertheless, Charles-Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent.

The Directors who are members of the Audit Committee have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures which are presented to them on a regular basis. They participate actively in Committee meetings, with complete freedom of judgment and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code that recommends that two-thirds of the Directors should be independent has not been adopted inasmuch as the Company is controlled by two main shareholders. However, the Board of Directors decided to change the composition of this committee by appointing another independent Director, Mr. Louis Schweitzer, to the committee in 2011 so that half its members are independent.

The Audit Committee met four times in 2012, in the presence of all its members. On several occasions, it interviewed the Vice-President of the Administration and Finance Division and the senior managers in charge of the areas in which the Committee reviews activities, in particular within the scope of the processes related to risk management and control. The Statutory Auditors attend meetings. The committee did not consider it appropriate to use outside experts.

Quality of the results

The committee examines in depth all the aspects of the Group's annual and interim results, and the main items on the Company's balance sheet.

Time frame for provision of documents

Within the scope of the publication of the annual and interim results, the Audit Committee's meeting relating to the review of these financial statements is held on a date close to that of their presentation to the Board of Directors. But it should be noted that the Board and its committees are regularly given the appropriate information to carry out their supervisory assignment, in this field in particular. Furthermore, the corresponding documents are systematically sent to them prior to the meetings.

Internal Audit and Internal Control activities

Within the scope of more extensive control of the data making up the financial statements, the committee looked at the Internal Audit Department's activities and noted that the quality of the organisation and the results of the assignments were being constantly improved. The findings make it possibly to enhance the quality of the standards, the procedures and the tools for processing and secure treatment of information.

In relation with Internal Control, the committee is informed of the risk map showing the risks identified on the basis of an in-depth process of identification and analysis within the regulatory framework and within the scope of the recommendations made by the AMF. The committee noted that risks are taken into consideration at operational level, which is controlled, and that there is a process for a regular review of risks by the Executive Committee.

Finally, the committee was informed of the deployment of a programme to raise awareness of fraud risk (with the main operational scenarios that may be envisaged, the alert procedures and the existing procedures and controls) which is aimed at reducing the Group's exposure to this risk.

Legal risks

The committee is regularly informed of the legal risks and the potential litigation and major events liable to have a significant impact on L'Oréal's financial position and its assets and liabilities. No major event or litigation of this kind was noted by the committee in 2012.

Statutory Auditors' opinions

Within the scope of the auditing of the accounts by the Statutory Auditors, the committee regularly asked for their comments and their opinions. Like it does every year, the committee met with the Statutory Auditors outside the presence of management.

Information Systems Security

The principles adopted by the Group in relation with Information Systems Security were presented to the committee, which noted that L'Oréal's development was taking place through a solid, durable and innovative infrastructure, in a secure environment, with costs under control.

Product quality and safety

In 2012, a meeting was devoted to product quality and safety, in the presence of the Executive Vice-President, Research & Innovation and the Global Head - Worldwide Safety Evaluation & Regulatory Affairs.

One of the main tasks of Research & Innovation at L'Oréal is to guarantee the safety of all products, without any compromise, and complete control over the design quality of these products. This is a longstanding commitment by Research and Innovation at L'Oréal with respect to consumers, professionals in Beauty trades, distributors and employees.

Industrial and environmental risks

In 2012, a meeting was devoted to industrial and environmental risks, in the presence of the Executive Vice-President Operations, the Global Executive Vice-President, Environment, Health and Safety and the Director of Quality.

The priorities are the quality of products, impact on the environment, the reduction of CO_2 emissions, oversight of purchases, monitoring of financial problems, measurement of lack of capacity, the social responsibility of suppliers, continuity of production, traceability in the field of distribution and information systems.

The committee reported to the Board on all its work.

THE APPOINTMENTS AND GOVERNANCE COMMITTEE

The main remits of the Appointments and Governance Committee involve assisting in the decisions made by the Board with regard to the conditions of performance of General Management and the status of the executive officers, making proposals to the Board for the choice of Directors, discussing the classification of independent Directors which is reviewed by the Board every year before the publication of the Annual Financial Report, issuing an opinion on the proposals of the Chairman of the Board for the appointment of the Chief Executive Officer, making sure that the Code of Corporate Governance to which the Company refers is properly applied, ensuring the implementation of a procedure for the preparation of succession plans for the executive officers in the event of an unforeseen vacancy and conducting the reflection process with regard to the committees that are in charge of preparing the Board's work and preparing for the Board's decisions with regard to the updating of its Internal Rules.

Composition of the Committee

Three Directors are members of this committee: Mr. Xavier Fontanet, an independent Director and Chairman of the committee, Mr. Jean-Pierre Meyers and Mr. Peter Brabeck-Letmathe. These Directors actively participate in Committee meetings, with complete freedom of judgment and in the interest of all the shareholders. The provision of the AFEP-MEDEF Code that recommends that a majority of the Directors should be independent has not been adopted inasmuch as the Company is controlled by two main shareholders.

In 2012, the committee met four times in the presence of all its members. The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly.

Unification of duties

The committee examined certain aspects of the organisation and modus operandi of the Board of Directors.

In 2011, the committee had recommended to the Board that it reunify the duties of Chairman with those of Chief Executive Officer, as all the conditions were once again met to revert to reunified duties, a governance model which is specifically adapted to L'Oréal and its shareholder structure. In this chapter of the Registration Document (see pages 31 *et seq*), the measures put in place to ensure the balance of powers on the Board of Directors have been described to show the specific nature and also the effectiveness of the organisation put in place.

Review of the independence of the Directors

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

Renewal of tenures of Directors and appointment of a Director in 2012

As mentioned in paragraph 2.2.1.2., the committee made proposals to the Board of Directors for renewals of tenures and appointments of new Directors inasmuch as some Directors wanted to end their terms of office.

Balanced representation of men and women

The Appointments and Governance Committee once again examined in 2012 the changes in the composition of the Board in order to be in line, in 2017, with the French Law of January 27th, 2011 requiring the balanced representation of men and women, namely a proportion of 40% of Directors of the same gender.

Appointment of a new Director in 2013

The Appointments and Governance Committee looked at the profile of a female candidate for office as a new Director in 2013 which was approved by the Board of Directors. The proposed appointment of Ms. Virginie Morgon is put to the Annual General Meeting on Friday April 26th, 2013.

Renewal of tenures as Director in 2013

As the tenures as Director of Françoise Bettencourt Meyers, Peter Brabeck-Letmathe and Louis Schweitzer are due to expire in 2013, the renewal of their tenures for a term of four years was proposed to the Board of Directors, and with the Board's agreement, is being submitted to the Annual General Meeting.

Continuity of General Management

The committee continued with its work which it begun a long time ago, reflecting on and proposing the conditions in which the continuity of L'Oréal's General Management would be ensured if the Chief Executive Officer is unable to act.

The committee reported to the Board on all its work.

THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The main remits of the Human Resources and Remuneration Committee are in particular to make proposals with regard to the remuneration of the Chairman of the Board of Directors and that of the Chief Executive Officer, the total amount of the attendance fees to be submitted for approval to the Annual General Meeting and the method of distribution of such fees, and the implementation of long-term incentive plans such as for example, stock option plans or plans for free grants of shares.

The committee's role has been enlarged to include all the components of the Human Resources policy such as, for example, labour relations, recruitment, diversity, talent management and fostering employee loyalty. The committee also makes sure that the rules of ethical conduct, as set out in a Code of Conduct, and the Group's strong values, such as respect and integrity, are widely disseminated, known and put into practice.

Four Directors are members of the committee: Mr. Bernard Kasriel, an independent Director and Chairman of the committee, Mr. Jean-Pierre Meyers, Mr. Peter Brabeck-Letmathe and Mr. Charles-Henri Filippi. These Directors actively participate in Committee meetings, with complete freedom of judgment and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code which recommends that a majority of the Directors should be independent has not been adopted inasmuch as the Company is controlled by two main shareholders. However, the Board of Directors decided to have the composition of this committee evolve by appointing an additional independent Director as a member in 2011, such that half its members are independent.

In 2012, the committee met four times with an attendance rate of 93.8%.

The Chairman and Chief Executive Officer can attend Committee meetings except with regard to any matters on the agenda that concern him directly.

Remuneration of the corporate officers and Directors and the conditional grant of shares to employees

The committee made new proposals to the Board with regard to the remuneration of the corporate officers, particularly after the appointment of a Chairman and Chief Executive Officer (see section 2.3. on page 60) and proposed to the Board to make a conditional grant of shares.

Attendance fees

In light of the changes in the remits and work of the committees, the committee asked the Board to approve the rules for the allocation of attendance fees, then proposed the amounts allocated in respect of the 2012 financial year in light of the actual presence of Directors at Board meetings and on a prorated basis according to their membership of one or more committees. For 2012, two short extraordinary Board meetings were called and were held by telephone for some of the members. The Board did not want the Directors to receive the variable portion of attendance fees for these meetings.

Conditional grant of shares to employees

The committee made proposals to the Board for changes in the long-term incentives offered to employees. It wants to make conditional grants of shares the only instrument in its incentive policy, for all beneficiaries including the Chairman and Chief Executive Officer, consequently without any stock options also being granted.

The grants are made after the closing of the annual financial statements. They associate those who have made big contributions with the future evolution of the Group's results and help to instil a Group spirit by fostering the loyalty of employees. Vesting of the free shares depends on the fulfilment of performance conditions. They align the interests of beneficiaries with those of the shareholders, secure employee loyalty and are a medium- to long-term source of motivation thanks to long vesting periods and strict performance conditions in line with the Group's economic objectives, calculated over several years.

The vesting period is 4 years for all the beneficiaries plus an additional 2-year holding period for French tax residents and/or French residents for social security purposes.

The free share grants are subject to performance obligations that the Board records at the end of the vesting period.

At the time of closing of the annual financial statements, the Board of Directors notes the performances achieved over a period of three full financial years, i.e. over a long period.

Recognising this performance makes it possible to set the exact number of shares which will become the property of each of the beneficiaries of the free grant of shares at the date on which the four-year vesting period comes to an end.

In February 2013, the Board reviewed the performances for financial years 2012, 2011 and 2010 and recorded that the performances under the plan for the free grant of shares of March 2009 had been achieved.

Human Resources

The committee examined the Group's resources in terms of talent of both men and women, at the various brands and in different countries. The Group has a high-quality pool of talent to build L'Oréal's future success.

Ethics

Following the presentation made in 2011 to the committee, it requested that L'Oréal's ethical values, integrity, respect, excellence, courage and transparency be presented and validated by the Board in 2012. It was stressed that Ethics go beyond legal obligations and covers individual and collective discretionary conduct and decisions, guided by these values. L'Oréal develops a culture encouraging ethical behaviour, within the framework of a widely disseminated policy, and with significant means devoted to it.

The committee reported to the Board on all its work.

2.2.2.2. Self-evaluation by the Board of Directors

Every year, the Board reviews its composition, its organisation and its modus operandi, in particular in order to verify that, firstly, under these conditions, the agenda for its work duly covers the scope of its assignments and that important questions have been appropriately prepared for and discussed and, secondly, to assess the contribution made by each member to the Board's work.

This evaluation is carried out within the framework of the AFEP-MEDEF Code, to which the Board refers and market recommendations like those of the AMF. On the basis of the summary of prior individual interviews between the Director and the Secretary of the Board of Directors, such interviews being conducted on the basis of a guide which sets out the principles provided for in the code and the recommendations, the Board considers the avenues of progress that still remain open and, at the end of the discussion that takes place, adopts the improvement measures that it considers appropriate.

The Directors again exercised their complete freedom of judgment in 2012. This freedom of judgment allowed them to participate, in total independence, in the work and collective decisions of the Board, and, where applicable, in conducting preparatory work and making proposals through the Board Committees.

The Board considered that the quality of its meetings has continued to improve, in light of what were considered as avenues of progress following the self-evaluation carried out at the end of 2011, particularly with regard to the strategic challenges faced by the Group which are regularly debated and discussed, in the presence of the senior managers who are members of the Executive Committee.

Once again this year, the approach to strategy was examined in detail in the course of the Board's work in light of the development of the brands, the countries and the markets on which the Group operates. Thus, the day spent on strategy at L'Oréal Luxury was particularly appreciated. Furthermore, the Board made a more in-depth analysis of performance, in light in particular of competitors and the a posteriori review of the acquisitions made it possible to monitor the due and proper application of the decisions made.

In 2012, the Board once again appreciated the pace, frequency and format of the information provided to it in connection with business activities in general and the main events in the life of the Group. Making documentation available prior to Board or Committee meetings, in compliance with the requirements of confidentiality and the time constraints with which the Company is faced, favours the quality of the debates.

The Directors made new proposals of topics to be included on the agenda for meetings in 2013, principally in relation with the areas for development of the Group and Research & Innovation, the comparison of strategy with that of competitors and Human Resources worldwide.

2.2.2.3. Complete text of the Internal Rules of the Board of Directors

At the beginning of 2011, the Board decided to update its Internal Rules in order to add to the remits of two of its committees, give a reminder of the need to strictly respect the confidentiality of the information that it is called on to handle and specify that Board members are prohibited from trading in the Company's shares during certain specific periods.

Preamble

These Rules are applicable to all present and future Directors, and are intended to complement the legal, regulatory and statutory rules in order to state accurately the modus operandi of the Board of Directors and its Review Committees, in the best interests of the Company and of its shareholders.

L'Oréal's Board of Directors refers to the principles of corporate governance as presented by the AFEP-MEDEF Code.

1. Duties and authority of the Board of Directors

1.1. BOARD OF DIRECTORS

The Board of Directors determines the Company's business strategy and oversees the implementation thereof.

Subject to the powers expressly conferred during General Shareholders' Meetings and within the limit of the Company's purpose, the Board deals with all matters regarding the smooth running of the Company and settles issues concerning the Company by virtue of its decisions.

The Board of Directors is a collegial body which collectively represents all the shareholders and which is required to act in all circumstances in the interest of the Company.

The Board of Directors carries out the controls and verifications it considers appropriate.

The Company's Chairman or Chief Executive Officer must provide each Director with all of the documents and information required to carry out his/her duties.

The Board of Directors may entrust one or more of its members or third parties with special assignments or projects with a view, inter alia, to examining one or more specific topics.

It can decide to set up committees responsible for examining matters submitted by the Board or its Chairman for their opinion.

The Directors of the Company:

- provide their expertise and professional experience;
- are required to act with due care and attention, and have complete freedom of judgement.

This freedom of judgement enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its Review Committees.

In principle, it is agreed by the Board members that all Directors will tender their resignation to the Board prior to the Annual General Meeting following their 73rd birthday and that they will no longer apply for renewal of their tenure if this rule does not enable them to perform their office for at least two years.

In any event, in accordance with French law and the Articles of Association, the total number of Directors who are over 70 years of age may not exceed one third of the Directors in office.

The staggering of the terms of office is organised in order to avoid renewal of too many Directors all at once and favour the harmonious renewal of the Directors.

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.

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.

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).

2. *Modus operandi* of the Board of Directors

2.1. CONVENING THE BOARD

The Board is convened by any appropriate means, and may even be convened verbally. Notices convening a meeting may be transmitted by the Board Secretary. Except in special circumstances notices convening a meeting are sent in writing at least eight days before each meeting. The notices specify the venue of the meeting, which may be the registered head office or any other venue.

2.2. INFORMING DIRECTORS

All the documents that are necessary to inform the Directors about the agenda and about any questions submitted to the Board for review are enclosed with the notice convening the meeting or are sent or provided to them within a reasonable period of time, prior to the meeting.

With regard to the decisions to be taken, the Director must ensure that he has at his disposal the information he considers essential for the Board or the Review Committees to carry out their work satisfactorily. If this is not the case, or if he considers it is not the case, he must request that the situation is rectified. His requests should be made to the Chairman of the Board, who is required to ensure that the Directors are in a position to fulfil their mission.

The Company provides its Directors with useful information at any time in the life of the Company between Board meetings, if this is required due to the importance or urgent nature of the information. This ongoing information process also includes all relevant information, including criticism, with regard to the Company, and in particular press articles and financial analysis reports.

The Board is regularly given the opportunity to meet the Company's main senior managers.

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.

2.4. PARTICIPATION BY VIDEOCONFERENCE OR TELECOMMUNICATION FACILITIES

In accordance with the legal and regulatory provisions and with Article 9 paragraph 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.

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. Review Committees

If the Board of Directors sets up any Review Committees, the Board will appoint the members of these committees and determine their duties and responsibilities.

The committees act within the remit granted to them by the Board and therefore have no decision-making power.

The Board may entrust the Chairman of the committee or one or more of its members with a special assignment or project to carry out specific research or study future possibilities.

The designated individual will report on this work to the committee concerned such that the committee may deliberate on this work and in turn report thereon to the Board of Directors.

In relation with the performance of their duties, the Review Committees may contact the Company's main senior managers after informing the Chairman of the Board of Directors and provided that they report to the Board in this respect.

The committees may in no event take over the powers of the General Management as set out in paragraph 1.4. of these rules.

3.1. AUDIT COMMITTEE

3.1.1. Remit

The Audit Committee, acting under the exclusive, collective responsibility of the members of the Board of Directors, is responsible for monitoring issues relating to the preparation and control of accounting and financial information.

The Audit Committee must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the Group inside and outside France in carrying out its normal and exceptional operations. This is in order to avoid the possibility of any impairment of the value of the Company's assets.

Without prejudice to the areas of authority of the Board of Directors, this committee is responsible in particular for monitoring:

a) the process for preparation of financial information;

b) the effectiveness of the Internal Control and risk management systems;

c) the statutory audit of the annual and, where applicable, the consolidated accounts by the Statutory Auditors;

d) the Statutory Auditors' independence.

It makes a recommendation with regard to the Statutory Auditors proposed to the Annual General Meeting for appointment.

This audit enables the committee to issue recommendations, if necessary, concerning the improvement of existing procedures and the possible setting up of new procedures.

The Audit Committee can be consulted for all questions relating to procedures for controlling risks of an unusual nature, particularly when the Board or the General Management considers it appropriate to submit such questions to it.

3.1.2. Work organisation

The Audit Committee is composed of at least three members, who are non-executive Directors of the Company.

The Chairman of the Audit Committee issues guidelines for the committee's work each year, based on his judgement concerning the importance of the specific types of risk faced, in agreement with the General Management and the Board.

The committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate, and at least three times per year.

The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting. The agenda is sent to the committee members before the meeting, together with the information which is useful for their debates.

The secretarial work of the committee is performed by the Board Secretary.

To carry out its mission, and if it considers it appropriate, the Audit Committee consults the Statutory Auditors and the senior managers of the Company, in particular those responsible for preparing the financial statements and for the Internal Audit, outside the presence of General Management.

It reviews the principles and methods, the programme and the objectives and the general conclusions of the operational control missions of the Internal Audit Department.

The Statutory Auditors inform the Audit Committee of:

1) their general work programme implemented as well as the various sampling tests they have carried out;

2) the changes which they consider should be made to the financial statements to be closed off or other accounting documents, making any appropriate observations on the valuation methods used to prepare them;

3) the irregularities and inaccuracies they may have discovered;

4) the conclusions resulting from the above observations and rectifications with regard to the results for the period compared to those for the previous period.

The Statutory Auditors also assess, with the Audit Committee, the risks with regard to their independence and the protective measures taken to mitigate these risks.

They inform the committee of significant Internal Control weaknesses, with regard to the procedures for preparation and processing of accounting and financial information, and provide it with the documents required by law every year.

The committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its mission, particularly executives with economic and financial responsibilities, and those in charge of processing information.

3.1.3. Activity Report

The Audit Committee regularly reports to the Board on the performance of its missions and takes note of the Board's observations.

The committee informs the Board without delay of any difficulty encountered.

In its report, the Audit Committee makes the recommendations it considers appropriate with regard to:

- the suitability of the various procedures and of the system as a whole in terms of achieving the objective of managing information and risk;
- the effective application of the procedures in place, and where appropriate the means implemented to achieve this aim.

It also formulates in its report all recommendations and proposals aimed at improving the effectiveness of the various procedures and the overall system, or at adapting them to a new situation.

If during its work the committee detects a substantial risk which in its view is not adequately taken into account, it warns the Chairman of the Board accordingly.

3.2. APPOINTMENTS AND GOVERNANCE COMMITTEE

3.2.1. Remit

The main missions of the Appointments and Governance Committee, within the context of the work of the Board of Directors, are to:

- enlighten the decisions made by the Board with regard to the conditions of performance of General Management and the status of the corporate officers;
- make proposals to the Board for the choice of Directors;
- discuss the status of independent director which is reviewed by the Board every year prior to publication of the Annual Report;
- issue an opinion on proposals made by the Chairman of the Board of Directors for appointment of the Chief Executive Officer;
- ensure the application of the corporate governance code to which the Company refers;
- ensure the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy;
- conduct the reflection process with regard to the committees that are in charge of preparing the Board's work;
- prepare for the decisions by the Board with regard to updating its Internal Rules.

3.2.2. Work organisation

The Appointments and Governance Committee is composed of at least three members, who are non-executive Directors of the Company.

The committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate.

The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting.

The committee may meet at any time it considers to be appropriate, for example to assess the performance of the Company's senior managers.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally.

3.2.3. Activity Report

The committee must regularly report on its work to the Board and makes proposals to the Board.

3.3. THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

3.3.1. Remit

The Board of Directors freely determines the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers.

Within this framework, the main missions of the Human Resources and Remuneration Committee, within the context of the work of the Board of Directors, are to make proposals with regard to the following in particular:

- the fixed and variable remuneration of the Chairman of the Board and any other benefits he receives;
- the fixed and variable remuneration of the Chief Executive Officer and any other benefits he receives (pension, termination indemnities, etc.);
- the total amount of attendance fees to be submitted to the Annual General Meeting and the method of distribution of such fees;
- the implementation of long-term incentive plans, such as for example, those that could provide for the distribution of stock options or for free grants of shares.

The committee also examines:

- all the other components of the Human Resources policy such as, for example, labour relations, recruitment, diversity, talent management and fostering employee loyalty;
- the rules of ethical conduct, as set out in a code of Conduct, and the Group's strong values, such as respect and integrity, that must be widely disseminated, known and put into practice.

3.3.2. Work organisation

The Human Resources and Remuneration Committee is composed of at least three members, who are non-executive Directors of the Company.

The committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate, and at least three times per year. The agenda of the meetings is set by the Chairman of the committee, in relation with the Board if the latter initiated the convening of the meeting.

The committee may meet at any time it considers to be appropriate, for example to assess the performance of the Company's senior managers.

The Chairman of the Board is associated with its work, except with regard to all the topics concerning him personally.

3.3.3. Activity Report

The committee must regularly report on its work to the Board and makes proposals to the Board.

3.4. THE STRATEGY AND SUSTAINABLE DEVELOPMENT COMMITTEE

3.4.1. Remit

The remit of the Strategy and Sustainable Development Committee is to throw light, through its analyses and debates, on the Group's strategic orientations as submitted to the Board of Directors and to monitor the implementation and advancement of significant operations in progress.

The committee examines:

- the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences;
- opportunities for acquisitions or investments which involve significant amounts or which represent a departure from the Group's usual business operations, and the conditions relating to their implementation;
- financial transactions liable to significantly change the balance sheet structure;
- the Company's commitments with regard to Sustainable Development, in light of the issues specific to the Group's business activities and its objectives, and the means and resources put in place.

More generally, the committee debates all questions considered essential for the future strategy of the Group and for preserving its main financial balances.

3.4.2. Work organisation

The Strategy and Sustainable Development Committee is composed of six L'Oréal Directors. It is chaired by the Chairman of the Board of Directors.

It meets when convened by the Chairman of the committee whenever he or the Board considers this appropriate, and no less than six times annually.

The agenda of the meetings is set by the Chairman of the committee, in conjunction with the Board of Directors if the Board initiates the meeting.

3.4.3. Activity Report

The Strategy and Sustainable Development Committee reports on its work to the Board whenever necessary, and at least once a year.

4. Rights and obligations of Directors

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 hereafter in point 4.6.

4.2. RESPECT FOR THE INTERESTS OF THE COMPANY

The Directors are required to act in all circumstances in the interest of the Company and all its shareholders.

The Directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations.

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.

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.

4.5. OBLIGATION OF RESERVE AND CONFIDENTIALITY

The Directors undertake not to express themselves individually other than in the internal deliberations of the Board on questions raised at Board meetings.

Outside the Company, only collegial expression is possible, particularly in the form of releases intended to provide the markets with information.

With regard to information not in the public domain to which the Director has access as a result of his duties, the Director must consider himself to be bound by strict professional confidentiality, which is more demanding than the mere obligation of discretion stipulated in Article L. 225-37, paragraph 5, of the French Commercial Code. The obligation of discretion applies to all persons called on to attend Board meetings, and covers all information of a confidential nature and all information presented as confidential by the Chairman of the Board. Beyond this legal obligation and to ensure the quality of the discussions of the Board of Directors, the Board has set a rule that all the information given to Board members and the opinions they express have to be kept strictly confidential.

4.6. RULES GOVERNING INSIDER TRADING

4.6.1. Principles

Privileged information must only be used by the Director in the exercise of his office. Such information must in no case be communicated to a third party other than in the exercise of the Director's duties, and for any other purpose or any other activity than those for which it is held.

It is the duty of all Directors to refrain from trading in, having others trade in, and enabling others to trade in the securities of the Company on the basis of this information until such time as the information has been made public.

It is the personal responsibility of each Director to determine whether the information he holds is privileged or not, and accordingly whether he may or may not use or transmit any of the information, and whether he may or may not trade or enable trading in the Company's securities.

4.6.2. Periods of abstention

During the period preceding the publication of any privileged information to which Directors have access, in their capacity of insiders, Directors must by law refrain from all trading in L'Oréal securities.

Furthermore, it is prohibited for them, in accordance with the AMF's recommendations, to trade in the Company's shares over the following periods:

- a minimum of 30 calendar days before the date of publication of the press release on the annual and half-year results;
- a minimum of 15 calendar days before the date of publication of the press release on quarterly financial information.

4.6.3. Insider trading

The Director has been informed of the provisions in force relating to the holding of privileged information and insider trading: Article L. 465-1 of the French Monetary and Financial Code and Articles 621-1 *et seq.* of the General Regulations of the French financial markets supervisory authority (AMF).

4.6.4. Obligation of declaring trading in the securities of the Company

In accordance with the applicable regulations, the Directors and individuals closely related to them, as defined by decree, must inform the AMF of all acquisitions, sales, subscriptions or exchanges involving the Company's financial instruments and of transactions involving related instruments where the cumulative amount of such transactions is higher than €5,000 for the calendar year in progress.

The Directors and individuals closely related to them must submit their declaration to the AMF by e-mail (declarationdirigeants@amf-france.org) within five trading days following completion of the transaction.

These individuals must simultaneously provide a copy of this notice to the Secretary of the Company's Board of Directors.

The declarations are then posted on the AMF's website and are mentioned in an annual summary set out in the Company's Management Report.

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.

5. Remuneration of the corporate officers

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

The attendance fees are divided between the Directors as follows:

- an equal share allocated to each Director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings;
- an additional share for Review Committee members, which amount is doubled for the committee's Chairman.

The Board of Directors may award the Directors special remuneration for specific assignments or projects entrusted to them.

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.

7. Amendments to the Internal Rules

These Rules may be amended by a decision of the Board.

2.2.3. *SPECIFIC TERMS AND CONDITIONS OF PARTICIPATION BY SHAREHOLDERS IN THE ANNUAL GENERAL MEETING*

It is to be noted, in accordance with Article 12 of the Company's Articles of Association, that the terms and conditions of participation by the shareholders in Annual General Meetings are those provided for by the regulations in force, and that any shareholder may, if the Board of Directors so decides when calling the Annual General Meeting, participate in the meeting by videoconference or by any telecommunication or remote transmission means including the Internet, under the conditions provided for by the applicable regulations at the time of their use. Where applicable, this decision is communicated in the meeting notice published in the *Bulletin des Annonces Légales et Obligatoires (B.A.L.O.)*, the official French gazette.

In 2012, the shareholders updated the Company's Articles of Association in application of the new regulations, whose purpose is to simplify the participation by shareholders in Annual General Meetings. A reference to the irrevocable nature of proxy forms was thus removed and a reference to the use of communication and electronic signatures was inserted.

2.2.4. *PRINCIPLES AND RULES ADOPTED BY THE BOARD OF DIRECTORS TO DETERMINE THE REMUNERATION AND BENEFITS OF ALL KINDS GRANTED TO THE CORPORATE OFFICERS*

The Board refers to the recommendations of the AFEP-MEDEF Code for the determination of the remuneration and benefits granted to the corporate officers.

The Board of Directors constantly 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 long-term incentive instruments that will attract them, motivate them, and foster their loyalty, the Board is guided in its reflections by two clear principles:

- cash remuneration must be modulated in accordance with responsibilities actually exercised, and must be competitive. It must also depend, for the determination of the variable part, partly on the Company's performance, and on the role played in this performance by each of the corporate officers, and partly on qualitative management criteria;
- Conditional grants of shares (ACAs), which have replaced stock options since 2012, are made to these corporate officers in order to give them an interest in the long-term development of the Company's value and its share price on the stock market, due to their contribution to this valuation.

In assessing these different components of remuneration, reference is made to the situation of executive officers in large international companies with the position of world leaders and operating on similar markets. The Human Resources and Remuneration Committee studies each component of remuneration, ensuring the overall balance of that remuneration. It is particularly attentive to the performance assessment criteria and whether they are in line with the Group's development objectives.

Based on this approach, and in light of this data, the Human Resources and Remuneration Committee makes its proposals to the Board, which deliberates and makes a collective decision with regard to each proposal.

At the beginning of the year, the committee proposes to the Board:

- the amount of the variable remuneration relating to the previous financial year after a review of each qualitative and quantitative performance criterion in light of the final results for the year. For reasons of confidentiality, the level of performance achieved is measured precisely by the Board but cannot be made public;
- for the current financial year, the amount of the fixed remuneration to be paid, and definition of the objective (value and criteria) determining the variable remuneration.

The Human Resources and Remuneration Committee makes proposals for the conditional grant of shares (ACAs) to the corporate officers appointed by the Board.

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

2.3.1. REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

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

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

The attendance fees are divided between the Directors as follow:

- *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."*

In 2012, the Board adopted for a full year: a fixed annual sum of €30,000; an amount of €5,000 for each Board meeting which the Director attends; an amount of €15,000 for each Director who is a member of the Strategy and Sustainable Development Committee and an additional amount of €15,000 for the Chairman of this committee; an amount of €10,000 for each Director who is a member of the Human Resources and Remuneration Committee and the Appointments and Governance Committee and an additional amount of €10,000 for the Chairman of each of these Committees; an amount of €25,000 for each Director who is a member of the Audit Committee and an additional amount of €25,000 for its Chairman. The Audit Committee's remit is indeed particularly exacting and requires continued attention and a significant commitment.

A total amount of €1,069,000, which falls within the total overall amount of €1,300,000 voted by the Annual General Meeting in 2011, was distributed to the Directors at the beginning of 2013 in respect of the 2012 financial year, for a total of seven meetings, i.e. two more than for 2011.

Out of the 7 meetings held in 2012, 2 extraordinary meetings were called to review the Board's organisation and an acquisition project. These short meetings were not remunerated in terms of the variable portion of attendance fees, according to the Board's wishes.

The attendance rate at Board of Directors' meetings in 2012 is 87.8% on average.

Amounts of attendance fees

In euros	2012 (total 7 meetings and 17 Committee meetings)	2011 (total 5 meetings and 17 Committee meetings)
Mr. Jean-Paul Agon	85,000	79,000
Mr. Werner Bauer*	11,000	50,000
Mrs. Françoise Bettencourt Meyers	64,000	55,000
Mr. Peter Brabeck-Letmathe	80,000	90,000
Mr. Paul Bulcke*	43,000	--------
Mr. Francisco Castañer Basco*	23,250	95,000
Mr. Charles-Henri Filippi	115,000	110,000
Mr. Xavier Fontanet	75,000	65,000
Mr. Bernard Kasriel	90,000	100,000
Ms. Christiane Kuehne*	62,750	--------
Mr. Marc Ladreit de Lacharrière	50,000	55,000
Mr. Jean-Pierre Meyers	115,000	115,000
Mr. Jean-Victor Meyers*	55,000	--------
Sir Lindsay Owen-Jones	55,000	61,000
Ms. Annette Roux	50,000	45,000
Mr. Louis Schweitzer	95,000	76,500

* *Directors whose term of office began or ended during the 2012 financial year.*

Mr. Jean-Paul Agon, Chairman and Chief Executive Officer, does not receive any attendance fees in the L'Oréal Group other than those referred to above.

2.3.2. *REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

2012:

- **With regard to the fixed remuneration** of Mr. Jean-Paul Agon for 2012, it is to be noted that at its meeting on February 13th, 2012 and on the proposal of the Human Resources and Remuneration Committee, the Board of Directors had set such remuneration at a gross amount of €2,100,000 on an annual basis, an amount that was unchanged as compared to 2011.
- **With regard to the variable part** of Mr. Jean-Paul Agon's remuneration for 2012, the Human Resources and Remuneration Committee examined the conditions of achievement of the objectives giving rise to the allocation of such amount.

  It is specified that the target objective was €2,100,000, as the Board of Directors had set the same target objective of a variable part of remuneration that could represent a maximum of 100% of the fixed remuneration.

  The performance assessment criteria had been set as follows:

  - half based on quantitative objectives relating to the Company's performance: growth in comparable sales as compared to the budget, market share as compared to the main competitors, operating profit plus advertising and promotion expenses, net earnings per share and cash flow as compared to 2011;
  - half on the basis of an assessment of the qualitative aspects of management: the appropriateness of strategic choices, the quality of leadership and management, the impact of communication, actions to help society and addressing the specific priorities for the year.

  On the proposal of the Human Resources and Remuneration Committee, the Board decided, at its meeting on February 11th, 2013, to allocate to Mr. Jean-Paul Agon a variable amount of remuneration €1,785,000 in respect of 2012, i.e. 85% of the target objective.
- Furthermore, at its meeting on April 17th, 2012, the Board of Directors granted 50,000 shares (via a Conditional Grant of Shares) to Mr. Jean-Paul Agon. The final vesting of these shares is subject to fulfilment of performance conditions, half based on growth in cosmetics sales as compared to a panel of competitors and half based on growth in the Group's consolidated operating profit, and calculated over a period of 3 full financial years.

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

Mr. Jean-Paul Agon *In euros*	2012		2011	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed remuneration	2,100,000	2,100,000	2,100,000	2,100,000
Variable remuneration (1)	1,785,000	1,785,000	1,785,000	1,680,000
Exceptional remuneration	-	-	-	-
Attendance fees(2)	85,000	79,000	79,000	55,000
Benefits in kind	-	-	-	-
TOTAL	**3,970,000**	**3,964,000**	**3,964,000**	**3,835,000**

(1) The variable remuneration for year N is paid in year N+1.
(2) Attendance fees for year N are paid in year N+1.

The summary table showing the remuneration, stock options and performance shares awarded to the Chairman and Chief Executive Officer is as follows:

Mr. Jean-Paul Agon *In euros*	2012	2011
Remuneration due in respect of the financial year	3,970,000	3,964,000
Valuation of stock options granted during the financial year	0	3,716,000(1)
Valuation of performance shares awarded during the financial year	3,853,500(1)	0
TOTAL	**7,823,500**	**7,680,000**

(1) Fair value estimated under IFRS used for the preparation of the Company's consolidated financial statements.
NB: The 2011 figure takes into account the waiver by Mr. Jean-Paul Agon of 200,000 stock options allocated under the April 22nd, 2011 Plan.

2013:

- **With regard to the fixed remuneration** of Mr. Jean-Paul Agon for 2013, at its meeting on February 11th, 2013, and on the proposal of the Human Resources and Remuneration Committee, the Board of Directors set the gross amount of such remuneration at €2,100,000 on an annual basis.
- **With regard to the variable part** of Mr. Jean-Paul Agon's remuneration for 2013, on the proposal of the Human Resources and Remuneration Committee, the Board of Directors once again set the target objective of a variable amount that could represent a maximum of 100% of the fixed remuneration.

  It also decided to maintain the performance assessment criteria adopted in 2012 considering that these criteria were both demanding and balanced from a quantative and qualitative standpoint. Setting the same criteria once again thus falls within the scope of the policy defined by the Board of Directors with respect to remuneration: maximising performance year after year but also encouraging regular performance.

  Summary of the performance criteria for the variable amount of remuneration for 2013:

  - half based on quantitative objectives relating to the Company's performance: growth in comparable sales as compared to the budget, market share as compared to the main competitors, operating profit plus advertising and promotion expenses, net earnings per share and cash flow as compared to 2012;
  - half on the basis of an assessment of the qualitative aspects of management: the appropriateness of strategic choices, the quality of leadership and management, the impact of communication, actions to help society and addressing the specific priorities for the year.
- The Annual General Meeting of April 26th, 2013 will be asked to renew the authorisation for the conditional grant of shares which expires in 2013. On the basis of this authorisation, the Board of Directors could decide, in 2013, on a Conditional Grant of Shares (ACAs) to the Chairman and Chief Executive Officer, in accordance with the principles and rules adopted to determine the remuneration and benefits of all kinds granted to the corporate officers.

2.3.3. *STOCK OPTIONS GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

See details of the stock option plans in paragraph 7.4.2. *Stock option plans for the subscription and purchase of L'Oréal parent company shares* pages 229 *et seq.*

- **No stock options for the subscription or purchase of shares were granted in 2012 to the Chairman and Chief Executive Officer.**

In fact, the Board of Directors decided in 2012 to replace the grants of stock options for the subscription or purchase of shares by ACAs (Conditional Grant of Shares).

In accordance with this policy, the Board of Directors has not proposed to the Annual General Meeting of April 26th, 2013 the renewal of the authorisation to grant stock options for the subscription or purchase of shares.

Stock options granted to the Chairman and Chief Executive Officer which can still be exercised at December 31st, 2012:

The stock options granted by the Board of Directors to Mr. Jean-Paul Agon since his appointment as a corporate officer, and which can still be exercised at December 31st, 2012, are as follows:

Date of grant	Number of options granted	Number of options not yet exercised	1st possible date of exercise	Date of expiry	Subscription price *(in €)*
12.01.2006	500,000	500,000	12.02.2011	12.01.2016	78.06 (S)
11.30.2007	350,000	350,000	12.01.2012	11.30.2017	91.66 (S)
03.25.2009	-	-	-	-	-
04.27.2010	400,000	400,000	04.28.2015	04.27.2020	80.03 (S)
04.22.2011 (1)	200,000	200,000	04.23.2016	04.22.2021	83.19 (S)

(1) The Board of Directors allocated 400,000 stock options to Mr. Jean-Paul Agon on April 22nd, 2011. Mr. Jean-Paul Agon waived 200,000 of these stock options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors on April 22nd, 2011.

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 Chairman and Chief Executive Officer of L'Oréal.

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

If the number of shares thus determined that must be retained until the termination of Mr. Jean-Paul Agon's duties as Chairman and 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.

Mr. Jean-Paul Agon has undertaken not to enter into any risk hedging transactions.

2.3.4. *STOCK OPTIONS EXERCISED DURING THE FINANCIAL YEAR BY THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

Mr. Jean-Paul Agon did not exercise any stock options in 2012.

2.3.5. *CONDITIONAL SHARES (ACAs) GRANTED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

See details of the ACAs plans in paragraph 7.4.3. *Plans for the conditional grant of shares (ACAs)* pages 232 *et seq.*

Within the scope of the authorisation of the Ordinary and Extraordinary General Meeting of April 22nd, 2011, the Board of Directors decided, on April 17th, 2012, on the proposal of the Human Resources and Remuneration Committee, to make a conditional grant of 50,000 shares (ACAs) to Mr. Jean-Paul Agon,

The final vesting of these shares is subject to fulfilment of performance conditions which will be recorded at the end of a vesting period of 4 years as from the date of grant.

Half of the number of shares that finally vests will depend on growth in comparable cosmetics sales as compared to those of a panel of competitors, such panel consisting of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden; the other half will depend on the growth in L'Oréal's consolidated operating profit calculated over a period of three full financial years.

Mr. Jean-Paul Agon will retain 50% of the free shares that will be definitively granted to him at the end of the vesting period in registered form until the termination of his duties as Chairman and Chief Executive Officer of L'Oréal.

In light of the significant level of the holding obligations imposed on L'Oréal's Chairman and Chief Executive Officer at the time of the exercise of stock options for the subscription of shares and the final vesting of shares, the Board of Directors decided not to require Mr. Jean-Paul Agon to purchase an additional quantity of shares of the Company when the shares granted become available, as recommended by the AFEP-MEDEF Code.

Furthermore, Mr. Jean-Paul Agon has undertaken not to enter into any risk hedging transactions.

2.3.6. *COMMITMENTS MADE WITH REGARD TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

The Code of Corporate Governance for listed companies, prepared jointly by the AFEP and the MEDEF, to which L'Oréal refers, recommends that companies should put an end to the practice of combining an employment contract with a corporate office (point 19) although it does not impose this as a mandatory requirement. L'Oréal's Board of Directors shares the objectives of this recommendation which aims at avoiding the possibility of concurrently obtaining benefits both from the employment contract and the corporate office and at prohibiting any interference with the possibility of removing corporate officers *ad nutum*. The Board of Directors has formally provided for the methods of application of the objectives of the recommendation, as adapted to the professional context in the L'Oréal Group.

The Board's intention is to use the treatment set out below for Mr. Jean-Paul Agon and, in future, for any new corporate officer appointed who has over 15 years' length of service in the Group at the time of appointment.

L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their careers in the Group as corporate officers. This is how Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years within the Group.

The Board of Directors noted that if, in accordance with the AFEP-MEDEF recommendation, Mr. Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr. Agon would lose the status he acquired as a result of the twenty-seven years he spent working for the Group as an employee.

The Board did not want Mr. Jean-Paul Agon, who accepted the office of Chief Executive Officer after 27 years working with L'Oréal, to be deprived of the benefits to which he would have continued to be entitled had he remained an employee.

The Board of Directors considered that the objective pursued by the AFEP-MEDEF recommendation can be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to his corporate office on the other.

The Board of Directors has decided to eliminate all right to any indemnity in the event of termination of the corporate office.

In the event of departure, and depending on the reasons, Mr. Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities due in the event of voluntary retirement or compulsory retirement on the Company's initiative pursuant to the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining Agreement for the Chemical Industries and the company-level agreements applicable to all L'Oréal senior managers, are due in any event pursuant to public policy rules of employment law. They are not subject to any conditions other than those provided for by the National Collective Bargaining Agreement for the Chemical Industries or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration.

Remuneration in respect of the corporate office will in no event be taken into consideration for calculation of the indemnities due pursuant to the collective bargaining agreement and the company-level agreements applicable to all L'Oréal senior managers.

Mr. Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers, as described in the paragraph *Employee Benefit and pension schemes and other benefits* on page 191.

The reference remuneration to be used to calculate all the rights attached to the employment contract and in particular to compute the pension under the above-mentioned defined benefit scheme, is based on the amount of remuneration at the date of suspension of the employment contract in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000.

This reference remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2013, the fixed remuneration amounts to €1,650,000 and variable remuneration to €1,375,000.

The length of service applied will take into consideration his entire career, including the years during which he was Chief Executive Officer and Chairman and Chief Executive Officer.

Mr. Jean-Paul Agon will continue to be entitled to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees due to the fact that he will be treated as a senior manager throughout the entire period of his corporate office.

The above provisions are subject to the procedure applicable to regulated agreements and commitments; this commitment was approved by the Annual General Meeting on April 27th, 2010 making a decision with regard to the Special Report prepared by the Statutory Auditors.

They remain unchanged within the scope of the appointment of Mr. Jean-Paul Agon as Chairman and Chief Executive Officer as from March 18th, 2011.

The table set out below, presented in the form recommended by the AMF, clearly shows that there are no concurrent benefits under the suspended employment contract and the corporate office.

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

(1) Mr. Agon has been a Director since April 25th, 2006, the date on which he was appointed as Chief Executive Officer. His tenure was renewed at the Annual General Meeting on April 27th, 2010. Mr. Agon has been Chairman and Chief Executive Officer since March 18th, 2011.
(2) Mr. Agon's employment contract is suspended throughout the entire length of his corporate office.
(3) Pursuant to his employment contract, Mr. Agon is entitled to benefit from the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de Conjoncture") as described on page 191. This defined benefit pension scheme provides that the building up of rights to benefits is conditional on the beneficiary ending his career in the Company; the financing of this scheme by L'Oréal cannot be broken down individually by employee.
(4) No indemnity is due in respect of termination of the corporate office. In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of dismissal, except in the case of gross misconduct or gross negligence, the dismissal indemnity would be capped, in light of Mr. Agon's length of service, at 20 months' reference remuneration.
(5) In respect of the employment contract, pursuant to the provisions of the National Collective Bargaining Agreement for the Chemical Industries, in the event of termination of the employment contract, the indemnity due in consideration of the non-competition clause would be payable every month for two years on the basis of 2/3 of the monthly reference fixed remuneration unless Mr. Agon were to be released from application of the clause.

SUMMARY TABLE OF THE RECOMMENDATIONS OF THE AFEP-MEDEF CODE WHICH HAVE NOT BEEN APPLIED

Recommendations of the AFEP-MEDEF Code (hereinafter the "Code")	L'Oréal's practices and justifications
Independence criteria for the directors (point 8.4 of the Code): Criterion providing that in order to be considered as independent a director must not "have been a director for more than twelve years".	(see section on *Corporate officers* on page 46) *"The Board failed to adopt one of the criteria specified by the AFEP-MEDEF Code as it considers that the fact that a member has performed a term of office for over 12 years does not lead to such member losing his independent status.* *Thus, although Mr. Ladreit de Lacharrière has been a Director of L'Oréal for over 12 years, his professional experience and his freedom of judgment, combined with good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective.* *Indeed, the quality of a director is also measured by his experience, his skills, his authority and his good knowledge of the Company, which are all assets which make it possible to conduct a long-term strategy."*
Proportion of independent members on the Committees (points 14.1, 15.1 and 16.1 of the Code): The proportion of independent Directors on the Accounts Committee must be at least two-thirds. The Selection or Appointments Committee and the Remuneration Committee must be composed of a majority of independent Directors.	(see the section on *The activities of the Board Committees* on pages 50, 51 and 52) This requirement was not complied with concerning these three Committees "*inasmuch as the Company is controlled by two main shareholders."* *"However, for the Audit Committee and the Human Resources and Remuneration Committee, the Board of Directors decided to have the composition of these Committees evolve by appointing an additional independent Director as a member in 2011, such that half their members are independent."*)
Period for review of the accounts by the Audit Committee (point 14.2.1 of the Code): The time periods for review of the accounts by the Audit Committee must be sufficient (at least two days before their review by the Board).	(see section on *The activities of the Board Committees* on page 51) *"Within the scope of the publication of the annual and interim results, the Audit Committee's meeting relating to the review of the financial statements is held on a date close to that of their presentation to the Board of Directors. But it should be noted that the Board and its Committees are regularly given the appropriate information to carry out their supervisory assignment, in this field in particular. Furthermore, the corresponding documents are systematically sent to them prior to the meetings."*
The executive officer's employment contract (point 19 of the Code): It is recommended, though not required, that when a senior manager or executive becomes a corporate officer of the Company, his/her employment contract with theCompany or another company of the group should be terminated by agreed termination or by resignation.	(see pages 63 *et seq.*) *"The Board of Directors considered that the objective pursued by this recommendation can be fully achieved by maintaining the suspension of the employment contract and clearly separating out the benefits related to the employment contract on the one hand from those relating to his corporate office on the other. Furthermore, the Board of Directors has decided to eliminate all right to any indemnity in the event of termination of the corporate office. This position of the Board applies to the current office of Mr. Jean-Paul Agon and, in future, to any new corporate officer appointed who has over 15 years' length of service in the Group at the time of appointment. L'Oréal's ongoing policy has been to appoint employees who have completely succeeded in the various stages of their careers in the Group as corporate officers. This is how Mr. Jean-Paul Agon, then Deputy Chief Executive Officer, was appointed as Chief Executive Officer of L'Oréal in April 2006, following a brilliant career spanning 27 years within the Group. The Board of Directors noted that if, in accordance with the AFEP MEDEF recommendation, Mr. Jean-Paul Agon's employment contract with L'Oréal was to be terminated, Mr. Agon would lose the status he acquired as a result of the twenty-seven years he spent working for the Group as an employee."* *See the position of the AMF*.*
Performance shares (point 20.2.3 of the Code) In accordance with the terms and conditions set by the Board and made public at the time of the grant thereof, make the performance shares granted to the executive officers conditional on the purchase of a defined quantity of shares when the shares granted become available.	(see page 63) *"In light of the significant level of the holding obligations imposed on L'Oréal's Chairman and Chief Executive Officer at the time of the exercise of stock options for the subscription of shares and the final vesting of shares, the Board of Directors decided not to require Mr. Agon to purchase an additional quantity of shares of the Company when the shares granted become available, as recommended by the AFEP-MEDEF Code."*

* *Extract from the AMF 2012 report on corporate governance and executive compensation considering that in this case this requirement was met: "The AMF states that it considers that a company complies with the code when it explains the maintenance of a senior executive's employment contract in light of his length of service as an employee in the Company and his personal situation." (page 72).*

2.4. Summary of trading by Directors and corporate officers in L'Oréal shares in 2012

(Article 223-26 of the General Regulation of the *Autorité des Marchés Financiers*)

Person concerned	Date of the transaction	Nature of the transaction	Unit price	Total amount
Fonds de dotation Abbaye de Lubilhac, a legal entity related to Marc Ladreit de Lacharrière, Director	January 12th, 2012	Sale	€81.50	€149,960.00
	February 28th, 2012	Sale	€85.12	€70,646.53
	April 17th, 2012	Sale	€92.74	€201,709.50
	June 7th, 2012	Sale	€90.88	€90,884.90
	July 2nd, 2012	Sale	€91.96	€170,583.32
Sir Lindsay Owen-Jones, Director	June 7th, 2012	Sale	€90.90	€2,809,670.00
Individual related to Sir Lindsay Owen-Jones, Director	June 7th, 2012	Sale	€90.64	€1,456,028.00

2.5. Internal Control and Risk Management procedures (Report of the Chairman of the Board of Directors on Internal Control)

At the request of the Chairman and Chief Executive Officer, the Administration and Finance Division compiled the information contained in this report based on the different types of work carried out by departments working on Internal Control and management of the Group's risks and which aims at covering the main operational, legal, industrial, environmental, economic and financial risks described in section 1.8. on pages 20 to 27.

For the preparation and drafting of this report and the definition of Internal Control, L'Oréal used the Reference Framework recommended by the French financial markets authority (the *Autorité des Marchés Financiers*) on July 22nd, 2010.

2.5.1. *DEFINITION AND OBJECTIVES OF INTERNAL CONTROL*

In L'Oréal, Internal Control is a system that applies to the Company and its consolidated subsidiaries ("the Group") and aims at ensuring that:

- economic and financial targets are achieved in compliance with the laws and regulations in force;
- the orientations set by General Management are followed;
- the Group's assets are valued and protected;
- the Group's financial and accounting information is reliable and provides true and fair statements.

By contributing to preventing and managing the risks to which the Group is exposed, the purpose of the Internal Control system is 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 businesses. However, no absolute guarantee can be given that these objectives will be met.

2.5.2. *COMPONENTS OF THE SYSTEM*

2.5.2.1. The Internal Control organisation and environment

The control environment, which is critical to the Internal Control system, good risk management and the application of procedures, is based on people, behaviour and the organisational structure. In L'Oréal, it forms part of a culture of rigour and commitment communicated by senior management and is also in line with the Group's strategic choices.

The Group's values

L'Oréal has built up its business on the basis of strong ethical values that have guided its development and contributed to establishing its reputation: Integrity, Respect, Excellence, Courage and Transparency.

L'Oréal's Code of Business Ethics exists in 43 versions (35 different languages) and is also published in Braille in French and English. Issued to all employees throughout the world, it provides insight into how these values need to be reflected in the behaviour and actions of its employees through simple rules and a description of concrete situations to which they may be exposed. Five supplements to the Code of Business Ethics have since 2010, covered certain aspects in more detail.

Respect for these values is integrated in the appraisal system for all the employees through two ethical competencies: "Acts/ Leads with Human Sensitivity" and "Obtains results with integrity".

The SVP, Chief Ethics Officer, who reports directly to the Chairman and Chief Executive Officer, is in charge of ensuring compliance with the Code of Business Ethics. The Chief Ethics Officer has a dedicated budget and team access to all the information and documents concerning the Group's activities and can call upon all the Group's teams and resources to carry out his mission. Employees have a dedicated intranet site which provides additional information on ethics. Employee awareness is raised in particular during an annual Ethics Day. On Ethics Day in 2012, each Country Manager discussed ethics with his/her employees. Around 22,000 employees took part in this dialogue and over 2,600 questions were asked worldwide. Moreover, employees are able to refer matters to the Chief Ethics Officer through the L'Oréal Ethics Open Talk site which offers a secure reporting mechanism.

The network of Ethics Correspondents, whose role is in particular to assist the Country Managers in ensuring compliance with the Code of Business Ethics, is continuing to expand and offers employees in 58 countries a local contact. The Ethics Correspondents follow a specific training programme every year.

The ethics training campaign is continuing. A module on ethics is included in the "Discovery" induction programme for new managers. Ethics modules have also been incorporated into 14 corporate and job-specific training programmes.

Finally, a practical tool for ethical risk assessment and analysis has been made available to the Group's entities. An annual reporting system makes it possible to monitor implementation of the ethics program. Country visits and the inclusion of ethical questions in internal audit assignments complete the programme.

Responsibilities with regard to Internal Control

The Group is organised into worldwide Divisions and geographical zones, which are fully responsible, with the management of each country, business unit or industrial entity, for the achievement of the objectives defined by the General Management with regard to Internal Control. The Functional Divisions bring their expertise to all operational employees.

Worldwide responsibilities for Internal Control of the activities of their division or department are entrusted to each of the members of the Management Committee. A system of delegation of authority is in place and continues to strengthen. The powers of the legal representatives of Group companies and of their delegatees are limited and controlled in accordance with the provisions of the Legal Charter.

Specialists in financial control, information systems, Human Resources or industrial and logistics techniques provide support to operational employees at all levels of the organisation, which makes it easier to diffuse best practices of Internal Control.

Human Resources policy

The quality and skills of male and female employees are key components of the Internal Control system. Human Resources policy within L'Oréal is defined by the constant search for excellence in recruitment and by the development of talent within the Group, so as to ensure that it has the required level of skills in all areas. These activities also form part of the Group's diversity policy, which seeks to value and respect difference throughout the organisation. Management Development Centres offer technical training and personal development programmes, including helping employees with integration or management; such programmes 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 Group Information Systems Division, which is responsible in particular for implementation of a single ERP (Enterprise Resource Planning), management software application used by the great majority of commercial subsidiaries, and which issues instructions regarding systems security. The worldwide roll-out of this integrated software package also contributes to strengthening the reliability and the security of the process of production of information, notably accounting and financial information. In pursuit of the same objective, the deployment of an integrated production and management solution in the Group's industrial entities is continuing.

The procedures and standards governing the activities

Each Functional Division has responsibility, in its own specific field, for defining the principles and standards applicable to all the entities. In order to make it easier for employees to take on board all these principles and standards, the key points have been summarised in the "Fundamentals of Internal Control".

This guide is a reference framework for the Group's operational activities, and is presented in the form of an information sheet for each area. Each information sheet refers to the detailed Charters, Codes and standards of the Group. The information sheets are regularly updated, supplemented, validated by the experts in each area of expertise and presented to the Group Management Committee. A questionnaire per operational function is proposed to subsidiaries so that they can make an assessment with regard to their entity, make their own diagnosis with regard to Internal Control and determine the areas of improvement within their own scope of activity.

A management standard with regard to segregation of duties was distributed to all entities in 2010. It defines the main rules to be observed in the fields of sales, purchasing, logistics, finance, human resources and information systems management. The application of these rules is aimed at better prevention of the risks of fraud and reducing the probability that errors (whether intentional or not) may remain undetected.

2.5.2.2. Communication of information inside the Group

Sharing of information

The brochure "Fundamentals of Internal Control" has been circulated individually to the Managing Directors and Finance Directors in charge of all the consolidated subsidiaries, including the industrial entities. Furthermore, the Fundamentals, self-diagnosis questionnaires, charters and standards, together with the information related to the organisation, changes and instructions from the Functional Divisions are made permanently available to the subsidiaries on the Group's intranet sites.

The other means of internal communication

Meetings are regularly organised aimed at passing on information about orientations of the General Management to managers of the subsidiaries. The Functional Divisions also coordinate their networks of experts through seminars and training sessions. A newsletter gives managers regular news and passes on strong messages with regard to Internal Control. Finally, through the Internal Control Awards, which were organised for the first time in 2012, good practices are identified and shared between the Group's subsidiaries.

2.5.2.3. Risk management

In L'Oréal, the risk management system applies to the Company and its consolidated subsidiaries ("the Group").

In order to ensure the sustainability of its development and the achievement of its objectives, the Group strives to anticipate and manage the risks to which it is exposed in its different areas of activity. These risks have been identified in section 1.8. on pages 20 to 27 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".

On the basis of the work by the Internal Audit Department, the analysis of major accounting and financial risks, in conjunction with the processes used by subsidiaries, makes it possible to identify Internal Control improvements and update the Group's standards (see *Management standards* in paragraph 2.5.4.2. on page 71).

Risk mapping

A risk mapping project concerning all L'Oréal's activities was finalised in 2011. This process of identification and analysis of the significant risks and processes enhances the knowledge of the Group's risks by formalising and consolidating the work already achieved to date. The results of this work were presented to the Audit Committee. It is the responsibility of the Risk Management & Compliance Department, created in 2012, to lead this process.

2.5.2.4. Control activities

The measures recommended by the Group

In each area of activity, the recommended measures with regard to the key control points are determined by the Functional Divisions.

- In the area of Human Resources, the requirements related to personnel management specify the documents to be provided to employees, the way to book and report headcount and personnel charges, the procedures for recruitment, training and appraisal and the rules to be observed in the field of payroll management.
- In the area of purchasing, the Purchasing Code of Ethics was updated in 2011: "The way we buy" is the practical and ethical guide providing guidelines for each employee in relationships with the Group's suppliers. The standard for "Management of suppliers" and tender procedures specify the conditions for competitive tendering and for the registration of the main suppliers. The general terms of purchase are used as the framework for transactions with suppliers. The "Purchase Commitments and Order Management" standard is aimed at facilitating and strengthening control of the spending and investments of Group entities.
- In the area of safety and quality, procedures relating to the protection of persons, property and data set out the principles for covering industrial and logistical risks relating to organisation and safety. Production quality standards define rules governing the quality of products, for all stages from creation to production and distribution. Almost all the factories are ISO 9001-certified as far as their production is concerned, ISO 14001-certified for their environmental policy and OHSAS 1800-certified (or equivalent certification) for their safety policy.
- In the area of the supply Chain, the main assignments consist in defining and applying the sales planning process, customer demand management, development and control of customer service, particularly through management of physical order fulfilment, application of the general terms of sale, the follow-up of orders, management of customer returns and customer disputes as well as accounts receivable collection procedures. Measures are also recommended for the management of distribution centres and inventories, subcontracting, product traceability, business continuity plan and transport.
- In the field of Information Systems, the Group has an Information Systems Security Policy. Based on the international ISO 27001 standard, this policy covers the main topics of Information Systems security, describing the general principles to be applied for each of them. It enables all the Group's Information Systems teams, and by extension all the employees, to share clear objectives, good practices and levels of control adapted to the risks incurred. This policy is accompanied by an information systems security audit programme conducted by an outside firm. It is also supplemented by an Information and Communication Technologies code of conduct, and a code of conduct for the correct use of social media.

- 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. A training tool and practical guides concerning the issues related to competition law and participation in professional associations define the principles to be complied with and provide answers to any questions which employees may have in this area.

- In the Insurance field, the Group's choice is to only have recourse to first-rate insurers. The Insurance Charter issues a reminder that the Group mainly uses integrated worldwide programmes to cover all its entities notably against third party liability, damage to property and operating losses resulting from an insured event. With regard to insurance of its customer risk, coverage is put in place inasmuch as this is permitted by local conditions. The results of audits performed by insurance companies in factories and distribution centres are used to improve the Internal Control of these entities.

- In the area of finance and treasury, the Financial Charter and the exchange risk management standard specify, in particular, the principles to be applied by Group entities to ensure that management of exchange risk is both prudent and centralised. The standard with regard to bank powers defines the process for designating the persons empowered to sign to make payments and the rules for implementation of those powers. In addition, the Stock Market Code of Ethics referred to on page 58 in the section concerning the way in which the Board's work is prepared and organised, is applicable to all employees.

- In the area of consolidation and financial control, the control activities are described in paragraph 2.5.4.2. *Monitoring process for the organisation of the accounting and finance functions* on page 71.

2.5.2.5. Ongoing supervision of the Internal Control system

The supervision carried out by the Functional Divisions

Through their network of specialists or via regular audits, the Functional Divisions review the functioning of their respective areas of responsibility: in this way, the Purchasing Department is responsible for the oversight with regard to suppliers and their working conditions, the Environment, Health & Safety Department is responsible for checks related to site safety and environmental compliance while the Quality Department measures performance and the progress made by industrial entities with regard to the quality of production and finally the Information Systems Department assesses compliance with the Security Policy. Indicators and reporting procedures enable the regular monitoring of the local activities of most of these Functional Divisions.

The role of the Internal Audit Department

Internal Audit is carried out by a central team that reports directly to the Vice-President of the Administration and Finance Division. This department carries out regular assignments to audit major processes and check on the application of Group principles and standards.

Internal Audit assignments are submitted to the General Management and the Audit Committee for their approval and, with their agreement, are included in an annual audit plan. The choice of assignments notably takes into account the assessment of the risks identified.

The size, the contribution to key economic indicators, the history of the entities together with the pattern of their development, are factors that are also taken into consideration for the preparation of the annual audit plan.

The Internal Audit Department carried out 41 assignments in 2012. These audits concerned 28 commercial entities representing approximately 31% of the Group's sales and 5 factories; the audited factories represent around 13% of worldwide production in units. Furthermore, 8 other assignments were carried out with regard to specific topics. Internal Audit assignments systematically lead to the preparation of a report comprising a presentation of the findings and related risks and making recommendations regarding the action plan to be put in place by the audited entity.

The Internal Audit Department relies on the support of the Group's integrated ERP software package for the performance of its work and has developed a certain number of specific transactions that contribute to increasing the efficiency of its work. Since 2007, complementary assignments aimed at verifying certain key Internal Control points in the configuration of the ERP software have been performed with the participation of a systems expert. The Internal Audit Department carried out 7 such assignments in 2012.

The action plans decided on further to the audits are followed up regularly by the Internal Audit Department, which measures the rate of progress made in the implementation of the recommendations, weighted by the risk levels applied. The summary of performance and results of the assignments and the progress of the action plans are presented to the Audit Committee every year.

The Internal Audit Department shares the results of its audits with the Group's Statutory Auditors. The remarks made by the external auditors within the scope of their annual audit, are also taken into consideration by the Internal Audit Department when it carries out its assignments.

2.5.3. *THE PLAYERS*

The main players involved in monitoring Internal Control and risk management are:

- the General Management and its Management Committee;
- the Audit Committee;
- the Functional Divisions, including the Risk Management and Compliance Department, the Internal Control Department and the Internal Audit Department.

General Management and the Management Committee

The role of the General Management is to define the general principles regarding Internal Control and to ensure that they are correctly put in place.

Within the scope of their worldwide Internal Control responsibilities, the members of the Management Committee rely on operational and functional managers, according to their respective areas of expertise. These managers must ensure implementation of these general principles and ensure the correct functioning of procedures enabling the level of Internal Control required by General Management to be attained.

The Audit Committee

The Board of Directors has always asserted the importance that it attributes, together with General Management, to Internal Control and to its main areas of application. Since its creation, the Audit Committee has been responsible for monitoring actions undertaken in the area of Internal Control and it reports thereon to the Board of Directors. Its remits are defined in the Internal Rules of the Board of Directors in paragraph 2.2.2.3. on pages 53 *et seq.* of this document.

Each year, the committee performs a review of the Internal Audit plan, its objectives and the general conclusions of Internal Audit assignments. Major Internal Control projects and initiatives are also presented to it. The committee then prepares a report with its own remarks for the Board of Directors.

The Audit Committee's work with regard to accounting and financial information is described in paragraph 2.5.4.2 on page 71.

The Functional Divisions

The Functional Divisions each define guidance and procedures for their own areas, which they communicate to the different countries and entities.

The Administration & Finance Division

This Division's main role is to assist and control the operational employees in their administrative, financial and legal activities. In order to do so, it sets the operating rules that apply to all entities in these areas and is responsible for the definition and deployment of tools, procedures and best practices, particularly in the following areas: financial control, accounting and consolidation, financing and treasury, tax, legal affairs, financial communication, information systems, and insurance. An Internal Control Committee has the task of taking all measures to promote the proper understanding and the proper application of the Group's Internal Control rules and also to monitor progress on important Internal Control projects.

The Risk Management & Compliance Department

The objective of this Department, which was created in 2012, is to identify, assess and prioritise risks with all those concerned, and keep the risk mapping analysis up-to-date. Its aim is to promote optimal use of resources to minimise and control the impact of negative events and maximise the realisation of opportunities.

The Internal Control Department

The purpose of this department is to coordinate implementation of the projects and work decided by the Internal Control Committee with the experts in each area of expertise. The update of the standards mentioned in paragraph 2.5.2.3. on page 68 and paragraph 2.5.4.2. on page 71 is an example of its work.

It ensures continued development of the network of Internal Control managers in the Group's entities.

This department, which is separate from Internal Audit and placed under the responsibility of the Risk Management and Compliance Department, ensures the distribution and updating of the "Fundamentals of Internal Control" guide. Frequent actions at seminars and during training cycles and the publication of newsletters help to increase knowledge of this tool and to improve its application and use by operational employees and keep them informed of the Group's projects and priorities in the area of Internal Control.

In addition, the Internal Control Department also monitors compliance with regulatory Internal Control obligations on an ongoing basis.

The Internal Audit Department

In addition to its role of supervision of application of the Internal Control system (see paragraph 2.5.2.5 on page 69), the Internal Audit Department carries out cross-functional analyses with regard to possible Internal Control weaknesses based on findings noted during their assignments. These analyses make it possible to orient the work of the Internal Control Committee and to identify the priority areas for improvement and strengthening of procedures.

The Operations Division

This Division comprises the Quality, EHS (Environment, Health and Safety), Purchasing, Information Systems (production), Human Resources (production), Supply Chain, Production Organisation, Industrial Management and Real Estate Departments. It defines standards and methods applicable in the areas of production quality, safety and the environment. It assists operational employees in the definition and implementation of their manufacturing and logistics policies.

The other Functional Divisions

The following departments are also involved in Internal Control:

- the Human Resources Department;
- the Research and Innovation Department which is responsible in particular for cosmetovigilance and the quality of the formulae used in product composition;
- the Communications, Sustainable Development and Public Affairs Department which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied.

2.5.4. INTERNAL CONTROL SYSTEM RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

For the preparation of this report, L'Oréal based itself on the "Application Guide for Internal Control of accounting and financial information published by issuers", which is part of the Reference Framework published by the AMF on July 22nd, 2010.

This approach is part of an overall process aimed at making continual progress and improving the Internal Control system that has already been set up.

2.5.4.1. Definition, scope and objectives

Internal Control of accounting and financial fields covers the processes that contribute to accounting data: i.e. the process of production of financial information, the process of accounts closings and actions of financial communication.

The Internal Control system with regard to accounting and financial aspects aims to ensure:

- compliance with accounting regulations and the correct application of the principles on which the financial statements are based;
- application of the guidelines set by the General Management with regard to financial information;
- protection of assets;
- quality of the reporting that contributes to the preparation of the published financial statements and the reliability of their centralised treatment for the Group with a view to their distribution and their use for monitoring purposes;
- control of the production of financial, general and management accounting information including fraud prevention.

The scope of application of Internal Control procedures relating to the preparation and processing of financial and accounting information encompasses the parent company and all subsidiaries included in the consolidated financial statements.

2.5.4.2. Monitoring process for the organisation of the accounting and finance functions

Organisation of the Finance Divisions

Dedicated teams of specialists ensure the implementation of accounting and financial monitoring, under the supervision of the General Management, in the following areas: accounting, consolidation, financial control, financial services and treasury.

In the Administration and Finance Division, the preparation of the Group's consolidated results is the responsibility of the Economic Affairs Department. The presence of a financial controller at each level of the organisation contributes to the strengthening of the Internal Control system. This network of subsidiary financial controllers is co-ordinated by the Economic Affairs Department.

Processing and pooling of cash flows and hedging of exchange and interest rate risks are carried out by the Financial Services Department, which is in charge of identifying commitments and enabling their proper booking.

General accounting standards

The Group has put in place a set of accounting policies and standards, which all consolidated subsidiaries are required to apply and which enable uniform, reliable financial information to be provided.

These accounting policies are regularly updated, taking into account the changes in regulations and accounting principles:

- accounting standards set out the principles required for harmonised accounting treatment of transactions. They specify in particular the methods of recording balance sheet items and of identification and valuation of off-balance sheet commitments. They are in accordance with IFRS standards, the accounting standards used to prepare the consolidated financial statements. The Group's Accounting Department monitors, on an ongoing basis, new accounting standards currently under preparation, with a view to alerting the General Management and anticipating their effects on the Group's financial statements;
- the chart of accounts, which is common to all subsidiaries, provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.

Management standards

Management standards not only specify the rules applicable to the valuation of certain significant accounts in the balance sheet and the income statement but also the controls and validations applicable to the key processes.

Since the major initiative undertaken between 2008 and 2010 involving a review and improvement of the management standards and the related Internal Control procedures, these are regularly supplemented and are thus part of the continuous improvement process. The purpose of this work is both to take action in response to the findings of the Internal Audit Department and to cover the areas corresponding to the accounting and financial risks of subsidiaries. This work has made it possible to bring our approach more closely into line with the recommendations set out in the "Application Guide relating to Internal Control of accounting and financial information" of the AMF Reference Framework.

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. Tools have been made available to enable them to ensure that access rights comply with the Group's rules.

Management tools

The system for monthly reporting of various economic indicators enables the monitoring of the evolution of the performance of each subsidiary in a continuous and harmonised manner. It also enables assurance to be obtained that such performance is in line with the objectives set.

The reporting and consolidation system, used by all entities, ensures the consistency and reliability of figures at the level of each subsidiary through blocking controls that operate before the financial data is uploaded to Group level. In this regard, the operating profit and loss account by destination, which is common to both management and general accounting, contributes to strengthening the control of accounts in the financial statements through the use of a single reference framework.

In addition, the Group's organisation, which is based on reporting from each subsidiary that is provided directly by the countries to the parent company, without any intermediate aggregates for the vast majority of the subsidiaries, enables optimisation of the data transfer and the completeness of the information, and in particular enables the checking of the accuracy of the exchange conversion rates.

The Managing Director and the Finance Director of each subsidiary make a joint commitment with regard to the quality, reliability and completeness of the accounting and financial information they have prepared and sent to the Group's Economic Affairs Department, through a representation letter that they jointly sign.

The Audit Committee

The role and tasks of the Audit Committee are described above in paragraph 2.2.2.1.2. on pages 49 *et seq.*. These tasks are in compliance with the French ordinance of December 2008 on the conditions of application of the 8th European Directive on statutory audits of accounts and are based on the report by the working group on the Audit Committee published by the AMF on July 22nd, 2010.

2.5.4.3. Processes used to prepare accounting and financial information

Operational processes contributing to accounting figures

All of the processes that contribute to accounting figures, particularly sales and purchases, and inventory, fixed asset, payroll and treasury management are covered by specific procedures, follow-up checks and rules for validation, authorisation and booking operations.

Closing of the accounts, consolidation and Management Reporting information

The accounts closing process is governed by precise instructions and is based on a detailed time schedule circulated to all the subsidiaries to make sure that deadlines are met and the financial statements are prepared in a consistent manner. For the preparation of the consolidated financial statements, validation procedures apply to each stage of the process of reporting and processing information. Their purpose is to verify in particular that:

- inter-company transactions are correctly adjusted and eliminated (these are reported on a monthly basis);
- consolidation operations are checked;
- accounting standards are correctly applied;
- the consolidated published accounting and financial data is harmonised and properly determined and general accounting data and Management Reporting figures used in the preparation of the financial information are consistent.

Financial communication

Managers in charge of financial communication prepare a precise timetable for publication of up-to-date information on the Group to the financial markets. This timetable complies with the requirements of market authorities. These managers ensure, with the assistance of the Legal Department, that communications are made within the required deadlines and in accordance with laws and regulations, which they constantly monitor.

Their role is also to publish, precisely and accurately, the information provided by the Economic Affairs Department and the Legal Department. All material information provided to the financial community reflects with truth and transparency the situation and activity of the Group and is carried out in accordance with the principle of equal provision of information to all shareholders.

The Statutory Auditors

All accounting and financial information prepared by consolidated subsidiaries is, at a minimum, subjected to a limited review at the time of the half-year closing process and to a full audit at year-end, by the external auditors. Twice a year, the Managing Director and the Finance Director of each consolidated subsidiary make a joint commitment as to the true and fair view, reliability and completeness of the financial information by jointly signing a representation letter.

Audit assignments in the countries in which the Group operates are almost all entrusted to members of the networks of the two Statutory Auditors who, after having jointly performed the review of all the Group's accounts and the manner in which they were prepared, are responsible for issuing an opinion on the Group's consolidated financial statements. The Statutory Auditors issue an opinion as to whether the consolidated financial statements and parent company financial statements give a true and fair view. They are kept informed from the early stages of preparation of the financial statements and present an overview of their work to the Group's accounting and finance managers and to the Audit Committee at the time of the half-year and annual closing.

2.6. Statutory Auditors' report, prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors

(Year ended December 31st, 2012)

To the Shareholders,

In our capacity as Statutory Auditors of L'Oréal and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with article L.225-37 of the French Commercial Code for the year ended December 31st, 2012.

It is the Chairman's responsibility to prepare and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you our observations on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

OTHER INFORMATION

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

2.7. Statutory Auditors' Special Report on regulated agreements and commitments with third parties

(Annual General Meeting held to approve the financial statements for the year ended December 31st, 2012)

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments with third parties.

It is our responsibility to communicate to you, based on information provided to us, the principal terms and conditions of these agreements and commitments brought to our attention or which we may have identified as part of our engagement, without expressing an opinion on their usefulness or their merit or searching for other agreements or commitments. Under the provisions of article R. 225-31 of the French Commercial Code *(Code de commerce)*, it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is our responsibility to communicate to you the information pursuant to article L. 225-31 of the French Commercial Code relating to agreements and commitments previously approved by the Annual General Meeting during the year.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying that the information provided to us is consistent with the underlying documents.

AGREEMENTS AND COMMITMENTS TO BE AUTHORIZED BY THE ANNUAL GENERAL MEETING

Pursuant to article L.225-38 of the French Commercial Code, we hereby advise you that we have not been informed of any agreements or commitments signed during the year to be approved by the Annual General Meeting.

AGREEMENTS AND COMMITMENTS AUTHORIZED IN PRIOR YEARS BY THE ANNUAL GENERAL MEETING

Pursuant to article R. 225-30 of the French Commercial Code, we have been advised that the following agreement, previously approved by the Annual General Meeting of April 27th, 2010 and mentioned in our Statutory Auditors' special report of February 19th, 2010, has remained in effect during the year.

Agreement concerning Jean-Paul Agon

- Suspension of Mr Jean-Paul Agon's employment contract during the period of his corporate office.
- Elimination of all rights to indemnification in respect of Mr Jean-Paul Agon's corporate office

  In the event of departure, and depending on the reasons, Mr Jean-Paul Agon would only be paid the dismissal indemnities, except in the event of gross misconduct or gross negligence, or retirement indemnities in the event of voluntary retirement or retirement at the Company's request due pursuant to the employment contract that has been suspended. These indemnities, which are attached solely to termination of the employment contract and in strict application of the National Collective Bargaining Agreement for the Chemical Industries and the company-level agreements applicable to all L'Oréal executives, are due in any event pursuant to public policy rules. They are not subject to any condition other than those provided for by the National Collective Bargaining Agreement for the Chemical Industries or the above-mentioned company-level agreements. The same applies to the non-competition clause and the related financial consideration.

  Remuneration in respect of the corporate office will in no event be taken into consideration for calculation of the indemnities due pursuant to the collective bargaining agreement and the company-level agreements applicable to all L'Oréal executives.

  Mr Jean-Paul Agon will continue to benefit from the defined benefit pension scheme currently applicable to the Group's senior managers.

- Terms and conditions relating to the suspension of Mr Jean-Paul Agon's employment contract:
  - the reference remuneration to be used to calculate all the rights attached to the employment contract and in particular to compute the pension under the defined benefit scheme will be based on the amount of remuneration under the employment contract when it was suspended in 2006, namely fixed remuneration of €1,500,000 and variable remuneration of €1,250,000. This reference remuneration is reviewed every year by applying the revaluation coefficient in respect of salaries and pension contributions published by the French State pension fund. As of January 1st, 2013, the fixed remuneration amounts to €1,650,000 and variable remuneration to €1,375,000;
  - the length of service applied will take into consideration his entire career, including the years during which he was Chairman and Chief Executive Officer.
- Mr Jean-Paul Agon will continue to benefit from the status of senior manager throughout the period of his corporate office, allowing him to continue to be entitled to benefit from the additional social protection schemes and in particular the employee benefit and healthcare schemes available to the Company's employees.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' special report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and the report does not apply to those related party agreements described in IAS 24 or other equivalent accounting standards.

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KEY FIGURES AND COMMENTS ON THE 2012 FINANCIAL YEAR

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

2012 was a good year for L'Oréal on many fronts. The Group achieved strong sales growth, and once again demonstrated its ability to outperform the beauty market, and to gain market share, even in the more difficult markets of Western Europe and the United States. 2012 was also a very good vintage in terms of innovations – amongst the most remarkable in the industry – in each of our Divisions and major business segments.

2012 also marked a milestone in the acceleration of the Group's internationalisation, as the "New Markets" became the number one geographic zone.

Lastly, the profits and cash flow have grown very strongly confirming the power of our business model.

3.1. The Group's business activities in 2012

3.1.1. OVERVIEW OF THE RESULTS FOR 2012

2012 sales: 22.46 billion euros (+10.4% based on reported figures, +5.5% like-for-like)

Operating profit: +12.3%

Net profit after non-controlling interests: +17.6%

Net earnings per share (1) **:** +13.6%

Increase in dividend: +15% at €2.30 per share (2)

3.1.2. CONSOLIDATED NET SALES

Like-for-like, i.e. based on a comparable structure and identical exchange rates, the sales trend of the L'Oréal Group was +5.5%. The net impact of changes in consolidation amounted to +0.7%. Currency fluctuations had a positive impact of +4.2%. Growth at constant exchange rates was +6.2%. Based on reported figures, the Group's sales, at December 31st, 2012, amounted to 22.463 billion euros, an increase of +10.4%.

(1) *Diluted net earnings per share based on net profit excluding non-recurring items attributable to the Group.*
(2) *Proposed at the Annual General Meeting of April 26th, 2013.*

Sales by Operational Division and by geographic zone

€ millions	2010	2011	2012	2011/2012 progression Like-for-like	2011/2012 progression Reported figures
By Operational Division					
Professional Products	2,717.1	2,813.8	3,002.6	+2.1%	+6.7%
Consumer Products	9,529.9	9,835.2	10,713.2	+5.0%	+8.9%
L'Oréal Luxe	4,506.6	4,800.1	5,568.1	+8.3%	+16.0%
Active Cosmetics	1,385.6	1,421.7	1,528.0	+5.8%	+7.5%
Cosmetics Total	**18,139.1**	**18,870.8**	**20,811.9**	**+5.5%**	**+10.3%**
By geographical zone					
Western Europe	7,181.0	7,246.6	7,399.6	+0.6%	+2.1%
North America	4,291.5	4,406.2	5,210.7	+7.2%	+18.3%
New Markets, of which:	6,666.6	7,218.0	8,201.6	+9.2%	+13.6%
▪ Asia, Pacific	3,192.2	3,619.5	4,287.0	+9.6%	+18.4%
▪ Eastern Europe	1,398.9	1,336.9	1,405.0	+3.9%	+5.1%
▪ Latin America	1,517.7	1,680.9	1,826.6	+10.4%	+8.7%
▪ Africa, Middle-East	557.8	580.7	683.0	+14.7%	+17.6%
Cosmetics Total	**18,139.1**	**18,870.8**	**20,811.9**	**+5.5%**	**+10.3%**
The Body Shop	754.9	767.6	855.3	+4.9%	+11.4%
Dermatology [(1)]	601.7	704.7	795.5	+5.9%	+12.9%
GROUP TOTAL	**19,495.8**	**20,343.1**	**22,462.7**	**+5.5%**	**+10.4%**

(1) Group share, i.e. 50%.

Professional products

In a market affected by the slowdown in southern European countries, and the low weight of the New Markets, the Professional Products Division posted +2.1% like-for-like and +6.7% reported growth in 2012.

- In the technical products category, the new-generation long-lasting hair colourant ODS2 (Oil Delivery System) was rolled out worldwide under the brands INOA2 by L'Oréal Professionnel, Chromatics by Redken and, at the end of the year, ColorInsider by Matrix.

  Haircare is growing strongly, boosted by hair oils, and by the rising momentum of the Division's luxury brands: Kérastase, with Cristalliste and with the recent launch of Initialiste, the first beauty serum with plant stem cells, along with PureOlogy and Shu Uemura Art of Hair.

- The Division is making progress in Germany, France and the United Kingdom, but sales have receded in southern Europe because of a decline in salon visits. In the United States, the year was marked by SalonCentric's supply chain reorganisation. The Division's positions are rising strongly in the New Markets in Eastern Europe, Asia and the Middle East.

Consumer Products

The Consumer Products Division achieved sales growth of +5% like-for-like and +8.9% based on reported figures, driven by strategic advances in Western Europe and North America, along with major product initiatives.

- Haircare is growing strongly, thanks to the good results of the renewal of Elvive by L'Oréal Paris, its new Arginine Resist for fragile hair, and hair oils.

  In hair colourants, the year-end was marked by the launch of Olia by Garnier, the first home-use hair colourant to feature ODS technology. This initiative, which marks a breakthrough in the market, is making a strong start in Western Europe, and will then be rolled out worldwide.

  The facial skincare category is growing, thanks to the worldwide success of Revitalift Laser by L'Oréal Paris, a major anti-ageing innovation with a high concentration of Proxylane; and BB Cream by Garnier, whose success has effectively created a completely new category.

  Finally, the make-up category was enlivened by the innovative Volume Express Mega Plush mascara by Maybelline and by the start of the internationalisation of the Essie brand.

- The Division set a new all-time record for market share in Western Europe – notably in France – along with North America. In the New Markets, the Division is improving its positions in Mexico, Chile, Indonesia, Thailand and Turkey.

L'Oréal Luxe

In 2012, L'Oréal Luxe sales grew by +8.3% like-for-like and +16% based on reported figures. In each of the four quarters, the Division significantly outperformed market growth, thanks especially to the dynamism of Lancôme, and the good performances in Asia and North America.

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- The Lancôme brand grew strongly, driven by innovations – in facial skincare with Génifique Yeux Light Pearl, and in fragrances with the launch of La Vie est Belle, the top worldwide launch of the year in its category – and thanks to the brand's new premium luxury positioning, with Absolue L'Extrait. The year 2012 also brought a change of status for Yves Saint Laurent, which received the Prestige Brand of the Year award from the American magazine WWD: the brand is strengthening its multi-business segment dimension with the launch of Forever Youth Liberator facial skincare, the success in make-up of Vernis à Lèvres, and more recently, the European launch of the women's perfume, Manifesto.

  The strategic facial skincare category is growing strongly. The successes of Lancôme are backed up by the powerful worldwide growth of Kiehl's and the growth of Clarisonic in instrumental cosmetics in the United States.

  Women's fragrances are also being supported by the launch of Ralph Lauren's Big Pony Collection for Women and by the rising momentum of Flowerbomb by Viktor & Rolf.

  In make-up, the end of the year was notable for the launch of Maestro foundation by Giorgio Armani, with a remarkably innovative formula, and finally for the acquisition in December of the Californian make-up brand Urban Decay.
- The Division outperformed the market in all the major zones and in Travel Retail.

Active Cosmetics

2012 was a particularly good year for the Division, with sales growth of +5.8% like-for-like, and +7.5% based on reported figures, which is roughly twice as fast as the trend in the dermocosmetics market.

- 2012 brought a new start for Vichy, driven by its new brand identity, and strong initiatives such as Idéalia, in skincare, and Dercos Neogenic, the first hair redensifying treatment with stemoxydine.

  The La Roche-Posay brand, strongly established with 25,000 dermatologists, is maintaining its strong growth rate, and has in fact become the top dermocosmetics brand in Brazil. Its latest innovation, Redermic-R is extremely promising.

  The Division's relay brands are making a strong contribution to its success. SkinCeuticals, the premium medical and professional brand, is continuing its internationalisation.
- Lastly, 2012 was the first-ever year in which the Division made more than 50% of its sales outside Western Europe. It also made a breakthrough in North America, and is maintaining its strong dynamism in Latin America.

Multi-division summary by geographic zone

Western Europe

The European context saw the decline of markets in the southern countries, particularly in hair salons and the luxury segment, and the resilience of the rest of Europe. At 12 months, L'Oréal sales increased by +0.6% like-for-like, and +2.1% based on reported figures, thus raising its market share, particularly in the Consumer Products Division, which consolidated its number one position. The Group performed well, particularly in France – where the acquisition of Cadum fully played its part – in the United Kingdom, in Germany and in Northern Europe.

North America

In North America, L'Oréal ended 2012 with growth of 7.2% like-for-like and 18.3% based on reported figures. The good results seen in 2011 were surpassed in 2012. The Consumer Products Division became n°1 in its segment, thanks to strong growth at Garnier, Maybelline and Essie. The end of the year was marked by the strategic launch of L'Oréal Paris Advanced Hair Care. L'Oréal Luxe outperformed its market, thanks especially to Clarisonic. The Active Cosmetics Division significantly increased its presence in drugstores.

New Markets

- **Asia, Pacific:** L'Oréal achieved annual growth of +9.6% like-for-like and +18.4% based on reported figures. The Group is increasing market share in the region. While the selective channel context slowed in the second half, particularly in South Korea and in Travel Retail, L'Oréal strengthened its positions thanks to initiatives by Lancôme, Kiehl's and Yves Saint Laurent.

  In China, the Group grew faster than the market, especially with L'Oréal Luxe, Maybelline and L'Oréal Paris Men Expert. India, Indonesia and Thailand are particularly dynamic, driven by local initiatives such as Colossal Kajal by Maybelline, and the Garnier Men range.
- **Eastern Europe:** With sales growth of +3.9% like-for-like and +5.1% based on reported figures, the Group is continuing its recovery, and is once again growing faster than the market. The turnaround is being driven by the Professional Products Division, with its conquest of new hair salons, particularly in Russia and Poland, and by the Consumer Products Division, thanks to the success of Elvive Arginine by L'Oréal Paris and Garnier ColorSensation hair colourants.
- **Latin America:** L'Oréal achieved like-for-like growth of +10.4% and +8.7% based on reported figures, with increased growth in the second half. In 2012, L'Oréal became the market leader in Mexico, and expanded its positions in Chile, Argentina and Uruguay. L'Oréal accelerated its roll-out in the countries of Central America, and in Colombia, with the acquisition of the Vogue brand, the mass-market make-up leader in Colombia. In Brazil, the initiatives of Elvive Arginine Resist, hair oils and hair colourants led to an improvement in positions. The dynamism of the Active Cosmetics Division in this Zone is also worth noting.

- **Africa, Middle-East:** With growth of +14.7% like-for-like and +17.6% based on reported figures, the Africa, Middle East Zone recorded very good performances in Turkey, the Gulf States and the Levant. 2012 was notable for the rising momentum of new subsidiaries in Egypt and Kenya, and the opening of a new subsidiary in Saudi Arabia.

The Body Shop Sales

2012 was a year of acceleration for The Body Shop, whose sales grew by +4.9% like-for-like and +11.4% based on reported figures.

The brand unveiled its new "Beauty with Heart" identity in 2012, and started rolling out the new "Pulse" store concept. In addition, The Body Shop continued its multi-channel approach with a strong increase in e-commerce.

In 2012, the brand strengthened its offering in skincare categories, with the success of the Chocomania bodycare range, and in facial skincare, with the innovative Drops of Youth.

The Body Shop achieved dynamic sales in the Middle East and in south-east Asia, while recording solid scores in Europe.

Galderma sales

Galderma sales increased by +5.9% like-for-like and +12.9% based on reported figures, with a fourth quarter which, as announced, reflected the impact of competition from generics in prescription products, especially in the United States.

Epiduo (acne) and Oracea (rosacea) are continuing to grow in the prescription products category. Epiduo is the world's leading prescription product in the topical acne treatment market.

Sales of over-the-counter (OTC) products increased strongly, driven by Cetaphil (a hydrating and cleansing skincare range).

The strong growth of the Restylane range (dermal filler) and the success of Azzalure (muscle relaxant) have this year once again helped to make Galderma one of the world leaders in the aesthetic and corrective dermatology market.

Asia and Latin America are growing strongly.

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3.1.3. RESULTS

Operating profitability and consolidated income statement

	2010		2011		2012	
	€ millions	*% 2010 sales*	*€ millions*	*% 2011 sales*	*€ millions*	*% 2012 sales*
Sales	**19,496**	**100%**	**20,343**	**100%**	**22,463**	**100%**
Cost of sales	-5,697	29.2%	-5,851	28.8%	-6,588	29.3%
Gross profit	**13,799**	**70.8%**	**14,492**	**71.2%**	**15,875**	**70.7%**
Research and development expenses	-665	3.4%	-720	3.5%	-791	3.5%
Advertising and promotion expenses	-6,029	30.9%	-6,292	30.9%	-6,776	30.2%
Selling, general and administrative expenses	-4,049	20.8%	-4,187	20.6%	-4,611	20.5%
OPERATING PROFIT	**3,057**	**15.7%**	**3,293**	**16.2%**	**3,697**	**16.5%**

Gross profit increased by 9.5%; it came out at 70.7% of sales, compared with 71.2% in 2011. As in the 1st semester, the gross profit underwent the combined effects of the exchange rate effect due to the weakening of the euro against the main currencies, of the impact of the consolidation of the American company Clarisonic, and of a slight increase in customer allowances, in the context of arbitrage with advertising and promotion expenses.

Research expenses increased strongly at +9.7%, and remained stable as a percentage of sales at 3.5%.

Advertising and promotion expenses increased by 7.7%; they came out at 30.2% of sales, slightly below the figure for 2011.

Selling, general and administrative expenses, at 20.5% of sales, once again declined by 10 basis points compared with 2011.

Overall, **operating profit** at 3,697 million euros, has increased by 12.3%, reflecting a significant improvement in profitability compared with 2011, at 30 basis points.

Operating profit by branch and by Division

	2010		2011		2012	
	€ millions	% 2010 sales	€ millions	% 2011 sales	€ millions	% 2012 sales
By Operational Division						
Professional Products	552	20.3%	579	20.6%	615	20.5%
Consumer Products	1,765	18.5%	1,859	18.9%	2,051	19.1%
L'Oréal Luxe	791	17.5%	926	19.3%	1,077	19.3%
Active Cosmetics	278	20.1%	287	20.2%	311	20.4%
Cosmetics Divisions total	**3,385**	**18.7%**	**3,651**	**19.3%**	**4,054**	**19.5%**
Non-allocated (1)	-513	-2.8%	-546	-2.9%	-577	-2.8%
Cosmetics branch total	**2,872**	**15.8%**	**3,105**	**16.5%**	**3,477**	**16.7%**
The Body Shop	65	8.7%	68	8.9%	77	9.1%
Dermatology branch (2)	119	19.8%	120	17.0%	143	17.9%
GROUP	**3,057**	**15.7%**	**3,293**	**16.2%**	**3,697**	**16.5%**

(1) *Non-allocated = Central group expenses, fundamental research expenses, stock options and free grant of shares expenses and miscellaneous items. As a % of cosmetics sales.*
(2) *Group share, i.e. 50%.*

The profitability of the Professional Products Division at 20.5% is in line with 2011.The profitability of the Consumer Products Division and the Active Cosmetics Division once again improved in 2012. The profitability of L'Oréal Luxe remained stable in 2012, at 19.3%.

The Body Shop continued to improve its profitability by 20 basis points in 2012, at 9.1%.

Finally, the profitability of Galderma, at 17.9% of sales, grew by 90 basis points in 2012.

Profitability by geographic zone

Operating profit	2010 € millions	% 2010 sales	2011 € millions	% 2011 sales	2012 € millions	% 2012 sales
Western Europe	1,552	21.6%	1,513	20.9%	1,576	21.3%
North America	709	16.5%	810	18.4%	960	18.4%
New Markets	1,125	16.9%	1,328	18.4%	1,518	18.5%
COSMETICS ZONES TOTAL (1)	**3,385**	**18.7%**	**3,651**	**19.3%**	**4,054**	**19.5%**

(1) *Before non-allocated.*

Profitability in Western Europe improved by 40 basis points at 21.3%. Profitability in North America remained stable and its operating profit increased by 18.5%.

Profitability in the New Markets increased by 10 basis points at 18.5%, and their operating profit grew by more than 14%.

Net earnings per share (1): €4.91

€ millions	2010	2011	2012
Operating profit	**3,057**	**3,293**	**3,698**
Finance Costs excluding dividends received	-36	-25	-11
Sanofi dividends	284	295	313
Pre-tax profit excluding non-recurring items	**3,305**	**3,563**	**4,000**
Income tax excluding non-recurring items	-932	-978	-1,025
Non-controlling interests	-2.3	-2.5	-2.7
Net profit excluding non-recurring items after non-controlling interests (2)	**2,371**	**2,583**	**2,972**
EPS (1) *(€)*	4.01	4.32	4.91
Diluted average number of shares	**591,392,449**	**597,633,103**	**605,305,458**

(1) *Diluted net earnings per share excluding non-recurring items after non-controlling interests.*
(2) *Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the 2012 Consolidated Financial Statement on pages 117 to 118.*

Total finance costs amounted to 11 million euros.

Dividends from Sanofi amounted to 313 million euros.

Income tax excluding non-recurring items amounted to 1,025 million euros, representing a rate of 25.6%, below the 2011 rate of 27.4%, with the benefit of a non-recurring fiscal change effect in China.

Net profit excluding non-recurring items after non-controlling interests amounted to 2,972 million euros, up by 15.1%.

Net earnings per share, at 4.91 euros, increased by +13.6%.

Net profit after non-controlling interests: €2,868 million

€ millions	2010	2011	2012	2011/2012 Evolution
Net profit excluding non-recurring items after non-controlling interests	2,371	2,583	2,972	
Non-recurring items not of tax	-131	-145	-104	
Net profit after non-controlling interests	**2,240**	**2,438**	**2,868**	**+17.6%**
Diluted earnings per share *(€)*	3.79	4.08	4.74	

After allowing for non-recurring items, representing in 2012 a charge, net of tax, of 104 million euros, **net profit after non-controlling interests** amounted to 2,868 million euros, an increase of 17.6%.

Cash flow Statement, Balance sheet and Net Cash flow

Gross cash flow amounted to 3,661 million euros, an increase of +13.5%.

The **working capital requirement** increased modestly, in 2012, by 129 million euros.

Inventories declined significantly as a percentage of sales, at 9.1% at end-2012; **trade accounts receivable** also declined, at 14.3% of sales; **investments**, at 955 million euros, amounted to 4.3% of sales, an identical level to 2011. As a result, **operating cash flow** increased by 26.4%.

After dividend payment and acquisitions (mainly Cadum and Urban Decay), the Group recorded, at December 31st, 2012, a **net cash surplus** of 1,575 million euros, compared with 504 million euros at end-2011.

The balance sheet structure is very solid. The reinforcement of shareholders' equity compared with end-2011 is mainly the result of profit allocated to reserves and the net increase in value of the Sanofi shares, valued at market price.

Proposed dividend at the Annual General Meeting of April 26th, 2013

The Board of Directors has decided to propose to the Annual General Meeting of April 26th, 2013 the payment of a dividend of €2.30 per share, an increase of +15% compared with 2012. This dividend will be paid on May 10th, 2013 (ex-dividend date May 7th, 2013 at 0:00a.m., Paris time).

3.2. Financial highlights

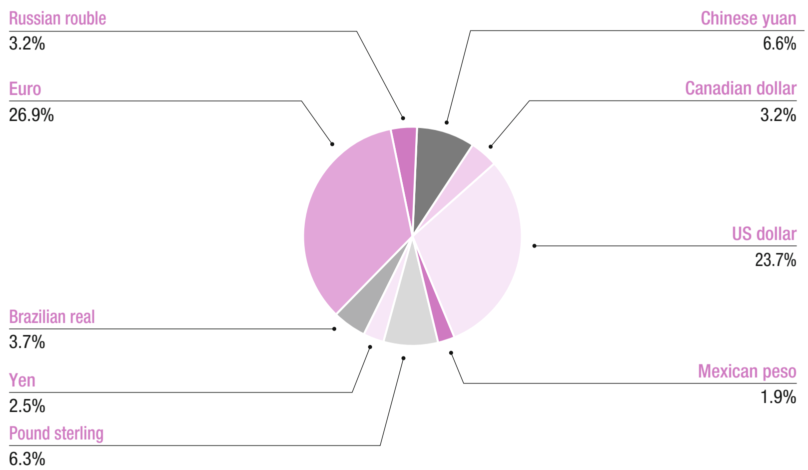
3.2.1. 2012: STRONG GROWTH IN SALES AND PROFIT

Consolidated sales

(€ millions)

2012 consolidated sales by currency (1)

(as %)

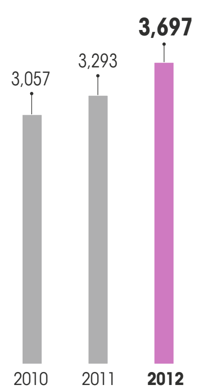


Consolidated sales by branch (2)

(€ millions)	2010	2011	2012
Cosmetics	18,139	18,871	20,812
The Body Shop	755	767	855
Dermatology (3)	602	705	796

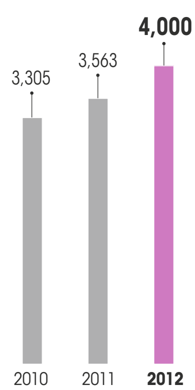
Operating profit

(€ millions)



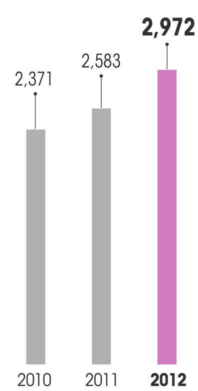
Pre-tax profit excluding non-recurring items (4)

(€ millions)



Net profit excluding non-recurring items after non-controlling interests (4)

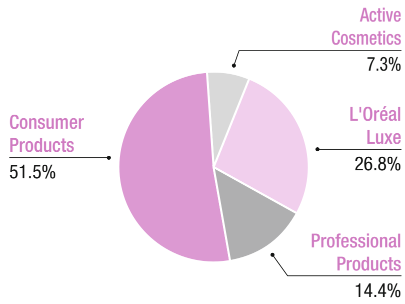
(€ millions)



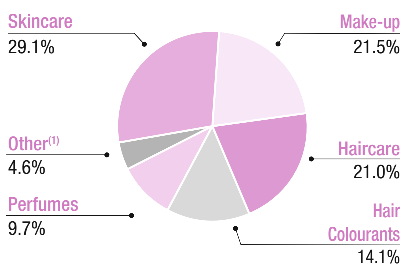
(1) Breakdown of consolidated sales in the main currencies in 2012., i.e. 78% of consolidated sales.
(2) The Group's business is composed of the cosmetics branch, The Body Shop and the dermatology branch.
(3) Group share, i.e. 50%.
(4) Non-recurring items include mainly capital gains and losses on long-term asset disposals, impairment of long-term assets, restructuring costs and elements relating to identified operational incomes and expenses, non-recurring and significant regarding the consolidated performance. See note 10 of the 2012 Consolidated Financial Statement on pages 117 to 118.

2012 consolidated sales of the cosmetics branch

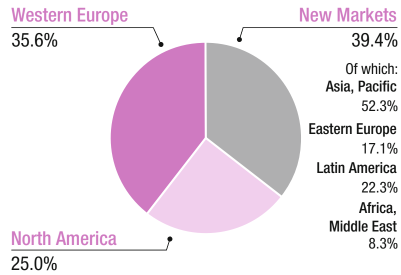
By Division



By business segment

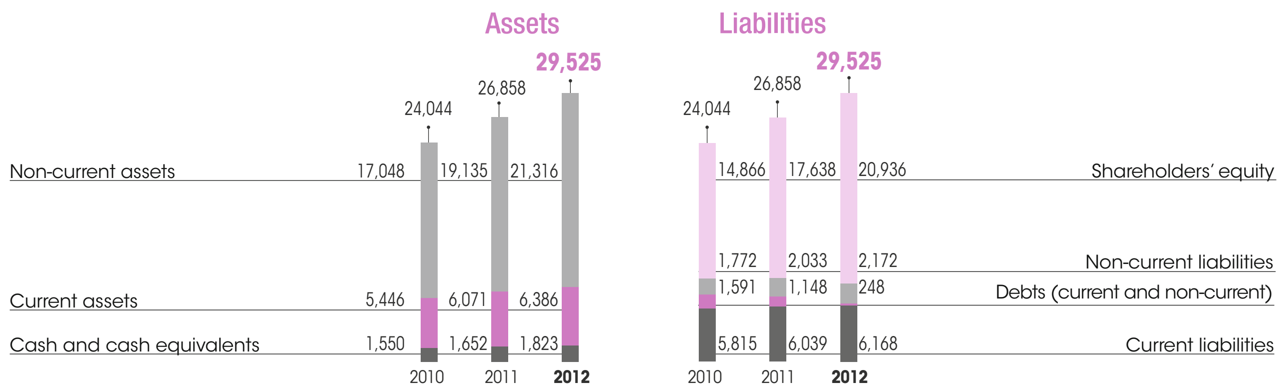


By geographic zone



A solid balance sheet

(€ millions)



Net debt

	12.31.2010	12.31.2011	12.31.2012
Net cash flow (2) *(€ millions)*	-41	504	1,575 (3)
Net financial debt/ Equity	0.3%	-2.9%	-7.5%

Short-term ratings

A-1+	STANDARD & POOR'S	June 2012
Prime 1	MOODY'S	June 2012
F1+	FITCH RATINGS	June 2012

(1) "Other" includes hygiene products, sales made by American distributors with brands outside of the Group.

(2) Net cash flow = cash and cash equivalents - current and non-current debt.

(3) Net cash surplus is of 1,575 million euros.

3.2.2. 2012 RESULTS

Sales and operating profit by branch (1)

Consolidated sales

€ millions	2010	2011	2012	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Cosmetics	18,139	18,871	20,812	+5.5%	+10.3%
The Body Shop	755	767	855	+4.9%	+11.4%
Dermatology (2)	602	705	796	+5.9%	+12.9%
GROUP TOTAL	**19,496**	**20,343**	**22,463**	**+5.5%**	**+10.4%**

Operating profit

€ millions	2010	2011	2012	2012 weight	Evolution based on Reported sales	% of sales
Cosmetics	2,872	3,105	3,477	94%	+12.0%	16.7%
The Body Shop	65	68	77	2.1%	+13.9%	9.1%
Dermatology (2)	119	120	143	3.9%	+18.8%	17.9%
GROUP TOTAL	**3,057**	**3,293**	**3,697**	**100%**	**+12.3%**	**16.5%**

Sales and operating profit of the cosmetics branch by Division

Consolidated sales

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Professional Products	2,717	2,814	3,003	14.4%	+2.1%	+6.7%
Consumer Products	9,530	9,835	10,713	51.5%	+5.0%	+8.9%
L'Oréal Luxe	4,506	4,800	5,568	26.8%	+8.3%	+16.0%
Active Cosmetics	1,386	1,422	1,528	7.3%	+5.8%	+7.5%
TOTAL COSMETICS SALES	**18,139**	**18,871**	**20,812**	**100%**	**+5.5%**	**+10.3%**

Operating profit

	2010		2011		2012	
	€ millions	% 2010 sales	€ millions	% 2011 sales	€ millions	% 2012 sales
Professional Products	552	20.3%	579	20.6%	615	20.5%
Consumer Products	1,765	18.5%	1,859	18.9%	2,051	19.1%
L'Oréal Luxe	791	17.5%	926	19.3%	1,077	19.3%
Consumer Products	278	20.1%	287	20.2%	311	20.4%
TOTAL COSMETICS DIVISION	**3,385**	**18.7%**	**3,651**	**19.3%**	**4,054**	**19.5%**
Non-allocated (3)	-513	-2.8%	-546	-2.9%	-577	-2.8%
TOTAL COSMETICS SALES	**2,872**	**15.8%**	**3,105**	**16.5%**	**3,477**	**16.7%**

(1) The Group's business is composed of the cosmetics branch, The Body Shop and the dermatology branch.

(2) Group share, i.e. 50%.

(3) "Non-allocated" items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non-core activities, such as insurance, reinsurance and banking.

Sales and operating profit of the cosmetics branch by geographic zone

Consolidated sales

€ millions	2010	2011	2012	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Western Europe	7,181	7,247	7,400	+0.6%	+2.1%
North America	4,291	4,406	5,211	+7.2%	+18.3%
New Markets, of which:	6,667	7,218	8,202	+9.2%	+13.6%
∎ Asia, Pacific	3,192	3,619	4,287	+9.6%	+18.4%
∎ Eastern Europe	1,399	1,337	1,405	+3.9%	+5.1%
∎ Latin America	1,518	1,681	1,827	+10.4%	+8.7%
∎ Africa, Middle East	558	581	683	+14.7%	+17.6%
TOTAL COSMETICS SALES	**18,139**	**18,871**	**20,812**	**+5.5%**	**+10.3%**

Operating profit

	2010		2011		2012	
	€ millions	% 2010 sales	€ millions	% 2011 sales	€ millions	% 2012 sales
Western Europe	1,552	21.6%	1,513	20.9%	1,576	21.3%
North America	708	16.5%	810	18.4%	960	18.4%
New Markets	1,125	16.9%	1,328	18.4%	1,518	18.5%
TOTAL GEOGRAPHIC ZONES	**3,385**	**18.7%**	**3,651**	**19.3%**	**4,054**	**19.5%**
Non-allocated (1)	-513	-2.8%	-546	-2.9%	-577	-2.8%
TOTAL COSMETICS SALES	**2,872**	**15.8%**	**3,105**	**16.5%**	**3,477**	**16.7%**

Sales of the cosmetics branch by business segment

Consolidated sales

€ millions	2010	2011	2012	2011/2012 Evoution Like-for-like	2011/2012 Evoution Reported figures
Skincare	4,936	5,257	6,052	+8.0%	+15.1%
Make-up	3,846	4,029	4,468	+5.7%	+10.9%
Haircare	4,017	4,057	4,371	+5.0%	+7.8%
Hair colourants	2,716	2,760	2,943	+3.2%	+6.6%
Perfumes	1,815	1,840	2,010	+5.6%	+9.2%
Other (2)	809	928	968	-1.1%	+4.4%
TOTAL COSMETICS SALES	**18,139**	**18,871**	**20,812**	**+5.5%**	**+10.3%**

(1) "Non-allocated" items consist of the expenses of Functional Divisions and fundamental research, stock option and free grant of shares costs, which are not allocated to the Cosmetics Divisions. This item also includes non-core activities, such as insurance, reinsurance and banking.

(2) "Other" includes hygiene products, sales made by American distributors with brands outside of the Group.

3.2.3. CONSOLIDATED SALES BY GEOGRAPHIC ZONE AND BY BUSINESS SEGMENT

Professional Products Division

Sales by geographic zone

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Western Europe	965.1	977.6	981.6	32.7%	-1.4%	+0.4%
North America	982.7	1,018.6	1,101.5	36.7%	+0.0%	+8.1%
New Markets	769.3	817.6	919.5	30.6%	+9.0%	+12.5%
TOTAL	**2,717.1**	**2,813.8**	**3,002.6**	**100%**	**+2.1%**	**+6.7%**

Sales by business segment

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Hair colourants	973.8	995.8	1,048.3	34.9%	+1.2%	+5.3%
Styling and textures	340.8	322.8	317.3	10.6%	-5.6%	-1.7%
Shampoos and haircare	1,402.6	1,495.2	1,637.0	54.5%	+4.4%	+9.5%
TOTAL	**2,717.1**	**2,813.8**	**3,002.6**	**100%**	**+2.1%**	**+6.7%**

Consumer Products Division

Sales by geographic zone

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Western Europe	3,664.9	3,686.2	3,783.0	35.3%	+0.9%	+2.6%
North America	2,167.4	2,191.9	2,555.7	23.9%	+7.9%	+16.6%
New Markets	3,697.6	3,957.1	4,374.5	40.8%	+7.1%	+10.6%
TOTAL	**9,529.9**	**9,835.2**	**10,713.2**	**100%**	**+5.0%**	**+8.9%**

Sales by business segment

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution Like-for-like	2011/2012 Evolution Reported figures
Hair colourants	1,742.5	1,764.1	1,894.6	17.7%	+4.4%	+7.4%
Haircare and styling	2,428.6	2,455.4	2,650.8	24.7%	+5.8%	+8.0%
Make-up	2,712.9	2,882.3	3,189.8	29.8%	+5.7%	+10.7%
Skincare	2,212.6	2,266.7	2,487.8	23.2%	+5.1%	+9.8%
Other	433.2	466.7	490.2	4.6%	-1.4%	+5.1%
TOTAL	**9,529.9**	**9,835.2**	**10,713.2**	**100%**	**+5.0%**	**+8.9%**

L'Oréal Luxe

Sales by geographic zone

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution	
					Like-for-like	Reported figures
Western Europe	1,798.7	1,836.2	1,872.4	33.6%	+0.7%	+2.0%
North America	1,016.4	1,064.8	1,393.0	25.0%	+11.5%	+30.8%
New Markets	1,691.4	1,899.1	2,302.7	41.4%	+13.3%	+21.3%
TOTAL	**4,506.6**	**4,800.1**	**5,568.1**	**100%**	**+8.3%**	**+16.0%**

Sales by business segment

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution	
					Like-for-like	Reported figures
Skincare	1,753.9	1,991.8	2,481.1	44.6%	+12.0%	+24.6%
Perfumes	1,730.4	1,754.5	1,928.3	34.6%	+6.2%	+9.9%
Make-up	1,022.2	1,053.8	1,158.7	20.8%	+4.4%	+10.0%
TOTAL	**4,506.6**	**4,800.1**	**5,568.1**	**100%**	**+8.3%**	**+16.0%**

Active Cosmetics Division

Sales by geographic zone

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution	
					Like-for-like	Reported figures
Western Europe	752.3	746.6	762.5	49.9%	+1.8%	+2.1%
North America	125.0	130.9	160.6	10.5%	+13.9%	+22.7%
New Markets	508.3	544.2	604.9	39.6%	+9.2%	+11.1%
TOTAL	**1,385.6**	**1,421.7**	**1,528.0**	**100%**	**+5.8%**	**+7.5%**

Sales by business segment

€ millions	2010	2011	2012	2012 weight	2011/2012 Evolution	
					Like-for-like	Reported figures
Skincare	1,056.1	1,092.8	1,181.7	77.3%	+6.0%	+8.1%
Haircare	103.3	102.3	108.8	7.1%	+6.8%	+6.4%
Make-up	100.6	90.8	92.7	6.1%	+0.7%	+2.1%
Other	125.6	135.8	144.8	9.5%	+6.8%	+6.6%
TOTAL	**1,385.6**	**1,421.7**	**1,528.0**	**100%**	**+5.8%**	**+7.5%**

The Body Shop

Retail sales (1)

					2011/2012 Evolution	
€ millions	2010	2011	2012	2012 weight	Like-for-like	Reported figures
Western Europe	508.8	518.9	548.1	37.3%	+1.9%	+5.6%
North America	177.8	175.5	184.8	12.6%	-2.3%	+5.3%
New Markets	607.7	649.9	737.6	50.1%	+6.7%	+13.5%
TOTAL	**1,294.4**	**1,344.3**	**1,470.5**	**100%**	**+3.7%**	**+9.4%**

Sales

€ millions	2010	2011	2012	2011/2012 Evolution Like-for-like
Retail sales (1)	1,294.4	1,344.3	1,470.5	+3.7%
Retail sales with a comparable store base (2)	1,175.6	1,207.3	1,316.2	+1.3%
CONSOLIDATED SALES	754.9	767.6	855.3	+4.9%

Number of stores

	12.31.2010	12.31.2011	12.31.2012	Variation in 2012
Company owned stores	1,088	1,109	1,111	+2
Franchisees	1,517	1,639	1,726	+87
TOTAL NUMBER OF STORES	**2,605**	**2,748**	**2,837**	**+89**

Galderma (100% of sales)

					2011/2012 Growth	
€ millions	2010	2011	2012	2012 weight	Like-for-like	Reported figures
Western Europe	260.6	376.4	397.4	25.0%	-2.5%	+5.6%
North America	700.6	698.9	740.2	46.5%	-2.1%	+5.9%
New Markets	242.2	334.2	453.4	28.5%	+33.7%	+35.7%
TOTAL	**1,203.4**	**1,409.5**	**1,591**	**100%**	**+5.9%**	**+12.9%**

(1) Total sales to consumers through all channels, including franchisees and e-commerce.

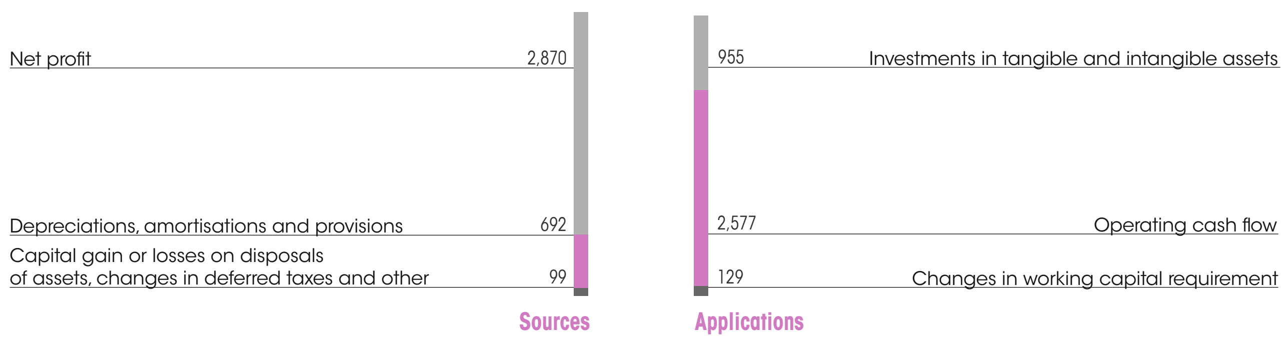
(2) Total consumer sales made by stores and e-commerce websites that were continuously present between January 1st and December 31st, 2012 and the same stores and websites present in 2011, and for the same periods for 2011 and 2010, including franchisees.

3.2.4. SIMPLIFIED CONSOLIDATED INCOME STATEMENTS

€ millions	12.31.2010	12.31.2011	12.31.2012	% 2012 sales
Sales	**19,495.8**	**20,343.1**	**22,462.7**	**100.0%**
Gross profit	**13,799.3**	**14,491.6**	**15,875.0**	**70.7%**
Research and development	-664.7	-720.5	-790.5	
Advertising and promotion	-6,029.1	-6,291.6	-6,776.3	
Selling, general and administrative expenses	-4,048.6	-4,186.9	-4,610.9	
Operating profit	**3,056.9**	**3,292.6**	**3,697.3**	**16.5%**
Operational profit	**2,903.7**	**3,196.3**	**3,573.5**	
Finance costs excluding dividends received	-35.6	-25.2	-11.0	
Sanofi dividends	283.8	295.6	313.4	
Income tax	-909.9	-1025.8	-1,005.5	
Non-controlling interests	-2.3	-2.5	-2.7	
Net profit attributable to owners of the Company	**2,239.7**	**2,438.4**	**2,867.7**	
Non-recurring items (expense + / income -)	+131.2	+144.5	+104	
Net profit excluding non-recurring items after non-controlling interests*	**2,370.9**	**2,582.9**	**2,971.7**	
Diluted earnings per share attributable to owners of the company *(euros)*	3.79	4.08	4.74	
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	4.01	4.32	4.91	

** Net profit excluding non-recurring items after non-controlling interests does not include impairment of assets, restructuring costs, tax effects or non-controlling interests.*

3.2.5. SOURCES AND APPLICATIONS OF FUNDS *(€ millions)*



Gross cash flow: **3,661**

3.2.6. FINANCIAL RATIOS

	2010	2011	2012
(% of sales) Operating profit/Sales	15.7%	16.2%	16.5%
(% of shareholders' equity) Net profit excluding non-recurring items after non-controlling interests/Opening shareholders' equity	17.4%	17.4%	16.9%
(% of shareholders' equity) Net gearing (1)	0.3%	-2.9%	-7.5%
Gross cash flow/Investments	4.7x	3.7x	3.8x

(1) Net gearing = $\dfrac{\textit{Current and non-current debt – Cash and cash equivalents}}{\textit{Shareholders' equity after non-controlling interests}}$

3.2.7. L'ORÉAL 2006-2012

€ millions	2006	2007 (1)	2008 (1)	2009	2010	2011	2012
Results							
Consolidated sales	15,790	17,063	17,542	17,473	19,496	20,343	22,463
Operating profit	2,541	2,827	2,725	2,578	3,057	3,293	3,697
As a percentage of consolidated sales	16.1%	16.6%	15.5%	14.8%	15.7%	16.2%	16.5%
Profit before tax and non-controlling interests	2,638	2,896	2,788	2,749	3,305	3,563	4,000
Net profit excluding non-recurring items after non-controlling interests	1,833	2,039	2,064	1,997	2,371	2,583	2,972
Net profit attributable to owners of the company	2,061	2,656	1,948	1,792	2,240	2,438	2,868
Total dividend	739	843	862	899	1,082	1,212	1,397 (2)
Balance sheet							
Non-current assets	19,155	17,030	16,380	17,350	17,048	19,135	21,315
Current assets excl. cash and cash equivalents	4,847	5,015	5,450	4,768	5,446	6,071	6,386
Cash and cash equivalents	781	1,087	1,077	1,173	1,550	1,652	1,823
Equity (2)	14,624	13,463	11,563	13,598	14,866	17,638	20,936
Net current and non-current debt (3)	3,329	2,373	3,700	1,958	41	-504	-1,575
Gross cash flow	2,410	2,720	2,746	2,758	3,171	3,226	3,661
Per share data *(€)*							
Diluted earnings per share attributable to owners of the company excluding non-recurring items	2.98	3.36	3.49	3.42	4.01	4.32	4.91
Dividend (5)	1.18	1.38	1.44	1.50	1.80	2.00	2.30 (5)
Share price at December 31st (4)	75.90	97.98	62.30	78.00	83.08	80.70	104.90
Highest share price during the year (4)	84.05	99.97	99.26	79.32	88.00	91.24	106.40
Lowest share price during the year (4)	62.30	74.25	53.32	46.00	70.90	68.83	79.22
Diluted weighted average number of shares outstanding (4)	615,723,220	606,012,471	590,920,078	583,797,566	591,392,449	597,633,103	605,305,458

(1) The 2007 and 2008 balance sheets have been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programs and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits.
(2) Plus non-controlling interests.
(3) The net cash surplus is 504 million euros in 2011 and 1,575 million euros in 2012.
(4) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was first listed in 1963. The share capital is €121,762,165.40 at December 31st, 2012: the par value of one share is €0.2.
(5) Dividend proposed to the Annual General Meeting of April 26th, 2013.

3.3. Recent events and prospects

3.3.1. *SIGNIFICANT EVENTS THAT HAVE OCCURRED SINCE THE BEGINNING OF 2013*

See subsequent events in note 31 of the *Consolidated financial statements* page 147.

On January 31st, L'Oréal finalized the acquisition of the Vogue make-up brand in Colombia.

On February 11th, the Board of Directors has decided the setting up of a new share buyback plan amounting to €500 million in the 1st half of 2013.

On February 27th, Galderma finalised the acquisition of Spirig in Switzerland.

No other significant event has occurred since the beginning of the 2013 financial year.

3.3.2. *PROSPECTS*

In view of these successes and improvements, the Group is facing the future with optimism and confidence. Confidence in the positive dynamics of its market. Confidence in the strength of its "Beauty for all" mission, in its "universalisation" strategy, and in its ambition to conquer one billion new consumers. And finally, confidence in the fundamentals of L'Oréal: its research, its ability to innovate and create high quality products, its outstanding portfolio of brands, its business model, which creates both value and cash flow, and lastly the unique strength of its teams.

The Group is thus well prepared to outperform the market in 2013, and to achieve another year of sales and profit growth.

To the knowledge of the Company, at February 28th, 2013, no event has occurred that could have a significant impact on the financial or commercial situation of the Group since December 31st, 2012.

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2012 CONSOLIDATED FINANCIAL STATEMENTS*

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

L'Oréal parent company is a French company with its registered office in France, which performs a sales activity specific to that country. At the same time, L'Oréal parent company has firstly a role of holding company and strategic coordination and secondly that of scientific, industrial and marketing coordination of the L'Oréal Group on a worldwide basis. Most of the subsidiaries have a role of marketing of the products manufactured by the Group's factories in the countries or zones in which it is established.

The L'Oréal Group wholly owns the vast majority of its subsidiaries. It also holds 50% of the share capital of Galderma and Innéov developed in a joint venture with Nestlé.

The financial statements set out in this chapter present the results of the L'Oréal Group as a whole, including all subsidiaries. The Statutory Auditors' Report on the consolidated financial statements has been included at the end of this chapter.

4.1. Compared consolidated income statements

€ millions	Notes	2012	2011	2010
Net sales	3	**22,462.7**	**20,343.1**	**19,495.8**
Cost of sales		-6,587.7	-5,851.5	-5,696.5
Gross profit		**15,875.0**	**14,491.6**	**13,799.3**
Research and development		-790.5	-720.5	-664.7
Advertising and promotion		-6,776.3	-6,291.6	-6,029.1
Selling, general and administrative expenses		-4,610.9	-4,186.9	-4,048.6
Operating profit	3	**3,697.3**	**3,292.6**	**3,056.9**
Other income and expenses	7	-123.8	-96.3	-153.2
Operational profit		**3,573.5**	**3,196.3**	**2,903.7**
Finance costs on gross debt		-34.5	-48.1	-43.8
Finance income on cash and cash equivalents		31.3	28.5	17.2
Finance costs, net		**-3.2**	**-19.6**	**-26.6**
Other financial income (expenses)	8	-7.8	-5.6	-9.0
Sanofi dividends		313.4	295.6	283.8
Profit before tax and non-controlling interests		**3,875.9**	**3,466.7**	**3,151.9**
Income tax	9	-1,005.5	-1,025.8	-909.9
Net profit		**2,870.4**	**2,440.9**	**2,242.0**
attributable to:				
▪ owners of the company		2,867.7	2,438.4	2,239.7
▪ non-controlling interests		2.7	2.5	2.3
Earnings per share attributable to owners of the company *(euros)*	10	4.79	4.11	3.82
Diluted earnings per share attributable to owners of the company *(euros)*	10	4.74	4.08	3.79
Earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	10	4.97	4.36	4.04
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	10	4.91	4.32	4.01

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

€ millions	Notes	2012	2011	2010
Consolidated net profit for the period		**2,870.4**	**2,440.9**	**2,242.0**
Financial assets available for sale		*1,730.9*	*1,051.6*	*-852.3*
Cash flow hedges		*103.0*	*-6.0*	*-8.0*
Cumulative translation adjustments		*-134.3*	*114.5*	*463.3*
Income tax on items that may be reclassified to profit or loss (1)		*-116.9*	*-62.8*	*15.7*
Items that may be reclassified to profit or loss		1,582.7	1,097.3	-381.3
Actuarial gains and losses	*20.4*	*-271.9*	*-172.4*	*-213.5*
Income tax on items that may not be reclassified to profit or loss (1)		*86.7*	*56.2*	*76.3*
Items that may not be reclassified to profit or loss		-185.2	-116.2	-137.2
Changes in gains and losses recognised directly in equity		**1,397.5**	**981.1**	**-518.5**
Total net profit and gains and losses recognised directly in equity		**4,267.9**	**3,422.0**	**1,723.5**
Attributable to:				
▪ **owners of the company**		**4,265.1**	**3,419.5**	**1,721.2**
▪ non-controlling interests		2.8	2.5	2.3

(1) The tax effect is as follows:

€ millions	2012	2011	2010
Financial assets available for sale	*-90.0*	*-63.9*	*14.6*
Cash flow hedges	*-26.9*	*1.1*	*1.1*
Items that may be reclassified to profit or loss	-116.9	-62.8	15.7
Actuarial gains and losses	*86.7*	*56.2*	*76.3*
Items that may not be reclassified to profit or loss	86.7	56.2	76.3
TOTAL	**-30.2**	**-6.6**	**92.0**

4.3. Compared consolidated balance sheets

ASSETS

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Non-current assets		**21,315.5**	**19,135.0**	**17,048.2**
Goodwill	11	6,478.2	6,204.6	5,729.6
Other intangible assets	12	2,625.4	2,477.3	2,177.5
Property, plant and equipment	14	2,962.8	2,880.8	2,677.5
Non-current financial assets	15	8,531.3	6,900.9	5,837.5
Deferred tax assets	9	717.8	671.4	626.1
Current assets		**8,209.6**	**7,722.6**	**6,996.3**
Inventories	16	2,033.8	2,052.1	1,810.1
Trade accounts receivable	17	3,208.8	2,996.2	2,685.3
Other current assets	18	1,006.6	904.1	846.0
Current tax assets		137.2	118.0	104.5
Cash and cash equivalents	19	1,823.2	1,652.2	1,550.4
TOTAL		**29,525.1**	**26,857.6**	**24,044.5**

EQUITY & LIABILITIES

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Equity	**20**	**20,936.4**	**17,637.5**	**14,865.8**
Share capital		121.8	120.6	120.2
Additional paid-in capital		1,679.0	1,271.4	1,148.3
Other reserves		13,690.6	12,368.8	11,107.1
Items recognised directly in equity		3,586.4	2,054.7	1,188.1
Cumulative translation adjustments		-109.4	24.9	-89.6
Treasury stock		-904.5	-644.4	-850.9
Net profit attributable to owners of the company		2,867.7	2,438.4	2,239.7
Equity attributable to owners of the company		**20,931.6**	**17,634.4**	**14,862.9**
Non-controlling interests		4.8	3.1	2.9
Non-current liabilities		**2,219.2**	**2,090.2**	**2,596.6**
Provisions for employee retirement obligations and related benefits	21	1,226.2	1,128.9	1,129.0
Provisions for liabilities and charges	22	181.7	226.1	181.3
Deferred tax liabilities	9	764.4	677.7	462.0
Non-current borrowings and debt	23	46.9	57.5	824.3
Current liabilities		**6,369.5**	**7,129.9**	**6,582.1**
Trade accounts payable		3,318.0	3,247.7	3,153.5
Provisions for liabilities and charges	22	552.3	500.7	536.9
Other current liabilities	25	2,141.1	2,066.7	1,958.1
Income tax		157.0	224.0	166.6
Current borrowings and debt	23	201.1	1,090.8	767.0
TOTAL		**29,525.1**	**26,857.6**	**24,044.5**

4.4. Consolidated statements of changes in equity

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Items recognised directly in equity	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2010	**589,655,903**	**120.2**	**1,148.3**	**13,346.8**	**1,188.1**	**-850.9**	**-89.6**	**14,862.9**	**2.9**	**14,865.8**
Consolidated net profit for the period				2,438.4				2,438.4	2.5	2,440.9
Financial assets available for sale					*987.7*			*987.7*		*987.7*
Cash flow hedges					*-4.9*			*-4.9*		*-4.9*
Cumulative translation adjustments							*114.5*	*114.5*		*114.5*
Change in gains and losses recognised directly in equity and items that may be reclassified to profit or loss					982.8		114.5	1,097.3		1,097.3
Actuarial gains and losses					*-116.2*			*-116.2*		*-116.2*
Change in gains and losses recognised directly in equity and items that may not be reclassified to profit or loss					-116.2			-116.2		-116.2
Total net profit and gains and losses recognised directly in equity				**2,438.4**	**866.6**		**114.5**	**3,419.5**	**2.5**	**3,422.0**
Capital increase	1,991,497	0.4	123.1					123.5		123.5
Cancellation of Treasury stock								-		-
Dividends paid (not paid on Treasury stock)				-1,065.3				-1,065.3	-2.2	-1,067.5
Share-based payment				86.8				86.8		86.8
Net changes in Treasury stock	2,739,023			1.7		206.5		208.2		208.2
Other movements				-1.2				-1.2	-0.1	-1.3
At 12.31.2011	**594,386,423**	**120.6**	**1,271.4**	**14,807.2**	**2,054.7**	**-644.4**	**24.9**	**17,634.4**	**3.1**	**17,637.5**
Consolidated net profit for the period				2,867.7				2,867.7	2.7	2,870.4
Financial assets available for sale					*1,640.9*			*1,640.9*		*1,640.9*
Cash flow hedges					*76.0*			*76.0*	*0.1*	*76.1*
Cumulative translation adjustments							*-134.3*	*-134.3*		*-134.3*
Change in gains and losses recognised directly in equity and items that may be reclassified to profit or loss					1,716.9		-134.3	1,582.6	0.1	1,582.7
Actuarial gains and losses					*-185.2*			*-185.2*		*-185.2*
Change in gains and losses recognised directly in equity and items that may not be reclassified to profit or loss					-185.2			-185.2		-185.2
Total net profit and gains and losses recognised directly in equity				**2,867.7**	**1,531.7**		**-134.3**	**4,265.1**	**2.8**	**4,267.9**
Capital increase	5,826,745	1.2	407.6					408.8	1.4	410.2
Cancellation of Treasury stock								-		-
Dividends paid (not paid on Treasury stock)				-1,204.3				-1,204.3	-2.5	-1,206.8
Share-based payment				86.4				86.4		86.4
Net changes in Treasury stock	-1,856,506			2.4		-260.1		-257.7		-257.7
Other movements				-1.1				-1.1		-1.1
AT 12.31.2012	**598,356,662**	**121.8**	**1,679.0**	**16,558.3**	**3,586.4**	**-904.5**	**-109.4**	**20,931.6**	**4.8**	**20,936.4**

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4.5. Compared consolidated statements of cash flows

€ millions	Notes	2012	2011	2010
Cash flows from operating activities				
Net profit attributable to owners of the company		2,867.7	2,438.4	2,239.7
Non-controlling interests		2.7	2.5	2.3
Elimination of expenses and income with no impact on cash flows:				
▪ depreciation, amortisation and provisions		691.6	614.3	734.2
▪ changes in deferred taxes	9.1	17.3	85.9	110.0
▪ share-based payment (including free shares)	20.3	86.4	86.8	84.8
▪ capital gains and losses on disposals of assets		-4.3	-1.7	0.1
Gross cash flow		**3,661.4**	**3,226.2**	**3,171.1**
Changes in working capital	27	-129.1	-322.0	132.5
Net cash provided by operating activities (A)		**3,532.3**	**2,904.2**	**3,303.6**
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		-955.0	-865.7	-677.9
Disposals of property, plant and equipment and intangible assets		7.3	15.2	18.3
Changes in other financial assets (including investments in non-consolidated companies)		105.8	-1.2	2.3
Effect of changes in the scope of consolidation	28	-466.2	-717.4	-160.7
Net cash (used in) from investing activities (B)		**-1,308.1**	**-1,569.1**	**-818.0**
Cash flows from financing activities				
Dividends paid		-1,268.2	-1,107.6	-921.6
Capital increase of the parent company		408.8	123.5	152.3
Capital increase of subsidiaries		1.4	-	-
Disposal (acquisition) of Treasury stock		-257.7	208.2	184.0
Purchase of non-controlling interests		-	-	-8.7
Issuance (repayment) of short-term loans		-906.7	852.8	-132.6
Issuance of long-term borrowings		-	-	4.0
Repayment of long-term borrowings		-13.4	-1,333.6	-1,462.5
Net cash (used in) from financing activities (C)		**-2,035.8**	**-1,256.7**	**-2,185.1**
Net effect of changes in exchange rates and fair value (D)		-17.4	23.4	76.9
Change in cash and cash equivalents (A+B+C+D)		**171.0**	**101.8**	**377.4**
Cash and cash equivalents at beginning of the year (E)		**1,652.2**	**1,550.4**	**1,173.1**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (A+B+C+D+E)	**19**	**1,823.2**	**1,652.2**	**1,550.4**

Income taxes paid amount to €1,114.0 million, €870.5 million and €713.3 million respectively for the years 2012, 2011 and 2010.

Interests paid amount to €34.5 million, €49.9 million and €46.6 million respectively for the years 2012, 2011 and 2010.

Dividends received amount to €313.4 million, €295.6 million and €283.8 million respectively for the years 2012, 2011 and 2010, and are included within gross cash flow.

4.6. Notes to the consolidated financial statements

DETAILED LIST OF NOTES

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NOTE 1 Accounting principles

The consolidated financial statements of L'Oréal and its subsidiaries ("the Group") published for 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union as of December 31st, 2012.

On February 11th, 2013, the Board of Directors closed the consolidated financial statements at December 31st, 2012. The financial statements will not become final until they have been approved by the Annual General Meeting of shareholders to be held on April 26th, 2013.

At the closing date, the Group is not concerned by the standards or amendments to standards published and applicable as from January 1st, 2012.

The Group did not early adopt any standards or interpretations not mandatorily applicable in 2012.

The Group may be concerned by the following amendments or new standards, which are applicable as from January 1st, 2013:

- Amendments to IAS 19 (revised), "Employee benefits". This amendment requires:
  - past service cost to be recognised immediately in profit or loss, with recognition over several periods no longer permitted;

- the return on plan assets to be calculated based on the discount rate for the obligation.
  The pro forma impact of these amendments on net profit for 2012 is not material, representing a negative €17 million before tax and a negative €11 million after tax.
  The impact on equity is minimal.

- IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosures of Interests in Other Entities".
  These standards redefine the notion of control over another entity, and abolish proportionate consolidation for jointly controlled entities.
  Only the equity method may now be used for such entities.
  Consequently, Galderma and Innéov which are currently proportionately consolidated will henceforth be accounted for using the equity method. At December 31st, 2012, the entities concerned contributed €824.3 million to net sales and €138.9 million to operating profit, based on a 50% interest.
  L'Oréal will adopt these three standards as from January 1st, 2014, as required by the European Union.

- IFRS 13 "Fair Value Measurement".
  L'Oréal is currently analysing the consequences of IFRS 13 for the Group. It may be concerned by the requirement to include credit risk in the measurement of fair value, particularly for derivatives. The Group does not expect IFRS 13 to have a material impact on its consolidated financial statements.

1.1. USE OF ESTIMATES

The preparation of the consolidated financial statements in accordance with international accounting standards requires that the Group make a certain number of estimates and assumptions that may affect the value of the Group's assets, liabilities, equity and net profit (loss).

These estimates and assumptions mainly concern the measurement of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payment. Estimates used by the Group in relation to these different areas are made on the basis of information available at the date the accounts are prepared and described in detail in each specific associated note.

1.2. SCOPE AND METHODS OF CONSOLIDATION

All companies included in the scope of consolidation have a fiscal year ending December 31st or close their accounts on that date.

All companies directly or indirectly controlled by the parent company L'Oréal have been fully consolidated.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been proportionally consolidated.

Associates over which the Group has a significant influence have been accounted for by the equity method.

1.3. FOREIGN CURRENCY TRANSLATION

1.3.1. Accounting for foreign currency transactions in consolidated companies

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

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

Forward foreign exchange contracts and options are put in place in order to hedge items recorded in the balance sheet (fair value hedges) and cash flows on highly probable future commercial transactions (cash flow hedges).

All foreign exchange hedging instruments are recorded on the balance sheet at their market value, including those which relate to purchases and sales in the next accounting period. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, changes in the fair value of these hedging instruments is recorded as follows:

- changes in the market value linked to variations in the time value (forward points and premiums paid for options) are recorded in the income statement;

- changes in the market value linked to variations in the spot rate between the inception of the hedge and the closing date are charged to equity, and the amount accumulated in equity impacts income statements at the date on which the transactions hedged are completed. Any remaining hedge ineffectiveness is recognised directly in the income statement.

In application of hedge accounting, unrealised exchange gains and losses relating to unsold inventories are deferred in the inventories item in the balance sheet. Similarly, if a currency hedge has been taken out in respect of fixed assets purchased with foreign currency, these assets are valued in the balance sheet on the basis of the hedging rate.

The Group may decide to hedge certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated equity, under the item *Cumulative translation adjustments*.

1.3.2. Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Income statement items are translated at average exchange rates for the year.

The resulting translation difference attributable to the Group is entered directly under equity under the item *Cumulative translation adjustments*, while the translation difference attributable to non-controlling interests is recognised under the *Non-controlling interests* item. The translation difference does not impact the income statement other than at the time the Company is sold.

1.3.3. Valuation of goodwill in foreign currencies

Goodwill generated on foreign companies is considered to form part of the assets and liabilities of the foreign company, and is therefore expressed in the entity's functional currency and translated using exchange rates effective at the closing date. Goodwill recorded before January 1st, 2004 continues to be recorded in euros.

1.4. NET SALES

Net sales are recognised when the risks and rewards inherent to ownership of the goods have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers resulting in a cash outflow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales if they can be estimated in a reasonably reliable manner, based mainly on statistics compiled from past experience and contractual conditions.

1.5. COST OF SALES

The cost of goods sold consists mainly of the industrial production cost of products sold, the cost of distributing products to customers including freight and delivery costs, either directly or indirectly through depots, inventory impairment costs, and royalties paid to third parties.

1.6. RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure during the research phase is charged to the income statement for the financial year during which it is incurred.

Expenses incurred during the development phase are recognised as *Intangible assets* only if they meet all the following criteria set out in IAS 38:

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

In view of the very large number of development projects and uncertainties concerning the decision to launch products relating to these projects, L'Oréal considers that some of these capitalisation criteria are not met.

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 income statement for the financial year in which they are incurred.

1.8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

These expenses relate mainly to sales teams and sales team management, marketing teams and administrative services, as well as general expenses and the costs of share-based payment (stock options and free shares).

1.9. FOREIGN EXCHANGE GAINS AND LOSSES

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives. Changes in the time value of hedging derivatives (including option premiums) are systematically charged to the income statement (note 1.3).

1.10. OPERATING PROFIT

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses. Operating profit corresponds to the definition of current operating profit provided by *Conseil National de la Comptabilité* (CNC) recommendation No. 2009-R-03 of July 2nd, 2009 regarding the presentation of financial statements for companies applying international accounting standards. It notably includes the entire charge relating to the *Contribution Economique Territoriale* (CET) tax collected in France, including its value-added based component. The classification of the CET tax in operating expenses is therefore consistent with the classification of the former business tax *(taxe professionelle)* it replaces.

1.11. OTHER INCOME AND EXPENSES

The *Other income and expenses item* includes capital gains and losses on disposals of property, plant and equipment and intangible assets, impairment of assets, restructuring costs, and clearly identified, non-recurring income and expense items that are material to the consolidated financial statements.

The cost of restructuring operations is fully provisioned if it results from a Group obligation towards a third party originating from a decision taken by a competent body which is announced to the third parties concerned before the end of the reporting period. This cost consists mainly of severance payments, early retirement payments, the cost of unworked notice periods, the costs of training for employees affected by the restructuring measures, and other costs relating to site closures. Any write-offs of fixed assets or impairment charged against inventories and other assets related directly to these restructuring measures are also recorded as restructuring costs.

1.12. OPERATIONAL PROFIT

Operational profit is calculated based on operating profit and includes other income and expenses such as capital gains and losses on disposals of property, plant, and equipment and intangible assets, impairment of assets, and restructuring costs.

1.13. FINANCE COSTS, NET

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

Net finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

1.14. INCOME TAX

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carryforwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilized.

Under the French system of tax consolidation, the taxable profits of some French companies are offset when determining the overall tax charge, which is payable only by L'Oréal, the parent company of the tax group. Tax consolidation systems also exist outside France.

1.15. INTANGIBLE ASSETS

1.15.1. Goodwill

Business combinations are accounted for by the purchase method. The assets, liabilities and contingent liabilities of the Company acquired are measured at fair value at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition and the Group's interest in the fair value of the identified assets and liabilities is recorded as *Goodwill* and allocated to the Cash-Generating Units expected to benefit from the acquisition or the related synergies.

Goodwill generated on the acquisition of an associate is presented in the *Investments in associates* line.

Goodwill is not amortised. It is tested for impairment at least once a year during the fourth quarter or whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

Impairment tests consist of comparing the carrying amount of assets including goodwill with the recoverable amount of each Cash-Generating Unit. A Cash-Generating Unit corresponds to one or more worldwide brands. A Cash-Generating Unit can contain several brands depending on organisational criteria and particularly when distribution circuits and commercial/management structures are pooled. Recoverable values are determined on the basis of discounted operating cash flow forecasts covering a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. The cash flows are determined in the currencies of the countries in question and are translated, in the same way as the net carrying amounts to which they are compared, at the estimated exchange rate for the following year. The discount rate used for these calculations is based on the weighted average cost of capital (WACC), which amounts to 7.9% in 2012, 2011 and 2010 for amounts in euro, adjusted where appropriate by a country risk premium according to the geographic zones concerned. The discount rates are post-tax rates applied to post-tax cash flows, and result in recoverable amounts identical to those obtained by applying pre-tax rates to pre-tax cash flows. The assumptions adopted in terms of sales growth and terminal values are reasonable and consistent with the available market data (generally around 3% for terminal values except in specific cases).

The use of discounted cash flow forecasts is preferred in order to determine recoverable amounts, unless details of similar recent transactions are readily available.

Impairment charged against goodwill cannot be reversed.

For business combinations carried out after January 1st, 2010, the main changes with regard to previously applicable accounting principles are set out below:

- for each acquisition, the Group chooses whether to recognise the full amount of goodwill regardless of the ownership interest acquired, or an amount of goodwill corresponding to its interest in the acquired company (previously the only method allowed);
- deferred tax assets recognised after the initial accounting is complete are included in profit or loss, and in contrast to previous practices, the amount of goodwill that would have been recorded had the deferred tax asset been recognised as an identifiable asset at the acquisition date is not deducted;
- costs incurred in respect of a business combination are now expensed and no longer included in the cost of the acquisition;
- the cost of the acquisition, which includes contingent consideration, is recognised and measured at its acquisition-date fair value. Subsequent changes in fair value, affecting in particular the contingent consideration recorded in liabilities, are taken to Other income and expenses in the income statement and no longer treated as an adjustment to goodwill;
- any previous interest held in the acquiree prior to the date control was obtained is now remeasured at its acquisition-date fair value, with the corresponding gain or loss on remeasurement taken to the income.

1.15.2. Other intangible assets

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition as well as internally generated intangible assets are also included in this item.

A) INTANGIBLE ASSETS ACQUIRED THROUGH BUSINESS COMBINATIONS

They mainly consist of trademarks, customer relationships and formulas and patents.

With regard to trademarks, the use of the discounted cash flow method is preferred to enable the value in use to be monitored more easily following the acquisition.

Two approaches have been adopted to date:

- **premium-based approach**: this method involves estimating the portion of future cash flows that could be generated by the trademark, compared with the future cash flows that the activity could generate without the trademark;
- **royalty-based approach**: this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks, based on sales forecasts drawn up by the Group.

These approaches are based on a qualitative analysis of the trademark in order to ensure that the assumptions selected are relevant. The discount rate used is based on the weighted average cost of capital (WACC) for the target acquired. Terminal growth rates are consistent with available market data (generally around 3%, except in specific cases).

A trademark may have a finite or an indefinite life span.

Local trademarks which are to be gradually replaced by an international trademark already existing within the Group have a finite life span.

They are amortised over their useful lives as estimated at the date of acquisition.

International trademarks are trademarks which have an indefinite life span. They are tested for impairment at least once a year during the fourth quarter, and whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable amount of the trademark based on the model adopted when the acquisition took place.

Customer relationships refer to relations developed with customers either through contractual arrangements or by non-contractual means through constant revenue streams resulting from the target's competitive position or reputation in its market.

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The useful life of a customer relationship is limited and varies depending on the estimated attrition rate of existing customers at the time of the acquisition.

The Group may decide to identify and value patents and formulas that it intends to develop.

The value of a patent or a formula is assessed on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The amortisation period applicable to patents corresponds to the period during which they enjoy legal protection. Formulas, which are not protected by legal means, are amortised over a maximum period of 5 years.

B) INTERNALLY GENERATED INTANGIBLE ASSETS

These mainly consist of software.

The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades resulting in additional functions are also capitalised.

Capitalised development costs are amortised from the date on which the software is made available in the entity concerned over its probable useful life, which in most cases is between 5 and 8 years.

1.16. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded on the balance sheet at cost and are not revalued.

Significant capital assets financed through capital leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within borrowings and debt on the balance sheet.

Investment subsidies are recorded as liabilities under *Other current liabilities.*

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Property, plant and equipment are depreciated using the straight-line method, over the following useful lives:

Buildings	10-40 years
Industrial machinery and equipment	5-15 years
Point-of-sales advertising: stands and displays	3-5 years
Other	3-10 years

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment are considered to have a value of zero at the end of the useful lives indicated above.

1.17. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets include investments in non-consolidated companies and long-term loans and receivables maturing after more than 12 months.

Investments in non-consolidated companies are considered to be financial assets available for sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line *Items directly recognised in equity.*

The fair value of listed securities is determined on the basis of the share price at the closing date. If the fair value of unlisted securities cannot be reliably determined, these securities are valued at cost.

If the unrealised loss accounted for through equity is representative of significant or prolonged impairment, this loss is recorded in the income statement.

Long-term loans and receivables are considered to be assets generated by the business. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

1.18. INVENTORIES

Inventories are valued at the lower of cost or net realisable value. Cost is calculated using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

1.19. TRADE ACCOUNTS RECEIVABLE

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value.

A provision is made for any doubtful receivables based on an assessment of the risk of non-recovery.

The Group's policy is to recommend credit insurance coverage when this is allowed by local regulations.

1.20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

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

Bank overdrafts considered to be financing are presented in *Current borrowings and debt.*

Units of cash unit trusts are considered to be assets available for sale. As such, they are valued in the balance sheet at their market value at the closing date. Any related unrealised gains are accounted for in *Finance costs, net* in the income statement.

The carrying amount of bank deposits is a reasonable approximation of their fair value.

1.21. TREASURY STOCK

Treasury stock is recorded at acquisition cost and deducted from equity. Capital gains/losses on disposal of Treasury stock net of tax are charged directly to equity and do not contribute to profit for the financial year.

1.22. SHARE-BASED PAYMENT: SHARE SUBSCRIPTION OR PURCHASE OPTIONS – FREE SHARES

In accordance with the requirements of IFRS 2 "Share-based payment", the value of options or free shares granted as calculated at the grant date is expensed in the income statement over the vesting period, which is generally 5 years for purchase options and 4 years for free shares.

The fair value of stock options is determined using the Black & Scholes model. This model takes into account the characteristics of the plan such as the exercise price and exercise period, and market data at the grant date such as the risk-free rate, share price, volatility, expected dividends and behavioural assumptions regarding beneficiaries.

The fair value of free shares corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.

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

The impact of IFRS 2 on profit for the period is booked on the *Selling, general and administrative expenses* line of the income statement at Group level, and is not allocated to the Divisions or geographic zones.

1.23. PROVISIONS FOR EMPLOYEE RETIREMENT OBLIGATIONS AND RELATED BENEFITS

The Group operates pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid. The characteristics of the defined benefit schemes in force within the Group are as follows:

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

  These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

As from January 1st, 2009, the Group decided to adopt the IAS 19 option allowing the direct recognition in equity of actuarial gains and losses instead of the corridor method.

The charges recorded in the income statement during the year include:

- service cost, *i.e.* additional rights vested by employees during the accounting period;
- interest cost, *i.e.* change in the value of the discounted rights over the past year;
- expected return on plan assets, *i.e.* income from external funds calculated on the basis of a standard return on long-term investments;
- the impact of any change to existing schemes on previous years or of any new schemes.

To determine the discounted value of the obligation for each scheme, the Group applies an actuarial valuation method based on the final salary (projected unit credit method). The obligations and the fair value of plan assets are assessed each year using length-of-service, life expectancy, staff turnover by category and economic assumptions (such as inflation rate and discount rate).

Actuarial gains and losses in relation to other benefits such as jubilee awards and long-serve bonuses are immediately charged to the income statement.

The liability corresponding to the Company's net defined benefit obligation regarding its employees is recorded in the balance sheet on the *Provisions for employee retirement obligation and related benefits* line.

1.24. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are set up to cover probable outflows for the benefit of third parties without any equivalent consideration being received by the Group in return. They relate mainly to restructuring costs and tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

These provisions are estimated on the basis of the assumptions deemed most probable or by using statistical methods, depending on the type of provisions.

Provisions for liabilities and charges are recorded either as *Non-current liabilities* or as *Current liabilities*, depending on their nature. Provisions for liabilities or litigation which must be settled within 12 months of the closing date, and those linked to the normal operating cycle (such as product returns), are recorded as *Current liabilities*. Other provisions for liabilities and charges are recorded as *Non-current liabilities*.

1.25. BORROWINGS AND DEBT

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

In accordance with the principle of fair value hedge accounting, fixed-rate borrowings and debt swapped at a floating rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance costs and are offset by changes in the value of the related interest rate swaps.

The fair value of fixed-rate debt is determined by the discounted cash flow method using bond yield curves at the closing date, allowing for the spread corresponding to the Group's risk class to be taken into account.

The carrying amount of floating-rate debt is a reasonable approximation of its fair value.

Medium- and long-term borrowings and debt are recorded under *Non-current liabilities*. Short-term borrowings and debt and the current portion of medium- and long-term borrowings and debt are presented under *Current liabilities*.

1.26. FINANCIAL DERIVATIVES

Derivative instruments entered into to hedge identifiable foreign exchange and interest rate risks are accounted for in accordance with hedge accounting principles.

The accounting principles applicable to foreign exchange risk are set out in detail in note 1.3.

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

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

1.27. EARNINGS PER SHARE

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

Basic earnings per share are obtained on the basis of the weighted average number of shares outstanding during the year, less the average number of treasury shares held deducted from equity.

Where applicable, diluted earnings per share take into account dilutive stock options and free shares in accordance with the Treasury stock method, under which sums collected on exercise or purchase are assumed to be allocated firstly to share buybacks at market price.

NOTE 2 Changes in the scope of consolidation

2.1. 2012

On April 26th, 2012, L'Oréal announced that it had acquired 100% of Cadum, previously majority-owned by the investment fund Milestone.
In 2011, Cadum had consolidated net sales of €58 million, of which €49 million were made in France, mainly under the Cadum brand. The acquisition was fully consolidated as from May 1st, 2012.
On July 13th, 2012, L'Oréal announced that it had completed the sale of the home care business from the Cadum Group to Eau Ecarlate SAS.
This business had net sales of €17 million in 2011, two thirds of which were made in France.
The sale of the home care business resulted in the derecognition of IBA's entire assets and liabilities, with no impact on the Group's consolidated net profit.

On October 21st, 2012, L'Oréal USA announced that it had signed a contract to acquire the professional distribution business of the New Jersey-based company Emiliani Enterprises.
Well-established in the New York area, New Jersey and Connecticut, Emiliani Enterprises supplies hair salons through a network of representatives and sales outlets open only to professionals, and in 2011 had net sales of approximately $73 million. This acquisition was finalised on December 18th, 2012 and was fully consolidated as from that date.

On November 26th, 2012, L'Oréal signed an agreement to acquire Urban Decay, America's expert make-up brand. This brand fully complements L'Oréal Luxe's portfolio of brands and strengthens the Group's position in two very dynamic distribution channels in the USA: assisted self-service and e-commerce.
Urban Decay had net sales of $130 million in the last fiscal year ended June 30th, 2012.
This acquisition was finalised on December 17th, 2012 and was fully consolidated from that date.

The cost of these new acquisitions amounts to €483.0 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €306.4 million and €135.6 million, respectively.

These acquisitions represent around €200 million in full-year net sales and €10.4 million in full-year operating profit in 2012. Their impact on 2012 net sales is approximately €35 million.

2.2. 2011

On January 1st, 2011, Matrix Distribution GmbH, a wholly owned subsidiary of L'Oréal Deutschland GmbH, took over the cosmetic and scissors businesses of Germany-based company Arex GmbH. Arex GmbH sells exclusive hairdressing brands and high quality scissors exclusively to hairdressers. Arex GmbH had sales of €7 million in 2010 and has been fully consolidated since January 1st, 2011.

On December 13th, 2010, Galderma Holding AB, a wholly owned subsidiary of Galderma Pharma S.A., announced that it had launched a cash offer for Q-Med, a company listed on Nasdaq OMX Nordic in Stockholm.
Created in 1987, Q-Med is a medical device company which develops, markets and sells high quality medical implants for aesthetic and medical use. The majority of its products are based on the company's patented NASHA™ technology for the production of stabilized non-animal hyaluronic acid.
Among other products, its current product portfolio includes Restylane for smoothing out lines and improving facial contours, and the Macrolane injection for shaping the body.
Sales are made through the company's own subsidiaries and distributors in over 70 countries. Q-Med has approximately 636 employees in 20 countries, including around 364 based at the company's head office, R&D laboratories and production facility in Uppsala, Sweden.
In 2010, the company had total revenues of SEK1.5 billion and an operating profit of SEK287 million.

The acceptance period for the offer started on January 4th and ended on March 11th, 2011.
A price of SEK79.00 in cash was offered for each share, with the exception of shares owned by Q-Med founder Bengt Agerup, who sold his 47.5% stake at a price of SEK58.94 per share. An earn-out clause stipulates that the total price can under no circumstances exceed SEK74.96 per share.
On March 15th, 2011, Galderma declared the offer wholly unconditional and acquired 95,361,096 shares, representing 95.95% of the existing issued share capital of Q-Med. Galderma decided to request compulsory acquisition of the remaining shares in Q-Med shares, which was obtained on November 15th, 2011.
Q-Med is proportionally consolidated as from March 1st, 2011.

On December 15th, 2011, L'Oréal announced the completed acquisition of Pacific Bioscience Laboratories Inc., the market leader in the rapidly growing area of sonic skin care devices. The move gives L'Oréal access to patented sonic skin care technology enabling the Company to acquire strategic positions in the booming skin care devices category.

Clarisonic® is sold mainly throughout the US and is also present in the UK, Australia, Mexico, Canada and the Far East. It is sold through a distribution network which includes dermatologists and cosmetic surgeons, spas, prestige retail, e-tail, television shopping and clarisonic.com. In full-year 2010, Clarisonic® delivered net sales of $105 million. It has been fully consolidated since December 15th, 2011.

The cost of these new acquisitions was €815.2 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated at €426.3 million and €320.8 million, respectively.

These acquisitions represent around €193 million in sales and €33 million in operating profit in 2011.

2.3. 2010

On April 21st, 2010, L'Oréal USA signed an agreement to acquire the assets of Essie Cosmetics, the ultimate nail colour authority in the US, sold mainly in American salons and spas. The acquisition was completed on June 25th, 2010 and the company has been fully consolidated since June 30th, 2010. Essie's net sales were $25 million in 2009.

On June 1st, 2010, L'Oréal USA acquired 100% of the capital of C.B. Sullivan, a New Hampshire-based company. C.B. Sullivan supplies hair salons in six states across the north-eastern United States (Vermont, New Hampshire, Maine, Connecticut, Rhode Island and Massachusetts), with a network of representatives and professional-only outlets. The company's net sales in fiscal year 2009 were approximately $50 million. The acquisition was fully consolidated as of June 1st, 2010.

On December 10th, 2010, L'Oréal USA acquired the professional distribution business of Peel's Salon Services, a Nebraska-based company. Peel's Salon Services supplies hair salons in 12 states across the mid-US, with a network of representatives and professional-only outlets. The company's net sales are approximately $100 million. This acquisition was fully consolidated as of December 11th, 2010.

The cost of these new acquisitions amounts to approximately €204.1 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was estimated after the final purchase price allocation at €119.9 million and €68.6 million, respectively.

These acquisitions represent around $170 million in full-year sales and $7.2 million in full-year operating profit for 2010. They would have contributed $130 million in additional net sales for the Group over the 12 months of 2010.

NOTE 3 Segment information

3.1. *SEGMENT INFORMATION*

The **Cosmetics** branch is organised into four sectors, each operating with specific distribution channels:

- **Professional Products Division:** products used and sold in hair salons;
- **Consumer Products Division:** products sold in mass-market retail channels;
- **L'Oréal Luxury Division:** products sold in selective retail outlets, *i.e.* department stores, perfumeries, travel retail, the Group's own boutiques and certain online sites;
- **Active Cosmetics Division:** products for "borderline" complexions (*i.e.* neither healthy nor problematic), sold through all health channels such as pharmacies, parapharmacies, drugstores and medispas.

The *non-allocated* item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options not allocated to the Cosmetics Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

The "**The Body Shop**" branch: The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 60 countries), as well as through home and online sales. The Body Shop net sales and operating profit are characterised by strong seasonal fluctuations due to a high level of activity during the last few months of the year.

The **Dermatology** branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, meets the needs of dermatologists and their patients.

Data by branch and by Division are prepared using the same accounting principles as those used for the preparation of the consolidated financial statements.

The performance of each branch and Division is measured on the basis of operating profit.

€ millions 2012	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	3,002.6	615.2	2,707.4	67.2	103.9
Consumer Products	10,713.2	2,050.8	6,563.2	483.1	402.0
L'Oréal Luxury	5,568.1	1,077.0	4,592.1	199.9	197.2
Active Cosmetics	1,528.0	311.2	851.9	30.0	41.7
COSMETICS DIVISIONS TOTAL	**20,811.9**	**4,054.3**	**14,714.6**	**780.2**	**744.8**
Non-allocated		-577.2	556.1	122.4	117.6
Cosmetics branch	20,811.9	3,477.1	15,270.7	902.6	862.4
The Body Shop branch	855.3	77.5	1,169.8	34.8	40.2
Dermatology branch	795.5	142.6	1,017.4	32.6	71.8
GROUP	**22,462.7**	**3,697.3**	**17,457.9**	**970.0**	**974.4**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2011	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,813.8	578.6	2,728.7	83.0	97.8
Consumer Products	9,835.2	1,859.0	6,167.0	427.6	344.8
L'Oréal Luxury	4,800.1	926.3	4,304.5	160.7	184.9
Active Cosmetics	1,421.7	286.7	857.3	28.0	43.3
COSMETICS DIVISIONS TOTAL	**18,870.8**	**3,650.6**	**14,057.5**	**699.3**	**670.8**
Non-allocated		-546.2	511.7	107.6	121.2
Cosmetics branch	18,870.8	3,104.4	14,569.2	806.9	792.0
The Body Shop branch	767.6	68.1	1,163.6	24.0	30.9
Dermatology branch	704.7	120.1	1,017.2	32.8	66.7
GROUP	**20,343.1**	**3,292.6**	**16,750.0**	**863.7**	**889.6**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

€ millions 2010	Sales	Operating profit	Operational assets (1)	Investments in property, plant and equipment and intangible assets	Depreciation, amortisation and provisions
Professional Products	2,717.1	551.9	2,624.0	53.4	101.4
Consumer Products	9,529.9	1,764.6	5,994.0	359.3	409.0
L'Oréal Luxury	4,506.6	790.5	3,651.2	113.3	172.2
Active Cosmetics	1,385.6	278.2	829.6	23.2	40.2
COSMETICS DIVISIONS TOTAL	**18,139.1**	**3,385.3**	**13,098.8**	**549.1**	**722.8**
Non-allocated		-512.9	396.1	106.1	82.7
Cosmetics branch	18,139.1	2,872.4	13,494.9	655.2	805.4
The Body Shop branch	754.9	65.3	1,104.7	11.9	34.9
Dermatology branch	601.7	119.2	612.4	24.0	47.5
GROUP	**19,495.8**	**3,056.9**	**15,212.0**	**691.1**	**887.8**

(1) Operational assets mainly include goodwill, intangible assets and property, plant and equipment, trade accounts receivable and inventories.

Operational assets can be reconciled to the 2012, 2011 and 2010 balance sheets as follows:

€ millions	2012	2011	2010
Operational assets	17,457.9	16,750.0	15,212.0
Non-current financial assets	8,531.3	6,900.9	5,837.5
Deferred tax assets	717.8	671.4	626.1
Other current assets	994.9	883.0	818.5
Cash and cash equivalent	1,823.2	1,652.2	1,550.4
Non-allocated assets	12,067.2	10,107.6	8,832.5
TOTAL ASSETS	**29,525.1**	**26,857.6**	**24,044.5**

3.2. INFORMATION BY GEOGRAPHIC ZONE

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

3.2.1. Consolidated net sales by geographic zone

	2012		Growth (%)		2011		2010	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	8,156.2	36.3%	2.8%	1.5%	7,931.1	39.0%	7,801.7	40.0%
of which France	2,528.6	11.3%	5.0%	5.0%	2,408.6	11.8%	2,323.9	11.9%
North America	5,773.0	25.7%	17.0%	8.3%	4,932.1	24.2%	4,818.7	24.7%
New Markets	8,533.4	38.0%	14.1%	9.6%	7,479.9	36.8%	6,875.4	35.3%
GROUP	**22,462.7**	**100.0%**	**10.4%**	**6.2%**	**20,343.1**	**100.0%**	**19,495.8**	**100.0%**

3.2.2. Cosmetics net sales by geographic zone

	2012		Growth (%)		2011		2010	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,399.6	35.6%	2.1%	1.0%	7,246.6	38.4%	7,181.0	39.6%
of which France	2,469.7	11.9%	4.8%	4.8%	2,355.7	12.5%	2,264.9	12.5%
North America	5,210.7	25.0%	18.3%	9.4%	4,406.2	23.3%	4,291.5	23.7%
New Markets	8,201.6	39.4%	13.6%	9.2%	7,218.0	38.2%	6,666.6	36.8%
Asia, Pacific	4,287.0	20.6%	18.4%	9.6%	3,619.5	19.2%	3,192.2	17.6%
Eastern Europe	1,405.0	6.8%	5.1%	3.9%	1,336.9	7.1%	1,398.9	7.7%
Latin America	1,826.6	8.8%	8.7%	10.4%	1,680.9	8.9%	1,517.7	8.4%
Africa, Middle East	683.0	3.3%	17.6%	14.7%	580.7	3.1%	557.8	3.1%
COSMETICS BRANCH	**20,811.9**	**100.0%**	**10.3%**	**6.2%**	**18,870.8**	**100.0%**	**18,139.1**	**100.0%**

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

€ millions	2012	2011	2010
Western Europe	1,576.2	1,512.3	1,552.0
North America	959.7	810.1	708.5
New Markets	1,518.4	1,328.1	1,124.8
COSMETICS DIVISIONS TOTAL	**4,054.3**	**3,650.6**	**3,385.3**
Non-allocated	-577.2	-546.2	-512.9
COSMETICS BRANCH	**3,477.1**	**3,104.4**	**2,872.4**

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

	2012		2011		2010	
€ millions	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets	Operational assets	Investments in property, plant and equipment and intangible assets
Western Europe	8,462.0	299.0	8,213.4	271.5	7,743.9	215.2
North America	4,699.6	212.5	4,486.9	190.4	3,981.2	167.8
New Markets	3,740.2	336.1	3,538.0	294.3	3,090.8	202.0
Non-allocated	556.1	122.4	511.7	107.6	396.1	106.1
GROUP	**17,457.9**	**970.0**	**16,750.0**	**863.7**	**15,212.0**	**691.1**

NOTE 4 Personnel costs and number of employees

4.1. NUMBER OF EMPLOYEES (1)

	12.31.2012	12.31.2011	12.31.2010
Western Europe	30,798	30,155	29,542
North America	16,180	15,195	14,811
New Markets	25,659	23,536	22,266
TOTAL	**72,637**	**68,886**	**66,619**

(1) Including proportionally consolidated companies.

4.2. PERSONNEL COSTS

€ millions	2012	2011	2010
Personnel costs (including welfare contributions)	**4,414.4**	**3,976.8**	**3,764.9**

Personnel costs include pension costs, share-based payment and taxes on wages and salaries.

4.3. EXECUTIVE COMPENSATION

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

€ millions	2012	2011	2010
Directors' fees	1.1	1.1	1.0
Salaries and benefits including employer welfare contributions	26.5	25.9	24.3
Employee retirement obligation charges	11.5	10.8	9.2
Share-based payment (Stock option and free shares)	21.2	21.0	28.4

The number of executives who were members of the Management Committee was 15 at December 31st, 2012 as at December 31st, 2011 and was 13 at December 31st, 2010.

NOTE 5 Depreciation and amortisation expense

Depreciation and amortisation of property, plant and equipment and intangible assets included in operating expenses amount to €830.9 million, €742.2 million and €767.7 million, respectively, for 2012, 2011 and 2010.

NOTE 6 Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	2012	2011	2010
Change in time value	-73.7	-39.6	-17.0
Other foreign exchange gains and losses	-66.1	13.2	-115.0
TOTAL	**-139.8**	**-26.4**	**-132.0**

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

Assets and liabilities denominated in foreign currencies have been translated using the exchange rates effective at the closing date. Foreign exchange gains and losses also include the following items relating to derivative instruments:

- changes in market value linked to variations in the time value (forward points and premiums paid for options);
- changes in market value linked to variations in the spot rate between the inception of the hedge and the date on which the hedged transactions are completed;
- residual ineffectiveness linked to excess hedges and recognised directly in the income statement under other foreign exchange gains and losses for a negative €0.9 million in 2012, for a negative €0.2 million in 2011 and a negative €0.4 million in 2010.

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

€ millions	2012	2011	2010
Cost of sales	-121.2	-15.2	-118.1
Research and development	10.0	-8.0	11.1
Advertising and promotion	-17.8	-2.1	-15.9
Selling, general and administrative expenses	-10.8	-1.1	-9.1
FOREIGN EXCHANGE GAINS AND LOSSES	**-139.8**	**-26.4**	**-132.0**

NOTE 7 Other operational income and expenses

This item breaks down as follows:

€ millions	2012	2011	2010
Capital gains and losses on disposals of property, plant and equipment and intangible assets	4.3	1.7	0.3
Impairment of property, plant and equipment and intangible assets (1)	-	-69.9	-56.4
Restructuring costs (2)	-98.0	-39.9	-17.9
Other (3)	-30.1	11.8	-79.2
TOTAL	**-123.8**	**-96.3**	**-153.2**

(1) These impairment charges mainly relate to:
- *in 2011, the Softsheen Carson brand and goodwill for €32.8 million and €31.8 million respectively as well as Sanoflore goodwill for €5.3 million;*
- *in 2010, the Softsheen Carson brand for €14.5 million, the Yue Sai brand for €11.5 million, as well as Sanoflore goodwill for €20.4 million and Softsheen Carson goodwill for €10.0 million.*

(2) Including:
- *in 2012, the cost of specialising operations in European factories for €16.6 million, of sales force adjustments in Germany for €5.1 million, of reorganising industrial operations within the Professional Products Division in the US for €35.1 million, and of streamlining logistics activities in the Salon Centric Division which supplies American hair salons for €27.0 million;*
- *in 2011, the reorganisation of industrial operations in the United States for €34.6 million;*
- *in 2010, €4.7 million relating to the discontinuation of Shu Uemura in the United States, €5.5 million relating to the discontinuation of Helena Rubinstein in France, €5.0 million relating to the reorganisation of YSL Beauté, and €3.2 million relating to the reorganisation of industrial and logistics operations in France.*

(3)
- *In 2012, the revision of risks relating to investigations carried out by competition authorities for €3.1 million (see note 22.1) as well as costs relating to acquisitions for €12.9 million and revision of the earn out clause regarding Essie Cosmetics for €10.4 million;*
- *in 2011, the positive revision of risks relating to investigations carried out by competition authorities for €23 million (see note 22.1) as well as costs relating to the acquisition of Q-Med and Pacific Bioscience Laboratories Inc. for €9.6 million and revision of the earn out clause regarding Essie Cosmetics for €3.0 million;*
- *in 2010, risks relating to investigations carried out by competition authorities (see note 22.1.).*

NOTE 8 Other financial income and expenses

This item breaks down as follows:

€ millions	2012	2011	2010
Other financial income	-	0.9	7.5
Other financial expenses	-7.8	-6.5	-16.5
TOTAL	**-7.8**	**-5.6**	**-9.0**

NOTE 9 Income tax

9.1. DETAILED BREAKDOWN OF INCOME TAX

€ millions	2012	2011	2010
Current tax	988.2	939.9	799.9
Deferred tax	17.3	85.9	110.0
INCOME TAX	**1,005.5**	**1,025.8**	**909.9**

9.2. ANALYSIS OF TAX CHARGE

The income tax charge may be analysed as follows:

€ millions	2012	2011	2010
Profit before tax and non-controlling interests	3,875.9	3,466.7	3,151.9
Theoretical tax rate	29.83%	29.91%	30.13%
Expected tax charge	1,156.1	1,036.7	949.7
Impact of permanent differences	8.7	54.9	93.1
Impact of tax rate differences	-103.2	-50.4	-107.7
Change in unrecognised deferred taxes	2.6	-8.4	-18.5
Other (1)	-58.7	-7.0	-6.7
GROUP TAX CHARGE	**1,005.5**	**1,025.8**	**909.9**

(1) Including tax credits, withholding taxes on distributions, tax reassessments and provisions for tax liabilities. In 2012, this amount includes a €35 million tax reimbursement in China relating to fiscal years 2008 to 2011 following a change in tax legislation.

The expected tax charge reflects, for each country, the sum of pre-tax profit multiplied by the normal taxation rate. The theoretical tax rate reflects the total expected tax charge as a percentage of profit before tax and non-controlling interests.

9.3. DEFERRED TAXES IN THE BALANCE SHEET

The net change in deferred taxes (assets and liabilities) can be analysed as follows:

€ millions	
Balance of deferred tax assets at December 31st, 2009	**570.8**
Balance of deferred tax liabilities at December 31st, 2009	**-418.0**
Income statement impact	-110.0
Translation differences	6.7
Other effects (1)	114.6
Balance of deferred tax assets at December 31st, 2010	**626.1**
Balance of deferred tax liabilities at December 31st, 2010	**-462.0**
Income statement impact	-85.9
Translation differences	-5.6
Other effects (1)	-78.9
Balance of deferred tax assets at December 31st, 2011	**671.4**
Balance of deferred tax liabilities at December 31st, 2011	**-677.7**
Income statement impact	-17.3
Translation differences	-7.6
Other effects (1)	-15.4
Balance of deferred tax assets at December 31st, 2012	**717.8**
Balance of deferred tax liabilities at December 31st, 2012	**-764.4**

(1) Including mainly the tax effect on actuarial gains and losses recognised in equity and in 2011 on newly consolidated companies for €100 million.

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

	12.31.2012		12.31.2011		12.31.2010	
€ millions	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	703.7	433.2	645.5	461.5	599.0	371.9
Deferred tax liabilities on remeasurement of Sanofi (1)		331.2		216.2		90.1
Tax credits and tax loss carry-forwards	14.1		25.9		27.1	
DEFERRED TAX TOTAL	**717.8**	**764.4**	**671.4**	**677.7**	**626.1**	**462.0**

(1) In 2012, the deferred tax rate increased to 4.13% (3.44% in 2011 and 1.72% in 2010).

Deferred tax assets on temporary differences mainly relate to provisions for pensions and early retirement (€359.0 million, €321.6 million and €313.2 million, respectively, at the end of 2012, 2011 and 2010) and provisions for liabilities and charges (€191.6 million, €164.1 million and €197.9 million, respectively, at the end of 2012, 2011 and 2010).

Deferred tax liabilities on temporary differences mainly relate to intangible assets acquired in the context of business combinations other than non tax-deductible goodwill.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €66.0 millions at December 31st, 2012 compared with €67.5 million at December 31st, 2011 and €80.9 million at December 31st, 2010.

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

10.1. RECONCILIATION WITH NET PROFIT

Net profit attributable to owners of the company excluding non-recurring items reconciles as follows with net profit attributable to owners of the company:

€ millions	2012	2011	2010
Net profit attributable to owners of the company	**2,867.7**	**2,438.4**	**2,239.7**
Capital gains and losses on property, plant and equipment and intangible assets	-4.3	-1.7	-0.3
Impairment of property, plant and equipment and intangible assets	-	69.9	56.4
Restructuring costs	98.0	39.9	17.9
Other	30.1	-11.8	79.2
Tax effect on non-recurring items	-44.8	-33.0	-22.0
Effect of changes in tax rates on the deferred tax liability arising on the remeasurement of Sanofi	25.0	62.0	-
Tax effect on the acquisition of Pacific Bioscience Laboratories Inc.	-	19.2	-
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY EXCLUDING NON-RECURRING ITEMS	**2,971.7**	**2,582.9**	**2,370.9**

10.2. EARNINGS PER SHARE

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

2012	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,867.7	598,482,929	4.79
Stock options	-	5,491,789	
Free shares	-	1,330,740	
DILUTED EARNINGS PER SHARE	**2,867.7**	**605,305,458**	**4.74**

2011	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,438.4	592,763,295	4.11
Stock options	-	4,247,654	
Free shares	-	622,154	
DILUTED EARNINGS PER SHARE	**2,438.4**	**597,633,103**	**4.08**

2010	Net profit attributable to owners of the company (€ millions)	Number of shares	Earnings per share attributable to owners of the company (€)
Earnings per share	2,239.7	586,582,918	3.82
Stock options	-	4,538,021	
Free shares	-	271,510	
DILUTED EARNINGS PER SHARE	**2,239.7**	**591,392,449**	**3.79**

10.3. EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS

The tables below set out in detail earnings per share attributable to owners of the company excluding non-recurring items:

2012	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	2,971.7	598,482,929	4.97
Stock options	-	5,491,789	-
Free shares	-	1,330,740	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,971.7**	**605,305,458**	**4.91**

2011	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	2,582.9	592,763,295	4.36
Stock options	-	4,247,654	-
Free shares	-	622,154	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,582.9**	**597,633,103**	**4.32**

2010	Net profit attributable to owners of the company excluding non-recurring items (€ millions)	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items (€)
Earnings per share excluding non-recurring items	2,370.9	586,582,918	4.04
Stock options	-	4,538,021	-
Free shares	-	271,510	-
DILUTED EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS	**2,370.9**	**591,392,449**	**4.01**

10.4. CALCULATION OF THE NUMBER OF SHARES

The table below sets out the number of potential ordinary shares excluded from the calculation of earnings per share as they correspond to stock option plans with no dilutive effect on the periods presented:

	2012	2011	2010
Stock option plans	**1,445,000**	**10,676,150**	**14,858,900**

NOTE 11 Goodwill

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

€ millions 2012	12.31.2011	Acquisitions/ Disposals	Other movements	12.31.2012
L'Oréal Professionnel/Kérastase	348.1	5.5	-2.0	351.6
Matrix	343.0	18.1	-4.8	356.3
Redken/PureOlogy	492.6		-7.4	485.2
Professional Products Total	**1,183.7**	**23.6**	**-14.2**	**1,193.1**
L'Oréal Paris	773.8		1.7	775.5
Maybelline/Garnier	1,102.7		-14.8	1,087.9
Cadum	-	156.4		156.4
Other	98.2	3.3	-1.5	100.0
Consumer Products Total	**1,974.7**	**159.7**	**-14.6**	**2,119.8**
Lancôme	780.8			780.8
Shu Uemura	163.9		-17.4	146.5
YSL Beauté	519.8			519.8
Perfumes	334.0		0.7	334.7
Clarisonic	260.0		6.3	266.3
Urban Decay	-	126.4	-0.3	126.1
Other	63.6		0.2	63.8
L'Oréal Luxury Total	**2,122.1**	**126.4**	**-10.5**	**2,238.0**
Vichy/Dermablend	269.4		-0.5	268.9
Other	110.8		-0.6	110.2
Active Cosmetics Total	**380.2**		**-1.1**	**379.1**
Other	9.2		-9.2	
The Body Shop	330.8	1.6	7.7	340.1
Dermatology	203.9		4.2	208.1
GROUP TOTAL	**6,204.6**	**311.3**	**-37.7**	**6,478.2**

2012 acquisitions mainly relate to Cadum, Urban Decay and Emiliani Enterprises for €306.4 million. No significant disposals took place during 2012. Other movements mainly reflect the negative impact of changes in exchange rates for €48.4 million, partly offset by the allocation of the purchase price of Clarisonic for €10.6.million.

No impairment loss has been recorded on 2012.

The accumulated impairment losses relating to SoftSheen Carson, Yue Sai and Sanoflore amount to € 133.4 million, €29.5 million and €35.7 million respectively, at December 31st, 2012.

€ millions 2011	12.31.2010	Acquisitions/ Disposals	Other movements	12.31.2011
L'Oréal Professionnel/Kérastase	343.1		5.0	348.1
Matrix	296.3	6.5	40.2	343.0
Redken/PureOlogy	467.7	0.9	24.0	492.6
Other	31.9		-31.9	-
Professional Products Total	**1,139.0**	**7.4**	**37.3**	**1,183.7**
L'Oréal Paris	768.1		5.7	773.8
Maybelline/Garnier	1,079.0		23.7	1,102.7
SoftSheen Carson	45.0		-32.7	12.3
Other	84.9		1.0	85.9
Consumer Products Total	**1,977.0**		**-2.3**	**1,974.7**
Lancôme	775.2		5.6	780.8
Shu Uemura	152.5		11.4	163.9
YSL Beauté	519.8			519.8
Perfumes	334.0			334.0
Clarisonic	-	260.8	-0.8	260.0
Other	63.4		0.2	63.6
L'Oréal Luxury Total	**1,844.9**	**260.8**	**16.4**	**2,122.1**
Vichy/Dermablend	268.0		1.4	269.4
Other	114.4		-3.6	110.8
Active Cosmetics Total	**382.4**		**-2.2**	**380.2**
Other	9.2			9.2
The Body Shop	321.8	1.1	7.9	330.8
Dermatology	55.3	149.5	-0.9	203.9
GROUP TOTAL	**5,729.6**	**418.8**	**56.2**	**6,204.6**

2011 acquisitions mainly relate to Arex GmbH, Q-Med and Pacific Bioscience Laboratories Inc. (Clarisonic) for €415.6 million. No significant disposals took place during 2011. Other movements mainly reflect the positive impact of changes in exchange rates for €82.7 million, partly offset by the allocation of the purchase price of the Peel's Salon Services for €6.1 million and by impairment losses on Softsheen Carson for €31.8 million and on Sanoflore for €5.3 million (included in the "Other" line of Active Cosmetics).

Impairment losses have been recorded against these Cash-Generating Units as their performance did not meet forecasts.

The accumulated impairment losses relating to Softsheen Carson, Yue Sai and Sanoflore amount to €136.8 million, €29.8 million and €35.7 million, respectively, at December 31st, 2011.

€ millions 2010	12.31.2009	Acquisitions/ Disposals	Other movements	12.31.2010
L'Oréal Professionnel/Kérastase	328.6	2.5	12.0	343.1
Matrix	266.3	9.3	20.7	296.3
Redken/PureOlogy	419.4	2.1	46.2	467.7
Other	40.0	34.8	-42.9	31.9
Professional Products Total	**1,054.3**	**48.7**	**36.0**	**1,139.0**
L'Oréal Paris	756.6		11.5	768.1
Maybelline/Garnier	992.8	24.5	61.7	1,079.0
SoftSheen Carson	50.9		-5.9	45.0
Other	35.2	49.8	-0.1	84.9
Consumer Products Total	**1,835.5**	**74.3**	**67.2**	**1,977.0**
Lancôme	767.6		7.6	775.2
Shu Uemura	123.7		28.8	152.5
YSL Beauté (1)	528.4		-8.6	519.8
Perfumes	334.0			334.0
Other	62.9		0.5	63.4
L'Oréal Luxury Total	**1,816.6**		**28.3**	**1,844.9**
Vichy/Dermablend (1)	264.8		3.2	268.0
Other	131.0		-16.6	114.4
Active Cosmetics Total	**395.8**		**-13.4**	**382.4**
Other	**9.2**			**9.2**
The Body Shop	312.5	1.9	7.4	321.8
Dermatology	42.2		13.1	55.3
GROUP TOTAL	**5,466.0**	**124.9**	**138.7**	**5,729.6**

(1) After reclassification of the Roger & Gallet business from the L'Oréal Luxury Division to the Active Cosmetics Division.

2010 acquisitions mainly relate to Essie Cosmetics, C.B. Sullivan and Peel's Salon Services for €123.0 million. The provisional goodwill totalling €74.3 million resulting from the acquisition of Essie Cosmetics has been allocated to the Essie Cosmetics Cash-Generating Unit (included on the "Other" line of Consumer Products) for €49.8 million, with the remainder allocated to the Maybelline/Garnier Cash-Generating Unit based on expected synergies for €24.5 million. The goodwill representing the difference between the acquisition cost and Peel's Salon Services' identifiable assets and liabilities is shown in full for €34.8 million on the "Other" line of the Professional Products Division, pending the final purchase price allocation. No significant disposals took place during 2010. Other movements consist mainly of a positive impact of changes in exchange rates for €187.4 million, partly offset by the allocation of the purchase price of the American distributors acquired in 2009 for €16.3 million, and by impairment losses on Softsheen Carson for €10.0 million and on Sanoflore for €20.4 million (included in the "Other" line of Active Cosmetics). Impairment losses have been recorded against these Cash-Generating Units as their performance did not meet forecasts.

The accumulated impairment losses relating to Softsheen Carson, Yue Sai and Sanoflore amount to €103.2 million, €27.6 million and €30.4 million, respectively, at December 31st, 2010.

NOTE 12 Other intangible assets

€ millions 2012	12.31.2011	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2012
Brands with an indefinite life span (2)	1,454.3			95.3	-10.5	1,539.1
Amortisable brands and product ranges	74.4	2.8		2.2		79.4
Licences and patents	930.4	19.6	-10.2		3.2	943.0
Software	538.6	65.2	-10.5	0.3	198.3	791.9
Other	459.8	31.9	-0.9	40.1	-32.1	498.8
Gross value	3,457.5	119.5	-21.6	137.9	158.9	3,852.2
Brands with an indefinite life span	104.3				-1.1	103.2
Amortisable brands and product ranges	54.8	3.5			-0.3	58.0
Licences and patents	319.1	52.4	-10.4		-0.5	360.6
Software	350.2	93.6	-11.0	0.1	91.7	524.6
Other	151.9	29.8	-0.4		-0.8	180.5
Amortisation and provisions	980.2	179.3	-21.8	0.1	89.0	1,226.8
Other intangible assets – net	**2,477.3**	**-59.8**	**0.2**	**137.8**	**69.9**	**2,625.4**

(1) This item consists mainly of changes in the scope of consolidation resulting from Cadum, Urban Decay and Emiliani Enterprises.
(2) At December 31st, 2012, brands with an indefinite life span consist mainly of The Body Shop (€507.8 million), Matrix (€276.8 million), Kiehl's (€123.8 million), Shu Uemura (€117.2 million) and Clarisonic (€85.1 million).

Other movements mainly consisted of the reclassification of software from property, plant and equipment to intangible assets for €79.3 million, offset by changes in exchange rates with a negative €12.7 million impact over the period.

Accumulated impairment losses amount to €14.0 million on Biomedic, €40.4 million on Yue Sai and €48.9 million on Softsheen Carson at December 31st, 2012.

€ millions 2011	12.31.2010	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2011
Brands with an indefinite life span (2)	1,295.5			119.9	38.9	1,454.3
Amortisable brands and product ranges	66.8	0.7		5.0	2.0	74.4
Licences and patents	725.6	9.0	-0.1	185.5	10.4	930.4
Other	906.5	98.6	-23.2	9.7	6.9	998.4
Gross value	2,994.3	108.3	-23.3	320.1	58.2	3,457.5
Brands with an indefinite life span (3)	66.3	32.8			5.3	104.3
Amortisable brands and product ranges	48.6	3.7			2.5	54.8
Licences and patents	270.9	42.4	-0.1	-0.7	6.6	319.1
Other	431.2	88.3	-23.2		5.8	502.1
Amortisation and provisions	816.9	167.2	-23.3	-0.7	20.1	980.2
Other intangible assets – net	**2,177.5**	**-58.9**	**0.0**	**320.8**	**38.0**	**2,477.3**

(1) This item consists mainly of changes in the scope of consolidation resulting from Arex GmbH, Q-Med and Pacific Bioscience Laboratories Inc.
(2) At December 31st, 2011, brands with an indefinite life span consist mainly of The Body Shop (€495.8 million), Matrix (€281.1 million), Kiehl's (€125.6 million), Shu Uemura (€129.3 million) and Clarisonic (€86.5 million).
(3) Impairment losses were recognised during the period against the Softsheen Carson brand, for €32.8 million.

Other movements mainly consisted of changes in exchange rates with a positive €44.1 million impact over the period, as well as the allocation of the purchase price of the American distributors acquired in 2010 (shown on the "Other" line for €9.8 million).

Accumulated impairment losses amount to €14.0 million on Biomedic, €40.8 million on Yue Sai and €49.5 million on Softsheen Carson at December 31st, 2011.

€ millions 2010	12,31.2009	Acquisitions/ Amortisation	Disposals/ Reversals	Change in the scope of consolidation (1)	Other movements	12.31.2010
Brands with an indefinite life span (2)	1,183.1			46.0	66.4	1,295.5
Amortisable brands and product ranges	62.6	0.6	-0.4		4.0	66.8
Licences and patents	662.9	7.6	-1.6		56.7	725.6
Other	776.2	84.8	-19.0	11.9	52.6	906.5
Gross value	**2,684.8**	**93.0**	**-21.0**	**57.9**	**179.7**	**2,994.3**
Brands with an indefinite life span (3)	37.3	26.0			2.9	66.3
Amortisable brands and product ranges	32.4	13.8	-0.4		2.8	48.6
Licences and patents	217.8	32.5	-1.6		22.2	270.9
Other	354.9	83.9	-18.8		11.2	431.2
Amortisation and provisions	**642.4**	**156.2**	**-20.8**		**39.1**	**816.9**
Other intangible assets – net	**2,042.4**	**-63.2**	**-0.2**	**57.9**	**140.6**	**2,177.5**

(1) This item consists mainly of changes in the scope of consolidation resulting from Essie Cosmetics and C.B. Sullivan.
(2) At December 31st, 2010, brands with an indefinite life span consist mainly of The Body Shop (€481.1 million), Matrix (€274.5 million), Kiehl's (€122.9 million) and Shu Uemura (€121.5 million).
(3) Impairment losses were recognised during the period against the Yue Sai and Softsheen Carson brands, for €11.5 million and €14.5 million, respectively.

Other movements mainly consisted of changes in exchange rates with a positive €128.1 million impact over the period, as well as the allocation of the purchase price of the American distributors acquired in 2009 (shown on the "Other" line for €16.3 million).

Accumulated impairment losses amount to €14.0 million on Biomedic, €37.8 million on Yue Sai and €14.5 million on Softsheen Carson at December 31st, 2010.

NOTE 13 Impairment tests on intangible assets

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

		Discount rate *(%)*	
€ millions	Net carrying amount of goodwill and brands with indefinite useful lives	International excluding USA	USA
2012 test			
Maybelline/Garnier	1,087.9	7.9	8.9
The Body Shop	847.9	7.9	(1)
Lancôme	780.8	7.9	8.9
L'Oréal Paris	775.5	7.9	8.9
Matrix	633.1	7.9	8.9
Redken/PureOlogy	546.9	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	351.6	7.9	8.9
Clarisonic	351.4	7.9	8.9
Vichy/Dermablend	304.7	7.9	(1)
2011 test			
Maybelline/Garnier	1,102.7	7.9	8.9
The Body Shop	826.6	7.9	(1)
Lancôme	780.8	7.9	8.9
L'Oréal Paris	773.8	7.9	8.9
Matrix	624.1	7.9	8.9
Redken/PureOlogy	555.6	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	348.1	7.9	8.9
Clarisonic	346.5	7.9	8.9
Vichy/Dermablend	305.4	7.9	(1)
2010 test			
Maybelline/Garnier	1,079.0	7.9	8.9
The Body Shop	802.9	7.9	(1)
Lancôme	775.2	7.9	8.9
L'Oréal Paris	768.1	7.9	8.9
Matrix	570.8	7.9	8.9
Redken/PureOlogy	528.8	7.9	8.9
YSL Beauté	519.8	7.9	(1)
L'Oréal Professionnel/Kérastase	343.1	7.9	8.9
Vichy/Dermablend	303.6	7.9	(1)

(1) Since the USD amounts for the YSL Beauté, The Body Shop and Vichy/Dermablend CGUs are not material, no specific discount rate has been used in this respect.

At December 31st, 2012, a 1-point increase in the discount rate on all Cash-Generating Units would not lead to an impairment loss.

The terminal growth rate is consistent in accordance with market data, i.e. 3%.

A 1-point decrease in the terminal growth rate on all Cash-Generating Units would not lead to an impairment loss.

A 1-point decrease in the margin rate over the business plan period on all Cash-Generating Units would not lead to an impairment loss.

NOTE 14 Property, plant and equipment

€ millions 2012	12.31.2011	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2012
Land and buildings	1,888.8	98.0	-14.1	-12.2	32.6	1,993.1
Machinery and equipment	2,747.1	185.6	-79.7	-25.4	48.4	2,876.0
Point-of-sales advertising: stands and displays	1,245.4	281.6	-185.8	-5.4	20.1	1,356.0
Other property, plant and equipment and fixed assets in progress	1,425.7	285.4	-46.4	-17.1	-301.5	1,346.1
Gross value	**7,307.0**	**850.6**	**-326.0**	**-60.1**	**-200.4**	**7,571.1**
Land and buildings	979.1	72.1	-12.1	-5.5	-0.3	1,033.4
Machinery and equipment	1,864.0	231.1	-76.2	-15.0	-33.4	1,970.5
Point-of-sales advertising: stands and displays	842.6	258.8	-184.9	-2.0	0.0	914.6
Other property, plant and equipment	740.5	99.4	-46.1	-8.0	-95.9	689.9
Depreciation and provisions	**4,426.2**	**661.4**	**-319.4**	**-30.5**	**-129.5**	**4,608.4**
Property, plant and equipment - net	**2,880.8**	**189.1**	**-6.6**	**-29.6**	**-70.9**	**2,962.8**

(1) These mainly include the impact of changes in the scope of consolidation and fixed assets in progress allocated to other fixed asset items as well as the reclassification of software within intangible assets for a gross value of €176.8 million and a net amount of €79.3 million.

€ millions 2011	12.31.2010	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2011
Land and buildings	1,729.4	65.2	-35.2	2.3	127.1	1,888.8
Machinery and equipment	2,585.3	156.9	-78.7	-1.6	85.2	2,747.1
Point-of-sales advertising: stands and displays	1,161.0	245.7	-191.5	18.5	11.7	1,245.4
Other property, plant and equipment and fixed assets in progress	1,337.5	287.7	-64.4	19.2	-154.3	1,425.7
Gross value	**6,813.2**	**755.5**	**-369.8**	**38.4**	**69.7**	**7,307.0**
Land and buildings	924.8	68.2	-28.3	2.8	11.6	979.1
Machinery and equipment	1,725.2	209.3	-75.8	2.6	2.7	1,864.0
Point-of-sales advertising: stands and displays	797.9	223.1	-190.5	10.8	1.3	842.6
Other property, plant and equipment	687.8	107.1	-63.4	12.6	-3.5	740.5
Depreciation and provisions	**4,135.7**	**607.7**	**-358.0**	**28.8**	**12.1**	**4,426.2**
Property, plant and equipment - net	**2,677.5**	**147.7**	**-11.8**	**9.6**	**57.7**	**2,880.8**

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

€ millions 2010	12.31.2009	Acquisitions/ Depreciation	Disposals/ Reversals	Translation difference	Other movements (1)	12.31.2010
Land and buildings	1,663.7	43.3	-38.5	54.2	6.7	1,729.4
Machinery and equipment	2,495.1	100.7	-139.3	91.5	37.3	2,585.3
Point-of-sales advertising: stands and displays	1,080.7	197.0	-207.9	75.5	15.7	1,161.0
Other property, plant and equipment and fixed assets in progress	1,164.1	257.0	-44.9	71.6	-110.3	1,337.5
Gross value	**6,403.6**	**598.0**	**-430.6**	**292.8**	**-50.6**	**6,813.2**
Land and buildings	871.6	68.0	-29.6	21.7	-6.9	924.8
Machinery and equipment	1,617.6	223.1	-132.9	50.8	-33.4	1,725.2
Point-of-sales advertising: stands and displays	718.6	236.9	-207.6	51.0	-1.0	797.9
Other property, plant and equipment	596.8	109.4	-42.6	33.7	-9.5	687.8
Depreciation and provisions	**3,804.6**	**637.4**	**-412.7**	**157.2**	**-50.8**	**4,135.7**
Property, plant and equipment - net	**2,599.0**	**-39.4**	**-17.8**	**135.6**	**0.2**	**2,677.5**

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

Property, plant and equipment include capital lease contracts for the following amounts:

€ millions	12.31.2012	12.31.2011	12.31.2010
Land and buildings	114.4	113.4	112.8
Machinery and equipment	2.3	2.4	3.0
Other property, plant and equipment and fixed assets in progress	20.5	18.8	16.7
Gross value	**137.2**	**134.6**	**132.5**
Depreciation	70.4	63.1	58.1
Net value	**66.8**	**71.5**	**74.4**

NOTE 15 Non-current financial assets

€ millions	12.31.2012		12.31.2011		12.31.2010	
	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Financial assets available for sale						
▪ Sanofi [1]	8,440.2	4,033.5	6,709.4	4,033.5	5,657.2	4,033.5
▪ Unlisted securities [2]	5.1	7.3	6.0	7.1	3.5	4.3
Financial assets at amortised cost						
▪ Non-current loans and receivables	86.0	90.8	185.6	190.6	176.8	182.8
TOTAL	**8,531.3**	**4,131.6**	**6,900.9**	**4,231.2**	**5,837.5**	**4,220.6**

(1) L'Oréal's stake in Sanofi was 8.91% at December 31st., 2012. The carrying amount at December 31st, 2010, December 31st, 2011 and December 31st, 2012 (€5,657.2 million, €6,709.4 million and €8,440.2 million respectively) corresponds to the market value of the shares based on the closing price at each of these dates (€47.85, €56.75 and €71.39, respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12.
(2) As the fair value of unlisted securities cannot be reliably determined, they are stated at cost less any impairment losses.

NOTE 16 Inventories

€ millions	12.31.2012	12.31.2011	12.31.2010
Finished products and consumables	1,792.4	1,839.8	1,606.0
Raw materials, packaging and semi-finished products	472.7	438.9	416.3
Gross value	**2,265.1**	**2,278.7**	**2,022.3**
Valuation allowance	231.3	226.7	212.2
Inventories – net	**2,033.8**	**2,052.1**	**1,810.1**

NOTE 17 Trade accounts receivable

€ millions	12.31.2012	12.31.2011	12.31.2010
Gross value	3,253.1	3,042.3	2,733.4
Valuation allowance	44.3	46.2	48.1
Net value	**3,208.8**	**2,996.2**	**2,685.3**

Trade accounts receivable are due within one year. Group policy is to recommend credit insurance coverage as far as local conditions allow. The non-collection risk on trade receivables is therefore minimised, and this is reflected in the level of the allowance, which is less than 2% of gross receivables at the end of 2012.

NOTE 18 Other current assets

€ millions	12.31.2012	12.31.2011	12.31.2010
Tax and employee-related receivables (excluding income tax)	336.8	309.2	310.9
Prepaid expenses	234.3	231.3	208.9
Derivatives	162.5	114.0	83.2
Other current assets	273.0	249.6	243.0
TOTAL	**1,006.6**	**904.1**	**846.0**

NOTE 19 Cash and cash equivalents

	12.31.2012		12.31.2011		12.31.2010	
€ millions	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount	Acquisition cost
Marketable securities	150.0	150.1	598.2	597.0	523.6	522.9
Bank accounts and other cash and cash equivalents	1,673.2	1,673.2	1,054.0	1,054.0	1,026.8	1,026.8
TOTAL	**1,823.2**	**1,823.3**	**1,652.2**	**1,651.0**	**1,550.4**	**1,549.7**

Marketable securities consist mainly of SICAV money-market funds and unit trusts (on which the return is based on EONIA). Marketable securities are considered as *Financial assets available for sale.*

At December 31st, 2012, they consisted solely of investments in euro zone government bonds through mutual funds.

Unrealised gains amount to -€0.1 million compared with €1.2 million and €0.7 million, respectively, in 2011 and in 2010.

Term accounts with a maturity of less than 3 months at inception are shown on the *Bank accounts and other cash and cash equivalents* line.

NOTE 20 Equity

20.1. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL

Share capital consists of 608,810,827 shares with a par value of €0.20 at December 31st, 2012, following the exercise of subscription options for 5,826,745 shares.

Share capital consisted of 602,984,082 shares with a par value of €0.20 at December 31st, 2011, following the exercise of subscription options for 1,991,097 shares and 400 free shares.

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

20.2. TREASURY STOCK

Shares acquired under the shareholder-approved L'Oréal share buyback programme are deducted from consolidated equity. Capital gains or losses relating to these shares are also recorded in equity net of tax.

a) 2012

The change in the number of shares in 2012 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2012	602,984,082	-8,597,659	594,386,423
Shares cancelled			-
Options and free shares exercised	5,826,745	3,220,744	9,047,489
Treasury stock purchased	-	-5,077,250	-5,077,250
At 12.31.2012	608,810,827	-10,454,165	598,356,662

The change in Treasury stock in 2012 is as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	*€ millions*
At 01.01.2012	-	8,597,659	8,597,659	644.4
Shares cancelled				
Options and free shares exercised		-3,220,744	-3,220,744	-239.1
Treasury stock purchased	5,077,250	-	5,077,250	499.2
At 12.31.2012	5,077,250	5,376,915	10,454,165	904.5
€ millions	499.2	405.3	904.5	-

b) 2011

The change in the number of shares in 2011 was as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2011	600,992,585	-11,336,682	589,655,903
Shares cancelled			-
Options and free shares exercised	1,991,497	2,739,023	4,730,520
Treasury stock purchased	-		
At 12.31.2011	602,984,082	-8,597,659	594,386,423

The change in Treasury stock in 2011 is as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	€ millions
At 01.01.2011	-	11,336,682	11,336,682	850.9
Shares cancelled				
Options and free shares exercised		-2,739,023	-2,739,023	-206.5
Treasury stock purchased		-	-	-
At 12.31.2011	-	8,597,659	8,597,659	644.4
€ millions	-	644.4	644.4	

c) 2010

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

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2010	598,972,410	-14,236,750	584,735,660
Shares cancelled	-500,000	500,000	-
Options and free shares exercised	2,520,175	2,400,068	4,920,243
Treasury stock purchased	-		
At 12.31.2010	600,992,585	-11,336,682	589,655,903

The change in Treasury stock in 2010 is as follows:

In shares	Buyback programme	Allocated to stock options/ free shares plans	Total	€ millions
At 01.01.2010	-	14,236,750	14,236,750	1,071.6
Shares cancelled		-500,000	-500,000	-37.9
Options and free shares exercised		-2,400,068	-2,400,068	-182.8
Treasury stock purchased		-	-	-
At 12.31.2010	-	11,336,682	11,336,682	850.9
€ millions	-	850.9	850.9	

20.3. SHARE SUBSCRIPTION OR PURCHASE OPTIONS – FREE SHARES

1) Share subscription or purchase options

The table below sets out data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2012.

Grant date	Number of options	Number of options not yet exercised	Exercise period from	Exercise period to	Exercise price
12.03.2003	2,500,000	756,300	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	852,375	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	145,893	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	1,335,250	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	200,000	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	1,572,640	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	658,785	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	2,456,500	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,258,200	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,475,500	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	4,054,000	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,445,000	04.23.2016	04.22.2021	83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee). The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetic revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;
  - for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2012, the performance conditions were deemed to have been met.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

	Purchase options		Subscription options										
	December 2003	November 2005	December 2003	March 2004	December 2004	June 2005	November 2005	April 2006	December 2006	November 2007	March 2009	April 2010	April 2011
Risk-free rate of return	4.22%	3.16%	3.92%	3.39%	3.17%	2.63%	3.16%	3.80%	3.62%	4.01%	3.15%	2.83%	3.42%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years	6 years	7 years	7 years	7 years	7 years	8 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17.00%	21.00%	20.50%	22.52%	23.00%	31.95%	23.53%	22.60%
Expected dividends	1.00%	1.35%	1.00%	1.20%	1.34%	1.38%	1.35%	1.35%	1.35%	1.24%	2,83%	1.86%	2.10%
Share price	€63.45	€61.30	€63.45	€60.60	€54.60	€59.40	€61.30	€74.10	€74.60	€94.93	€50.94	€80.50	€85.68
Exercise price	€71.90	€62.94	€63.02	€64.69	€55.54	€60.17	€61.37	€72.60	€78.06	€91.66	€50.11	€80.03	€83.19
Fair value	€15.24	€12.30	€15.66	€14.67	€10.15	€9.45	€12.88	€17.48	€17.19	€25.88	€12.16	€17.17	€18.58

Expected volatility is equal to the implied volatility of the options listed on MONEP at the grant dates. As from 2007, in order to mitigate the effects of atypical phenomena, the volatility used corresponds to the average between implied volatility at the grant date and historic volatility over the expected life span of the option. The expected life span has been adjusted to take account of behavioural assumptions relating to the beneficiaries.

Data concerning all share option plans during fiscal years 2010, 2011 and 2012 are set out below:

	12.31.2012		12.31.2011		12.31.2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Number of options not exercised at beginning of period	32,524,432	72.02	37,296,504	71.55	40,051,000	70.86
▪ Options granted	-		1,470,000	83.19	4,200,000	80.03
▪ Options exercised	-9,047,489	71.96	-4,730,120	70.24	-4,920,243	68.40
▪ Options expired	-1,266,500		-1,511,952		-2,034,253	
Number of options not exercised at end of period	22,210,443	71.90	32,524,432	72.02	37,296,504	71.55
Of which:						
▪ number of exercisable options at end of period	13,235,943	73.90	19,450,832	69.63	18,299,654	67.61
▪ expired options at end of period	45,000		214,750		326,750	

The weighted average share price was €93.60, €81.60 and €80.47, respectively, for 2012, 2011 and 2010.

The total charge recorded in 2012, 2011 and 2010 amounted to €41.2 million, €62.8 million and €76.5 million, respectively.

2) Free shares

On April 17th, 2012, April 22nd, 2011, April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 1,325,050, 1,038,000, 450,000 and 270,000 free shares.

VESTING CONDITIONS

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

The performance conditions concern:

- April 17th, 2012 and April 22nd, 2011 plans:
  - for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2013, 2014 and 2015 fiscal years under the 2012 plan and for the 2012, 2013 and 2014 fiscal years under the 2011 plan in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in Group consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2013, 2014 and 2015 fiscal years under the 2012 plan and in the 2012, 2013 and 2014 fiscal years under the 2011 plan and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 25% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the increase in comparable Cosmetic revenues for the 2011, 2012 and 2013 fiscal years for the 2010 plan and for the 2010, 2011 and 2012 fiscal years for the 2009 plan compared with the growth of the cosmetics market;
  - for 75% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the percentage, over the same period, resulting from the ratio between operating profit and published Cosmetic revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012 and 2013 fiscal years for the 2010 plan and 2010, 2011 and 2012 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2012, the performance conditions were deemed to have been met.

FAIR VALUE OF FREE SHARES GRANTED

The fair value corresponds to the value of the share at the grant date, less dividends expected to be paid during the vesting period. The cost of the additional 2-year holding period applicable to French residents is determined based on the interest rate granted to the employee, considered equivalent to the rate which would be granted by a bank to a private individual customer with an average financial profile.The cost of the holding period amounts respectively to 8.06%, 8.54%, 8.64% and 8.47% of the share value at the grant date for the 2012, 2011, 2010 and 2009 plans.

On the basis of these assumptions, the fair values for the 2012, 2011, 2010 and 2009 plans amount to €77.07, €70.36, €66.78 and €40.23 respectively for French residents, and to €84.62, €77.67, €73.73 and €44.55 respectively, for non-residents, compared to a share price of €93.68, €85.68, €80.50 and €50.94, respectively.

The expense recorded in 2012, 2011and 2010 amounted to €45.2 million, €24.0 million and €8.4 million, respectively.

20.4. ITEMS DIRECTLY RECOGNISED IN EQUITY

The following tables indicate movements in these items:

€ millions	12.31.2012	12.31.2011	12.31.2010
Financial assets available for sale			
Reserve at beginning of period	2,675.8	1,624.1	2,476.4
Changes in fair value over period	1,730.9	1,052.2	-852.3
Impairment loss recorded in profit and loss		-	-
Changes in fair value recorded in profit and loss		-0.5	-
Reserve at end of period	**4,406.7**	**2,675.8**	**1,624.1**

€ millions	12.31.2012	12.31.2011	12.31.2010
Cash flow hedges - foreign exchange			
Reserve at beginning of period	-7.4	0.2	8.1
Changes in fair value over period	20.1	-16.9	-151.5
Changes in fair value recorded in profit and loss	82.7	9.3	143.6
Reserve at end of period	**95.4**	**-7.4**	**0.2**

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€209.7 million (-€195.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2012.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€181.6 million (-€171.1 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2011.

A 10% increase (decrease) in the euro against all Group currencies would have had an impact of +€186.5 million (-€167.5 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2010.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€55.1 million (+€68.3 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2012.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of -€12.8 million (+€25.8 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2011.

A 10% increase (decrease) in the USD against the main Group currencies would have had an impact of +€3.3 million (+€8.2 million) on the foreign exchange cash flow hedge reserve and the market value of hedging instruments at December 31st, 2010.

€ millions	12.31.2012	12.31.2011	12.31.2010
Cash flow hedges - interest rates			
Reserve at beginning of period	-	-1.7	-1.6
Changes in fair value over the period	-	-0.3	-0.7
Changes in fair value recorded in profit and loss	-	2.0	0.6
Reserve at end of period	**-**	**-**	**-1.7**

€ millions	12.31.2012	12.31.2011	12.31.2010
Actuarial gains/(losses) and impact of asset ceiling			
Reserve at beginning of period	-796.4	-624.0	-410.5
Actuarial gains/(losses) over the period	-272.0	-172.5	-215.7
Impact of asset ceiling	0.1	0.1	2.2
Reserve at end of period	**-1,068.4**	**-796.4**	**-624.0**

€ millions	12.31.2012	12.31.2011	12.31.2010
Total items recognised directly in equity			
Gross reserve	3,433.7	1,872.0	998.6
Associated tax effect	152.7	182.7	189.5
Reserve net of tax	**3,586.4**	**2,054.7**	**1,188.1**

NOTE 21 Post-employment benefits, termination benefits and other long-term employee benefits

The Group operates pension, early retirement and other benefit schemes depending on local legislation and regulations.

For obligatory state schemes and other defined-contribution schemes, the Group recognises in the income statement contributions payable when they are due. No provision has been set aside in this respect as the Group's obligation does not exceed the amount of contributions paid.

The characteristics of the defined benefit schemes in force within the Group are as follows:

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

  These obligations are partially funded by an external fund, except those relating to healthcare costs for retired employees;
- for foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefit plans, the excess of the projected benefit obligation over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of employees' vested rights.

Pension obligations are determined and recognised in accordance with the accounting principles presented in note 1.23. As from January 1st, 2009, the Group decided to adopt the IAS 19 option allowing the direct recognition in equity of actuarial gains and losses instead of the corridor method.

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

	12.31.2012	12.31.2011	12.31.2010
Discount rate	3.6%	4.5%	4.6%
Salary increase	4.9%	4.7%	4.7%
Expected long-term return on plan assets	3.6%	5.5%	5.7%

	12.31.2012			12.31.2011			12.31.2010		
	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate	Initial rate	Final rate	Application of final rate
Expected rate of health care inflation	5.7%	3.8%	2019	5.4%	3.7%	2016	5.5%	3.6%	2016

The discount rates are obtained by reference to market yields on high quality corporate bonds having maturity dates equivalent to those of the obligations. Bond quality is assessed by reference to the AA-/Aa3 minimum rating provided by one of the three main credit-rating agencies.

They can be broken down by geographic zone as follows:

In %	2012	2011	2010
Weighted average (all countries)	**3.6%**	**4.5%**	**4.6%**
of which:			
euro zone (1)	3.4%	4.7%	4.4%
United States	3.5%	4.3%	5.0%
United Kingdom	4.5%	5.0%	5.5%

(1) The weighted average for 2012 consists of a 3.5% discount rate on annuity plans with an average term of 22.1 years and a 3% discount rate on capital plans with an average term of 12.7 years.

A 50 basis point decrease in the discount rates would increase the projected defined benefit obligation by €206.1 million for the euro zone, €56.9 million for the United States and €52.5 million for the United Kingdom.

The expected return on plan assets is determined on the basis of the asset allocation of the investment portfolio, taking into account the associated risks and past performance for each asset category.

It can be broken down by geographic zone as follows:

In %	2012	2011	2010
Weighted average (all countries)	**3.6%**	**5.5%**	**5.7%**
of which:			
euro zone	3.4%	5.5%	5.6%
United States	3.5%	6.0%	6.8%
United Kingdom	4.5%	5.8%	6.0%

A 50 basis point decrease in the expected return would decrease the assets as well as the expected return on plan assets by -€6.6 million for the euro zone, -€2.8 million for the United States and -€2.1 million for the United Kingdom.

The breakdown of plan assets is as follows:

In %	12.31.2012	12.31.2011	12.31.2010
Equity securities (1)	35.1%	34.3%	38.2%
Bonds	55.6%	53.1%	50.0%
Property assets (2)	3.5%	4.2%	4.4%
Monetary instruments	1.1%	3.9%	2.1%
Other	4.7%	4.5%	5.3%
TOTAL	**100%**	**100%**	**100%**

(1) Of which L'Oréal shares: nil.
(2) Of which property assets occupied by Group entities: nil.

The allocation of plan assets has to comply with specific investment limits for the different classes of assets and meet minimum rating criteria for monetary instruments and bonds.

The variations during 2012, 2011 and 2010 are set out below:

€ millions	Present value of defined benefit obligations	Plan assets	Unrecognised plan amendments	Net provisions
Balance at December 31st, 2009	**2,600.5**	**-1,585.0**	**5.9**	**1,021.4**
Service cost	99.0			99.0
Interest cost	135.2			135.2
Expected return on assets		-102.9		-102.9
Past service cost: new plans/plan amendments	14.3		-17.4	-3.1
Curtailments	-0.2		-0.8	-1.0
Settlements	-0.3	0.3		-
Benefits paid	-139.8	105.2		-34.6
Contributions paid	7.2	-232.4		-225.2
Actuarial gains and losses	245.9	-32.4		213.5
Translation differences	87.5	-58.6	0.1	29.0
Other movements	-0.5	-1.8		-2.3
Balance at December 31st, 2010	**3,048.8**	**-1,907.6**	**-12.2**	**1,129.0**
Service cost	111.7			111.7
Interest cost	131.4			131.4
Expected return on assets		-114.5		-114.5
Past service cost: new plans/plan amendments	2.8		-3.1	-0.3
Curtailments	-1.3		-0.8	-2.1
Settlements	-0.1	0.1		-
Benefits paid	-139.2	102.8		-36.4
Contributions paid	6.6	-280.0		-273.4
Actuarial gains and losses	45.5	126.9		172.4
Translation differences	45.4	-35.1		10.3
Other movements	1.1	-0.3		0.8
Balance at December 31st, 2011	**3,252.7**	**-2,107.7**	**-16.1**	**1,128.9**
Service cost	121.7			121.7
Interest cost	142.8			142.8
Expected return on assets		-121.5		-121.5
Past service cost: new plans/plan amendments	1.2		0.1	1.3
Curtailments	-0.1		-0.8	-0.9
Settlements	0.1			0.1
Benefits paid	-162.5	117.3		-45.1
Contributions paid	5.6	-273.2		-267.6
Actuarial gains and losses	416.7	-144.8		271.9
Translation differences	-17.5	10.6		-6.9
Other movements	-0.2	1.8		1.6
BALANCE AT DECEMBER 31st, 2012	**3,760.5**	**-2,517.4**	**-16.8**	**1,226.2**

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

€ millions	12.31.2012	12.31.2011	12.31.2010
Present value of defined benefit obligations wholly or partly funded	3,293.9	2,860.7	2,625.4
Fair value of plan assets	2,517.4	2,107.7	1,907.6
Net position of defined benefit obligations wholly or partly funded	776.5	753.0	717.8
Present value of defined benefit obligations wholly unfunded	466.5	392.0	423.4

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

€ millions	2012	2011	2010
Service cost	121.7	111.7	99.0
Interest cost	142.8	131.4	135.2
Expected return on plan assets	-121.5	-114.5	-102.9
Amortisation of actuarial gains and losses	-	-	-
New plans/plan amendments	1.3	-0.3	-3.1
Curtailments	-0.9	-2.1	-1.0
Settlements	0.1	-	-
TOTAL	**143.5**	**126.2**	**127.2**

Contributions to defined contribution plans recognised as an expense in 2012, 2011 and 2010 amounted to €388.6 million, €344.8 million and €310.6 million, respectively.

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

	Increase of 1%	Decrease of 1%
Impact on projected benefit obligation	19.0	-15.2
Impact on current service cost and interest costs	2.0	-1.5

The benefit obligation, fair value of plan assets and actuarial gains and losses for the periods presented are as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010	12.31.2009	12.31.2008
Benefit obligation	3,760.5	3,252.7	3,048.8	2,600.5	2,288.4
Plan assets	-2,517.4	-2,107.7	-1,907.6	-1,585.0	-1,321.7
(Surplus)/Deficit	**1,243.1**	**1,145.0**	**1,141.2**	**1,015.5**	**966.7**
Experience adjustments arising on the benefit obligation	6.9	15.1	-5.6	-33.0	12.1
Experience adjustments arising on plan assets	144.8	-127.0	30.2	81.0	-373.3

NOTE 22 Provisions for liabilities and charges

22.1. CLOSING BALANCES

€ millions	12.31.2012	12.31.2011	12.31.2010
Non-current provisions for liabilities and charges	**181.7**	**226.1**	**181.3**
Other non-current provisions (1)	181.7	226.1	181.3
Current provisions for liabilities and charges	**552.3**	**500.7**	**536.9**
Provisions for restructuring	129.4	93.6	90.6
Provisions for product returns	226.3	219.2	209.4
Other current provisions (1) (2)	196.6	187.9	236.9
TOTAL	**734.0**	**726.8**	**718.2**

(1) This item includes provisions for tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract), personnel-related costs and risks relating to investigations carried out by competition authorities.

(2) National competition authorities from several European countries have launched investigations focusing on the cosmetics industry. Statements of objections were sent to the Group's subsidiaries in Belgium, Germany, Italy, the Netherlands, Spain and Switzerland.
In 2011, the investigations initiated and/or financial penalties levied on our subsidiaries in the Netherlands and Switzerland were withdrawn. Spain still has a provision it set aside following notification of a fine which it is challenging on appeal.
In Italy, the fine was paid to avoid any late-payment interest. The decision handed down on appeal in March 2012 reduced the fine by 25%. However, the proceedings are still in progress before Italy's highest Administrative Court.
Proceedings initiated in Germany in 2007 and 2008, respectively, are still in progress.
On January 26th, 2012 in France, the Paris Court of Appeal, to which the case had been referred following a decision by the Court of Cassation (France's highest civil court), upheld the decision handed down by the French Competition Council on March 13th, 2006 following its investigation of 13 suppliers and 3 distributors in the luxury perfumes and cosmetics industries between 1997 and 1999. The Appeal Court's decision has been appealed before the Court of Cassation.
The financial penalties handed down against L'Oréal have already been provisioned and paid.
Other requests for information have also been sent and investigations launched in Europe, although no statement of objections had been received at December 31st, 2012.
The provision was increased accordingly, and represented €45.0 million at December 31st, 2012 compared with €35.1 million at December 31st, 2011.

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22.2. CHANGES IN PROVISIONS FOR LIABILITIES AND CHARGES DURING THE PERIOD

€ millions	12.31.2010	12.31.2011	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/Other (1)	12.31.2012
Provisions for restructuring	90.6	93.6	71.3	-32.1	-1.2	-2.2	129.4
Provisions for product returns	209.4	219.2	165.1	-137.3	-23.0	2.3	226.3
Other provisions for liabilities and charges	418.2	414.0	157.5	-170.2	-22.8	-0.2	378.3
TOTAL	**718.2**	**726.8**	**393.9**	**-339.6**	**-47.0**	**-0.1**	**734.0**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
Other income and expenses	84.7	-32.1	-1.2
Operating profit	268.6	-216.6	-39.2
Financial (income)/expense	0.2	-0.1	-
Income tax	40.4	-90.8	-6.6

The change in this caption in 2011 can be analysed as follows:

€ millions	12.31.2009	12.31.2010	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/Other (1)	12.31.2011
Provisions for restructuring	180.2	90.6	44.2	-38.0	-6.7	3.4	93.6
Provisions for product returns	174.6	209.4	138.2	-100.7	-36.1	8.4	219.2
Other provisions for liabilities and charges	280.8	418.2	140.2	-100.6	-54.9	11.2	414.0
TOTAL	**635.6**	**718.2**	**322.6**	**-239.3**	**-97.7**	**23.0**	**726.8**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
Other income and expenses	47.4	-71.1	-33.2
Operating profit	299.3	-164.4	-56.9
Financial (income)/expense	0.4	-0.3	-0.1
Income tax	45.6	-3.5	-7.6

The change in this caption in 2010 can be analysed as follows:

€ millions	12.31.2008	12.31.2009	Charges (2)	Reversals (used) (2)	Reversals (not used) (2)	Impact of change in scope/ Exchange rate/Other (1)	12.31.2010
Provisions for restructuring	125.1	180.2	20.4	-106.4	-6.1	2.5	90.6
Provisions for product returns	162.9	174.6	184.6	-161.3	-21.4	32.9	209.4
Other provisions for liabilities and charges	254.5	280.8	216.6	-62.6	-21.6	5.0	418.2
TOTAL	**542.5**	**635.6**	**421.6**	**-330.3**	**-49.1**	**40.4**	**718.2**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
Other income and expenses	95.2	-106.7	-6.1
Operating profit	263.9	-217.3	-35.1
Financial (income)/expense	0.6	-0.1	
Income tax	61.9	-6.2	-7.9

NOTE 23 Borrowings and debt

The Group uses bank loans for its medium-term financing needs and commercial paper issues in France and in the US for its short-term financing needs. None of these loans contain an early repayment clause linked to financial ratios (covenants).

23.1. DEBT BY TYPE

€ millions	12.31.2012		12.31.2011		12.31.2010	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	-	-	795.7	-	71.1
MLT bank loans	-	-	-	-	751.2	563.0
Debt on capital lease contracts	39.1	12.5	47.5	11.6	53.2	10.9
Overdrafts	-	20.8	-	10.3	-	47.9
Other borrowings and debt	7.8	167.8	10.0	273.2	19.9	74.1
TOTAL	**46.9**	**201.1**	**57.5**	**1,090.8**	**824.3**	**767.0**

23.2. DEBT BY MATURITY DATE

€ millions	12.31.2012	12.31.2011	12.31.2010
Under 1 year (1)	201.1	1,090.8	767.0
1 to 5 years	27.7	36.1	796.1
Over 5 years	19.2	21.4	28.2
TOTAL	**248.0**	**1,148.3**	**1,591.3**

(1) At December 31st, 2012, the Group had confirmed undrawn credit lines for €2,550.0 million compared with €2,438.6 million at December 31st, 2011. These lines were not subject to any covenants.

At the end of 2012, estimated interest payments were not material due to the debt outstanding at December 31st, 2012, which consisted of very short-term loans contracted locally by subsidiaries, and payments outstanding under finance leases.

At the end of 2011, estimated interest payments totalled around €2.6 million for 2012, €0 million for the period 2013-2016 and €0 million after 2016.

At the end of 2010, estimated interest payments totalled around €12.6 million for 2011, €5.0 million for the period 2012-2015 and €1.0 million after 2015.

These estimates are computed on the basis of the effective interest rate at the end of the financial year, after allowing for hedging instruments and assuming that no debt is rolled over at maturity. Amounts payable under capital leases are not taken into account as they are not material.

23.3. DEBT BY CURRENCY (AFTER ALLOWING FOR CURRENCY HEDGING INSTRUMENTS)

€ millions	12.31.2012	12.31.2011	12.31.2010
Brazilian Real (BRL)	43.7	55.6	4.6
Yen (JPY)	39.4	45.0	64.4
Canadian dollar (CAD)	30.5	37.9	25.5
Yuan (CNY)	28.9	32.0	29.7
Rupiah (IDR)	20.8	29.8	22.2
US dollar (USD)	14.7	480.1	127.2
Swedish Krona (SEK)	4.4	344.4	6.7
Euro (EUR)	-	-	1,122.8
Other	65.6	123.5	188.2
TOTAL	**248.0**	**1,148.3**	**1,591.3**

23.4. BREAKDOWN OF FIXED RATE AND FLOATING RATE DEBT (AFTER ALLOWING FOR INTEREST RATE HEDGING INSTRUMENTS)

€ millions	12.31.2012	12.31.2011	12.31.2010
Floating rate	204.0	1,094.0	1,517.3
Fixed rate	44.0	54.3	74.0
TOTAL	**248.0**	**1,148.3**	**1,591.3**

23.5. EFFECTIVE INTEREST RATES

Effective interest rates on Group debt after allowing for hedging instruments were 0.21% in 2010 and 1.47% in 2011 for short-term paper, and 1.15% in 2010 for bank loans. The Group no longer had any short-term paper at December 31st, 2012 and no longer held any bank loans at either December 31st, 2012 or December 31st, 2011.

23.6. AVERAGE DEBT INTEREST RATES

Average interest rates after allowing for hedging instruments were 0.99% in 2010, 1.39% in 2011 and 0.35% in 2012 on euro-denominated debt, 0.36% in 2010, 0.19% in 2011 and 0.14% in 2012 on USD-denominated debt and 2.50% in 2011 and 3.22% in 2012 on the Swedish krona-denominated debt.

23.7. FAIR VALUE OF BORROWINGS AND DEBT

The fair value of fixed-rate debt is determined for each loan by discounting future cash flows, based on bond yield curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net carrying amount of outstanding bank loans and other floating-rate loans is a reasonable approximation of their fair value.

The fair value of borrowings and debt amounted to €248.5 million at December 31st, 2012. The fair value of borrowings and debt amounted to €1,148.4 million at December 31st, 2011. The fair value of borrowings and debt amounted to €1,591.8 million at December 31st, 2010.

23.8. DEBT COVERED BY COLLATERAL

No debt was covered by material amounts of collateral at December 31st, 2012, 2011 or 2010.

23.9. CONFIRMED CREDIT LINES

At December 31st, 2012, L'Oréal and its subsidiaries had €2,550.0 million of confirmed undrawn credit lines, compared with €2,438.6 million at December 31st, 2011 and €2,387 million at December 31st, 2010.

Credit lines fall due as follows:

- €250.0 million in less than 1 year;
- €2,300.0 million between 1 year and 4 years.

NOTE 24 Derivatives and exposure to market risks

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the Group uses derivatives negotiated with counterparties rated investment grade.

In accordance with Group rules, currency and interest rate derivatives are set up exclusively for hedging purposes.

24.1. HEDGING OF CURRENCY RISK

The Group is exposed to currency risk on commercial transactions recorded on the balance sheet and on highly probable future transactions.

The Group's policy regarding its exposure to currency risk on future commercial transactions is to hedge at the end of the year a large part of the currency risk for the following year, using derivatives based on operating budgets in each subsidiary.

All the Group's future foreign currency flows are analysed in detailed forecasts for the coming budgetary year. Any currency risks identified are hedged by forward contracts or by options in order to reduce as far as possible the currency exposure of each subsidiary. The term of the derivatives is aligned with the Group's settlements. Exchange rate derivatives are negotiated by REGEFI (the Group's bank) or, in exceptional cases, directly by the Group's subsidiaries when required by local regulations. Such operations are supervised by REGEFI.

As the Group's bank, REGEFI is subject to the European Market Infrastructure Regulation (EMIR). Published by the European Commission in September 2012, EMIR is aimed at moving OTC markets towards a centralized model, thereby enhancing market transparency and regulatory oversight and decreasing systemic risk using a guarantee mechanism. EMIR will be gradually applicable as from the first quarter of 2013 and the application period will span until 2014.

As the Group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by managing their own cash and debt are almost non-existent.

Owing to the Group's policy of hedging a large part of annual requirements for the following year at the end of the current year, the sensitivity of profit or loss to changes in foreign exchange rates at December 31st is marginal. The impact of changes in foreign exchange rates on the foreign exchange cash flow hedges reserve is described in note 20.4.

The following derivatives, all of which have a maturity of less than 18 months at inception, are held for currency risk hedging purposes:

	Nominal			Market value		
€ millions	12.31.2012	12.31.2011	12.31.2010	12.31.2012	12.31.2011	12.31.2010
Currency futures						
Purchase of EUR against foreign currencies	**2,499.8**	**1,662.1**	**1,595.9**	**32.6**	**-52.7**	**-51.9**
EUR/USD	806.5	265.3	170.2	16.4	-20.9	-2.3
EUR/CHF	425.6	161.6	255.8	1.4	-1.6	-14.9
EUR/RUB	198.6	300.7	301.8	-3.4	1.5	-5.8
EUR/MXN	176.6	87.1	78.3	2.1	1.8	-1.1
EUR/CNY	126.2	165.3	85.4	1.3	-8.7	-2.7
EUR/GBP	118.3	85.0	-0.7	3.1	-6.8	-0.4
EUR/AUD	89.2	64.9	60.8	1.4	-4.9	-5.6
EUR/CAD	88.8	69.8	79.3	2.0	-2.5	-2.0
EUR/JPY	80.3	4.0	64.1	-0.4	0.2	-1.0
EUR/BRL	80.0	81.0	84.0	3.4	0.3	-5.6
EUR/Asia, Pacific currencies	140.4	162.9	188.8	6.7	-10.1	-4.5
EUR/Eastern European currencies	96.0	85.9	100.6	-1.3	1.2	-0.1
EUR/Other currencies	73.3	128.6	127.5	-0.1	-2.2	-5.9
Purchase of USD against foreign currencies	**159.4**	**305.3**	**247.4**	**-5.6**	**11.7**	**-9.7**
USD/Latin American currencies	77.0	133.0	119.5	-3.4	5.6	-3.8
USD/CAD	27.9	45.2	39.2	-0.6	1.4	-1.1
USD/Asia, Pacific currencies	-	112.6	72.3	-	4.3	-4.0
USD/Other currencies	54.5	14.5	16.4	-1.6	0.4	-0.8
Sale of USD against foreign currencies	**344.4**	**192.1**	**-**	**0.3**	**-9.7**	**-**
USD/CHF	169.4	192.1	-	5.2	-9.7	-
USD/Asia, Pacific currencies	175.0	-	-	-4.9		-
Other currency pairs	**296.4**	**245.2**	**232.9**	**2.6**	**-3.2**	**-1.7**
Currency futures total	**3,300.0**	**2,404.7**	**2,076.2**	**29.9**	**-53.9**	**-63.3**
Currency options						
EUR/USD	117.9	121.0	122.8	8.3	2.7	8.0
EUR/GBP	73.7	73.5	82.3	2.7	1.2	4.5
EUR/Other currencies	246.6	231.3	222.7	15.8	9.5	11.0
CHF/USD	64.4	96.3	-	4.4	2.9	-
Other currency pairs	**21.1**	**14.8**	**30.3**	**1.2**	**0.4**	**1.0**
Currency options total	**523.7**	**536.8**	**458.1**	**32.4**	**16.7**	**24.5**
of which total options purchased	523.7	536.8	458.2	32.4	16.7	24.5
of which total options sold	-	-	-0.1	-	-	-
TOTAL	**3,823.7**	**2,941.5**	**2,534.3**	**62.3**	**-37.2**	**-38.8**

The total amount of options sold corresponds exclusively to the sale of previously purchased options when it was considered appropriate to replace them with other hedging instruments.

The market values by type of hedging are as follows:

€ millions	2012	2011	2010
Fair value hedges [1]	5.8	-5.4	-18.7
Cash flow hedges	56.5	-31.8	-20.1
Net foreign investment hedges	-	-	-
TOTAL	**62.3**	**-37.2**	**-38.8**

(1) *Fair value hedges relate to currency risks on operating receivables and payables as well as on foreign currency investments and financing.*

The fair value of the derivatives is their market value.

The Group has no significant foreign currency exposures that are not hedged in the balance sheet.

24.2. HEDGING OF INTEREST RATE RISK

The Group mainly refinances at floating rates and uses interest rate derivatives to reduce net exposure to interest rate risk. Interest rate derivatives are never held for speculative purposes.

The derivatives are mainly swaps and interest rate options (purchase of caps) which are traded with specific counterparties.

The market values of the derivatives set out below should be compared with the market values of the debt that they hedge.

Interest rate derivatives are as follows:

€ millions	Notional			Market value		
Interest rate derivatives	12.31.2012	12.31.2011	12.31.2010	12.31.2012	12.31.2011	12.31.2010
Cash flow hedges						
Fixed-rate *borrower interest rate swaps*						
EUR Euribor/fixed rate	-	-	14.3	-	-	-1.7
USD Libor/fixed rate	-	-	-	-	-	-
Purchase of caps						
USD Libor	-	-	-	-	-	-
Fair value hedges						
Floating-rate *borrower interest rate swaps*						
EUR Euribor/fixed rate	-	-	-	-	-	-
TOTAL	**-**	**-**	**14.3**	**-**	**-**	**-1.7**

The fair value of interest rate derivatives is their market value. The market value of interest rate derivatives is calculated by discounting future flows at the interest rate prevailing at the balance sheet date.

Maturities of interest rate derivatives broken down by type of hedge are as follows:

	Nominal by maturity											
	12.31.2012				12.31.2011				12.31.2010			
€ millions	< 1 year	1 to 5 years	> 5 years	Total	< 1 year	1 to 5 years	> 5 years	Total	< 1 year	1 to 5 years	> 5 years	Total
Cash flow hedges												
Fixed-rate *borrower interest rate swaps*	-	-	-	-	-	-	-	-	1.0	4.6	8.7	14.3
Purchase of caps	-	-	-	-	-	-	-	-	-	-	-	-
Fair value hedges												
Floating-rate *borrower interest rate swaps*	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.0**	**4.6**	**8.7**	**14.3**

24.3. SENSITIVITY TO CHANGES IN INTEREST RATES

An increase of 100 basis points in interest rates would have a direct positive impact of €16.3 million on the Group's net finance costs at December 31st, 2012, compared with a positive impact of €5.6 million at December 31st, 2011 and a positive impact of €0.5 million at December 31st, 2010. This calculation allows for cash, cash equivalents and derivatives, and assumes that total net debt/net cash remains stable and that fixed-rate debt at maturity is replaced by floating-rate debt.

The impact of a 100 basis point rise in interest rates on the fair value of the Group's fixed-rate financial assets and liabilities, after allowing for derivatives, can be estimated at €0.3 million at December 31st, 2012 compared with €0.2 million at December 31st, 2011 and €1.3 million at December 31st, 2010.

24.4. COUNTERPARTY RISK

The Group has financial relations with international banks rated investment grade. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used to manage exchange rate and interest rate risk are issued by leading international banking counterparties.

24.5. LIQUIDITY RISK

The Group's liquidity risk can be assessed on the basis of its outstanding short-term debt under its paper programme. If these bank facilities were not renewed, the Group had confirmed undrawn credit lines of €2,550.0 million at December 31st, 2012. The availability of these credit lines is not dependent on financial covenants. The Group no longer had any short-term paper at the end of December 2012.

24.6. SHAREHOLDING RISK

No cash has been invested in shares.

Available cash is invested with top-ranking financial institutions in the form of non-speculative instruments which can be drawn in very short periods. At December 31st, 2012, cash was invested exclusively in Euro-zone government bonds through mutual funds (note 19).

At December 31st, 2012, the Group holds 118,227,307 Sanofi shares for an amount of €8,440.2 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €71.39 on December 31st, 2012 would have an impact of plus or minus €844.0 million before tax on Group equity.

If the share price were to fall significantly below €34.12 (the initial cost of the Sanofi shares), or fall below that price for a prolonged length of time, L'Oréal may have to recognise an impairment loss on its asset through profit or loss.

At December 31st, 2011, the Group held 118,227,307 Sanofi shares for an amount of €6,709.4 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €56.75 on December 31st, 2011 would have an impact of plus or minus €670.9 million before tax on Group equity.

At December 31st, 2010, the Group held 118,227,307 Sanofi shares for an amount of €5,657.2 million (note 15). A change of plus or minus 10% in the market price of these shares relative to the market price of €47.85 on December 31st, 2010 would have an impact of plus or minus €565.7 million before tax on Group equity.

24.7. FAIR VALUE HIERARCHY

IFRS 7 as amended in 2009 requires financial assets and liabilities recognised at fair value in the balance sheet to be classified according to three levels:

- level 1: quoted prices on an active market;
- level 2: valuation techniques using observable inputs;
- level 3: valuation techniques using unobservable inputs.

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

€ millions December 31st, 2012	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		162.6		162.6
Interest rate derivatives				-
Sanofi shares	8,440.2			8,440.2
Marketable securities	150.0			150.0
TOTAL ASSETS AT FAIR VALUE	**8,590.2**	**162.6**		**8,752.8**
Liabilities at fair value				
Foreign exchange derivatives		104.7		104.7
Interest rate derivatives				
TOTAL LIABILITIES AT FAIR VALUE		**104.7**		**104.7**

€ millions December 31st, 2011	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		114.0		114.0
Interest rate derivatives				-
Sanofi shares	6,709.4			6,709.4
Marketable securities	598.2			598.2
TOTAL ASSETS AT FAIR VALUE	**7,307.6**	**114.0**		**7,421.6**
Liabilities at fair value				
Foreign exchange derivatives		147.2		147.2
Interest rate derivatives				
TOTAL LIABILITIES AT FAIR VALUE		**147.2**		**147.2**

€ millions December 31st, 2010	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Foreign exchange derivatives		83.2		83.2
Interest rate derivatives		-		-
Sanofi shares	5,657.2			5,657.2
Marketable securities	523.6			523.6
TOTAL ASSETS AT FAIR VALUE	**6,180.8**	**83.2**		**6,264.0**
Liabilities at fair value				
Foreign exchange derivatives		115.3		115.3
Interest rate derivatives		1.8		1.8
TOTAL LIABILITIES AT FAIR VALUE		**117.1**		**117.1**

NOTE 25 Other current liabilities

€ millions	12.31.2012	12.31.2011	12.31.2010
Tax and employee-related payables (excluding income tax)	1,115.7	1,039.0	986.8
Credit balances on trade receivables	608.2	598.4	582.2
Fixed asset payables	150.1	124.0	121.2
Derivatives	104.7	147.2	117.1
Other current liabilities	162.4	158.0	150.8
TOTAL	**2,141.1**	**2,066.7**	**1,958.1**

NOTE 26 Off-balance sheet commitments

26.1. OPERATING LEASE COMMITMENTS

These amount to €1,789.6 million at December 31st, 2012 compared with €1,784.2 million at December 31st, 2011 and €1,764.3 million at December 31st, 2010, of which:

- €452.6 million was due in within 1 year at December 31st, 2012 compared with €416.8 million at December 31st, 2011 and €376.6 million at December 31st, 2010;
- €1,082.0 million was due in 1 to 5 years at December 31st, 2012 compared with €1,070.5 million at December 31st, 2011 and €975.9 million at December 31st, 2010;
- €255.0 million was due in over 5 years at December 31st, 2012 compared with €296.9 million at December 31st, 2011 and €411.8 million at December 31st, 2010.

26.2. OTHER OFF-BALANCE SHEET COMMITMENTS

Confirmed credit lines are discussed in note 23.

Other significant off-balance sheet commitments have been identified and measured. They chiefly fall due within 1 year and are as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Guarantees given (1)	134.2	121.5	109.5
Guarantees received	59.9	54.8	45.8
Commitments given under Dermatology contracts	75.1	60.2	48.5
Commitments received under Dermatology contracts	40.9	33.5	-
Capital expenditure orders	249.5	229.8	220.8
Firm purchase commitments under logistics supply contracts	487.2	448.9	461.8

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

26.3. CONTINGENT LIABILITIES

In the course of its normal operations, the Group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Group sets aside a provision wherever a risk is found to exist, and the related cost can be reliably estimated.

On this basis, a provision has been set aside for risks relating to investigations carried out by competition authorities described in note 22.1.

In terms of taxation, in early January 2013, L'Oréal Brasil received a tax reassessment notice regarding the indirect IPI tax for fiscal year 2008. The reassessment concerned an amount of BRL 333 million including BRL 180 million (€129 million) in interest and penalties. The Brazilian tax authorities questioned the price used to calculate the IPI tax base. After consulting its tax advisors, L'Oréal Brasil considers that the Brazilian tax authorities' position is unfounded and plans to challenge this notice. Consequently, no provision has been recorded.

At the present time, no exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the L'Oréal Company or Group.

26.4. ENVIRONMENTAL RISKS

The Group strictly complies with regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial position, earnings or assets.

The risks identified at December 31st, 2012 are not material.

NOTE 27 Changes in working capital

This caption amounts to a negative €129.1 million in 2012, a negative €322.0 million in 2011 and a positive €132.5 million in 2010, and can be analysed as follows:

€ millions	2012	2011	2010
Inventories	14.6	-200.9	-217.0
Trade accounts receivable	-214.8	-275.2	-90.6
Trade accounts payable	83.2	60.9	415.8
Other receivables and payables	-12.1	93.2	24.3
TOTAL	**-129.1**	**-322.0**	**132.5**

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

In 2012, this item mainly related to the acquisition of Cadum, Urban Decay and Emiliani Enterprises.

In 2011, this item mainly related to the acquisitions of Q-Med and Pacific Bioscience Laboratories Inc.

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

NOTE 29 Transactions with related parties

29.1. JOINT VENTURES

Transactions with proportionally consolidated companies were as follows:

€ millions	2012	2011	2010
Sales of goods and services	1.0	0.9	0.9
Financial expenses and income	4.0	6.4	0.8

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

€ millions	12.31.2012	12.31.2011	12.31.2010
Operating receivables	2.4	2.8	2.7
Operating payables	0.2	0.1	0.2
Financial receivables	194.1	211.9	80.6

29.2. RELATED PARTIES WITH A SIGNIFICANT INFLUENCE ON THE GROUP

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

29.3. ASSOCIATES

The Group had no equity-accounted companies in 2012, 2011 or 2010.

29.4. ADDITIONAL INFORMATION ON JOINTLY CONTROLLED ENTITIES

The information presented below corresponds to amounts attributable to the Group based on its ownership interest.

€ millions 2012	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	333.6	832.4	617.2	134.3	795.5	-652.9	142.6
Innéov	13.2	1.1	20.9	0.1	28.8	-32.6	-3.8

€ millions 2011	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	320.2	852.0	690.8	138.0	704.7	-584.6	120.1
Innéov	11.5	1.3	21.5	0.1	31.5	-32.9	-1.4

€ millions 2010	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue for the Group	Expenses for the Group	Operating profit (loss)
Galderma	228.3	481.0	326.9	75.3	601.7	-482.5	119.2
Innéov	9.7	1.6	17.9	0.1	31.1	-30.7	0.4

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

	PricewaterhouseCoopers Audit				Deloitte & Associés			
€ millions excl. VAT	Amount		%		Amount		%	
Audit	2012	2011	2012	2011	2012	2011	2012	2011
Statutory audit	6.0	5.5	67%	73%	6.2	5.8	76%	76%
L'Oréal	1.0	1.0	12%	13%	1.0	1.0	12%	12%
Fully consolidated subsidiaries	5.0	4.5	55%	60%	5.2	4.8	64%	64%
Other directly related audit assignments (1)	2.5	1.6	28%	21%	1.5	1.2	18%	16%
L'Oréal	0.6	0.2	6%	3%	1.0	1.0	13%	14%
Fully consolidated subsidiaries	1.9	1.4	22%	18%	0.5	0.2	5%	2%
Audit sub-total	**8.5**	**7.1**	**95%**	**93%**	**7.7**	**7.0**	**94%**	**92%**
Other services								
Other services (legal, tax, employee-related, other)	0.5	0.5	5%	7%	0.4	0.6	6%	8%
TOTAL	**9.0**	**7.6**	**100%**	**100%**	**8.1**	**7.6**	**100%**	**100%**

(1) Mainly concerning acquisition audits.

NOTE 31 Subsequent events

On October 11th, 2012, L'Oréal announced it had signed a contract to acquire the Colombia-based Vogue group, the country's leader in mass-market make-up.

In 2011, the Vogue group reported consolidated net sales of approximately €30 million.

The acquisition was finalised on January 31st, 2013.

On December 12th, 2012, Galderma Pharma S.A. announced that it had signed an agreement to acquire Spirig Pharma A.G.

Spirig's products treat conditions such as sun-provoked skin diseases and skin barrier function impairment. The company also has a range of medically-proven products that prevent pre-cancerous conditions such as actinic keratosis, a type of non-melanoma skin cancer. Leading brands include *Excipial®*, *Daylong®* and *Daylong Actinica®*. Based in Egerkingen in Switzerland.

Spirig is the leader in dermatology in Switzerland. Spirig generated sales of CHF 98.4 million in 2011, and had 390 employees.

The transaction is expected to be carried out in early 2013, subject to fulfilment of customary closing conditions

4.7. Consolidated companies at December 31st, 2012

4.7.1. *FULLY CONSOLIDATED COMPANIES (1)*

Company	Head office	% interest	% control (2)
Areca & Cie	France	100.00	
Avenamite S.A.	Spain	100.00	
Banque de Réalisations de Gestion et de Financement (Regefi)	France	100.00	
Beauté Créateurs	France	100.00	
Beauté, Recherche & Industries	France	100.00	
Beautycos International Co. Limited	China	100.00	
Beautylux International Cosmetics (Shanghai) Co. Ltd	China	100.00	
Belcos Ltd	Japan	100.00	
Biotherm	Monaco	99.80	
Cadum	France	100.00	
Cadum International SA	Luxemburg	100.00	
Canan Kozmetik Sanayi Ve Ticaret A.S.	Turkey	100.00	
Canan Tuketim Urunleri Pazarlama A.S.	Turkey	100.00	
Centre Logistique d'Essigny	France	100.00	
Centrex	France	100.00	
Chimex	France	100.00	
Cobelsa Cosmeticos, S.A.	Spain	100.00	
Colainaf	Morocco	100.00	
Compagnie Thermale Hôtelière et Financière	France	99.98	
Consortium Général de Publicité	France	100.00	
Cosbel S.A. de C.V.	Mexico	100.00	
Cosmelor KK	Japan	100.00	
Cosmelor Ltd	Japan	100.00	
Cosmephil Holdings Corporation Philippines	Philippines	100.00	
Cosmetil	Morocco	49.80	100.00
Cosmétique Active France	France	100.00	
Cosmétique Active International	France	100.00	
Cosmétique Active Ireland Ltd	Ireland	100.00	
Cosmétique Active Production	France	100.00	
Egyptelor LLC	Egypt	100.00	
Elebelle (Pty) Ltd	South Africa	100.00	
EpiSkin	France	100.00	
EpiSkin Biomatériaux	France	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

Company	Head office	% interest	% control (2)
Erwiton S.A.	Uruguay	100.00	
Exclusive Signatures International	France	100.00	
Fapagau & Cie	France	100.00	
Faprogi	France	100.00	
Finval	France	100.00	
Frabel S.A. de C.V.	Mexico	100.00	
Gemey Maybelline Garnier	France	100.00	
Gemey Paris – Maybelline New York	France	100.00	
Goldys International	France	100.00	
Groupe Cadum SAS	France	100.00	
Helena Rubinstein	France	100.00	
Helena Rubinstein Italia S.p.A	Italy	100.00	
Holdial	France	100.00	
Hygiène Beauté Distribution France	France	100.00	
Kosmepol Sp z.o.o	Poland	100.00	
L & J Ré	France	100.00	
LOA3	France	100.00	
La Roche-Posay Laboratoire Pharmaceutique	France	99.98	
Laboratoire Sanoflore	France	100.00	
Lai Mei Cosmetics International Trading (Shanghai) Co. Ltd	China	100.00	
Lancôme Parfums & Beauté & Cie	France	100.00	
Lancos Ltd	Japan	100.00	
LaScad	France	100.00	
Le Club des Créateurs de Beauté	Belgium	100.00	
Lehoux et Jacque	France	100.00	
L'Oréal Adria d.o.o.	Croatia	100.00	
L'Oréal Argentina S.A.	Argentina	100.00	
L'Oréal Australia Pty Ltd	Australia	100.00	
L'Oréal Balkan d.o.o.	Serbia	100.00	
L'Oréal Baltic SIA	Latvia	100.00	
L'Oréal Belgilux S.A.	Belgium	100.00	
L'Oréal Brasil Comercial de Cosméticos Ltda	Brazil	100.00	
L'Oréal Brasil Licenciamentos Empresariais, Cosmeticos e Perfumes Ltda	Brazil	100.00	
L'Oréal Bulgaria EOOD	Bulgaria	100.00	
L'Oréal Canada, Inc.	Canada	100.00	
L'Oréal Central America	Panama	100.00	
L'Oréal Central West Africa	Nigeria	100.00	
L'Oréal Ceska Republika s.r.o	Czech Republic	100.00	
L'Oréal Chile S.A.	Chile	100.00	
L'Oréal (China) Co. Ltd	China	100.00	
L'Oréal Colombia S.A.	Colombia	100.00	
L'Oréal Cosmetics Industry SAE	Egypt	100.00	
L'Oréal Danmark A/S	Denmark	100.00	
L'Oréal Deutschland GmbH	Germany	100.00	
L'Oréal East Africa Ltd	Kenya	100.00	
L'Oréal Egypt LLC	Egypt	100.00	
L'Oréal España S.A.	Spain	100.00	
L'Oréal Finland Oy	Finland	100.00	
L'Oréal Guatemala S.A.	Guatemala	100.00	
L'Oréal Hellas S.A.	Greece	100.00	
L'Oréal Hong Kong Ltd	Hong-Kong	100.00	
L'Oréal India Pvt Ltd	India	100.00	
L'Oréal Investments B.V.	The Netherlands	100.00	
L'Oréal Israel Ltd	Israel	92.97	
L'Oréal Italia S.p.A	Italy	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

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Company	Head office	% interest	% control (2)
L'Oréal Japan Ltd	Japan	100.00	
L'Oréal Kazakhstan LLP	Kazakhstan	100.00	
L'Oréal Korea Ltd	Korea	100.00	
L'Oréal Liban SAL	Lebanon	99.88	
L'Oréal Libramont	Belgium	100.00	
L'Oréal Magyarorszag Kozmetikai Kft	Hungary	100.00	
L'Oréal Malaysia SDN BHD	Malaysia	100.00	
L'Oréal Manufacturing Midrand Pty Ltd	South Africa	100.00	
L'Oréal Maroc	Morocco	50.00	100.00
L'Oréal Mexico S.A. de C.V.	Mexico	100.00	
L'Oréal Mexico Servicios S.A. de C.V.	Mexico	100.00	
L'Oréal Middle East	United Arab Emirates	100.00	
L'Oréal Nederland B.V.	The Netherlands	100.00	
L'Oréal New Zealand Ltd	New Zealand	100.00	
L'Oréal Norge A/S	Norway	100.00	
L'Oréal Österreich GmbH	Austria	100.00	
L'Oréal Pakistan Private Limited	Pakistan	100.00	
L'Oréal Panama S.A.	Panama	100.00	
L'Oréal Peru S.A.	Peru	100.00	
L'Oréal Philippines, Inc.	Philippines	100.00	
L'Oréal Polska Sp z.o.o	Poland	100.00	
L'Oréal Portugal, Lda	Portugal	100.00	
L'Oréal Produits de Luxe France	France	100.00	
L'Oréal Produits de Luxe International	France	100.00	
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany	100.00	
L'Oréal Produktion Deutschland GmbH & Co. Kg	Germany	100.00	
L'Oréal Romania SRL	Rumania	100.00	
L'Oréal Saipo Industriale S.p.A	Italy	100.00	
L'Oréal Saudi Arabia	Saudi Arabia	75.00	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 SLP S.A. de C.V.	Mexico	100.00	
L'Oréal South Africa Holdings Pty Ltd	South Africa	100.00	
L'Oréal Suisse S.A.	Switzerland	100.00	
L'Oréal Sverige AB	Sweden	100.00	
L'Oréal Taiwan Co. Ltd	Taiwan	100.00	
L'Oréal Thailand Ltd	Thailand	100.00	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	Turkey	100.00	
L'Oréal UK Ltd	United Kingdom	100.00	
L'Oréal Ukraine	Ukraine	100.00	
L'Oréal Uruguay S.A.	Uruguay	100.00	
L'Oréal USA, Inc. (as a group)	United States	100.00	
L'Oréal Venezuela, C.A.	Venezuela	100.00	
L'Oréal Verwaltungs GmbH	Germany	100.00	
L'Oréal Vietnam Co. Ltd	Vietnam	100.00	
L'Oréal West Africa Ltd	Ghana	100.00	
Marigny Manufacturing Australia Pty Ltd	Australia	100.00	
Masrelor LLC	Egypt	100.00	
Matrix Distribution GmbH	Germany	100.00	
Nihon L'Oréal K.K.	Japan	100.00	
NLO K.K.	Japan	100.00	
P.T. L'Oréal Indonesia	Indonesia	100.00	
P.T. Yasulor Indonesia	Indonesia	100.00	
Parbel of Florida, Inc.	United States	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

Company	Head office	% interest	% control (2)
Parfums Cacharel & Cie	France	100.00	
Parfums Guy Laroche	France	100.00	
Parfums Paloma Picasso & Cie	France	100.00	
Parfums Ralph Lauren	France	100.00	
Prestige et Collections International	France	100.00	
Procosa Productos de Beleza Ltda	Brazil	100.00	
Productos Capilares L'Oréal S.A.	Spain	100.00	
Redken France	France	100.00	
Roger & Gallet	France	100.00	
SLP Asistencia S.A. de C.V.	Mexico	100.00	
Scental Ltd	Hong-Kong	100.00	
Seda Plastik Ve Boya Sanayi Ithalat ve Ihracat Ticaret Anonim Sirketi	Turkey	100.00	
Shu Uemura Cosmetics Inc.	Japan	100.00	
Sicôs & Cie	France	100.00	
SkinEthic	France	99.09	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche-Posay	France	99.98	
Sofamo	Monaco	100.00	
Soprocos	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	
The Body Shop (as a group)	United Kingdom	100.00	
Venprobel	Venezuela	100.00	
Viktor & Rolf Parfums	France	100.00	
Yichang Tianmei International Cosmetics Co. Ltd	China	100.00	
YSL Beauté	France	100.00	
YSL Beauté Hong Kong Ltd	Hong-Kong	100.00	
YSL Beauté Middle East Fze	United Arab Emirates	100.00	
YSL Beauté Singapore Pte Ltd	Singapore	100.00	
YSL Beauté Vostok o.o.o.	Russia	100.00	
Zao L'Oréal	Russia	100.00	

(1) Pursuant to the provisions of Article R 233-14 of the French Commercial Code, some of the information provided above is incomplete.
(2) Equivalent to the percentage interest unless otherwise indicated.

4.7.2. PROPORTIONALLY CONSOLIDATED COMPANIES

Company	Head office	% interest	% control (2)
Galderma Argentina S.A.	Argentina	50.00 (1)	
Galderma Australia Pty Ltd	Australia	50.00 (1)	
Galderma Benelux BV	The Netherlands	50.00 (1)	
Galderma Brasil Limitada	Brazil	50.00 (1)	
Galderma Canada Inc.	Canada	50.00 (1)	
Galderma Colombia S.A.	Colombia	50.00 (1)	
Galderma Hellas Trade of Pharmaceuticals Products S.A.	Greece	50.00 (1)	
Galderma Holding AB	Sweden	50.00 (1)	
Galderma Hong Kong	Hong-Kong	50.00 (1)	
Galderma India Private Ltd	India	50.00 (1)	
Galderma International	France	50.00 (1)	
Galderma Italia S.p.A	Italy	50.00 (1)	
Galderma K.K.	Japan	50.00 (1)	
Galderma Korea Ltd	Korea	50.00 (1)	
Galderma Laboratories Inc.	United States	50.00 (1)	
Galderma Laboratories South Africa Pty Ltd	South Africa	50.00 (1)	

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

Company	Head office	% interest	% control (2)
Galderma Laboratorium GmbH	Germany	50.00 (1)	
Galderma Mexico S.A. de C.V.	Mexico	50.00 (1)	
Galderma Nordic AB	Sweden	50.00 (1)	
Galderma o.o.o.	Russia	50.00 (1)	
Galderma Peru Laboratorios S.A.	Peru	50.00 (1)	
Galderma Pharma S.A.	Switzerland	50.00 (1)	
Galderma Philippines Inc.	Philippines	50.00 (1)	
Galderma Polska Sp. z.o.o.	Poland	50.00 (1)	
G. Production Inc.	Canada	50.00 (1)	
Galderma Research & Development	France	50.00 (1)	
Galderma Research and Development Inc.	United States	50.00 (1)	
Galderma S.A.	Switzerland	50.00 (1)	
Galderma Singapore Pvt Ltd	Singapore	50.00 (1)	
Galderma (UK) Ltd	United Kingdom	50.00 (1)	
Galderma Uruguay	Uruguay	50.00 (1)	
Galderma-Q-Med	France	50.00 (1)	
Innéov Adria d.o.o. for trade and services	Croatia	50.00 (1)	
Innéov Argentina S.A.	Argentina	50,00 (1)	
Innéov Belgique	Belgium	50.00 (1)	
Innéov Brasil Nutricosmeticos Ltda	Brazil	50.00 (1)	
Innéov Canada, Inc.	Canada	50.00 (1)	
Innéov Chile S.A.	Chile	50.00 (1)	
Innéov CZ s.r.o.	Czech Republic	50.00 (1)	
Innéov d.o.o.	Slovenia	50.00 (1)	
Innéov Deutschland GmbH	Germany	50.00 (1)	
Innéov España S.A.	Spain	50.00 (1)	
Innéov France	France	50.00 (1)	
Innéov Hellas A.E.	Greece	50.00 (1)	
Innéov Italia S.p.A.	Italy	50.00 (1)	
Innéov Mexico S.A. de C.V.	Mexico	50.00 (1)	
Innéov Nederland B.V.	The Netherlands	50.00 (1)	
Innéov Nutrikozmetik Ticaret Ve Sanayi Ltd Sirketi	Turkey	50.00 (1)	
Innéov Österreich Handelsgesellschaft mbH	Austria	50.00 (1)	
Innéov Polska Sp. z.o.o.	Poland	50.00 (1)	
Innéov (Shanghai) Trading Co., Ltd	China	50.00 (1)	
Innéov SK s.r.o.	Slovakia	50.00 (1)	
Innéov Suisse	Switzerland	50.00 (1)	
Innéov Taiwan Co. Ltd	Taiwan	50.00 (1)	
Laboratoires Galderma	France	50.00 (1)	
Laboratoires Innéov	France	50.00 (1)	
Laboratoires Innéov Portugal Unipessoal Lda	Portugal	50.00 (1)	
Laboratorios Galderma Chile Limitada	Chile	50.00 (1)	
Laboratorios Galderma S.A.	Spain	50.00 (1)	
Laboratorios Galderma Venezuela S.A.	Venezuela	50.00 (1)	
O.O.O Innéov	Russia	50.00 (1)	
Q-Med (as a group)	Sweden	50.00 (1)	

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

4.8. Statutory Auditors' Report on the consolidated financial statements

(Year ended December 31th, 2012)

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31th, 2012, on:

- the audit of the accompanying consolidated financial statements of L'Oréal;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements, based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31st, 2012 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- L'Oréal performs impairment tests on goodwill and intangible assets with indefinite useful lives at least once a year and whenever there is an indication that an asset may be impaired, in accordance with the methods set out in Notes 1.15 and 13 to the consolidated financial statements. We have reviewed the terms and conditions for implementing these impairment tests as well as the assumptions applied;
- obligations relating to pensions, early retirement benefits and other related benefits granted to employees have been valued and recorded in accordance with the accounting policies described in Notes 1.23 and 21 to the consolidated financial statements. We have reviewed and analyzed the valuation methods of these obligations and the data used and the assumptions applied.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. SPECIFIC VERIFICATION

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's Management Report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' Report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' Report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's Management Report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

5

2012 PARENT COMPANY FINANCIAL STATEMENTS*

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

The individual financial statements set out in this chapter are those of L'Oréal parent company. They show the financial position of the parent company stricto sensu. Unlike the consolidated financial statements, they do not include the results of the Group's subsidiaries.

The information with regard to the parent company financial statements that was previously included in the Management Report of the Board of Directors is now included in this chapter. The pages concerned are the table showing the main changes and thresholds crossed regarding investments in subsidiaries and holdings, the table of subsidiaries and holdings and the five-year financial summary as well as the amount of expenses and charges provided for in Article 223 quater of the French Tax Code and the table showing trade accounts payable provided for by Articles L. 441-6-1 and D. 441-4 of the French Commercial Code. The Statutory Auditor's Report on the parent company financial statements completes this information

5.1. Compared income statements

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Operating revenue		**2,865.5**	**2,597.7**	**2,400.8**
Sales	2	2,606.8	2,421.1	2,231.0
Reversals of provisions and transfers of charges		38.3	28.6	35.4
Other revenue	3	220.4	148.0	134.4
Operating expenses		**-2,619.6**	**-2,409.0**	**-2,293.8**
Purchases and change in inventories		-209.2	-196.0	-185.6
Other purchases and external charges		-1,380.0	-1,275.6	-1,191.3
Taxes and similar payments		-113.2	-95.3	-96.3
Personnel costs		-698.1	-659.4	-609.1
Depreciation, amortisation and charges to provisions	5	-134.0	-102.6	-134.4
Other charges		-85.1	-80.1	-77.1
Operating profit		**245.9**	**188.7**	**107.0**
Net financial revenue	6	2,234.0	2,033.0	1,913.9
Net charges to (-)/reversals of (+) provisions and transfers of charges	6	-25.7	-74.4	28.7
Exchange gains and losses		-62.4	-21.8	-58.7
Net financial income		**2,145.9**	**1,936.8**	**1,883.9**
Profit before tax and exceptional items		**2,391.8**	**2,125.5**	**1,990.9**
Exceptional items	7	**43.1**	**14.4**	**-79.0**
Employee Profit Sharing		-15.5	-21.4	-21.2
Income tax	8	-11.4	51.3	104.6
NET PROFIT		**2,408.0**	**2,169.8**	**1,995.3**

5.2. Compared balance sheets

ASSETS

€ millions (net amounts)	Notes	12.31.2012	12.31.2011	12.31.2010
Intangible assets	11	707.3	669.4	545.4
Tangible assets	12	345.6	299.4	278.8
Financial assets	14	9,846.9	9,200.5	8,814.9
Non-current assets		**10,899.8**	**10,169.3**	**9,639.1**
Inventories		34.0	34.6	34.7
Prepayments to suppliers		23.3	25.1	26.2
Trade accounts receivable	16	548.4	423.5	323.9
Other current assets	16	171.8	149.6	167.9
Marketable securities	15	309.4	596.5	861.0
Cash and cash equivalents	27	1,093.1	238.4	157.9
Current assets		**2,180.0**	**1,467.7**	**1,571.6**
Prepaid expenses		27.0	26.8	25.9
Unrealised exchange losses	21	10.4	18.0	9.8
TOTAL ASSETS		**13,117.2**	**11,681.8**	**11,246.3**

SHAREHOLDERS' EQUITY AND LIABILITIES

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Share capital		121.8	120.6	120.2
Additional paid-in capital		1,679.0	1,271.4	1,148.3
Reserves and retained earnings		7,527.8	6,562.4	5,632.3
Net profit		2,408.0	2,169.8	1,995.3
Regulated provisions		88.6	82.5	66.5
Shareholders' equity		**11,825.2**	**10,206.7**	**8,962.6**
Provisions for liabilities and charges	**18**	**238.2**	**268.8**	**221.1**
Borrowings and debts	19	330.4	506.8	1,384.5
Trade accounts payable	20	414.0	382.3	379.6
Other current liabilities	20	304.7	305.9	292.5
Other liabilities		**1,049.1**	**1,195.0**	**2,056.6**
Unrealised exchange gains	21	4.7	11.3	6.0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**13,117.2**	**11,681.8**	**11,246.3**

5.3. Changes in shareholders' equity

The share capital of €121,762,165.40 comprises 608,810,827 shares with a par value of €0.2 each following transactions carried out in 2012:

- subscription to 5,826,745 shares following the exercise of options.

Changes in shareholders' equity are as follows:

€ millions	Share capital	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	Total
Balance at December 31st, 2009 before appropriation of net profit	**119.8**	**996.5**	**45.4**	**4,661.0**	**1,841.8**	**60.2**	**7,724.7**
Changes in share capital	0.4	151.8		-37.1			115.1
Appropriation of 2009 net profit				963.0	-963.0		0.0
Dividends paid for 2009					-878.8		-878.8
2010 net profit					1,995.3		1,995.3
Other movements during the period						6.3	6.3
Balance at December 31st, 2010 before appropriation of net profit	**120.2**	**1,148.3**	**45.4**	**5,586.9**	**1,995.3**	**66.5**	**8,962.6**
Changes in share capital	0.4	123.1					123.5
Appropriation of 2010 net profit				930.1	-930.1		0.0
Dividends paid for 2010					-1,065.2		-1,065.2
2011 net profit					2,169.8		2,169.8
Other movements during the period						16,0	16,0
Balance at December 31st, 2011 before appropriation of net profit	**120.6**	**1,271.4**	**45.4**	**6,517.0**	**2,169.8**	**82.5**	**10,206.7**
Changes in share capital	1.2	407.6					408.8
Appropriation of 2011 net profit				965.5	-965.5		0.0
Dividends paid for 2011					-1,204.3		-1,204.3
2012 net profit					2,408.0		2,408.0
Other movements during the period						6.0	6.0
BALANCE AT DECEMBER 31ST, 2012 BEFORE APPROPRIATION OF NET PROFIT	**121.8**	**1,679.0**	**45.4**	**7,482.5**	**2,408.0**	**88.5**	**11,825.2**

Reserves include an amount of €12.3 million in 2012 corresponding to unpaid dividends on treasury shares, compared with €18.2 million in 2011 and €20.1 million in 2010.

Regulated provisions consist partially of the provision for investments which amounted to €21 million at December 31st, 2012, compared with €23.7 million at December 31st, 2011 and €18.4 million at December 31st, 2010. In 2012, no charge was done to the provision for investments consequently to the changes of law (€6.1 million in 2011 and €5.7 million in 2010). This provision includes the transfer to the Company of some of the provisions set aside by our subsidiaries under a Group agreement. In 2012, an amount of €2.7million set aside to the provision in 2007 was reversed (compared with €0.8 million in 2011 and €3.5 million in 2010).

Accelerated tax-driven depreciation at December 31st, 2012 amount to €67.3 million compared with €58.4 million at December 31st, 2011 and €47.6 million at December 31st, 2010.

Details of share subscription option and free share plans are provided in note 17.

5.4. Statements of cash flows

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Operating activities				
Net profit		**2,408.0**	**2,169.8**	**1,995.3**
Depreciation and amortisation		81.2	71.1	93.4
Charges to provisions (net of reversals)		1.4	133.8	43.0
Gains and losses on disposals of non-current assets		20.1	1.3	13.6
Other non-cash transactions (complete transfer of assets and liabilities)			-45.4	-
Gross cash flow		**2,510.7**	**2,330.6**	**2,145.3**
Changes in working capital	25	-129.1	-60.7	41.5
Net cash provided by operating activities		**2,381.6**	**2,269.9**	**2,186.8**
Investing activities				
Investments in non-current assets		-1,069.4	-220.8	-211.3
Changes in other financial assets	26	474.5	-185.7	194.7
Disposals of non-current assets		33.6	0.4	51.6
Net cash from (used in) investing activities		**-561.3**	**-406.1**	**35.0**
Financing activities				
Capital increase		408.8	123.5	152.2
Dividends paid		-1,204.3	-1,065.2	-878.8
Changes in financial debt		-342.0	-965.3	-1,452.0
Net cash from (used in) financing activities		**-1,137.5**	**-1,907.0**	**-2,178.6**
Cash acquired or sold in the period (complete transfer of assets and liabilities)			40.3	1.9
Change in cash and cash equivalents		682.8	-2.9	45.1
Cash and cash equivalents at beginning of year		146.9	149.8	104.7
CASH AND CASH EQUIVALENTS AT END OF YEAR	**27**	**829.7**	**146.9**	**149.8**

5.5. Notes to the parent company financial statements

DETAILED LIST OF NOTES

The following notes form an integral part of the parent company financial statements.

The financial statements are presented in millions of euros, while the figures in the table detailing subsidiaries and affiliates are expressed in thousands of euros.

NOTE 1 Accounting principles

The Company's annual financial statements are prepared in accordance with French law and regulations (1999 French Chart of Accounts) and with French generally accepted accounting principles.

The items recorded in the financial statements are valued at historical cost, except for non-current assets revalued in accordance with legal requirements.

1.1. SALES

These are comprised of sales of goods (net of rebates and discounts) and services (including technological assistance fees).

1.2. ADVERTISING AND PROMOTION EXPENSES

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as expenses for the year in which the advertisement or promotional initiative takes place.

1.3. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are recognised in expenses in the period in which they are incurred.

1.4. INCOME TAX

The Company has opted for the French tax group regime. French companies included in the scope of tax consolidation recognise an income tax charge in their own accounts on the basis of their own taxable profits and losses.

L'Oréal, as the parent company of the tax group, recognises as tax income the difference between the aggregate tax charges recognised by the subsidiaries and the tax due on the basis of consolidated taxable profit or loss of the tax group.

1.5. INTANGIBLE ASSETS

Intangible assets are recorded in the balance sheet at purchase cost.

The value of newly acquired trademarks is calculated based on a multi-criteria approach taking into consideration their reputation and their future contribution to profits.

In accordance with regulation no. 2004-06 on assets, certain trademarks have been identified as amortisable in accordance with their estimated useful life.

Non-amortisable trademarks are tested for impairment at least once a year on the basis of the valuation model used at the time of their acquisition. A provision for impairment is recorded where appropriate.

Initial trademark registration costs have been recorded as expenses since 2005.

Patents are amortised over a period ranging from two to ten years.

Business goodwill is not amortised. It is written down whenever the present value of future cash flows is less than the book value.

Software of material value is amortised using the straight-line method over its probable useful life, generally between five and seven years. It is also subject to accelerated tax-driven amortisation, which is recognised over a 12-month period.

Other intangible assets are usually amortised over periods not exceeding 20 years.

1.6. TANGIBLE ASSETS

Tangible assets are recognised at purchase cost, including acquisition expenses.

The useful lives of tangible assets are as follows:

	Useful lives
Buildings	20-50 years
Fixtures and fittings	5-10 years
Industrial machinery and equipment	10 years
Other tangible assets	3-10 year

Both straight-line and declining-balance depreciation is calculated over the actual useful lives of the assets concerned. Exceptionally, industrial machinery and equipment is depreciated using the straight-line method over a period of ten years, with all additional depreciation classified as accelerated tax-driven depreciation.

1.7. FINANCIAL ASSETS

1.7.1. Investments and advances

These items are recognised in the balance sheet at purchase cost excluding incidental expenses.

Their value is assessed annually by reference to their value in use, which is mainly based on the current and forecast profitability of the subsidiary concerned and the share of equity owned. If the value in use falls below the purchase cost, a provision for impairment is recognised.

1.7.2. Other financial assets

Loans and other receivables are valued at their nominal amount. Loans and other receivables denominated in foreign currencies are translated at the exchange rate prevailing at the end of the financial year. If necessary, provisions are recognised against these items to reflect their value in use at the end of the financial year.

Treasury stock acquired in connection with buyback programmes is recognised in other long-term investments.

At the end of the financial year, other long-term investments are compared with their probable sale price and a provision for impairment recognised where appropriate.

1.8. INVENTORIES

Inventories are valued using the weighted average cost method.

A provision for impairment of obsolete and slow-moving inventories is recognised by reference to their probable net realisable value, which is measured on the basis of historical and forecast data.

1.9. TRADE ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Trade accounts receivable and other receivables are recorded at their nominal value. Where appropriate, a provision is recognised based on an assessment of the risk of non-recovery.

1.10. MARKETABLE SECURITIES

Marketable securities are recognised at purchase cost and are valued at the end of the financial year at their probable sale price.

Treasury stock held that is specifically allocated to employee stock option plans is recognised in marketable securities.

Since January 1st, 2000, no discount has been granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no provision for impairment is required. However, a provision for impairment is recognised in the event of a decline in the market price, representing the difference between the book value of the Treasury stock and the average share price in the month preceding the reporting date.

A provision for liabilities and charges in respect of shares of Treasury stock allocated to free share plans for L'Oréal parent company employees is recognised over the period during which the rights to the free shares vest. Shares of Treasury stock allocated to free share plans for employees of other Group subsidiaries are written down in full. However, the subsidiaries concerned will bear most of the cost of granting these free shares.

1.11. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are recognised to cover probable outflows of resources to third parties, without receipt of equivalent consideration by the Company. They relate mainly to industrial and commercial contingencies and litigation (legal actions, product returns, etc.) and to tax and employee-related contingencies.

These provisions are estimated on the basis of the most likely assumptions or by using statistical methods, depending on their type.

1.12. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS AND EXCHANGE RATE HEDGES

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are contracted to hedge commercial transactions recognised in the balance sheet or future transactions that are considered to be highly probable. Gains and losses generated by these instruments are recognised symmetrically with the gains and losses arising on the hedged items.

Translation differences on operating assets and liabilities and related hedging instruments are recognised in the balance sheet as *Unrealised exchange losses* or *Unrealised exchange gains*. A provision is recognised if the sum of these unrealised exchange gains and losses shows a potential exchange loss based on the overall exchange position of all currencies taken together.

Hedges have already been taken out in respect of forecast operating transactions for the next financial year. The impact of such hedges on profit or loss will be recorded during the same accounting period as the transactions hedged.

1.13. ACCOUNTING FOR INTEREST RATE INSTRUMENTS

Gains and losses arising on interest rate swaps and caps hedging financial liabilities exposed to interest rate risk are recorded on a time-proportion basis symmetrically with the gains and losses on the items hedged.

1.14. EMPLOYEE RETIREMENT OBLIGATIONS AND RELATED BENEFITS

L'Oréal S.A. operates pension, early retirement and other benefit schemes for employees and retired employees in accordance with local legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefit schemes.

These obligations are partially funded by an external scheme where the funds are gradually built up through contributions paid. The contributions are expensed as incurred under the *Other purchases and external charges* caption.

The related obligations are measured using an actuarial valuation method based on final salaries. The method takes account of length of service, life expectancy, turnover by category of personnel and economic assumptions such as inflation and discount rates.

No provision is recognised in the balance sheet for net unfunded obligations, which are shown in off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards is no longer recognised as an off-balance sheet commitment; instead, a provision is recognised in the balance sheet based on an actuarial valuation of the obligation.

NOTE 2 Sales

€ millions	12.31.2012	12.31.2011	12.31.2010
Goods	896.6	887.1	834.2
Services (1)	1,309.2	1,238.9	1,185.1
Rentals	40.0	46.4	41.6
Other revenues from ancillary activities	361.0	248.7	170.1
TOTAL	**2,606.8**	**2,421.1**	**2,231.0**

(1) Mainly invoicing of technological assistance.

The Company generated €1,289.2 million of its sales in France in 2012, compared with €1,362.1 million in 2011 and €1,272.0 million in 2010.

NOTE 3 Other revenue

This account mainly includes trademark royalties.

NOTE 4 Average headcount

Average headcount can be broken down as follows:

	2012	2011	2010
Executives	3,299	3,146	3,046
Supervisors	2,001	2,028	2,031
Administrative staff	270	307	323
Manual workers	239	250	272
Sales representatives	288	285	285
TOTAL	**6,097**	**6,016**	**5,957**
of which apprentices	166	171	170
External temporary staff	158	166	184

NOTE 5 Depreciation, amortisation and charges to provisions

Depreciation, amortisation and charges to provisions can be broken down as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Depreciation and amortisation	-79.7	-63.5	-59.3
Impairment of non-current assets	-	-7.1	-48.5
Impairment of current assets	-4.7	-2.6	-1.9
Provisions for liabilities and charges	-49.6	-29.4	-24.7
TOTAL	**-134.0**	**-102.6**	**-134.4**

NOTE 6 Net financial income

Net financial income amounts to €2,234.0 million in 2012 (€2,033.0 million in 2011 and €1,913.9 million in 2010), and mainly includes the following items:

€ millions	12.31.2012	12.31.2011	12.31.2010
Dividends received	2,187.1	1,957.6	1,951.3
Revenues on other receivables and marketable securities	1.6	5.0	1.1
Interest expense on borrowings and financial debt	-3.3	-23.4	-23.8
Losses settled at the level of partnership entities (SNCs)	-0.8	-0.1	-9.8
Other items not broken down (1)	49.4	93.9	-4.9
TOTAL	**2,234.0**	**2,033.0**	**1,913.9**

(1) *Including recharges to subsidiaries of the cost of free share grants for €51.3 million in 2012 and €48.2 million in 2011, and a merger surplus relating to the complete transfer of assets and liabilities of Laboratoire Garnier et Cie for €45.4 million ind 2011.*

The *Net (charges to)/reversals of provisions and transfers of charges)* caption represents net charges of €-25.7 million in 2012 compared with net reversals of €-74.4 million in 2011 and net reversals of €28.7 million in 2010. The caption mainly includes:

€ millions	12.31.2012	12.31.2011	12.31.2010
Net charges to (-)/reversals of (+) provisions for impairment of financial assets (excluding Treasury stock)	29.5	-16.4	4.6
Net charges to (-)/reversals of (+) provisions for impairment of Treasury stock (1)	- 54.5	-54.8	22.1
Net charges to (-)/reversals of (+) provisions for liabilities and charges relating to financial items	- 0.6	-5.3	10.6
Net charges to (-)/reversals of (+) provisions for impairment of other financial assets	ns	1.1	-8.5
Other movements not broken down	-0.1	1.0	-0.1
TOTAL	**-25.7**	**-74.4**	**28.7**

(1) *Charges offset by accrued revenue relating to recharge to subsidiaries of the cost of free share grants in 2012 and 2011.*

NOTE 7 Exceptional items

In 2010, 2011 and 2012, this caption notably includes charges to provisions or reversals of provisions for liabilities and charges.

NOTE 8 Income tax

The income tax for the year breaks down as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Tax on profit before tax and exceptional items	-21.8	37.6	90.0
Tax on exceptional items and employee Profit Sharing	10.4	13.7	14.6
INCOME TAX	**-11.4**	**51.3**	**104.6**

The income tax booked by L'Oréal S.A. in 2012 takes into account the effect of tax audits, as well as savings of €77.9 million resulting from tax consolidation (€72.8 million in 2011 and €117.9 million in 2010). These savings mainly result from the utilisation of tax losses from group companies.

The application of tax legislation led to an increase of €47.3 million in net profit for 2012, mainly reflecting the net charge to regulated provisions along with tax credits on research, corporate sponsorship activities and employee Profit Sharing.

Income tax has been calculated taking account of the additional temporary 5% contribution for 2012 and 2011.

NOTE 9 Increases or reductions in future tax liabilities

€ millions	12.31.2010 Asset	12.31.2010 Liability	12.31.2011 Asset	12.31.2011 Liability	Changes Asset	Changes Liability	12.31.2012 Asset	12.31.2012 Liability
Temporary differences								
Regulated provisions	-	18.4	-	22.2	9.3	10.2	-	23.1
Temporarily non-deductible charges	44.4	-	51.3	-	45.3	26.3	70.3	-
Charges deducted (or revenue taxed) for tax purposes but not yet recognised	-	1.3	-	2.3	7.8	7.4	-	1.9
Temporarily non-taxable revenue	-	-	-	-	-	-	-	-
Deductible items	-	-	-	-	-	-	-	-
Tax losses, deferred items	-	-	-	-	-	-	-	-
Potentially taxable items	-	-	-	-	-	-	-	-
Special reserve for long-term capital gains	-	188.6	-	188.6	-	-	-	188.6

The figures have been calculated taking account of 3.3% social contribution which increases income tax at both statutory and reduced tax rates.

NOTE 10 Research costs

Amounts invested in Research activities in 2012 totalled €695.4 million compared with €619.4 million in 2011 and €596.0 million in 2010.

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NOTE 11 Intangible assets

€ millions	12.31.2010	12.31.2011	Acquisitions/ Charges	Disposals/ Reversals	Other movements	12.31.2012
Patents and trademarks	379.4	452.6	2.5	-	-	455.1
Business goodwill	113.3	113.3				113.3
Software	175.4	204.4	19.9	-6.3	24.4	242.4
Other intangible assets	128.3	181.9	5.2	-	-	187.1
Intangible assets in progress	26.7	30.1	55.6	-0.6	-25.2	59.9
Gross value	**823.1**	**982.3**	**83.2**	**-6.9**	**-0.8**	**1,057.8**
Patents and trademarks	40.2	44.2	11.0			55.2
Business goodwill	0.3	0.3	-	-	-	0.3
Software	112.8	134.5	27.7	-3.5	-	158.7
Other intangible assets	35.0	37.4	2.4	-	-	39.8
Amortisation	**188.3**	**216.4**	**41.1**	**-3.5**	**-**	**254.0**
Patents and trademarks	34.6	34.6	-	-	-	34.6
Other intangible assets	54.8	61.9	-	-	-	61.9
Provisions	**89.4**	**96.5**	**-**	**-**	**-**	**96.5**
NET BOOK VALUE	**545.4**	**669.4**	**42.1**	**-3.4**	**-0.8**	**707.3**

In 2012, changes in assets in progress mainly come from the acquisition of Urban Decay trademark.

In 2011, the increase in the *Patents and trademarks* and *Other intangible assets* captions mainly results from the acquisition of Pacific Bioscience Laboratories (Clarisonic) for €124.7 million, of which €71.1 million relates to patents and trademarks. The rest of the increase results from the complete transfer of assets and liabilities involving Laboratoire Garnier & Cie.

In 2010, the increase in the *Patents and trademarks* and *Other intangible assets* captions mainly resulted from the acquisition of Essie.

NOTE 12 Tangible assets

€ millions	12.31.2010	12.31.2011	Acquisitions/ Charges	Disposals/ Reversals	Other movements	12.31.2012
Land	60.5	63.5	14.3	-	1.6	79.4
Buildings	393.0	464.8	20.8	-	7.9	493.5
Industrial machinery and equipment	182.0	190.9	12.0	-7.5	0.3	195.7
Other tangible assets	89.3	110.1	14.5	-5.3	2.8	122.1
Tangible assets in progress	79.2	20.5	25.8	-	-11.9	34.4
Advances and prepayments	1.9	2.8	-	-	-1.5	1.3
Gross value	**805.9**	**852.6**	**87.4**	**-12.8**	**-0.8**	**926.4**
Buildings	305.1	319.2	19.6	-	-	338.8
Industrial machinery and equipment	152.9	161.8	9.5	-7.5	-	163.8
Other tangible assets	69.1	72.2	10.9	-4.9	-	78.2
Depreciation	**527.1**	**553.2**	**40.0**	**-12.4**	-	**580.8**
Land	-	-	-	-	-	-
Provisions	**-**	**-**	-	-	-	-
NET BOOK VALUE	**278.8**	**299.4**	**47.4**	**-0.4**	**-0.8**	**345.6**

Depreciation and amortisation recognised in 2012 against tangible and intangible assets included:

- a charge of €68.8 million on a straight-line basis;
- a charge of €10.8 million on a declining-balance basis;
- a charge of €1.5 million relating to exceptional depreciation and amortisation.

NOTE 13 Non-current assets held under finance leases

€ millions	Non-current assets held under finance leases at 12.31.2012				Balance sheet total including non-current assets held under finance leases		
		Depreciation (2)					
Balance sheet captions	Cost on initial recognition (1)	Period	Accumulated	Net book value	Gross value	Depreciation	Net book value
Land and buildings	43.5	-1.7	-22.7	20.8	616.4	-361.5	254.9
TOTAL AT 12.31.2012	**43.5**	**-1.7**	**-22.7**	**20.8**	**616.4**	**-361.5**	**254.9**
Total at 12.31.2011	**43.5**	**-1.7**	**-21.0**	**22.5**	**762.7**	**-501.9**	**260.8**
Total at 12.31.2010	**43.5**	**-1.7**	**-19.3**	**24.2**	**679.0**	**-477.3**	**201.7**

(1) Value of the assets on the date the leases were signed.
(2) Depreciation charge for the year and accumulated depreciation that would have been recognised for these assets had they been purchased outright – Depreciation method used: straight-line 2% to 5%.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year-end				
Balance sheet captions	Period	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	Residual purchase price under the lease
Land and buildings	5.3	67.3	4.9	15.8	1.6	22.3	1.4
TOTAL AT 12.31.2012	**5.3**	**67.3**	**4.9**	**15.8**	**1.6**	**22.3**	**1.4**
Total at 12.31.2011	**4.9**	**62.0**	**5.4**	**19.6**	**2.7**	**27.7**	**1.4**
Total at 12.31.2010	**4.8**	**57.1**	**5.3**	**19.7**	**8.0**	**33.0**	**90.1**

NOTE 14 Financial assets

€ millions	12.31.2010	12.31.2011	Acquisitions/ Subscriptions	Disposals/ Reductions	Other movements	12.31.2012
Investments	9,027.0	9,047.5	402.7	-49.6	87.5	9,488.1
Loans and other receivables	125.3	504.8	137.6	-377.1	-87.5	177.8
Other (1)	3.8	3.8	503.7	-0.4	-	507.1
Gross value	**9,156.1**	**9,556.1**	**1,044.0**	**-427.1**	**-**	**10,173.0**
Investments	298.2	314.6	36.3	-65.9	-	285.0
Loans and other receivables	42.9	40.9	1.1	-1.0	-	41.0
Other	0.1	0.1	-	-	-	0.1
Provision for impairment	**341.2**	**355.6**	**37.4**	**-66.9**	**-**	**326.1**
NET BOOK VALUE	**8,814.9**	**9,200.5**	**1,006.6**	**-360.2**	**-**	**9,846.9**

(1) Purchase of L'Oréal shares to be cancelled for €498.3 million.

The table detailing subsidiaries and affiliates is presented at the end of the present notes.

NOTE 15 Marketable securities

This account can be broken down as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
L'Oréal shares	405.3	644.5	850.9
Financial instruments/Premiums paid on options	13.4	6.8	10.1
Gross value	**418.7**	**651.3**	**861.0**
L'Oréal shares	-109.3	-54.8	n/s
Financial instruments/Premiums paid on options	-	-	-
Provision for impairment	**-109.3**	**-54.8**	**n/s**
NET BOOK VALUE	**309.4**	**596.5**	**861.0**

The 5,376,915 L'Oréal shares of Treasury stock held in connection with employee stock purchase option plans had a net value of €296.0 million at December 31st, 2012 against €589.7 million at December 31st, 2011 and €850.9 million at December 31st, 2010.

In 2012, stock options were exercised in respect of 3,220,744 shares.

Stock purchase options expiring in 2012 represented a total of 1,570,105 shares or €119.4 million (gross and net basis).

In 2012, the total market value of Treasury stock amounted to €563.8 million based on the average share price in December and to €564.0 million based on the closing share price on December 31st.

In 2011, the total market value of Treasury stock amounted to €679.0 million based on the average share price in December and to €693.8 million based on the closing share price on December 31st.

In 2010, the total market value of Treasury stock amounted to €968.2 million based on the average share price in December and to €941.9 million based on the closing share price on December 31st.

NOTE 16 Maturity of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
Loans and other receivables	**104.9**	**72.9**	**177.8**	**41.1**	**136.7**
Other financial assets	**8.6**	**-**	**8.6**	**-**	**8.6**
Trade accounts receivable	**451.8**	**99.5**	**551.3**	**2.9**	**548.4**
Other current assets, of which	**172.3**	**-**	**172.3**	**0.5**	**171.8**
Tax and employee-related receivables	113.5	-	113.5	-	113.5
Receivable from Group and shareholders	20.5	-	20.5	-	20.5
Other receivables	38.3	-	38.3	0.5	37.8
Prepaid expenses	**27.0**	-	**27.0**	**-**	**27.0**

Accrual accounts included in receivables amounted to €113.8 million at December 31st, 2012 compared with €58.9 million at December 31st, 2011 and €15.9 million at December 31st, 2010.

NOTE 17 Stock purchase and subscription options – Free shares

17.1. STOCK PURCHASE AND SUBSCRIPTION OPTIONS

The table below sets out data concerning the option plans in force at December 31st, 2012.

Grant date	Number of options	Number of options not yet exercised	Exercise period From	Exercise period To	Exercise price
12.03.2003	2,500,000	756,300	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	852,375	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	145,893	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	1,335,250	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	200,000	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	1,572,640	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	658,785	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	2,456,500	12.02.2011	12.01.2016	78.06
11.30.2007	4,000,000	3,258,200	12.01.2012	11.30.2017	91.66
03.25.2009	3,650,000	3,475,500	03.26.2014	03.25.2019	50.11
04.27.2010	4,200,000	4,054,000	04.28.2015	04.27.2020	80.03
04.22.2011	1,470,000	1,445,000	04.23.2016	04.22.2021	83.19

All plans have a 5-year exercise period and no performance-related conditions, except the April 22nd, 2011 plan (for all participants) and the April 27th, 2010 and March 25th, 2009 plans (for members of the Management Committee).The performance conditions associated with these plans concern:

- April 22nd, 2011 plan:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2012, 2013, 2014 and 2015 fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of options granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 50% of options granted, the increase in comparable Cosmetics revenues for the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and for the 2010, 2011, 2012 and

2013 fiscal years for the 2009 plan compared to the growth of the cosmetics market;

- for 50% of shares granted, the percentage, over the same period, resulting from the ratio between the contribution before advertising and promotion expenses, *i.e.* the sum of operating profit and advertising and promotion expenses, and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012, 2013 and 2014 fiscal years for the 2010 plan and in the 2010, 2011, 2012 and 2013 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2012, the performance conditions were deemed to have been met.

The share price used as the basis for calculating the 10% social contribution for the April 22nd, 2011 plan was €18.58.

17.2. FREE SHARES

On April 17th, 2012, April 22nd, 2011, April 27th, 2010 and March 25th, 2009, the Board of Directors decided to grant respectively 1,325,050, 1,038,000, 450,000 and 270,000 free shares.

For the conditional grant of shares, the plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

The performance conditions concern:

- April 17th, 2012 and April 22nd, 2011 plans:
  - for 50% of shares granted, the increase in comparable Cosmetics revenues for the 2013, 2014 and 2015 for 2012 plan and 2012, 2013 et 2014 for 2011 plan fiscal years in relation to the growth in revenues for a panel of competitors;
  - for 50% of shares granted, the increase over the same period in the Group's consolidated operating profit.

The calculation will be based on the arithmetic average of the performance in the 2013, 2014 and 2015 for 2012 plan and 2012, 2013 et 2014 for 2011 plan fiscal years and will use a predefined allocation scale based on the performance percentage achieved. No performance condition applies below a block of 200 shares.

- April 27th, 2010 and March 25th, 2009 plans:
  - for 25% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the increase in comparable Cosmetics revenues for the 2011, 2012 and 2013 fiscal years for the 2010 plan and for the 2010, 2011 and 2012 fiscal years for the 2009 plan compared with the growth of the cosmetics market;
  - for 75% of shares granted under the 2010 plan and 50% of shares granted under the 2009 plan, the percentage, over the same period, resulting from the ratio between operating profit and published Cosmetics revenues.

The calculation will be based on the arithmetic average of performance in the 2011, 2012 and 2013 fiscal years for the 2010 plan and 2010, 2011 and 2012 fiscal years for the 2009 plan, and will use a predefined allocation scale based on the performance percentage achieved.

At December 31st, 2012, the performance conditions were deemed to have been met.

A rebilling agreement concerning the cost of free shares has been set up since 2011 between L'Oréal parent company and the subsidiaries concerned.

The share price used as the basis for calculating the 10% social contribution was €77.07 for free shares for the April 17th, 2012 plan and €70.36 for the April 22nd, 2011 plan.

NOTE 18 Provisions for liabilities and charges

€ millions	12.31.2010	12.31.2011	Charges	Reversals (provisions used)	Reversals (provisions not used)	12.31.2012
Provisions for litigation	6.8	7.4	1.5	0.9	0.1	7.9
Provisions for exchange losses	3.7	6.6	5.7	6.6	-	5.7
Provisions for charges	38.6	55.8	70.6	36.2	2.9	87.3
Other provisions for liabilities (1)	172.0	199.0	43.3	104.3	0.7	137.3
TOTAL	**221.1**	**268.8**	**121.1**	**148.0**	**3.7**	**238.2**

(1) This caption notably includes provisions for tax contingencies and for industrial and commercial risks relating to operations (contracts, product returns) and employee-related liabilities.

The impacts of changes in provisions for liabilities and charges at different levels of the income statement are shown below:

€ millions	Charges	Reversals (provisions used)	Reversals (provisions not used)
Operating profit	49.6	26.7	2.9
Net financial income	48.1	32.0	-
Exceptional items	23.4	89.3	0.8
Income tax	-	-	-
TOTAL	**121.1**	**148.0**	**3.7**

NOTE 19 Borrowings and debt

L'Oréal obtains financing through medium-term bank loans and from short-term commercial paper issued in France. The amount of the programme is €2,600 million. None of the Group's borrowings or debt contains an early repayment clause linked to financial ratios (covenants).

Liquidity on the commercial paper issues is provided by confirmed short-term credit facilities with banks, which amounted to €2,550.0 million at December 31st, 2012 (€2,400.0 million at December 31st, 2011 and €2,350.0 million at December 31st, 2010).

All borrowings and debt are denominated in euros and can be broken down as follows:

BREAKDOWN BY TYPE OF DEBT

€ millions	12.31.2012	12.31.2011	12.31.2010
Bonds	n/s	n/s	n/s
Borrowings and debt due to financial institutions	-	0.1	1,314.8
Commercial paper	-	344.3	-
Other borrowings and debt	66.9	71.1	61.7
Overdrafts	263.5	91.3	8.0
TOTAL	**330.4**	**506.8**	**1,384.5**

BREAKDOWN BY MATURITY

€ millions	12.31.2012	12.31.2011	12.31.2010
Less than 1 year	300.1	468.9	591.8
1 to 5 years	29.0	36.7	791.4
More than 5 years	1.3	1.2	1.3
TOTAL	**330.4**	**506.8**	**1,384.5**

During 2012, no change has been recorded on borrowings with financial institutions.

EFFECTIVE INTEREST RATE AND AVERAGE INTEREST RATE ON BORROWINGS AND DEBT

The effective interest rate on borrowings and debt after taking into account hedging instruments was 3.25% in 2011 and 1.15% in 2010. At the end of 2012, there are no commercial papers and borrowings with financial institutions left.

The average interest rate on borrowings and debt after taking into account hedging instruments was 0.97% in 2012, 1.59% in 2011 and 0.97% in 2010.

NOTE 20 Maturity of payables

€ millions	Less than 1 year	More than 1 year	Total
Trade accounts payable	**414.0**	**-**	**414.0**
Other current liabilities, of which	**292.9**	**11.8**	**304.7**
Tax and employee-related payables	227.5	-	227.5
Payables related to non-current assets	36.0	-	36.0
Payable to Group and shareholders	0.4	-	0.4
Other payables	29.0	11.8	40.8

Accrual accounts included in trade accounts payable and other current liabilities are as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Trade accounts payable	**218.0**	**205.4**	**202.3**
Payables related to non-current assets (1)	**26.3**	**24.6**	**25.9**
Tax and employee-related payables, of which	**145.2**	**144.6**	**138.3**
Provision for employee Profit Sharing	18.8	23.0	21.7
Provision for incentives	62.0	61.1	62.3
Other payables	**29.3**	**29.1**	**29.1**
TOTAL	**418.8**	**403.7**	**395.6**

(1) Mainly concerning Essie in 2010 et 2011 and 2012.

NOTE 21 Unrealised exchange gains and losses

The revaluation of foreign currency receivables and payables at the exchange rates prevailing at December 31st, taking account of the related hedging instruments, led to the recognition of the following unrealised exchange gains and losses:

	Unrealised exchange losses			Unrealised exchange gains		
€ millions	12.31.2012	12.31.2011	12.31.2010	12.31.2012	12.31.2011	12.31.2010
Financial receivables	6.2	6.1	5.9	-	-	-
Trade accounts receivable	2.8	0.1	0.6	0.8	2.9	0.8
Borrowings and debt	-	6.2	-	0.1	6.1	0.2
Trade accounts payable	0.1	3.5	0.4	1.5	0.1	1.0
Other payables	-	-	-	-	-	1.1
Derivative financial instruments	1.3	2.1	2.9	2.3	2.2	2.9
TOTAL	**10.4**	**18.0**	**9.8**	**4.7**	**11.3**	**6.0**

In accordance with the accounting principles described above, the overall foreign exchange position at December 31st, 2012 is an unrealised loss of €5.7 million arising mainly on the Venezuelan bolivar. This loss was recognised through profit and loss. At December 31st, 2011, the overall foreign exchange position was an unrealised loss of €6.7 million compared with an unrealised loss of €3.8 million recognised through profit and loss at December 31st, 2010.

NOTE 22 Derivative financial instruments

Derivative financial instruments mainly consist of future transactions and can be broken down as follows:

€ millions	Notional 12.31.2012	Notional 12.31.2011	Notional 12.31.2010	Market value 12.31.2012	Market value 12.31.2011	Market value 12.31.2010
Currency futures						
Purchase of EUR against foreign currencies						
EUR/RUB	176.2	264.6	288.6	-3.5	0.3	-6.2
EUR/CNY	126.3	165.4	85.7	-0.3	-9.1	-2.9
EUR/USD	74.0	77.2	0.0	3.1	-6.1	0.0
EUR/BRL	73.1	73.4	77.3	3.0	0.2	-5.5
EUR/GBP	29.3	29.8	16.6	0.3	-1.0	0.3
EUR/AUD	17.4	16.7	13.2	0.1	-1.2	-1.1
EUR/CAD	17.4	15.2	12.4	0.4	-0.6	-0.4
EUR/IDR	14.9	23.8	25.0	0.4	-1.4	-0.9
EUR/KZT	13.9	11.1	11.8	0.6	-0.7	-0.1
EUR/MXN	13.6	11.0	5.8	0.0	0.5	-0.1
EUR/PLN	10.2	8.5	4.7	-0.4	0.1	-0.1
EUR/INR	8.3	6.8	0.6	0.3	0.2	0.0
EUR/CHF	7.5	7.9	5.8	0.0	-0.1	-0.5
EUR/THB	7.0	4.9	3.5	0.2	-0.1	-0.1
EUR/CLP	6.6	6.3	5.7	0.0	-0.1	-0.4
EUR/ZAR	4.4	3.4	9.3	0.0	-0.2	-1.7
EUR/UAH	1.7	0.7	18.0	-0.1	-0.1	0.1
EUR/ARS	0.0	0.6	5.4	0.0	-0.1	-0.1
EUR/Other currencies	51.5	39.2	28.0	-0.3	-0.3	-0.9
Sale of EUR against foreign currencies						
EUR/JPY	15.6	17.5	18.4	-3.9	0.7	0.1
EUR/SGD	5.0	-	-	-0.1	-	-
EUR/USD	0.0	0.0	11.8	0.0	0.0	-1.0
EUR/Other currencies	1.3	1.6	2.0	-0.1	0.1	0.0
Purchase of USD against foreign currencies						
USD/BRL	73.2	64.7	55.6	-0.3	3.2	-3.1
USD/ARS	9.8	39.0	30.9	-0.9	-0.3	0.1
USD/RUB	8.7	9.6	11.3	-0.7	0.1	-0.3
USD/PHP	7.1	-	-	-0.2	-	-
USD/Other currencies	0.4	0.4	4.4	0.0	0.0	-0.1
Sale of USD against foreign currencies						
USD/CNY	28.4	32.3	32.6	0.6	0.0	0.0
USD/IDR	1.4	8.3	18.5	-0.1	0.0	0.1
Other currency pairs						
JPY/CNY	11.0	12.7	8.7	-1.3	-0.1	0.3
ARS/BRL	4.1	24.4	35.6	-0.4	-2.0	0.9
Other currencies	5.1	5.5	4.8	-0.1	-0.2	0.0
Currency futures total	**824.4**	**982.5**	**852.0**	**-3.7**	**-18.3**	**-23.6**
Currency options						
USD/EUR	43.4	48.5	45.3	3.2	1.1	3.0
GBP/EUR	8.9	9.0	5.5	0.3	0.2	0.3
CAD/EUR	6.0	4.9	3.8	0.4	0.1	0.2
EUR/CNY	33.1	33.4	36.0	2.0	0.8	1.6
EUR/BRL	27.6	22.3	26.4	2.7	1.6	1.8
USD/BRL	17.7	-	-	1.1	-	-
Other currencies/EUR	18.4	14.7	8.0	1.5	0.7	0.2
Currency options total	**155.1**	**132.8**	**125.0**	**11.2**	**4.5**	**7.1**
Of which total options purchased	155.1	132.8	125.0	11.2	4.5	7.1
Of which total options sold	-	-	-	-	-	-
TOTAL INSTRUMENTS	**979.5**	**1,115.3**	**977.0**	**7.5**	**-13.8**	**-16.5**

Total options sold correspond exclusively to the resale of previously purchased options when it appeared appropriate to replace them with other hedging instruments.

NOTE 23 Transactions and balances with related entities and parties

Related-party data is as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Financial assets	9,296.9	9,185.2	8,799.3
Trade accounts receivable/	438.3	331.0	233.0
Other accounts receivable	21.2	2.4	6.0
Cash and cash equivalents	1,080.4	193.5	152.4
Borrowings	287.2	114.3	17.1
Trade accounts payable	96.4	87.6	78.5
Other payables	n/s	n/s	0.3
Financial expenses	1.4	0.6	10.2
Financial revenues	2,242.1	2,059.8	1,951.9

All material related-party transactions were entered into on an arm's length basis.

NOTE 24 Off-balance sheet commitments

24.1. LEASE COMMITMENTS

Operating lease commitments amount to €81.8 million due in less than one year, €227.6 million due between 1 and 5 years and €18.2 million due after 5 years.

The breakdown of finance lease commitments is provided in note 13.

24.2. OTHER OFF-BALANCE SHEET COMMITMENTS

Confirmed credit facilities are set out in note 19.

Other off-balance sheet commitments can be broken down as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Commitments granted in connection with employee retirement obligations and related benefits (1)	565.2	508.5	536.6
Commitments to buy out non-controlling interests	6.7	6.8	6.4
Guarantees given (2)	679.5	662.1	657.5
Guarantees received	10.1	10.1	10.1
Capital expenditure orders	72.2	64.0	44.8
Documentary credits	4.4	4.8	3.9

(1) The discount rate used to measure these commitments at December 31st, 2012 was 3% for plans providing for payment of capital and 3.50% for annuity plans, compared with respectively, 4.50% and 4.75% at end-2011, and 4.25% and 4.50% at end-2010.
An agreement for the pooling of employee-related liabilities was set up in 2004. Pursuant to this agreement, commitments are allocated among the French companies in the Group and their financing is organised in proportion to their respective payroll costs (customised for each plan) so that the companies are joint and severally liable for meeting the aforementioned commitments within the limit of the collective funds built up.

(2) This caption includes miscellaneous guarantees and warranties, including €642.3 million at December 31st, 2012 on behalf of direct and indirect subsidiaries (€659.4 million at December 31st, 2011 and €641.5 million at December 31st, 2010). Seller's warranties are also included in this amount as appropriate.

24.3. CONTINGENT LIABILITIES

In the ordinary course of its operations, L'Oréal is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The Company sets aside a provision wherever a risk is found to exist and the related cost can be reliably estimated.

At the present time, no exceptional event or dispute is highly likely to have a material impact on the earnings, financial position, assets or operations of the Company.

NOTE 25 Changes in working capital

Changes in working capital represented a negative €129.1 million at December 31st, 2012, compared to a negative €60.7 million at December 31st, 2011 and a positive €41.5 million at December 31st, 2010, and can be broken down as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Inventories	0.7	0.2	-7.9
Receivables	-173.6	-93.0	-49.5
Payables	43.8	32.1	98.9
TOTAL	**-129.1**	**-60.7**	**41.5**

NOTE 26 Changes in other financial assets

This caption includes flows related to Treasury stock in the year, classified within marketable securities.

NOTE 27 Cash and cash equivalents at the end of the year

Cash and cash equivalents amount to €829.7 million at December 31st, 2012 compared with €146.9 million at December 31st, 2011 and €149.8 million at December 31st, 2010, and can be broken down as follows:

€ millions	12.31.2012	12.31.2011	12.31.2010
Cash	1,093.1	238.4	157.9
Accrued interest receivable	-	-0.2	-0.1
Bank overdrafts (note 19)	-263.5	-91.3	-8.0
Accrued interest payable	0.1	-	-
TOTAL	**829.7**	**146.9**	**149.8**

NOTE 28 Other disclosures

Statutory audit fees for 2012 are not presented in the notes to the parent company financial statements but in note 30 to the *Consolidated financial statements of the L'Oréal Group.*

NOTE 29 Subsequent events

No events occurred between the end of the financial year and the date the Board of Directors authorised the consolidated financial statements for issue.

5.6. Table of subsidiaries and holdings at December 31st, 2012

Table of subsidiaries and holdings at December 31st, 2012 (€ thousands)

Detailed information

	CAPITAL	Reserves and retained earnings before appropriation of profits	% holding	BOOK VALUE of shares held Gross	Net	PROFIT or LOSS in last financial year	DIVIDENDS [1] booked during the financial year
A. MAIN FRENCH SUBSIDIARIES (Holding of over 50%)							
Areca & Cie	35	8	99.78	35	35	63	44
Banque de Réalisations de Gestion et de Financement (Regefi)	19,250	88,968	99.99	75,670	75,670	20,173	
Beauté Créateurs	612	344	100.00	31,599	31,599	52	1,632
Beauté, Recherche & Industries	10,690	3,194	100.00	20,311	12,150	-5,882	
Centrex	1,800	29	99.99	3,532	3,532	671	386
Chimex	1,958	31,924	100.00	21,501	21,501	2,649	2,998
Cosmétique Active France	24	19,305	61.97	130	130	20,635	10,635
Cosmétique Active International	19	19,014	80.43	15	15	11,396	12,180
Cosmétique Active Production	186	19,198	80.14	5,081	5,081	4,564	4,292
EpiSkin	9,402	0	99.99	9,402	9,402	108	
Exclusive Signatures International	10	0	99.00	10	10	3,145	3,642
Fapagau & Cie	15	5,438	79.00	12	12	4,690	6,517
Faprogi	15	4,313	59.90	9	9	2,103	1,284
Finval	2	0	99.00	2	2	6,955	7,651
Gemey Maybelline Garnier	50	705	66.61	34	34	39,603	26,114
Gemey Paris - Maybelline New York	35	5,104	99.96	46	46	15,668	15,120
Goldys International	15	0	99.90	15	15	-5	
Helena Rubinstein	30	1	99.95	46,661	46,661	4,491	3,503
Holdial	1	0	98.00	1	1	600	473
L & J Ré	1,500	8,206	99.99	1,500	1,500	530	
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	15,364	11,952
Laboratoires Innéov	400	-4,680	50.00	25,750	0	-7,563	
Laboratoire Sanoflore	10	-291	100.00	5,197	0	563	
Lancôme Parfums & Beauté & Cie	1,192	0	99.99	3,235	3,235	61,312	64,917
LaScad	18	0	99.17	18	18	54,605	50,143
Lehoux et Jacque	39	56	100.00	263	263	258	321
L'Oréal Produits de Luxe France	84	56,209	68.55	1,457	1,457	15,721	10,583
L'Oréal Produits de Luxe International	98	75,253	77.36	76	76	40,810	31,675
Parfums Cacharel & Cie	1	1	99.00	2	2	408	425
Parfums Guy Laroche	332	54	100.00	1,656	1,656	145	5,594
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	32	34
Parfums Ralph Lauren	2	-491	99.00	2	0	28	
Prestige & Collections International	32	3,952	81.67	3,823	3,823	17,845	14,985
Roger & Gallet	3,034	10,390	100.00	109,693	109,693	665	543
Sicôs & Cie	375	7,175	80.00	999	999	4,604	8,812
Société de Développement Artistique	2	0	99.00	2	2	-2	
Soprocos	8,250	9,550	100.00	11,904	11,904	-2,930	2,341
Soproréal	15	4,171	99.90	15	15	-277	3,413
Sparlys	750	90	100.00	3,826	3,826	1,876	2,529
Viktor & Rolf Parfums	2	0	99.00	1	1	299	368
YSL Beauté	130,786	-5,940	89.80	299,622	299,622	17,217	0

(1) The SNCs (general partnership), and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit

	CAPITAL	Reserves and retained earnings before appropriation of profits	% holding	BOOK VALUE of shares held Gross	BOOK VALUE of shares held Net	PROFIT or LOSS in last financial year	DIVIDENDS (1) booked during the financial year
B. MAIN FRENCH INVESTMENTS (Holdings of less than 50%)							
Galderma International	466	44,050	26.44	2	2	20,112	7,467
Innéov France	105	-2,086	0.00	n/s	n/s	-935	
La Roche -Posay Dermato-Cosmétique	2	n/s	1.00	n/s	n/s	n/s	
Sanofi		(2)	8.91	423,887	423,887	(2)	313,302

(1) *The SNCs (general partnership), and Sociétés Civiles (non trading companies), that are not tax consolidated, distribute all their profit*
(2) *Sanofi : this information is not available*
At the balance sheet date, L'Oréal owns 118,227,307 shares. Their total stock market value at the price prevailing at 12.31.2012 is 8,440,247 thousand euros

	CAPITAL	Reserves and retained earnings before appropriation of profits	% holding	BOOK VALUE of shares held Gross	BOOK VALUE of shares held Net	PROFIT or LOSS in last financial year	DIVIDENDS booked during the financial year
A. MAIN FOREIGN SUBSIDIARIES (Holdings of over 50%)							
Avenamite S.A. (Spain)	242	48	100.00	6,216	6,216	51	74
Beautycos International Co. Ltd (China)	52,482	52,043	73.46	46,195	46,195	3,556	
Beautylux International Cosmetics (Shanghai) Co.Ltd (China)	5,629	-2,036	100.00	16,871	3,822	48	
Biotherm (Monaco)	152	16	99.80	3,545	3,545	5,760	5,509
Cadum Internationnal S.A. (Luxembourg)	7,550	-2,034	100.00	170,520	170,520	-663	
Canan Kozmetik Sanayi Ve Ticaret A.S. (Turkey)	5,245	12,994	100.00	28,439	28,439	5,656	
Canan Tuketim Urunleri Pazarlama A.S. (Turkey)	1,149	-3,060	100.00	11,128	5,140	10	
Club des Créateurs de Beauté (Belgium)	81	-59	100.00	3,821	36	0	
Cosmelor Ltd (Japan)	3,554	27,964	100.00	35,810	35,810	2,012	1,369
Cosmephil Holdings Corporation (Philippines)	171	-137	100.00	400	14	0	
Cosmétique Active Ireland Ltd (Ireland)	82	1,662	99.99	732	732	0	
Egyptelor LLC (Egypt)	6	70	99.80	7	7	47	
Elebelle (Proprietary) Ltd (South Africa)	806	35,912	100.00	61,123	46,783	4,953	4,660
Erwiton S.A. (Uruguay)	739	3,115	100.00	17	17	9,674	9,186
Galderma Pharma S.A.(Switzerland)	15,694	106,975	50.00	10,124	10,124	95,501	40,580
Kosmepol Sp. z.o.o. (Poland)	38,844	33,906	99.73	48,965	48,965	6,533	
Lai Mei Cosmetics Int. Trading (Shanghai) Co Ltd (China)	9,500	7,559	100.00	11,197	11,197	-2,195	298
L'Oréal Adria d.o.o. (Croatia)	131	1,315	100.00	1,503	1,503	4,066	3,327
L'Oréal Argentina S.A. (Argentina)	13,081	15,505	99.99	81,068	35,154	29,530	
L'Oréal Australia Pty Ltd	2,711	28,584	100.00	33,867	33,867	35,379	38,925
L'Oréal Balkan d.o.o. (Serbia)	1,283	-372	100.00	1,285	1,285	709	952
L'Oréal Baltic SIA (Latvia)	387	3,818	100.00	529	529	1,970	
L'Oréal Belgilux S.A. (Belgium)	16,124	18,209	98.93	77,150	77,150	19,645	28,244
L'Oréal Bulgaria EOOD	102	708	100.00	102	102	2,336	1,914
L'Oréal Canada Inc.	3,979	16,532	100.00	146,517	146,517	82,197	74,981
L'Oréal Ceska Republika s.r.o (Czech Republic)	5,939	2,971	100.00	8,678	8,678	7,577	7,273
L'Oréal Central West Africa (Nigeria)	1,176	-287	99.91	1,176	1,176	-2,101	
L'Oréal Chile S.A. (Chile)	20,888	12,580	99.99	43,784	43,784	28,899	20,504
L'Oréal China Co Ltd (China)	43,498	21,201	100.00	345,733	345,733	259,395	165,389
L'Oréal Colombia S.A. (Colombia)	1,931	4,242	94.00	6,395	6,395	1,946	2,322

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 average rate.
It is specified that the list above is not exhaustive.

	CAPITAL	Reserves and retained earnings before appropriation of profits	% holding	BOOK VALUE of shares held Gross	BOOK VALUE of shares held Net	PROFIT or LOSS in last financial year	DIVIDENDS booked during the financial year
L'Oréal Cosmetics Industry S.A.E (Egypt)	26,623	-2,465	99.99	26,603	22,938	-3,132	
L'Oréal Danmark A/S (Danmark)	270	5,550	100.00	8,336	8,336	10,624	8,771
L'Oréal Deutschland GmbH (Germany)	12,647	275,912	100.00	76,855	76,855	159,661	179,294
L'Oréal East Africa Ltd (Kenya)	191	-306	99.90	191	191	-791	
L'Oréal Espana S.A. (Spain)	59,911	19,456	63.86	299,154	299,154	51,276	30,962
L'Oréal Finland Oy (Finland)	673	17	100.00	1,280	1,280	11,850	11,667
L'Oréal Guatemala S.A.	1,044	399	99.99	2,162	2,162	1,410	883
L'Oréal Hellas S.A. (Greece)	9,736	1,886	99.99	35,307	35,307	5,525	9,349
L'Oréal Hong-Kong Ltd	3	-1,314	99.97	604	604	60,150	104,407
L'Oréal India Private Ltd (India)	49,919	-10,452	100.00	68,467	47,285	5,633	
L'Oréal Investments B.V. (Netherlands)	18	0	100.00	18	18	0	
L'Oréal Israel Ltd	4,137	10,311	92.97	38,497	33,597	5,393	5,349
L'Oréal Italia Spa	1,680	56,001	100.00	226,469	226,469	72,970	88,397
L'Oréal Japan Ltd (Japan)	370	-921	100.00	275	0	-619	
L'Oréal Kazakhstan Llp (Kazakhstan)	422	817	100.00	422	422	9,235	6,736
L'Oréal Korea Ltd (Korea)	1,991	-1,664	99.99	20,794	20,794	17,832	26,243
L'Oréal Liban SAL (Lebanon)	3,139	1,333	99.88	7,694	7,694	9,519	8,727
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	428	-2	100.00	787	787	2,958	1,066
L'Oréal Malaysia SDN BHD (Malaysia)	3,268	1,783	100.00	6,762	6,762	12,049	10,052
L'Oréal Mexico S.A de C.V (Mexico)	2,349	81,930	99.99	8,443	8,443	61,615	36,588
L'Oréal Middle East (United Arab Emirates)	2,752	2,081	100.00	37,284	37,284	30,005	22,955
L'Oréal Nederland B.V. (Netherlands)	1,178	-37	100.00	22,014	22,014	26,679	42,739
L'Oréal New Zealand Ltd (New Zealand)	44	2,708	100.00	6,110	6,110	6,189	5,728
L'Oréal Norge A/S (Norway)	1,384	5,101	100.00	4,050	4,050	17,886	17,197
L'Oréal Osterreich GmbH (Austria)	2,915	1,070	100.00	3,818	3,818	12,858	12,021
L'Oréal Pakistan Private Ltd	11,025	-7,702	99.99	11,043	2,320	-2,968	
L'Oréal Panama S.A.	159	1,598	100.00	168	168	10,852	9,708
L'Oréal Peru S.A.(Peru)	2,096	765	99.99	3,739	3,739	1,961	1,862
L'Oréal Philippines Inc.	9,005	-4,037	99.27	19,421	0	-10,566	
L'Oréal Polska Sp. Z.O.O. (Poland)	405	1,000	100.00	707	707	20,309	22,959
L'Oréal Portugal Lda	495	186	100.00	6,459	6,459	9,699	10,795
L'Oréal Romania SRL (Romania)	2,187	526	100.00	5,883	5,883	2,669	1,741
L'Oréal Saudi Arabia (Saudi Arabia)	5,682	-238	74.63	4,260	4,260	58	
L'Oréal Singapore Pte Ltd (Singapore)	1,165	-616	100.00	18,991	18,991	9,124	6,666
L'Oréal Slovenija kosmetika d.o.o.(Slovenia)	465	384	100.00	856	856	1,023	2,702
L'Oréal Slovensko s.r.o. (Slovaquia)	1,598	798	100.00	1,673	1,673	4,973	4,984
L'Oréal Suisse S.A.	346	2,062	100.00	160,311	160,311	36,025	47,232
L'Oréal Sverige AB (Sweden)	2,038	6,655	100.00	2,247	2,247	12,050	15,417
L'Oréal Taiwan Co Ltd (Taiwan)	187	3,611	100.00	17,881	17,881	21,792	19,799
L'Oréal Thailand Ltd	3,992	966	99.99	5,238	5,238	19,646	9,047
L'Oréal Turkiye Kozmetik Sanayi Ve Ticaret Anonim Sirketi	37,993	-25,505	100.00	43,965	13,837	444	
L'Oréal UK Ltd (Great Britain)	121,150	-32,515	99.99	145,573	145,573	104,736	64,535
L'Oréal Ukraine	3,033	-754	100.00	2,990	2,990	18,740	19,393
L'Oréal Uruguay S.A.	485	1,043	100.00	5,435	3,281	1,951	
L'Oréal USA Inc. (3)	4,402	2,589,668	100.00	3,797,447	3,797,447	346,248	154,250
L'Oréal Venezuela C.A.	6,201	5,778	100.00	16,970	7,079	6,715	
L'Oréal Vietnam Co Ltd	7,239	-5,349	100.00	7,348	3,002	-3,844	
Masrelor LLC (Egypt)	12,585	-778	99.99	12,472	12,472	43	

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 average rate.
It is specified that the list above is not exhaustive.
(3) Figures from the sub-consolidation of L'Oréal USA Inc.

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	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		
Nihon L'Oréal KK (Japan)	138,845	97,938	100.00	415,182	396,441	30,983	
Parbel of Florida Inc. (USA)	40	-2,601	100.00	100,317	100,317	28,098	24,620
Procosa Productos de Beleza Ltda (Brazil)	100,647	111,398	99.99	170,243	170,243	42,532	23,874
P.T. L'Oréal Indonesia	1,510	3,803	99.00	2,305	2,305	2,334	
P.T. Yasulor Indonesia	62,363	6,097	99.99	98,453	72,279	1,336	
Scental Limited (Hong-Kong)	5	167	99.99	8	8	0	
Seda Plastik Ve Boya Sanayi Ith. Tic. Ldt. Sti (Turkey)	1,206	914	100.00	1,851	1,851	-46	
Sofamo (Monaco)	160	-41,071	100.00	1,852	0	-47	
The Body Shop International PLC (Great Britain) (4)	13,885	892,632	100.00	992,445	992,445	73,358	57,171
Venprobel (Venezuela)	20	-65	100.00	2,722	0	0	
YSL Beauté Hong Kong Ltd	0	1,396	100.00	6,405	1,373	0	
YSL Beauté Middle East fzco (United Arabes Emirates)	5,698	913	100.00	17,096	17,096	7,376	12,314
YSL Beauté Singapore Pte ltd	280	1,570	100.00	336	336	-19	
YSL Beauté Vostok o.o.o. (Russia)	2,707	-4,682	99.48	2,802	0	-236	
B. MAIN FOREIGN INVESTMENTS (Holdings of less than 50%)	n/s	n/s	n/s	n/s	n/s	n/s	n/s

For foreign subsidiaries and investments, the capital reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchange rates, while profits and losses have been translated at average rate.
It is specified that the list above is not exhaustive.
(4) The Body Shop : Consolidated figures for the sub-group

Information relating to all subsidiaries and investments

	SUBSIDIARIES		INVESTMENTS	
	French	Foreign	French	Foreign
Book value of shares held				
▪ gross restated	711,561	8,352,699	423,888	1
▪ net	672,025	8,107,229	423,888	1
Amount of loans and advances granted	48,485	67,790	17,434	
Amount of guarantees and security granted	16,841	625,429		
Amount of dividends booked	305,159	1,561,208	320,769	1

5.7. Other information relating to the financial statements of L'Oréal parent company

5.7.1. *EXPENSES AND CHARGES FALLING UNDER ARTICLE 223 QUATER OF THE FRENCH TAX CODE*

It is stipulated that the total amount of expenses and charges falling under Article 223 quater of the French Tax Code and the amount of tax applicable to such expenses and charges are as follows:

Expenses and charges	€1.2 million
Corresponding tax amount	€0.4 million

5.7.2 *TRADE ACCOUNTS PAYABLE*

In accordance with the French Law on the Modernisation of the Economy of August 4th, 2008 and the resulting Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, the breakdown of the balance of trade accounts payable by L'Oréal parent company at year-end is as follows:

€ millions	2012	2011	2010
Trade accounts payable not yet due	**191.6**	**171.8**	**170.7**
including:			
at 30 days	122.1	97.8	95.6
between 30 days and 45 days	69.5	74.0	75.1
more than 45 days	-	-	-
Trade accounts payable due	**10.5**	**6.3**	**4.6**

5.7.3 *NET SALES (EXCLUDING TAXES)*

Net sales *€ millions*	2012	2011	Variation in %
1st quarter	701.6	635.9	10.33%
2nd quarter	635.2	623.7	1.83%
3rd quarter	622.8	576.5	8.03%
4th quarter	647.2	585.0	10.63%
TOTAL	**2,606.8**	**2,421.1**	**7.67%**

N.B: These net sales figures include sales of goods and finished products, accessories, waste and services, less 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 accounts standpoint.

5.8. Five-year financial summary

L'Oréal parent company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2008	2009	2010	2011	2012
I. Financial position at financial year-end					
a) Share capital	120.5	119.8	120.2	120.6	121.8
b) Number of shares	602,415,810	598,972,410	600,992,585	602,984,082	608,810,827(1)
c) Number of convertible bonds	0	0	0	0	0
II. Overall results of operations					
a) Net pre-tax sales	2,115.2	2,051.1	2,231.0	2,421.1	2,606.8
b) Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and Profit Sharing reserve)	1,713.4	1,766.3	2,048.4	2,344.8	2,517.5
c) ncome tax	-143.4	-114.9	-104.6	-51.3	11.4
d) Net profit	1,552.1	1,841.8	1,995.3	2,169.8	2,408.0
e) Amount of distributed profits	861.8	898.9	1,082.5	1,212.4	1,397.4 (2)
III. Results of operations per share					
a) Profit after tax and Profit Sharing, but before depreciation, amortisation and provisions	3.05	3.11	3.55	3.94	4.09
b) Net profit	2.58	3.07	3.32	3.60	3.96
c) Dividend paid on each share (not including tax credit)	1.44	1.50	1.80	2.00	2.30(2)
IV. Personnel					
a) Number of employees	5,848	5,855	5,957	6,016	6,097
b) Total salaries	381.1	403.8	426.7	459.0	489.5
c) Amount paid for welfare benefits (social security, provident schemes, etc)	159.3	172.8	182.5	200.4	208.6

(1) The share capital comprises à 608 810 827 shares with a par value of €0.2, following the subscription of 5 826 745 shares of Treasury stock by means of exercise of stock options and free shares.
(2) The dividend will be proposed to the Annual General Meeting of April 26th, 2013

5.9. Investments (main changes including shareholding threshold changes)

Investments

(main changes including shareholding threshold changes > 5%)

(€ thousands)	Situation at 12.31.2011 *Including revaluation*		Acquisitions		Subscriptions		Sales		Situation at 12.31.2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Groupement du Plessis Mornay	0.6						0.6		0.0	0.00
L'Oréal Cosmetics Industry (Egypt)	2,352.1	99.99			24,251.0	99.99			26,603.1	99.99
L'Oréal Pakistan Private LTD (Pakistan)	6,160.9	99.99			4,882.6	99.99			11,043.5	99.99
Masrelor LLC (Egypt)	5,949.1	99.99			6,523.1	99.99			12,472.2	99.99
PT Yasulor (Indonesia)	67,692.1	99.98			30,761.3	0.01			98,453.4	99.99
L'Oréal Hellas (Greece)	24,880.9	91.82	6,425.7	5.04	4,000.0	3.13			35,306.6	99.99
L'Oréal Philippines	12,477.7	95.38			6,943.2	3.89			19,420.9	99.27
Cadum International S.A.	0.0	0.00	170,520.2	100.00					170,520.2	100.00
Maybelline Suzhou (China)	49,600.8	100.00					49,600.8	100.00,[1]	0.0	0.00
L'Oréal Saudi Arabia	0.0	0.00			4,260.0	74.63			4,260.0	74.63
L'Oréal East Africa LTD (Kenya)	0.0	0.00			190.6	99.90			190.6	99.90
Laboratoire Inneov	18,800.0	50.00			6,950.0	50.00			25,750.0	50.00
L'Oréal Magyarorszag Kosmetikai (Hungary)	7,814.8	100.00			-7,027.7	100.00			787.1	100.00
L'Oréal Vietnam	4,345.8	100.00			3,002.1	100.00			7,347.9	100.00
L'Oréal USA Inc.	3,569,656.7	100.00			227,790.4	100.00			3,797,447.1	100.00
	3,769,731.5		**176,945.9**		**312,526.6**		**49,601.4**		**4,209,602.6**	

(1) Transfer of all the assets and liabilities

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5.10. Statutory Auditors' Report on the financial statements

(Year ended December 31st, 2012)

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31st, 2012, on:

- the audit of the accompanying financial statements of L'Oréal;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I - OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31st, 2012, and of the results of its operations for the year then ended in accordance with French accounting principles.

II - JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matter:

Investments have been valued in accordance with the accounting methods described in note 1.7.1 *Accounting policies – Financial Assets – Investments and advances* to the Company's financial statements. As part of our audit, we reviewed whether these accounting methods were appropriate and evaluated the assumptions used.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - SPECIFIC VERIFICATIONS AND INFORMATION

In accordance with professional standards applicable in France, we have also performed the specific verifications required by law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' Report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' Report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the Management Report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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CORPORATE SOCIAL, ENVIRONMENTAL AND SOCIETAL RESPONSIBILITY*

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

Signatory of the United Nations Global Compact since 2003, the Group is committed to supporting and implementing the ten fundamental principles of the Compact within its sphere of influence.

The Group describes each year the progress made in the various areas concerned (Human Rights, labour standards, environmental standards and anti-corruption measures), namely in its Sustainable Development Report. The Global Reporting Initiative (GRI) indicators and those of the United Nations Global Compact are used by the Group to measure the progress made and communicate on actions taken.

In 2012, Vigeo, the European ratings agency, published a range of ESG (Environmental, Social and Governance) indexes and designated L'Oréal as "the leading company in social responsibility" in France. In this same ranking, L'Oréal is in 4th place in Europe and ranks 5th in the World (out of 120 companies). Furthermore, L'Oréal was recognised for the third year running as one of the "World's Most Ethical Companies'" by the Ethisphere Institute, a leading international think tank with regard to ethical business practices.

Keen to constantly improve the Group's transparency in this area, L'Oréal has brought together in this chapter the information provided for by the French Decree of April 24th, 2012, as well as examples of the Group's achievements in the social, environmental and societal fields and a table of concordance putting the GRI indicators into perspective with the information under Grenelle II reporting and the principles of the Global Compact. This table of concordance is set out on pages 214 and 215.

The reporting scope and the methodology are detailed in the methodological note placed at the end of each section of this chapter.

L'Oréal's Statutory Auditors set out on page 216, their attestation with regard to the presence of the consolidated social, environmental and societal information in this chapter pursuant to the provisions of Article L. 225-102-1 of the French Commercial Code as well as their moderate assurance report on a selection of such information, identified by the sign (✓).

6.1. Social information

6.1.1. THE L'ORÉAL GROUP'S HUMAN RESOURCES POLICY

L'Oréal, the world leader in beauty, a greatly expanding market, has built a human and social project in which individual and collective performances are closely linked: L'Oréal ramps up its work force and actively makes sure that the Company's men and women thrive in a dynamic of permanent progress, a key component of the Group's social and economic performance.

Thus, L'Oréal's Human Resources policy is founded on:

- A vision focusing on the individual talent of men and women:

  L'Oréal has always put the human dimension and individual performance at the centre of the Company as part of a long-term vision. The responsibility of the human resources staff is to increase the number of best talents, particularly in the New Markets, in order to durably boost the Group's growth.

  - Recognised as one of the most attractive companies in the world for young graduates and one of the companies that provide the most training for development of the leadership of its senior managers, L'Oréal always tries to achieve the right balance between constant improvement of the efficiency of its organisation and the enhancement of its pool of talents, at all levels and in all countries.
  - An active recruitment policy which is based on partnerships with the best educational institutions in the world and the use of novel corporate gaming and methods that make it possible to identify and attract the best talents and select them effectively from among the million spontaneous applications received every year.
  - The ambition to enable each employee to evolve thanks to individual performance monitoring and a large number of career development opportunities supported by comprehensive training programmes that are accessible to everyone. The international locations of training structures make it possible to roll out our training programmes throughout the world. The large-scale mobility between jobs and between countries and the many individual promotions each year attest to the vitality of career management at L'Oréal. This momentum is ensured by a Human Resources network which is both in tune with employee expectations and aware of the requirements of our business.

- Particular attention to the Group's social performance.

  L'Oréal has set itself the target of promoting is values and creating a pleasant working environment marked by solidarity, respect and attention to everyone:

  - The desire to recognise the effective contribution made by everyone through a dynamic remuneration policy and short-, medium- and long-term global incentive systems.
  - A regular evaluation of the expectations of employees throughout the world through large-scale opinion polls leading to the implementation of action plans.
  - The search for a work environment and working conditions that will help to make it possible for everyone to achieve personal satisfaction.
  - An active dialogue between management and employees and their representatives at worldwide level.
  - An active policy with regard to diversity as a factor of progress, innovation and creation of labour relations with global priorities of gender, social origin and disabilities.

6.1.2. SOCIAL INFORMATION WITH REGARD TO THE CONSOLIDATED SCOPE OF THE L'ORÉAL GROUP

The workforce indicated in the Total workforce and Geographic distribution of workforce charts is the total workforce present in the Group at December 31st, 2012(1).

For Galderma and Innéov that are proportionally consolidated, the workforce at December 31st, 2012 is recorded on a prorated basis according to the stake held by L'Oréal, i.e. 50%.

All the other social indicators set out in this chapter relate to the "Cosmetics" and "The Body Shop" branches(2).

If an indicator relates to a scope different from that of the "Cosmetics" and "The Body Shop" branches, the scope of consolidation is indicated in a note.

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(1) Including employees with a permanent or fixed-term contract of employment.

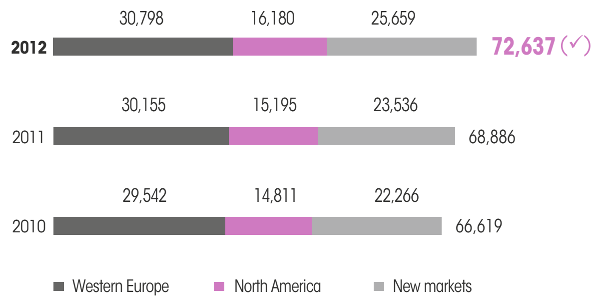
(2) Innéov is included, Galderma (dermatology) is excluded.

6.1.2.1. Employment

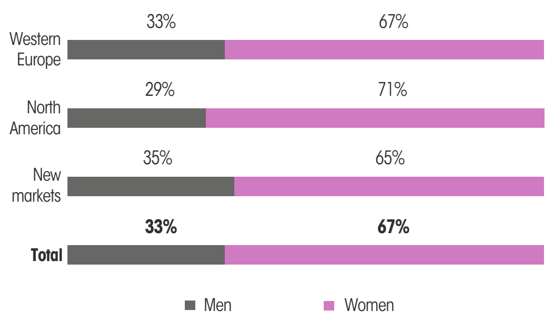
Total workforce and distribution of employees by geographic zone, by gender and by age

In 2012, L'Oréal had **72,637** employees (✓).

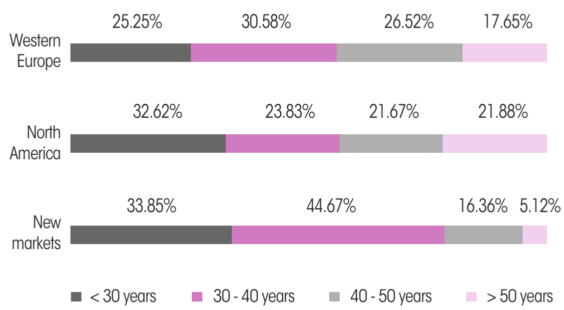
Distribution of workforce by geographic zone



Distribution by gender at 12.31.2012 (✓)



Breakdown by age at 12.31.2012 (✓)



Average age by geographic zone

Recruitments and departures (1)

- The number of employees hired on permanent contracts in 2012 is 9,053 (✓).

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

L'Oréal is pursuing its active recruitment policy for all its businesses and all categories of staff in the Company.

L'Oréal's aim is to create a durable relationship with its employees in order to enable each and every one of them to develop their potential and to build long-term growth together, become more competitive, and continue geographic expansion and the promotion of innovation.

- The number of departures (*on the Company's initiative*) in 2012 is 1,913 (✓).

To achieve the objective of durable growth which is the best guarantee it can offer its employees, L'Oréal has to continually adapt to its environment.

This may lead to restructuring, particularly in light of the current difficult economic climate. Nevertheless, any decision that may affect the working life and jobs of employees is made after in-depth consideration and is the subject of clear, regular communication with regard to employees and an ongoing dialogue with the employees themselves and their representatives, in accordance with L'Oréal's values of integrity and transparency.

Remuneration and trends

L'Oréal's remuneration policy is inseparable from the general objectives of Human Resources policy and accompanies the Group's development strategy defined by the General Management.

The principle of this policy is to reward all its employees everywhere in the world fairly by recognising the individual contribution made by each of them and by proposing diversified remuneration intended to fulfil the different expectations of its employees.

(1) *Cosmetics scope excluding The Body Shop.*

Its purpose is to reward the commitment made by each of them and encourage individual and collective performances. For this purpose, it is based on an annual performance assessment system (MAP) for employees applied in all the Group's subsidiaries. This performance assessment system makes it possible to revise the various fixed and variable components of remuneration regularly depending on the position held, the skills used, the performances and the potential of each and every employee. It also makes it possible to communicate clearly and transparently on the rules for determining remuneration, the process and the decisions made.

In most countries, the minimum salaries (✓) paid are much higher than the statutory minimum wage (at a national or regional level or according to the collective bargaining agreement).

As L'Oréal wants to be one of the most attractive companies wherever it has subsidiaries, surveys aimed at positioning remuneration as compared to the market are conducted by specialist firms every year. Furthermore, internal opinion polls, that are carried out periodically, make it possible in particular to evaluate the perceptions and expectations of employees with regard to remuneration and adapt the Group's action plans accordingly.

Finally, L'Oréal wishes to associate its employees collectively with the Group's results through global incentive profit sharing systems and thus strike a balance between social performance and economic performance.

Personnel costs (including payroll costs)

(€ million)	2010	2011	2012
TOTAL	3,624	3,832.1	4,227.9 (✓)

The comparison between the three years takes into account the foreign exchange impacts and is not representative of the real evolution in personnel costs.

Worldwide Profit Sharing, Incentive and Mandatory Profit Sharing schemes

For many years, L'Oréal's policy has been to associate employees with the results of the Company aimed at making employees feel that they are part of the Company and enhancing their motivation. This led to a redistribution of €210 million in 2012 at the scale of the Group, on the basis of the income for 2011.

Above and beyond the legal systems applicable in certain countries, and particularly in France, L'Oréal has implemented a "Worldwide Profit Sharing Program – WPS" since 2001 in all the Group's subsidiaries in which the employees do not benefit from profit sharing arrangements provided for by law.

The amounts paid are calculated locally on the basis of sales and profits generated by each subsidiary as compared to budgeted targets. Implementation of the programme takes place locally and compliance with the principles and rules of the programme is coordinated, at Corporate level, by the International Labour Relations Department.

Worldwide Profit Sharing

(€ million)	2010	2011	2012
TOTAL	187	204	210 (✓)

The comparison between the three years takes into account foreign exchange impacts and structural changes.

EXAMPLE OF FRANCE

A mandatory employee profit scheme was set up in 1968 and an incentive profit sharing scheme has been in force since 1988.

Incentive profit sharing is a system provided for by law but is of a non-mandatory nature. Renegotiated every 3 years, it was the subject of a new Group agreement in 2012.

The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items and weighted on the basis of the salary/value added ratio.

The incentive amount is available immediately, but may also be frozen in the Company savings plan for 5 years and benefit from a corresponding tax exemption.

Within the framework of the regulations on sharing profits (Article 1 of French Law No. 2011-894 of July 28th, 2011), L'Oréal proposed the payment in 2012 of a gross additional incentive amount of €600 per employee in respect of the "non-mandatory monetary benefits" provided for by the legislation, linked with the increase in the dividend per share paid in 2012 in respect of the results for 2011.

L'Oréal chose to propose the payment of an additional incentive amount as it corresponds to the system which is the closest to the notion of "value sharing".

Company-level agreements providing for the payment of an additional incentive amount of €600 gross* were thus entered into with the Works Councils of L'Oréal and its subsidiaries in France. It was paid on September 30th, 2012. The total net amount of incentives allocated in 2012 and the additional incentive payment to "share in profits for 2012" is €110,054,461.

* *On a full-time basis, for 12 months' presence in 2011.*

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Changes in gross incentive amount

(€ million)	2008 (1)	2009(1)(2)	2010(1)(2)	2011(1)(2)
	99.8	103.2	106.9	112.6

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

For an annual gross salary of	The gross Incentive amount for 2011paid in 2012 represented	Additional Incentive payment to "share in profits for 2012"	Total
€25,000	€6,767 i.e. 3.3 months	€600	€7,367
€35,000	€7,934 i.e. 2.7 months	€600	€8,534
€45,000	€9,102 i.e. 2.4 months	€600	€9,702
€65,000	€11,437 i.e. 2.1 months	€600	€12,037

Mandatory employee profit sharing is a mandatory system in France, introduced in 1968, for all profit-making companies with over 50 employees. Signed for a term of 3 years, the mandatory profit sharing agreement was renewed in May 2012.

Within the framework of this Group agreement, which pools the results of all the companies that are signatories, L'Oréal has made favourable adjustments to the legal formula to take account of the Group's international development.

Mandatory profit sharing is available immediately but may be frozen for 5 years in the Company savings plan or the frozen current account, or invested until retirement in the collective retirement savings plan (PERCO) on which an additional employer contribution is paid equal to +50%, which allows employees to benefit from a tax exemption.

Changes in gross mandatory employee profit sharing

(€ million)	2008(1)	2009(1)(2)	2010(1)(2)	2011(1)(2)
	38.1	34.4	34.3	32.8

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

Mandatory profit sharing for 2011 paid in 2012 represented the equivalent of 0.7 month's salary.

For employees who so wish, the amounts paid in respect of incentive and mandatory profit sharing may be invested for a minimum period of 5 years in the Company savings plan which proposes, in particular, an employee investment fund invested in L'Oréal Shares, on which an additional employer contribution of 25% is paid for incentive profit sharing payments.

In 2012, the following amount net of CSG, CRDS and the forfait social levy was invested by the employees of L'Oréal and its subsidiaries in France in the fund which is 100% composed of L'Oréal shares, "L'Oréal Intéressement": €47,909,419, plus the net additional incentive amount to "share in profits for 2012" of €2,329,277.

The employer contributions added to these payments were respectively €10,266,484 and €470,237, which, at the opening trading price for the L'Oréal share on the date of each of these additional employer contributions, namely €92.00 on April 30th, 2012 for "L'Oréal Intéressement" and €98.76 for the "Supplément d'Intéressement" on September 28th, 2012, represented the equivalent of 116,353 L'Oréal shares.

Company savings plan and frozen current account

Outstanding balances for all the companies concerned in France:

(€ million)	2010	2011	2012
Company savings plan + frozen current account + PERCO	716	720	863

At December 31st, 2012, 51% of the savings of L'Oréal employees were invested in L'Oréal shares, and 9,741 Group employees in France were shareholders of L'Oréal through the savings plan.

Long-term Incentive Plans

At worldwide level, in addition to the mandatory profit sharing, incentive profit sharing or Worldwide Profit Sharing programmes for its employees, the Group has for several years granted stock option plans and made conditional grants of shares (ACAs) in an international context, in order to associate those who have made big contributions with the future evolution of the Group's results and help to instil a Group spirit.

In 2009, L'Oréal enlarged its policy by introducing a mechanism for the conditional grant of shares (ACAs), in order to reach out to a broader population of potential beneficiaries thanks to a long-term incentive tool offering greater motivation than stock-options.

In 2012, the Group developed its policy for conditional grants of shares:

- by enlarging the number of beneficiaries further. Thus, the number of beneficiaries of conditional grants of shares according to the April 17th, 2012 Plan was increased to 2,177 (1,991 in 2011);
- by internationalising conditional grants of shares. Thus, the number of beneficiaries outside France is 62% of the total number of beneficiaries (59.5% in 2011);
- by making conditional grants of shares to replace stock options to all beneficiaries.

In total, more than 3,000 employees, i.e. 13% of the managers worldwide, benefit from at least one stock option plan or plan for the conditional grant of shares, according to the terms and conditions set out in chapter 7.4. *Information concerning the share capital* on page 228.

Employee Benefit and pension schemes and other benefits

Depending on the legislation and practices in each country, L'Oréal adheres to pension schemes, pre-retirement arrangements and Employee Benefit schemes offering a variety of additional coverage for its employees.

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 together closely with the operational management of the Divisions and Zones.

The characteristics of the pension schemes and other pre-retirement benefits offered by the subsidiaries outside France vary depending on the applicable laws 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 South American countries). In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Germany, Belgium and the United Kingdom). This series of defined benefit and defined contribution schemes makes it possible to share the financial risks and ensure improved cost stability. In defined contribution schemes, the Company's commitment mainly consists in paying a percentage of the employee's annual salary into a pension plan each year.

The defined benefit schemes are financed by payments into specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the managers of the main funds established, as well as the financial stability rating of the custodians, are regularly reviewed by the Supervisory Committee.

Pensions exceeding the legal minima required by national social security systems are now paid in 80% (✓) of L'Oréal's subsidiaries throughout the world. In countries which already offer sufficient social coverage, L'Oréal does not propose company pension schemes. This is also the case in countries which do not have an appropriate legal framework or a long-term investment instrument. The Supervisory Committee continues to be attentive to changes in local situations and, when required, additional employee benefit schemes are put in place.

EXAMPLE OF FRANCE

Pension schemes in France

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

Defined benefit scheme

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

Access to the "Retirement Income Guarantee for former Senior Managers", created on January 1st, 2001, is open to former L'Oréal Senior Managers who fulfil, in addition to the requirement of having ended their career with the Company, the condition of having had the status of Senior Manager within the meaning of Article L. 3111-2 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, each year leading to a steady, gradual increase of 1.8% in the level of the Guarantee. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries for the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, less the amount of all payments due as a result of termination of the employment contract, excluding any paid notice period and paid holiday and less all salaries paid under an early retirement leave plan, if such lump sum equivalent is the result of these operations. Around 450 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having ended their career with the Company.

Access to the "Pension Cover for Members of the "Comité de Conjoncture" has been closed since December 31st, 2000.

This former scheme granted entitlement to payment to the beneficiary retiree, after having ended his/her career with the Company, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years, it being specified that at the date of closure of the scheme, on December 31st, 2000, the minimum length of service required was 10 years. The Pension Cover may not exceed 40% of the calculation basis for the Pension Cover, plus 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 for the three years used for the calculation basis. Around 120 Senior Managers (active or retired) are eligible for this scheme subject to the proviso, for those in active employment, that they fulfil all the conditions after having ended their career with the Company.

Defined contribution scheme

In September 2003, L'Oréal set up a "defined contribution pension scheme".

A new agreement was signed in December 2007, with effect from January 1st, 2008, as well as a supplemental agreement applicable as from January 1st, 2009.

All executives and sales representatives affiliated with the CIPC-R are beneficiaries of this scheme.

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

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

	12.31.2010	12.31.2011	12.31.2012
Number of members	11,967	12,594	13,549
TOTAL NET CONTRIBUTIONS *(in € million)*	**8.02**	**8.74**	**9.20**

Pre-retirement arrangements

L'Oréal pays close attention to the retirement conditions of its employees and pre-retirement arrangements that have been in force for a number of years, which have been confirmed and improved within the scope of the agreement on the employment of older workers, signed on December 3rd, 2009, which provides in particular for the introduction of a time savings account for older employees:

- the early retirement leave (CFC): this pre-retirement arrangement consists of exempting employees from the requirement to perform their activities; but during this period, they remain employees of L'Oréal and continue to receive their remuneration (within the limit of €9,280 gross/month) as well as mandatory profit sharing, incentive payments and paid leave;
- early retirement leave under the time savings account: this arrangement, linked to the 35-hour working week agreement and the Time Savings Account (*Compte Epargne Temps* – CET), enables an employee who has saved 3 days' leave per year under the CET since 2001, to benefit from the possibility to terminate his/her activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave;
- retirement indemnities: a new scale of indemnities at L'Oréal was implemented by a collective agreement as from 2011, which is more favourable than the French National Collective Bargaining Agreement for the Chemical Industries.

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

In order to increase the special leave prior to retirement, the employee may opt to convert his/her 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.

	12.31.2010			12.31.2011			12.31.2012		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Early retirement leave	49	102	151	51	127	178	65	128	193
Compulsory retirement on the Company's initiative			25			5	3	0	3
Voluntary retirement			234			162	66	135	201

(Source: HR France statistics- 2010, 2011 and 2012).

These commitments are guaranteed partly by external financial cover aimed at gradually building up funds resulting from premiums paid to external organisations.

The commitments net of funds invested and the actuarial differences are booked as a provision in consolidated balance sheet liabilities.

The evaluation method adopted to calculate the retirement and pre-retirement benefit commitments is the retrospective method based on estimated calculations of the final salary.

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

€ million	12.31.2010	12.31.2011	12.31.2012
Provision for pension commitments in consolidated balance sheet liabilities	687.8	662.6	706.7

(Source: Administration and Finance Department)

Employees Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4 bis of the French National Collective Bargaining Agreement of 1947 (1.5% of Bracket A of income as defined by the French Social Security) and the guarantees accorded under the French National Collective Bargaining Agreement for the Chemical Industries, L'Oréal has set up, in France, under an agreement, an Employee Benefit scheme providing additional collective guarantees to its employees.

All these guarantees are based on the gross income up to eight times the Social Security ceiling, except for the education annuity which is limited to up to four times the ceiling. They are generally financed on Brackets A, B and C of income as defined by the French Social Security, except for the Education Annuity which is based on Brackets A and B, and the surviving Spouse Pension which is based on Brackets B and C.

This Employee Benefit scheme provides guarantees in the event of:

- temporary disability: for all employees, 90% of their gross income limited to eight times the French Social Security ceiling, net of all deductions, after the first 90 days off work;
- permanent disability: for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, limited to eight times the French Social Security ceiling, net of all deductions;
- Death:

a) for all employees, the payment of a Lump Sum Death Benefit, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,

b) for executives and comparable categories of employees, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,

c) for all employees, the payment of an Education Annuity to each dependent child, according to an age-based schedule.

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.

€ thousand	12.31.2010	12.31.2011	12.31.2012
Net Employee Benefit Contributions for the financial year	9,877	10,688	10,950[1]

(1) Estimated

Minimum guaranteed Lump Sum Death Benefits

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

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

Healthcare expenses

The employees of L'Oréal parent company and its French subsidiaries benefit from additional schemes covering healthcare costs.

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

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

Contributions are generally individual. The contribution by the employee is partly financed by the Company.

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 parent company retirees has been specified in the regulations for the additional defined benefit pension scheme applicable as from January 1st, 2008. The financial management of this scheme was outsourced to insurance companies in July 2011.

6.1.2.2. Work organisation

Organisation of working time

L'Oréal complies with the statutory and contractual obligations with regard to working time in each of its subsidiaries. Working time depends on the local environment and the business activities carried out.

Employees who have chosen to work part-time come from all categories. The number of part-time employees is 9,688 (✓) on a worldwide basis, 9,065 (✓) of whom are women and 623 (✓) men.

EXAMPLE OF ITALY

L'Oréal Italy made a commitment in 2011 in favour of "mums at work", following a project conducted with employees and their representatives, involving mothers of young children.

The signed agreement defines the provisions which go beyond the legal obligations and which are aimed at improving the private life-professional life balance for mothers of young children; several of them concern flexible management of working hours.

In particular:

- The variable working hours already in force for all employees are enlarged (possibility of starting work between 08.30 a.m. and 10.30 a.m.) for mothers until their children reach 3 years of age;
- The possibility of working part-time 6 hours a day is granted, at the mother's request, until the child reaches 2 years of age;
- In case of use of the optional parental leave for 6 months following maternity leave, L'Oréal Italy supplements the portion of the salary paid by the social security system, 30% of the salary, to bring it up to 45% in total;
- 2 half days of paid leave are allowed in order to enable the mother to make arrangements if the child is sick;
- The annual leave amounting to 40 hours to which employees are entitled for doctors' appointments may be used by mothers for examinations concerning their child until the child reaches 3 years of age;
- In addition to these measures, if the child goes to a day nursery, a contribution of €130/month is paid until the child reaches 3 years of age.

Absenteeism (✓)

The overall rate of absenteeism is 4.04%, 2.67%[1] of which is due to sickness, calculated using the following method:

Method of calculation:

- Total absenteeism: B/(A+B)
- Sickness absenteeism: C/(A+B)

(A) Number of days effectively worked by all employees with contracts, including training days.

(B) Number of days of absence (sick leave, occupational diseases, maternity leave, accidents in the workplace and/or travel-to-work accidents or any other absence not provided for by contract).

(C) Number of days of sick leave (excluding occupational diseases, maternity leave, accidents in the workplace and/or travel to work accidents...).

(1) *The scope with regard to this information covers the United States and France (excluding The Body Shop), i.e. 36.9% of the Group's workforce. The definition of this indicator is currently being made uniform in all Group companies.*

6.1.2.3. Labour relations

Organisation of the dialogue between employees and management and in particular the procedures for information and consultation of the employees and negotiations with them.

The quality of the social climate at L'Oréal is the fruit of an ongoing dialogue between Management, employees and their representatives, in accordance with trade union rights in each country and with a neutral attitude with regard to the various trade union organisations.

Employee representative institutions have been set up in most of the European subsidiaries, the Asian subsidiaries (China, Indonesia, South Korea…), Africa (Morocco, South Africa), and in North and South America (the United States, Canada, Mexico, Brazil and Argentina…), and also in Australia and New Zealand.

In the few cases where there is no employee representative institution (essentially in subsidiaries with a small workforce), the dialogue is conducted directly with the employees, in complete compliance with the principles of transparency and trust that are applied uniformly throughout the Group.

Since 2003, L'Oréal has carried out a global employee opinion poll with the assistance of the international firm of Towers Watson, a survey that was repeated in 2011-2012. The results are shared with the employees and employee representatives. They are the subject of actions plans implemented in a decentralised manner, as closely as possible to the expectations expressed.

The Instance Européenne de dialogue social / European Works Council

An agreement signed in 1996 between L'Oréal and French and European trade unions (FECCIA and EMCEF) led to the establishment of the Company's *Instance Européenne de Dialogue Social*/European Works Council (IEDS/EWC). The initial agreement has been regularly updated, in particular in 2009 to introduce a new information and consultation procedure which applies to transnational projects involving local consultation procedures. This procedure allows for the possibility of an opinion from the IEDS/EWC. It is then implemented with the Liaison Secretariat extended to include members from the countries concerned or with the entire IEDS/EWC, depending on the geographic and strategic dimensions of the project. This revision represented an important advance which aims to reinforce social dialogue at L'Oréal while remaining a step ahead of changes in legislation.

The IEDS/EWC contributes to discussions and formal meetings with IEDS/EWC members about the Group's current situation and future prospects.

It has 30 members, who receive regular training on economic and social issues.

Today, the IEDS/EWC covers more than 30,000 employees in 26 countries which are part of the European Economic Area; among these 26 countries, the 16 countries with more than 145 employees are represented.

Situation with regard to collective agreements (✓)

The social policy at L'Oréal permits the signature of a certain number of collective agreements in the subsidiaries every year. In 2012, 33 agreements were signed in France and 69 agreements were signed in the rest of the world. In total, the number of agreements in force at December 31st, 2012 was 298.

6.1.2.4. Health and Safety

For several years, L'Oréal has applied a well-established policy in the field of health and safety (EHS policy). This defines the Company's commitment to developing, producing, distributing and selling innovative products of the highest quality, while having an ethical conduct and guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its activities. This approach is part of an overall environmental, health and safety policy described in the section on *Environmental information* on pages 200 et seq.

L'Oréal is eager to provide a safe and healthy work environment for its employees. Health and safety are of paramount importance and L'Oréal's ultimate goal is a zero accident rate.

Comprehensive measures have been taken focused on risk reduction and continuous improvement. A safety culture has been instilled, setting high standards and involving employees at all levels of the Company.

Keen to increase safety in the workplace, the General Management has set an ambitious objective to improve the results obtained.

Performance summary

Overall, 2012 was a good year in terms of performance. The Group's performance improved by 14.42% as compared to 2011 despite the deterioration of the performance of the factories. Out of the 193 lost-time accidents registered in the Group in 2012, 72% occurred at administrative sites, including 5% in Research & Innovation laboratories or sites, and 28% in the factories and distribution centres.

- Sites of factories and distribution centres: TFc* = 1.49 vs. 1.36 in 2011 (+9.7 %);
- Administrative sites (including R&I): TFc* = 1.80 vs. 2.30 in 2011 (-21.6%);
- Group: all sites: TFc *= 1.72 (✓) vs. 2.01 in 2011 (-14.42%).

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* *TFc (Conventional Frequency Rate) = number of lost-time accidents per million hours worked by L'Oréal staff.*

Management is the guiding force behind this change in safety culture, supported and assisted by the EHS network. L'Oréal has set up the necessary tools and programmes to achieve excellence in this area.

The basic safety improvement programmes rest on the following elements:

- EHS steering committees;
- Mesur;
- SIO (Safety Improvement Opportunities);
- Safety Training for management:

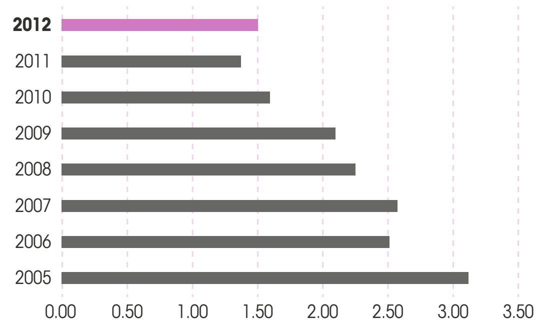
  In 2012, 60 participants from L'Oréal attended seminars open to site managers on the theme of "Safety & leadership", held at the CEDEP, the European Centre for Continuing Education (*Centre Européen d'Education Permanente*) on the campus of INSEAD in France. The main objectives of these seminars are to change the attitudes of managers with regard to safety, raise their awareness to the crucial problem posed by safety for companies and their management executives, and to increase their ability to have safer behaviour adopted and maintained over the long term.
- Ergonomic Attitude;
- EHS "Culture Audits".

Safety Target for Factories and distribution centres

The initial target is an 81% improvement in our safety record by 2015 (base year 2005: TFc* = 3.09), representing a TFc* of < 0.60.

Performance summary for factories and distribution centres since 2005

TFc (conventional frequency rate) - Factories and distribution centres*



Target: Zero accident in 2012(1)

Out of 104 factories and distribution centres, 69 recorded zero lost-time accident.

An accident severity rate that has fallen

As well as a reduction in the number of accidents, it is also important to note that the accident severity rate has fallen by 40% since 2005. It is 0.09 (✓) in 2012.

Millions of hours – L'Oréal staff - without a lost-time accident since 2005 – Operational and administrative sites

- 8 factories, 4 distribution centres and 17 administrative sites reached or passed the threshold of one million hours worked without a lost-time accident;
- 3 factories and 7 administrative sites have now reached 3 million hours.

HEALTH AND SAFETY CONDITIONS AT L'ORÉAL - FRANCE :

For many years, L'Oréal has been committed to a proactive policy for continuous improvement in the working conditions of its employees, thereby contributing to the development of an environment favouring the quality of life at work.

Within this framework, and beyond the systems that already exist, L'Oréal wished to go one step further firstly by implementing a stress prevention and management programme and secondly by introducing a reflection on the prevention of arduous working conditions pursuant to the provisions of French Law No. 2010-1330 of November 9th, 2010.

- Attentive to the stress which could be experienced by employees whatever the circumstances, at the start of 2009 L'Oréal undertook a stress prevention and management programme with the support of a network of occupational doctors (7 exclusively dedicated to L'Oréal) and a duly empowered body, the "Intervenant en Prévention des Risques Professionnels" (IPRP).

This programme is based on 3 main measures:

- a prevention plan including in particular two training modules enabling both employees (1 day) and managers (2 days) to understand stress mechanisms better and give them operational solutions to regulate their impact.
- an individual assessment of the employee's level of stress, anxiety and depression via a questionnaire proposed at the time of the annual employee medical check-up, based on scientifically recognised scales; at the end of the process, results are shared with the occupational doctor.
- an annual analysis of the Company's collective results by the Health, Safety and Working Conditions Committees.

  This action plan, which was favourably received by employees, the Health, Safety and Working Conditions Committees and the Works Councils, is effective in all L'Oréal entities in France.

(1) *L'Oréal permanent staff.*
* *TFc (Conventional Frequency Rate) = number of lost-time accidents per million hours worked by L'Oréal staff.*

- Within the scope of the provisions of French Law No. 2010-1330 of November 9th, 2010 and French decrees No. 2011-354 of March 30th, 2011 and No. 2011-824 of July 7th, 2011, L'Oréal continued its reflections on the way to improve working conditions and the prevention of arduous working conditions with the aim of enabling employees to remain in active employment longer and under better conditions.

  Although not obligatory, discussions have begun in certain of L'Oréal's business sectors or entities, in conjunction with the Health, Safety and Working Conditions Committees and the EHS teams, in order to prepare action plans for the prevention of arduous working conditions.

In application of the French decree of November 5th, 2011 relating to occupational risks, L'Oréal has updated the single document for the evaluation of occupational risks in the Company by including these two points in particular.

In 2012, there were 37 Health, Safety and Working Conditions Committees (CHSCT) and 1 Health, Hygiene and Safety and Working Conditions (SHSCT) at L'Oréal.

An occupational doctor is available for each L'Oréal site and 7 of these occupational doctors work exclusively for L'Oréal. They are assisted by 5 dedicated social workers.

MEASURES TAKEN TO IMPROVE SAFETY:

Preservation of the health and safety of employees is a fundamental objective which forms an integral part of the human and social policy. It rests on risk prevention both at an individual level, through screening tests making it possible to provide employees with thorough, adapted individual medical attention, and at collective level through the evaluation and management of occupational risks.

The health and safety policy is part of an overall programme, conducted in close cooperation with the occupational doctors, safety officers and the Health, Safety and Working Conditions Committees.

Status report on collective agreements with regard to health and safety: number of agreements in force with regard to health and safety: 18

6.1.2.5. Training

Training is an integral part of employee development policy at L'Oréal. In a continual search for excellence and creativity and the desire to be one step ahead to deal with the growing complexity of the challenges of our business, the "Learning for Development" teams provide employees and managers with ongoing support to help them not only to be high-performing, but also to achieve fulfilment.

Training has always been at the heart of the Human Resources strategy: this enables L'Oréal to attract the best talents, prepare the leaders of the future, but also provide all the employees throughout the world with the best possible response in terms of training.

Personal training paths are built from the needs identified with the manager at a specific individual interview held each year. The employee then has access to a whole set of personal development resources with a mix of in-room training, training videos, digital and social experiences and coaching in the work situation. Employees can thus build their own training experience, while sharing their practices with colleagues all over the world.

In a highly competitive, multicultural environment, L'Oréal's ambition is to enable all of its employees to receive training at each stage of their career, to develop their potential, but also to achieve fulfilment with enthusiasm, within the scope of their duties.

Number of hours of training

	2011	2012
TOTAL	1,022,772	1,063,172 (✓)

N.B.: These figures concern the scope defined in the methodological note on page 199.

6.1.2.6. Diversity and equal opportunities

For over 10 years, L'Oréal has been engaged in an innovative, ambitious policy in favour of Diversity. The Group has set itself three priorities: gender, disability and socio-cultural and ethnic origin and its actions are more particularly focussed on the areas of marketing, solidarity sourcing and human resources.

Today, the initiatives conducted by all the Group's subsidiaries make L'Oréal a pioneer and one of the recognised major players in the area of diversity at worldwide level.

- In 2004, L'Oréal was a founding member of the first diversity charter in France. The Group has now signed eight other charters in Europe, certain of which were created on its initiative.

  In the field of gender equality, L'Oréal was awarded in 2010 the first European gender equality label, the "Gender Equality European Standard", by Bureau Veritas, for eight different scopes or companies in Europe: Germany, France, Spain, Italy, Belgium, the United Kingdom, Ireland and L'Oréal S.A. (Corporate). Four other scopes were audited at the end of 2012 and awarded the label by Bureau Veritas (Baltic countries, Portugal, Czech Republic and Poland).

Also in the field of gender equality, L'Oréal Mexico received the World Bank's "Gender Equity Model" certification in October 2012.

- With regard to disability, L'Oréal has been developing a global policy since 2008 in favour of professional insertion of the disabled in the Company. This policy focuses on five priorities: infrastructures, maintenance in employment, recruitment, subcontracting and partnerships.

  And to accelerate the mobilisation of its subsidiaries, L'Oréal has put in place since 2008 awards known as "Initiatives for the Disabled" which reward operational entities for their concrete

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actions in favour of the disabled. These awards, which are presented every two years, make it possible to showcase and share the best practices of the various L'Oréal entities both in France and in Europe. In 2012, this initiative was made international, which enabled 14 countries from four geographic zones to participate.

- Finally, 46 countries, in which the Group is established, have implemented actions to diversify the origin of their recruitments (Brazil, Italy, France, Spain, etc.) with one objective: enable all talented individuals to assume high-level responsibilities within the Company, whatever their differences or their origins.

  L'Oréal has moreover developed a diversity assessment in France with a hundred or so indicators that together cover the 6 dimensions of Diversity policy. For the same purpose, all the subsidiaries have access to an online Diversity Reporting tool.

  In order to support these initiatives, L'Oréal has undertaken to train its employees in diversity by organising "Diversity Workshops'". This is a one-day training session which made it possible to raise awareness among over 12,000 employees in more than 20 countries by the end of 2012.

6.1.2.7. Promotion and compliance with the provisions of the fundamental conventions of the International Labour Organisation

L'Oréal became a signatory of the United Nations Global Compact in 2003 and undertakes to respect and promote the Fundamental Conventions of the International Labour Organisation even though not all these Conventions have been ratified by all the countries in which L'Oréal is present.

This means in particular respecting freedom of association and the recognition of the right to collective bargaining, contributing to the elimination of all forms of forced or compulsory labour, contributing to the effective abolition of child labour and eliminating all forms of discrimination in respect of employment and occupation.

L'Oréal ensures that these conventions are observed with regard to its employees thanks to the actions taken by the Human Resources functions and at its suppliers and subcontractors premises thanks to the actions taken by the Purchasing function (see the section on Societal Information 6.3.3. *Subcontracting with suppliers* on page 210 for further details).

Concerning respect of freedom of association and recognition of the right to collective bargaining, the measures taken are described in paragraph 6.1.2.3. *Labour Relations* on page 195. In countries where freedom of association and the right to collective bargaining are limited or prohibited, L'Oréal ensures that other modes of dialogue with employees exist enabling them to report any concerns they may have.

Concerning the elimination of all forms of discrimination in respect of employment and occupation, the measures taken are described in the paragraph 6.1.2.6. *Diversity and Equal Opportunities* on page 197.

Concerning the elimination of all forms of forced or compulsory labour, recourse to prison labour is only possible, either directly or via a supplier/subcontractor, when it is voluntary within the scope of a professional reinsertion programme, and paid at market price.

Concerning the abolition of child labour, all L'Oréal entities are required to verify the age of their new employees when they are hired.

L'Oréal has chosen to set a compulsory minimum age of 16 for its entire staff, a minimum age which is higher than that required by the International Labour Organisation.

In light of their young age, employees who are between 16 and 18 years old are subject to specific measures and in particular: no night work, no overtime, no work involving the use of hazardous substances or tools, no carrying of heavy loads, the implementation of a reinforced training programme, appointment of an internal "tutor" and inclusion on a special register. In 2012, 434 employees aged between 16 and18 worked within the Group's entities.

L'Oréal's "Open Talk" policy enables employees to raise any concerns they may have directly with the Group's Chief Ethics Officer including via a secure website.

L'Oréal follows, *inter alia*, the Global Reporting Initiative indicators HR4, HR5, HR6 and HR7 which correspond to the four fundamental conventions.

METHODOLOGICAL NOTE

Social, Health and Safety data scope, indicators, reporting method and systems

Social data

SCOPE OF CONSOLIDATION

The workforce indicated in the "Total Workforce" and "Geographic distribution of workforce" charts is the total workforce present at December 31st of the year concerned [1].

For proportionally consolidated companies, the workforce at December 31st is recorded on a prorata basis according to the stake held by L'Oréal.

All the other social indicators set out in the Social information section relate to the "Cosmetics" and "The Body Shop" branches [2].

If an indicator relates to a scope different from that of the "Cosmetics" and "The Body Shop" branches, the scope of consolidation is indicated in a note.

The scope with regard to absenteeism covers the United States and France (excluding The Body Shop), *i.e.* 36.9% of the Group's workforce. The definition of this indicator is currently being made uniform in all Group companies.

INDICATORS

The indicators chosen are those used in the management of employees and of the social aspects of the Company. They reflect the results of the Human Resources policy.

DATA

Four methods are used to collect data for the defined scope:

- Most of the data are collected using the dedicated "Country Reporting" intranet system, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics: workforce, ethics, Worldwide Profit Sharing, labour relations, remuneration, Human Resources expenses, recruitment and training, and absenteeism.

  At the beginning of each year, the local Human Resources Directors provide the required data for the previous year.

  When the data are compiled, each country must validate a charter committing to the accuracy of all the data provided.
- Other data are collected by each corporate department concerned (*i.e.* Training, Recruitment) using dedicated systems which follow the same operational and dissemination approach.
- If information is not consolidated for the entire Cosmetics branch scope, it is recognised that it can be extrapolated from the available results for the entities connected to the local Information Systems (IS), provided that the scope covered by such entities is representative [3].
- Lastly, the specific data relating to "executives" are gathered from the "CAROL" online career monitoring system, deployed in all "Cosmetics" subsidiaries.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

Health and safety data

SCOPE OF CONSOLIDATION

The safety indicators set out relate to the factories and distribution centres but also the administrative sites and research centres of the "Cosmetics", "Dermatology" and "The Body Shop" branches.

Safety reporting covers 99% of factories and distribution centres. In 2012, it covers over 95% of the workforce of the administrative sites and research centres. Moreover, out of the 61 distribution centres included in the security perimeter, two reported partial information in 2012.

The safety indicators of the factories and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental and safety reporting systems.

INDICATORS

The indicators applied are those used in the management of the Company's sites. They reflect the results of the Group's Environmental, Health and Safety (EHS) policy.

DATA

The following method is used to collect data for the defined scope:

The health and safety data are collected using the dedicated site reporting "QIS" intranet system, available in all countries in which there is a L'Oréal subsidiary. The required data are reported every month by the local managers.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

(1) Including employees with a permanent or fixed-term contract of employment.

(2) Innéov is included, Galderma (dermatology) is excluded.

(3) In France, the gender distribution of the Cosmetics workforce was extrapolated from the gender distribution of the entities connected to the France HRIS. The extrapolation method concerns 5% of the French workforce, which is not yet connected to the local HRIS.

6.2. Environmental information

L'Oréal's environmental policy is aimed at minimising environmental impact while guaranteeing the health and safety of employees, customers and the communities in which L'Oréal performs its business activities. The cosmetics industry has a limited impact on the environment but, as with any manufacturing activity, risks do exist. Before building or renovating a factory anywhere in the world, and before introducing new manufacturing equipment and processes, L'Oréal assesses all the potential Environment Health and Safety (EHS) impacts and develops mitigation strategies where required.

The health and safety measures adopted in favour of L'Oréal's employees are described in section 6.1.2.4. *Health and Safety* on page 195.

THE GROUP'S EHS POLICY AND MANUAL

In 2010, L'Oréal updated and brought together in one place all the elements that support implementation of its EHS policy across L'Oréal's worldwide sites.

EHS policy at L'Oréal is organised and managed in accordance with an EHS manual, which sets out the measures to be applied by all operational sites under L'Oréal's control. It covers safety measures and safety objectives (zero accident), resource efficiency, greenhouse gas emissions, EHS responsibilities, internal procedures, etc. For L'Oréal sites, the EHS manual is a key tool to drive further improvements in their EHS performances. Distributed to all operational sites in 2011, it will be rolled out to the Research & Innovation centres and administrative sites in 2013.

ORGANISATION OF EHS

There are clear accountabilities for EHS at every level. L'Oréal's Executive Vice-President Operations, who reports to the Group's CEO, is responsible for health, safety and environmental issues. EHS managers liaise with the EHS Department for each aspect of operations.

The remuneration of factory managers and distribution centre managers is partly linked to their performances in the field of health, safety and the environment.

WORLDWIDE AUDIT PROGRAMME

External experts regularly visit L'Oréal's production and distribution sites to assess the progress made and the risks they present. Third-party audits are also carried out at supplier sites in accordance with the same criteria as those used for Group entities.

L'Oréal has a comprehensive programme of EHS audits, which includes in particular risk audits, "Culture Audits" and subcontractor audits.

Risk audits are designed to ensure that procedures and methods used by employees do not carry inherent risks. They are carried out by independent experts across all international operations. As a general rule, it takes about five days for a team of three or four auditors to evaluate a factory and around three days to evaluate a distribution centre. In 2012, risk audits were carried out at eleven factories, fourteen distribution centres, one administrative site and one research centre.

Initially launched in 2009, the EHS "Culture Audits" programme, which aims at enabling employees to grasp the risks inherent in their work environment, focuses on leadership, an EHS culture and industrial excellence. EHS "Culture Audits" are triggered by a site's performance and conducted by internal EHS specialists through group interviews with 20-30% of the site's employees. In 2012, EHS "Culture Audits" were carried out at fourteen factories and thirteen distribution centres.

In addition to these audits, an insurance company offering environmental harm liability insurance visits several sites every year in order to improve environmental risk management. In 2012, eleven visits were made to sites in Germany, Canada, Korea, Spain, France, India and Italy.

EHS POLICY TRAINING

A targeted training programme is provided on L'Oréal's EHS policy for managers and EHS professionals across the Group. The objectives of this training programme are as follows:

- identify and share EHS vision, challenges and values across the Group;
- identify the risks inherent in a role, task, behaviour or use of equipment and implement tailored corrective solutions;
- enable managers to implement EHS policy effectively within their teams.

In 2012, training sessions in EHS policy were provided to managers and EHS specialists in Europe (109 people), Latin America (30 people), North America (30 people) and Asia (16 people), who all have operational functions in this area.

In addition, within the scope of deployment of the "Ergonomic Attitude" programme throughout the Group, 54 people received ErgoAct training. This training will be developed further in 2013.

Our global industrial policy demands all sites to:

- ensure compliance with the regulations;
- apply best practices in energy efficiency or efficient consumption of resources;
- roll out breakthrough projects in a permanent search for operational performance allied with environmental performance.

L'Oréal has made an important commitment to reducing its environmental footprint for its factories and distribution centres between 2005 and 2015: an absolute reduction of 50% (in direct and indirect) CO_2 emissions and a reduction in water consumption and waste generated per finished product by 50%. Concrete, measurable actions are being taken by the L'Oréal teams by reinforcing the Company's corporate societal responsibility principles and sharing them with others.

6.2.1. GENERAL ENVIRONMENTAL POLICY

L'Oréal has undertaken to reduce its impact on the environment and its use of natural resources through absolute reductions. When this is not possible, L'Oréal strives to improve its eco-efficiency and to adopt a more ecological approach.

Furthermore, L'Oréal applies the ISO 14001 environmental management standard. All the Group's factories are certified except the BRI Lassigny (France) and Kaluga (Russia) factories, as well as the new factories in Jababeka (Indonesia) and San Luis Potosi (Mexico) opened in 2012.

The factories and distribution centres are committed to improving their environmental indicators:

- 50% absolute reduction in greenhouse gas emissions (scope I and II);
- 50% reduction in waste generated per finished product;
- 50% reduction in water consumption per finished product.

The reductions are calculated on a like-for-like basis (2005-2015).

Summary of the environmental performances of the L'Oréal Group's factories and distribution centres:

- 17.7% increase in manufacturing capacity (2005-2012);
- greenhouse gas emissions: absolute reduction of 38.8% (tonnes of CO_2, direct and indirect, 2005-2012) on a like-for-like basis according to the GHG Protocol[1];
- 22.8% reduction in water consumption (litres per finished product, 2005-2012);
- 23.9% reduction in the production of transportable waste (grams per finished product including shuttle pallets, at the factories and distribution centres, 2005-2012);
- the waste recycling rate increased from 89.0% in 2005 to 95.0% (✓) in 2012, with 20 factories at 100% in 2012;
- absolute improvement of 17.6% in the wastewater quality index (tonnes of COD) (2005-2012).

Provisions for environmental risks:

The amount of the provisions booked for environmental risks is not material. Two sites have set aside a provision for the treatment of their soil. Most of this provision corresponds to land which does not require any treatment for the activities which are currently carried out on the site.

6.2.2. POLLUTION AND WASTE MANAGEMENT

a) Solid waste

For many years, L'Oréal has followed an ambitious waste management policy. This policy goes beyond regulatory compliance and the prevention of human risks to the environment and consists of waste prevention, recycling and reuse and energy recovery in order to avoid waste to landfill.

In 2012, in order to continue to be in line with the targets that L'Oréal set in 2009, namely to reduce the quantity of waste per finished product by 50% (2005-2015), new initiatives were implemented across the Group in order to go one step further in reducing waste at source while also reducing the overall environmental footprint:

- 95.0% (✓) of waste is reused, recycled or recovered;
- 55% (✓) of the sites send zero waste to landfill;
- waste per finished product, including the weight of packaging and shuttle pallets going back and forth between suppliers and L'Oréal, was reduced by 1.0% as compared with 2011.

(1) Greenhouse Gas Protocol : international method of carbon accounting.

2012	Total
Transportable waste with packaging and shuttle pallets *(tonnes)* ▪ *fraction represented by shuttle packaging* ▪ *of which shuttle pallets*	126,871 (✓) 32,635 (✓) 14,525 (✓)
Total recycled waste *(tonnes)*	120,530 (✓)
Recycling ratio *(%)*	**95.0** (✓)

The transportable waste is directly related to the activities at the site. For a factory, for example, it consists of raw material packaging waste or packaging items, waste oil or wastewater treatment unit sludge. Shuttle packaging on pallets used to protect goods during transportation between suppliers and L'Oréal sites is also taken into account.

Transportable waste does not include exceptional waste which is related to work on an exceptional scale carried out at sites resulting in tonnage of waste which would completely disrupt the routine handling of waste on these sites.

b) Atmospheric emissions

Atmospheric emissions are essentially CO_2 emissions, linked to fossil energy consumption on the sites.

The low emissions of SO_2 come from the fuel oil used (4% of fossil energy consumed).

The small quantities of VOCs result essentially from the alcohol used in our production processes.

Please refer to the table below for each of these emissions:

	2011	2012
Direct CO_2 (t)	71,447	66,920 (✓)
Indirect CO_2 related to energy used (t)	95,272	78,540 (✓)
SO_2 (t)	6.5	6.1(✓)
VOCs (t)	121.8	125.6 (✓)
Ozone depleting substances	Negligible *	Negligible *

* *These emissions come from the refrigeration units used in our sites.*

c) Water emissions: wastewater

On production sites

In 2012, chemical oxygen demand (COD – kg/tonne of bulk products) of wastewater before treatment rose by 3%. It corresponds to 19.1 kg (✓) of COD per tonne of bulk products.

Approximately half of L'Oréal's sites have on-site wastewater treatment plants. These use a range of methods including physical, chemical and biological processes, or other technologies adapted to the characteristics of the wastewater and local discharge conditions.

Total COD for the wastewater after on-site treatment has fallen by 3.6%. It amounts to 1.2g (✓) of COD per finished product.

With the aim of minimising overall energy use and solid waste production while maximising residual water treatment efficiency, L'Oréal supports a European research project with the University of Newcastle in the United Kingdom, which is looking into energy efficiency in wastewater treatment. In practice, this has led to the introduction of a new technology making it possible to reduce the environmental footprint of wastewater treatment, which is currently in the start-up stage at one of our factories in China.

2012	Total
Accidental spills *(m^3)*	0
Wastewater discharge *(m^3)*	1,756,270

On the sites of end customers

Beyond wastewater management on its production sites, L'Oréal pays close attention to the impact of its products, and in particular rinsed products (shampoos, conditioners, shower gels, etc.) on aquatic environments when they are used by consumers.

Since 1995, the date of creation of its ecotoxicology laboratory, L'Oréal has developed expertise with regard to the potential impacts of its cosmetics products on aquatic environments. In fact, the improvement in the biodegradability percentage and/or the ecotoxicological profile of a formula is an essential way to reduce these impacts. To constantly minimise the environmental impact of ingredients, Research teams work on improving the biodegradability of formulas. Shampoos and conditioners with highly biodegradable formulas have been launched in consumer brands such as Garnier Fructis and Ultra Doux (94 and 97%) as well as Dop (94-98%).

d) Noise pollution

L'Oréal's industrial activities are not particularly noisy. The sites comply with the noise standards to which they are subject. Every month, the internal environmental reporting system informs

L'Oréal of any instances of non-compliance on this topic. According to this reporting system, only one site exceeds the standard, but does not generate noise pollution as there are no close neighbours.

6.2.3. SUSTAINABLE USE OF RESOURCES

L'Oréal's strategy for raw materials is a fundamental component of Sustainable Development vision. The impact of the raw materials used is measured with the help of the environmental evaluation guide. L'Oréal encourages the use of raw materials having a favourable impact, evaluates those raw materials having an unfavourable profile and promotes those which are renewable and of plant origin, with respect for biodiversity.

Water is first on the list of resources to be preserved, and L'Oréal endeavours to control the use made of water throughout the entire production cycle.

a) Water

L'Oréal has had a global water conservation programme in place since 2003, which has made it possible to make significant progress in reducing total water use and increasing eco-efficiency.

In 2012, water consumption per finished product was reduced by 0.3% while overall water consumption in factories and distribution centres increased by 1.4% as compared to 2011, due to an increase in production (+1.7%). Total water consumption amounted to 2,925 (✓) thousand cubic metres in 2012.

Over the past 5 years (2008-2012), water use per finished product has been reduced by 11.3% and absolute consumption has increased by 0.3%, while production has increased by 13%. This good result has been obtained by re-thinking each use made of water and optimising the systems.

A lot of the water consumed in L'Oréal factories is used for cleaning production equipment and packaging lines to maintain very strict hygiene standards. This represents 37% (✓) of all water consumption in the industrial sites.

To meet the targets set, L'Oréal's teams aim to reduce the amount of water used for cleaning operations as far as possible without affecting quality. This is a major challenge because cleaning is a complex process that takes place in different ways, depending on the formulas involved and the equipment used.

A new cleaning method called OptiCIP has been developed. It makes it possible to take into account site specifics such as equipment and type of product, then apply the most effective cleaning processes in the factories.

To reduce net water consumption for cleaning equipment, several pilot trials were carried out in 2012, in order to recycle the waste used after specific treatment. The first recycling process has been operational in the factory in Montreal since the end of 2012. This recycling will make it possible to reduce cleaning water consumption by up to 40%.

Transparency in water reporting: water disclosure of the Carbon Disclosure Project

Since 2010, L'Oréal has been a Founding Responder to the Carbon Disclosure Project (CDP) water reporting initiative. The CDP is a leading, independent, not-for-profit organisation that promotes transparency in climate change reporting. In 2010, the CDP expanded its scope to include water reporting. L'Oréal reports every year on its water management strategies, water consumption and water discharges and describes the Group's initiatives in this area.

b) Packaging

Since 2007 L'Oréal has implemented a Packaging and Environment policy based on three pillars: Respect, Reduce and Replace.

Respect: L'Oréal imposes the requirement that its paper and cardboard packaging must come from responsibly managed forests that are certified, ideally by the FSC (Forest Stewardship Council) of which L'Oréal is a member in France. Over 95% of its cardboard packaging comes from certified forests. In order to ensure that the entire control chain is certified, L'Oréal also encourages its printers to obtain FSC certification; over 90% of its printers' sites are FSC-certified.

Reduce: weight and volume reduction in packaging is an integral part of design. Every year, actions are taken to reduce the weight of packaging and are recognized through indicators. Between 2008 and the end of 2012, 2,900 tonnes of packaging materials did not need to be produced due to actions reducing them at source. As concerns the volume of packaging, as there are no international regulations in this area, L'Oréal has developed a procedure which defines ratios to be complied with between the various levels of packaging.

Replace: aware that non-renewable resources are not sustainable, L'Oréal looks for alternatives to the materials based on these resources. One of the solutions that L'Oréal has implemented to limit their use is by using recycled materials. A certain number of our brands include recycled plastic in their bottles, which may be up to 100% plastic (Kiehl's, Garnier, L'Oréal Professionnel, Matrix…), or recycled glass in their jars (Vichy, Biotherm).

c) Raw Materials

Renewable raw materials

In 2012, 22% of the Group's new raw materials are plant-based and 10% respect green chemistry principles.

Currently, 100% of new renewable raw materials are assessed for their potential impact on biodiversity. Thus, out of the 250 plant species from which our renewable raw materials are derived, 80% of those identified as being sensitive have led to action plans with suppliers.

Particular attention has been paid to two of these raw materials, which are known for their impact on deforestation.

Although L'Oréal consumes only 1,000 tonnes of palm oil a year on a worldwide basis, it has taken an active part in the Round Table on Sustainable Palm Oil (RSPO) since 2006. Membership of this "Round table to promote responsible sourcing" enables L'Oréal to provide its support for responsible use of palm oil by industry. In accordance with its resolute commitment made in 2008, L'Oréal exclusively sources sustainable palm oil, certified CSPO since 2010. In 2009 then again in 2011, L'Oréal was furthermore ranked by WWF* among the top 10 most responsible users due to the use of sustainable palm oil.

In the same way for soya oil, the exploitation of which is often associated with deforestation and therefore the widespread erosion of biodiversity in Latin America, the L'Oréal Group exclusively sources non-GMO soya oil, which is organically produced and is fair trade certified (The Body Shop's Community Fair Trade Program).

In 2011 and also in 2012, L'Oréal was named sector leader for its sustainable sourcing system by the Forest Footprint Disclosure Project.

Fair Trade

Responsible sourcing of renewable raw materials is also recognized as a powerful social inclusion factor by the L'Oréal Group.

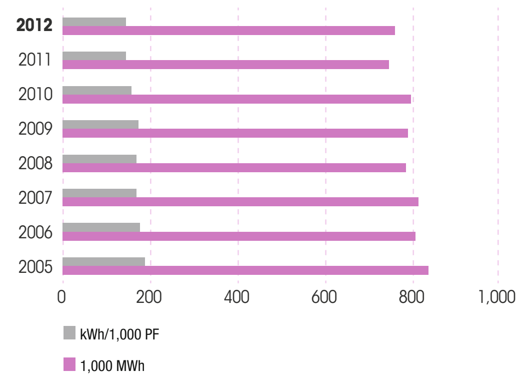
Thus, for example, in 2012, 55% of the Group's shea butter purchases were made through the "Solidarity Sourcing" programme which complies with fair trade principles in Burkina Faso. Today, 13,000 women grouped together in producer organisations benefit from L'Oréal's solidarity programme: in April-May, at the end of the dry season when stocks of food have been almost used up, they receive pre-financing for their crops in order to be able to survive through to the next season and receive a purchase price that is higher than the market price. In 2013, 100% of supplies will originate from "Solidarity Sourcing".

In the same way, in Morocco since 2011, for purchases of argan oil, 6 women's cooperatives are supported by the L'Oréal Group and working conditions, remuneration or access to healthcare and education have been improved for nearly 300 women.

d) Energy

L'Oréal's objective is to reduce its greenhouse gas emissions. The main driver to achieve this consists in improving energy efficiency across all operations: "green energy" purchases are maintained but renewable energy production projects are developed on-site in order to achieve the objectives.

Total energy consumption



e) Ground use

L'Oréal has several requirements relating to ground use:

- Reducing the impact of construction on the environment, for example by using a zone which is already industrially developed, or an existing industrial site or industrial wasteland;
- If possible, the site will have to be on a plot of land located over 30 m away from any water body (sea, ponds, lakes, rivers, etc.);
- The site will avoid land situated on natural spaces, public green spaces, land which is the habitat for endangered or disappearing species or any other undeveloped zone (for example: farmland, etc.);
- Rehabilitating polluted sites (industrial wasteland) where development is more difficult due to environmental contamination (real contamination or contamination perceived as such), thus avoiding construction on natural or undeveloped land;
- Preventing soil erosion which may result from rainwater runoff or wind erosion during construction, inter alia by protecting the arable soil layer which is stored to enable it to be reused;
- Maintaining or restoring existing natural habitats and biodiversity;
- Maximising the green space areas on the site (even in excess of the local regulations) and minimising the impermeable areas or natural spaces.

Furthermore, at the time of a project for a new site, preparation of an overall environmental impact study is required immediately during the design phase (with the objective of minimising the project's negative impact on the environment and health), and this study must then evolve to adapt the project to the conditions imposed by the site and its environment.

At the time of the acquisition of land or buildings, L'Oréal conducts a "due diligence" review. During operation of the site, the Group's policy is to take all the preventive measures described in internal documents in order to avoid soil or rainwater pollution. These measures are verified at the time of audits and site visits made by insurers. Finally, at the time of the sale of a site, a pollution assessment is conducted according to an internal procedure.

* WWF: World Wildlife Fund.

6.2.4. CONTRIBUTION TO ADAPTING TO AND COMBATING GLOBAL WARMING

To help address climate change, L'Oréal made a significant pledge in 2009: to achieve an absolute reduction of 50% (in its direct and indirect) carbon emissions between 2005 and 2015. Good progress has been made and in 2012, carbon emissions have been reduced by 38.8% as compared to 2005. The change in the scope taken into account satisfies the GHG Protocol(1) rules.

Energy and greenhouse gases in manufacturing

The cosmetics industry has a relatively low energy demand as compared with other sectors. For example, L'Oréal is exempt from the European regulations on carbon emission quotas.

However, the L'Oréal sites are committed to using energy efficiently and reducing dependency on fossil fuels.

Wherever possible, natural gas is preferred to fuel oil (which has a higher sulphur content) and renewable energies (solar energy, biomass…) are developed on site. Each initiative taken by every site across the world is valued in this respect, because each contribution is important in reducing the overall carbon footprint.

Data relating to consumption with an impact on global warming:

2012	Total
Electricity (MWh)	394,443 (✓)
Gas (MWh)	316,893 (✓)
Fuel oil (MWh)	12,871 (✓)
Others (MWh)	36,799 (✓)
Energy consumption (MWh)	**761,006** (✓)

BUS Project (Better Utilities for Sustainability)

The BUS project, a Group-wide pilot project run by operations managers, draws on expertise from across L'Oréal to identify methods, technical solutions and good practices in cleaning, cooling, air compression and other factory processes.

To date, 11 good practices have been identified, notably to improve energy efficiency; they are accompanied by technical recommendations and rolled out throughout the whole Group.

Methodology for the calculation of indirect emissions (Scope 2)

The methodology used for calculation of the 2005 reference is based on the 2003 emission factors of local electricity suppliers – when they are available. When these emission factors are not available, IEA (International Energy Agency) and eGrid(2) emission factors, available in 2006, corresponding to IEA factors for 2003 and EPA(3) (eGRID) factors for 2000, are used.

Adaptation to climate change

L'Oréal has always considered climate change as one of the priority challenges.

The Group has made a significant pledge to this by setting ambitious targets, in particular an absolute reduction of 50% in its CO_2 emissions between 2005 and 2015.

In practice, the action plans are steered on both a worldwide and local scale:

- by a whole set of actions taken to limit the atmospheric emissions of its enlarged scope of activities. For example, since 2003, L'Oréal has been a member of the CDP (2012 scores: performance B, transparency 94) and associated 133 suppliers with this project in 2012;
- by a series of actions taken to promote biodiversity. L'Oréal more particularly ensures responsible sourcing for commodities such as palm oil, soya, paper and cardboard. L'Oréal was once again recognised by the Forest Footprint Disclosure Project as a leader in its sector in 2012;
- When developing its products, L'Oréal takes care to limit the use of resources, both for products and for their packaging. Actions to achieve reductions at source undertaken by the teams made it possible to save nearly 500 tonnes in packaging materials in 2012. Finally, L'Oréal does everything it can to limit the impact of its products and its activities on natural environments, like water.

6.2.5. PROTECTION OF BIODIVERSITY

For many years, L'Oréal has implemented a programme for the protection of biodiversity aimed in priority at:

- assessing or limiting the impact of raw materials on the environment;
- establishing a responsible supply chain.

Assessment of the impact of raw materials on the environment and on ecosystems

L'Oréal's commitment to biodiversity goes back to 1995 with the creation of its first ecotoxicology laboratory. Anticipating and minimising the potential impact of the ingredients used in its products on the natural environment and, in particular, on aquatic ecosystems, is of utmost importance to L'Oréal. From the product-conception phase onwards, therefore, raw materials undergo a robust selection process before entering a formulation.

(1) Greenhouse Gas Protocol international carbon accounting tool.
(2) The Emissions & Generation Resource Integrated Database.
(3) Environmental Protection Agency.

The Group has developed several tools and procedures to determine the potential impact on biodiversity of the ingredients used:

- Development in its ecotoxicology laboratory of innovative methods for early environmental evaluation of raw materials (e.g. automation of the safety test on microalgae);
- Launch in 2004 of the assessment of its entire raw materials portfolio for persistence, bioaccumulation and toxicity criteria.

As of the end of 2008: 99% of raw materials were assessed in this way. All new raw materials now systematically have to undergo this assessment before they can be accepted into the ingredients portfolio.

Establishment of responsible supply chains

As from 2005, in a desire to preserve biodiversity, L'Oréal introduced a process for procurement of plant-based raw materials showing respect for biodiversity.

A systematic analysis of the impacts on biodiversity was implemented and is based on two tools which make it possible:

- To identify upstream the potential stakes linked to the use of a plant with 3 areas of vigilance (ecology, equity and social challenges). The information is consolidated in an internal database. In 2010, the portfolios of raw materials of natural origin for the recent acquisitions made by the Group were also analysed;
- To minimise the impacts at the level of the supply chains concerned, using the RMSA (Raw Material Sustainability Assessment) Framework for the evaluation of supplier practices, in particular in the area of "respect for biodiversity". Thus, out of the 250 plant species from which our renewable raw materials are derived, 80% of those identified as being sensitive have led to action plans with suppliers.

METHODOLOGICAL NOTE

Environmental data scope, indicators, reporting method and systems

Scope of consolidation

The environmental indicators set out relate to the factories and the distribution centres of the "Cosmetics", "Dermatology" and "The Body Shop" branches.

The Safety reporting scope is defined in the methodological note at the end of the Human Resources information.

The environmental indicators of the factories and distribution centres sold or closed during the financial year are reported in full up to the date of their exit from the scope. The factories or distribution centres that join the Group have a maximum period of 2 years to connect to the environmental reporting systems. However, for the 2012 financial year, 99% of the factories and distribution centres participated in the reporting system. Out of the 61 distribution centres, 2 provided partial information.

Indicators

The indicators chosen are those used in the management of the sites of the Company. They reflect the results of the Group's Environment, Health and Safety (EHS) policy.

Data

The following method is used to collect data for the defined scope:

The data are collected using the dedicated site reporting "QIS" intranet system, available in all countries in which there is a L'Oréal subsidiary. The system covers several topics, including: quality, process performance, EHS data.

The required data are reported every month by the local managers.

When the data are compiled, each site must validate the accuracy of all the data provided.

A process of continuous improvement of these systems is in place. The systems are reviewed each year, taking into account the Statutory Auditors' recommendations and monitoring objectives for subsequent years: updating the indicators to be monitored, improving their definitions, and improving the communication, monitoring and control process.

6.3. Societal information

6.3.1. *TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF ACTIVITIES*

The L'Oréal Group is a leading economic player in all the geographical zones where it is established. On this basis, L'Oréal contributes to local employment and thus participates in regional development.

Territorial impact of L'Oréal in France on employment and regional development

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

Over the past three years on all these sites in France, L'Oréal has hired 4,201 employees on permanent and fixed-term contracts and has thus contributed to the country's development.

L'Oréal promotes partnerships with the local authorities with regard to employment. Since 2007, the Le Floréal site in St-Ouen in France, in partnership with *"Un Emploi dans ma ville"*, has made it possible to integrate young people into employment in L'Oréal's workforce in order to carry out various tasks.

L'Oréal will have to pay an amount of €24.7 million for the territorial economic contribution (CET) in respect of the 2012 financial year.

Regional development and local populations

Due to its many industrial and administrative sites all over the world, the L'Oréal group is strongly involved, in the vicinity of its sites, in the life of the surrounding local communities. A company committed to demonstrating good corporate citizenship, L'Oréal makes a contribution to many useful local projects.

As a general rule, L'Oréal's establishments and 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.

The internal competitions – Environment, Health & Safety – Civic Initiative Prizes recognise, by awarding a prize, the commitment, mobilisation and involvement of a site (factory, distribution centre or administrative site) with regard to the community in which it operates. Awards are presented for 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.

Each L'Oréal site has implemented initiatives in order to anchor itself on a lasting basis in its socio-economic environment. A few examples of these initiatives are described below.

For example, the industrial site in Ormes in France has linked up with the Ecole de la 2e Chance which is aimed at promoting the integration into employment of young people between 18 and 25 years of age who have left the educational system without any job or training. They are offered a 9- to 12-month training period during which they are confronted with the corporate world. The factory received 10 young people for work placements of from 2 to 8 weeks between 2011 and 2012. In September 2012, it started up a contract offering professional experience with a young woman from the school which will enable her to obtain professional qualifications. The factory has also asked a protected workshop for disabled workers, la Couronnerie, to edit its internal newspaper and has organically-produced fruit and vegetables delivered to its site every Thursday by the association Solembio.

The Mourenx site in France plays an active role in several professional associations and competitiveness centres (Lacq Plus, UIC Aquitaine, Aquitaine Chimie Durable, the Association Chemstartup, …) and is a partner of local schools – with the organisation of educational actions with the Cité Scolaire de Mourenx, of ESAT (places offering assisted employment for disabled workers), and the association *"Vivre Ensemble"*, where employees were able to take part in the Day for the Disabled. In partnership with their pallet suppliers, they also conducted the *"Protège ma Forêt"* project in order to plant new trees in a part of the Landes forest which was devastated by a storm.

Outside France, the Group inaugurated a new factory in Jababeka in Indonesia on November 7th, 2012. This 66,000m² plant is the Group's largest manufacturing facility. It is intended to take over from a factory opened in 1986 in Ciracas near Jakarta, the capacity of which was becoming insufficient for this region. The new factory has an installed capacity of 300 million units, which may be increased to up to 500 million units by 2015. The construction of this new factory, 60km away from the old one, has meant that the employees of the Ciracas factory have had to move. 96% of them followed the move to Jababeka. This was made possible in particular thanks to assistance measures enabling employees to become first home owners. 75% of the employees did not own their own homes and 40% of them were still living with their parents. Thanks to zero-interest loans granted by the Group, 262 families were thus able to become home owners.

Because a company's purchasing power is an economic development and societal impact factor, L'Oréal has decided to make its purchases a novel way of promoting social inclusion. The Group thus created a global solidarity purchasing programme in mid-2010: "Solidarity Sourcing". Its aim is to help to give people from economically vulnerable communities durable access to employment and income.

Several initiatives had already been developed in the Group and in particular The Body Shop Community Trade programme. With Solidarity Sourcing, the L'Oréal group wants to spread this philosophy by opening up its procurement process to new categories of suppliers who create employment in fragile communities. The aim is to build sustainable, fair trade partnerships with these suppliers, creating economic value and value for society.

Five communities of suppliers are concerned by the programme: enterprises endeavouring to employ disabled persons, social insertion companies, very small companies that find it difficult to forge business relationships with large companies, companies owned by minorities and fair trade producers (see the results for 2012 in the Subcontracting section 6.3.3. on pages 210 *et seq.*).

Through these initiatives L'Oréal wants to demonstrate its corporate citizenship and its attachment to the territories in which it is established.

6.3.2. RELATIONS WITH STAKEHOLDERS

L'Oréal attaches crucial importance to the dialogue with its stakeholders. Admittedly, this dialogue provide the opportunity to present L'Oréal's achievements and its strategy with regard to corporate social and environmental responsibility but it is also the occasion to learn about the expectations of stakeholders in a desire for constant improvement.

The importance and handling of the challenges related to corporate social responsibility differ from one country to the next; this is why L'Oréal has set up stakeholder forums all over the world in order to promote a dialogue at a local level with regard to both local and global issues.

Since 2011, forums have been organised in this respect in Brazil, China, the USA, the United Kingdom, India and South Africa. Over this period, 527 organisations were contacted and 163 of them took part in a forum. For example, the forum organised in Johannesburg in November 2012 was attended by 29 local and international organisations, and addressed environmental issues, access to education for the most underprivileged communities, social challenges in the broadest sense, social business and even animal protection.

Following these forums, local actions are encouraged and put in place, notably by organising working meetings during which NGOs are invited to participate as experts or advisors in areas such as responsible raw material sourcing or waste management.

Each external stakeholder forum is followed by an internal forum during which global strategy but also local actions with regard to corporate social responsibility are presented to employees in order to raise awareness among them and fuel the debate.

Relations with educational establishments in France and associations

Educational establishments

L'Oréal has always built close partnerships with primary and secondary schools but also with universities, graduate engineering and business schools and research establishments.

L'Oréal offers students the possibility of discovering the Company during their courses by offering them internships every year and, for over 20 years, through apprenticeship contracts and contracts offering professional experience across all its businesses.

In 2012, 1,439 joined the Company under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

613 young people on work and training contracts (315 apprenticeship contracts and 298 contracts offering professional experience) were present in the Group in France at December 31st, 2012, 305 of whom worked at L'Oréal parent company.

Over 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 approximately 80%.

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

In 2012, L'Oréal will have to pay an amount of €3,384,282 in apprenticeship tax.

Environmental defence associations

L'Oréal has undertaken to reduce its greenhouse gas emissions, its water consumption and its waste generated per unit produced by 50% over the period 2005-2015. L'Oréal actively contributes to environmental protection through its commitments in associations or societies at national level (e.g. Eco-Emballages, the French eco-packaging organisation), European level (e.g. Forest Footprint Disclosure project in the United Kingdom) and international level (e.g. the World Business Council for Sustainable Development).

L'Oréal is also involved in a large number of working groups, which play a crucial role in the exchange of expertise and advice.

L'Oréal philanthropy in 2012

L'Oréal has always been committed to worthy causes and taken an interest in its surrounding communities. In the 1990s, the Group created with UNESCO the first programme to support women in their scientific careers called "For Women in Science", an initiative that is now implemented throughout the world. Since that time, L'Oréal has never stopped developing philanthropy projects all over the world, through its subsidiaries, its brands and its Foundation, the creation of which in 2007 showed the Group's intention to go one step further and make commitment to good corporate citizenship a real strategy in the Company.

L'Oréal's commitments are aimed at promoting science and scientific careers for women, restoring people's physical appearance (a major factor in establishing social relations) or giving everyone a future thanks to beauty, all reflecting one ambition: to give meaning to the beauty sector.

The L'Oréal Foundation

Created in 2007, the L'Oréal Foundation develops the Group's major global programmes, which are rolled out in all the countries in which L'Oréal is present.

It develops programmes in two main areas which reflect the Group's values and its businesses: science and generous beauty:

- In the field of science, L'Oréal promotes scientific education and the participation of women in scientific careers, by recognising the excellence of well-known women researchers and encouraging young girls to follow scientific vocations;
- In the field of beauty, L'Oréal supports programmes which care for appearances to restore confidence to vulnerable people and help them to recover their self-esteem and re-enter a social life. The Foundation also develops a major professional insertion programme aimed at offering training in beauty professions for underprivileged people or those cut off from employment.

Governance

Under the chairmanship of L'Oréal's Chairman, the L'Oréal Foundation's Board of Directors has 12 members, made up of seven personalities from L'Oréal and five from outside the Company, chosen for their expertise in the Foundation's areas of intervention.

The main programmes supported by the Foundation

"FOR WOMEN IN SCIENCE"

To fight against the lack of representation of women in the scientific world, L'Oréal created the "For Women in Science" programme with UNESCO in 1998. This programme aims to encourage, recognise and accompany women scientists throughout their entire career, through awards and research fellowships in 198 countries. Some 240 women are thus rewarded every year, making a total of nearly 1,500 women to date, including Elisabeth Blackburn and Ada Yonath, who have since become Nobel Prize winners in 2009. 46 L'Oréal subsidiaries have now developed fellowships for promising young women scientists in their countries.

"BEAUTY FROM THE HEART"

Illness, unemployment or precarious living conditions can lead to exclusion and cut people off from society.

Convinced that an improvement in appearance is a first step on the road back to social and professional reinsertion, the L'Oréal Foundation has created a programme consisting of product donations, socio-aesthetic workshops and reconstructive surgery, which relies on L'Oréal's expertise in the field of beauty to help vulnerable people whose appearance has suffered to regain self-confidence and find their way back into society.

The Foundation has chosen to support worthy causes such as cancer, young people who are suffering or those living in precarious conditions.

The L'Oréal Foundation and the Group's brands distributed 835,000 products to beneficiaries from underprivileged environments, thanks to associations that take action in the field, such as the Agence du don en nature (Agency for gifts in kind), the *Restaurants du cœur* ("Restaurants of the Heart") or the *Samu-social* in Paris. The socio-aesthetic care it finances helped more than 2,300 beneficiaries in 2012, particularly women with cancer, people in a precarious situation or young people with serious psychological disorders.

Finally, in dramatic cases where children or women are outcast from society due to an appearance disfigured by illness, accidents or "honour crimes", the Foundation has considered that it is of crucial importance to support reconstructive surgery in countries where these operations are not reimbursed by the health insurance schemes in order for these patients to be able to lead a normal life. In 2012, it enabled nearly 1,000 operations of this kind to be carried out in Asia and Africa, through its support for the Médecins du Monde association's *"Opération Sourire"* programme and the Enfants du NOMA and Humani Terra associations.

"BEAUTY FOR A BETTER LIFE"

Because beauty can really be a springboard to employment, the L'Oréal Foundation has developed "Beauty for a Better life", a training programme for beauty professions intended to offer a professional future to underprivileged populations: young people who are having difficulties in finding a job, men and women in precarious situations. This programme relies on L'Oréal's beauty know-how and offers the possibility to bounce back thanks to creative professions, involving others that are rapidly accessible. The programme has now been rolled out in 12 countries where L'Oréal is present.

In France, the L'Oréal Foundation has linked up with the Fondation Apprentis d'Auteuil, a specialist in welcoming, educating and integrating children and young people in difficulty, to create a certificate of professional aptitude (C.A.P) in hairdressing at the Apprentis d'Auteuil technical college in Thiais, south of Paris. L'Oréal Vietnam has helped nearly 300 young women over the last three years to escape from deprived conditions by training them in hairdressing, which has enabled them all to open their own hair salons or find a job and to receive an income that is 3 to 8 times higher than before. Another example can be found at L'Oréal Brazil, which has trained some 131 young people from deprived communities in hairdressing with a rate of insertion on the job market of 66%. Finally, in 2012, Thailand trained 107 women who were victims of the floods at the end of 2011.

"HAIRDRESSERS AGAINST AIDS"

For eleven years, L'Oréal and UNESCO have believed that they could contribute to the prophylaxis of HIV infection by devising a programme based on the network of hairdressers. This preventive and education programme centres round professional hairdressers, whose special relationships with their customers and ability to communicate make them very effective in passing on information and raising awareness of HIV issues. More than 1.5 million hairdressers have been trained since the start of the programme and close to 40 countries have now rolled out the programme, including Norway and Sweden in 2012.

Local initiatives on all continents

In addition to the major global programmes initiated by the Foundation and rolled out across the world, each and every L'Oréal entity is encouraged to take local actions in relation with the situations in their particular countries. In 2012, L'Oréal thus supported several hundreds of projects throughout the world, involving actions in the fields of solidarity and education or the environment.

China thus organises a charity sale every year in the country's biggest universities, by making products available to students, who sell them in favour of the poorest students. 333 students were helped in this way in 2012 at ten universities. The country is also engaged in a vast programme to raise public environmental awareness with its "Mother River tree" programme, which consists of rewarding a project in the field of environmental protection, planting trees by the riverside and training young people in sustainable development. Another example is Russia, which has supported an orphanage in the region of Kaluga for the last three years, by supplying the necessary equipment for the life of the children, by equipping speech therapists' and psychologists offices, and by opening hairdressing classes to provide basic teaching in this profession to the older children.

6.3.3. SUBCONTRACTING WITH SUPPLIERS

How the Company promotes the provisions of the Fundamental Conventions of the ILO to its subcontractors and ensures that its subsidiaries comply with these Fundamental Conventions

L'Oréal works with thousands of suppliers throughout the world to cover its needs in terms of packaging, raw materials, subcontractors, production equipment, promotional and advertising items, and non-production-related products and services (commonly referred to as indirect).

The global volume of purchases directly related to production (packaging, raw materials and subcontracting) represented €3.24 billion in 2012 (Cosmetics scope, excluding The Body Shop).

L'Oréal, which has signed the United Nations Global Compact, makes sure that Human Rights are respected throughout its logistics chain.

Thus, our Purchasing policy is aimed at building a balanced, long-lasting relationship with its subcontractors and suppliers with respect for social and environmental issues. L'Oréal's "Buy & Care" programme, adhered to by all the Group's purchasers, thus contributes to sharing good Responsible Purchasing practices, and the Company's values and standards with its suppliers.

Within the framework of this programme, suppliers and subcontractors are asked to comply with the Group's general terms of purchase, which require them to comply with the Fundamental Conventions of the International Labour Organisation as well as local legislation, in particular with regard to minimum wages, working time and health and safety.

L'Oréal actively seeks to work with suppliers who share its ethical values and commitments and therefore attaches importance to providing these suppliers with support during the referencing process. For industrial purchases, dedicated purchasing teams have the task of identifying new suppliers and integrating them in light of the Group's expectations and its strategy via the "welcome on board" (WOB) supplier referencing process. This makes it possible to make sure that the supplier is of real interest, provide it with all the information, documents and contacts required for it to understand the expectations and processes at L'Oréal, and finally to obtain he supplier's commitment to L'Oréal's values that are shared in this manner.

Following on from this commitment, L'Oréal's "Buy & Care" programme consists, since 2002, of a section aimed at an audit of this compliance with social legislation enabling it to ensure that its suppliers comply with the applicable laws, Human Rights and labour law, and ensure safety and health for their teams in the workplace.

Thus, subcontractors, wherever they are based in the world, and suppliers of raw materials, packaging, production equipment and POS advertising/Promotional items and materials located in countries where there is considered to be a risk are mandatorily subject to a social audit. To prepare the risk map for the countries presenting risks, L'Oréal uses the MaplecroftTM indexes.

The social audits are carried out on behalf of L'Oréal by independent external services providers.

The initial audits are financed by L'Oréal and the follow-up audits are paid for by the suppliers.

The audits cover the following 10 chapters:

- child labour;
- forced labour;
- health and safety;
- compliance with the laws relating to trade unions;
- non-discrimination;
- disciplinary practices;
- sexual harassment or a hostile working environment;
- due payment of wages/compensation and benefits;
- working time;
- relations with subcontractors.

Furthermore, questions concerning the environment will be a mandatory part of all social audits as from January 2013.

L'Oréal's social audit is based to a great extent on the internationally recognised SA 8000 standard, but does comprise a few exceptions, particularly with regard to the minimum age for child labour. In this respect, the Group has chosen to set the compulsory minimum age at 16 for all employees working for its suppliers, an age limit which is higher than that required by the Fundamental Conventions of the International Labour Organisation (ILO).

With regard to the employment of young workers, suppliers and subcontractors may request waivers from the Group Purchasing Director for the use of employees under the age of 16 upon presentation of a complete file (schooling, type of contract, working conditions, type of work). Pursuant to the "Suppliers/Subcontractors and Child Labour" policy, formally laid down in 2011, waivers of this kind are only possible for apprenticeship programmes or for children carrying out light work if this work does not affect their health and safety or their regular attendance at school, where the local law allows it and when the supplier/subcontractor has appointed an internal "tutor" for the children.

Since 2006 when L'Oréal set up a reporting tool, it has conducted social audits at over 3,700 supplier sites.

1,120 audits (✓) were carried out in 2012, making over 4,400 audits of this kind since 2006.

In 2012, 54% of these audits were carried out in Asia.

In 2012, there were major instances of non-compliance at 58% of supplier sites that were audited for the first time (initial audits). During follow-up audits, there is no longer any major non-compliance at 62% of the suppliers who were initially non-compliant.

Added to this are the social audits conducted by The Body Shop (TBS). Indeed, since its integration into the L'Oréal Group in 2006, TBS has pursued its longstanding programme of social audits. TBS is one of the founding members of the Ethical Trading Initiative (ETI) and has adopted their "Supplier Code of Conduct". The Body Shop has developed a programme enabling them to support their commitment to responsible sourcing. One of the activities under this programme is control of working conditions, defined in the "Supplier Code of Conduct", on the production sites of their suppliers (62 audits were conducted in 2012).

Suppliers and measures to combat global warming: working with the Group's suppliers on environmental issues

L'Oréal considers that the CO_2 emissions of its suppliers are part of its wider environmental footprint and that they must unite their efforts to succeed in reducing them.

A member of the Carbon Disclosure Project ("CDP") since 2003 and the CDP Supply Chain since 2007, L'Oréal continues to encourage its suppliers to measure and reduce their CO_2 emissions.

In 2012, L'Oréal stepped up its strategy with regard to the CDP: it is no longer only the environmental experts who discuss these issues with suppliers, purchasers trained in the CDP have now become ambassadors of this approach.

This method of functioning made it possible to address the CDP Supply Chain with suppliers at strategic meetings ("Business Reviews"), to launch 156 invitations (✓) in 2012 as compared with 55 in 2011 and mobilise teams to convince suppliers that measures aimed at reducing greenhouse gas emissions from now on play an inevitable part of a company's global performance.

In order to assess suppliers' environmental performance, a Scorecard has been developed jointly with the CDP, summarising suppliers' answers to the CDP to make them accessible for purchasing teams.

In this way, in 2012, 133 suppliers (✓) (out of the 156 suppliers (✓) who were invited) responded positively to L'Oréal's invitation to also join the CDP.

This number is higher than the average (2,415 participants (✓) for more than 6,000 suppliers invited) for members of the CDP. The high response rate obtained due to the joint commitment of the purchasing and environmental teams has led to the CDP recognising L'Oréal as one of the companies that is the most committed to this area.

Beyond promoting issues with regard to Responsible Purchasing, and the management of the social risks concerning working conditions at our suppliers, the Buy & Care also aims at promoting social inclusion through work.

Thus, in 2012, the Solidarity Sourcing programme (see the presentation of this programme in section 6.3.1. *Territorial Impact* on pages 207 *et seq.*), excluding purchases by The Body Shop, represented a total value in terms of purchases of €30 million, and access to employment for 15,000 people. Solidarity sourcing partnerships are set up with all the five communities of suppliers. To date, a large predominance in terms of value and number of beneficiaries of strategic fair trade projects is observed in Africa for natural raw material sourcing.

6.3.4. FAIR BUSINESS PRACTICES

Actions taken to prevent all forms of corruption

Commitment

L'Oréal is a signatory of the United Nations Global Compact, supports the fight against corruption, abides by the United Nations Anti-Corruption Convention of October 31st, 2003 and undertakes to respect all applicable laws, including anti-corruption laws.

This commitment is supported at the highest-level of the Company by L'Oréal's Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact every year.

L'Oréal is a member of the International Chamber of Commerce Anti-Corruption Commission.

Policy

L'Oréal's Code of Business Ethics publicly states a zero-tolerance policy on corruption. It applies to all employees and covers themes such as bribery and "facilitation payments", conflicts of interests, gifts and entertainment.

This document has been translated into 35 languages and each employee receives a copy.

The anti-corruption policy contained in the Code of Business Ethics applies to all employees, officers and directors, Group Executive and Management Committee members and its subsidiaries worldwide. Other policies such as "The Way We Buy", a practical and ethical guide on the relationships between suppliers and all employees involved in purchasing decisions, also addresses these issues. This document currently exists in 12 languages.

Implementation

Country Managers are in charge of implementing L'Oréal's anti-corruption policy. The Group's Chief Ethics Officer systematically meets with each new Country Manager in order to raise their awareness of corruption issues.

The risk of corruption is included in the Group-level risk assessment: a tool enables Country Managers to assess their possible local ethical risks (including on corruption) and to take the necessary corrective action.

L'Oréal's commitment is supported by Human Resources procedures. Thus, a "Obtains results with integrity" competence is now included in the annual appraisal system for all our employees.

Training courses and communication on Ethics cover bribery and "facilitation payments" and also gifts and entertainment, as well as conflicts of interests. In 2012, 69% of the entities communicated locally on these topics and 60% included these subjects in their local training programmes.

Within the framework of L'Oréal's "Open Talk" policy, employees are encouraged to express any concerns they have and a dedicated website provides a secure mechanism for asking questions or raising concerns directly with the Group's Chief Ethics Officer. Any concerns raised in good faith are examined in detail and appropriate measures are taken, where applicable.

The Group's Internal Control system provides for control procedures for operational activities and in particular with regard to separation of tasks.

L'Oréal's Internal Audit teams are particularly vigilant in this respect. Corruption risks are systematically reviewed during internal audit assignments, notably through individual interviews with regard to Ethics.

These interviews include questions specifically concerning corruption and are conducted separately with the Country Manager and the administrative and financial manager. They give rise to an individual report reviewed and signed by these latter persons.

Within the scope of the legal due diligence reviews carried out prior to acquisitions, the Group's Legal Department includes an "ethics questionnaire" prepared by the Office of the Chief Ethics Officer. The answers to this questionnaire are intended to identify, within the internal control system existing in the target company, whether corruption risk prevention has been taken into account.

L'Oréal wants to share its anti-corruption commitment with its business partners and compliance with the law is included in the Group's general terms of purchase.

L'Oréal reserves the right to put an end to any relationships with business partners who fail to comply with anti-corruption laws.

Measures adopted with regard to consumer health and safety

Protection of consumer safety is one of L'Oréal's absolute priorities. The stringent safety tests carried out on products before they are brought to market ensure that L'Oréal meets all current safety rules in the national regulations of all the countries where the Group's products are marketed. In this respect, long before the legal requirements were introduced, the Group had already set up a product safety assessment team in order to guarantee that products are safe for both professionals and consumers.

Evaluations by L'Oréal's International Safety Assessment Department, based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle.

The product safety evaluation is based on a complex process: evaluation of the safety of each ingredient and of all finished products on the basis of existing safety data and the latest medical and scientific knowledge. If necessary, L'Oréal conducts additional safety studies subcontracted to qualified laboratories all over the world. The results of these studies are interpreted by experienced scientists who are specially trained in safety assessments.

At the end of the process, a specific safety certificate, signed by a safety assessment expert, is issued for each product that L'Oréal places on the market.

Furthermore, L'Oréal's ethical values, rooted in both scientific rigour and responsiveness to societal concerns, lead to a pre-emptive approach whereby formulations are evolved by removing and/or replacing substances that are the subject of concern.

L'Oréal's added value, in terms of the safety assessment of its ingredients and finished products, lies in its investment for over twenty years in the development of predictive methods and tissue engineering. For many years, L'Oréal has thus been investing in science and technology to create new evaluation tools which are used every day by safety assessors.

L'Oréal also works closely with all the international stakeholders involved in relevant industries in order to progress the development of alternative multidisciplinary solutions in the field of safety assessment.

In fact, L'Oréal's products continually evolve as and when technological innovations occur, but with the constant desire to guarantee the highest level of safety for both consumers and professionals.

6.3.5. OTHER ACTIONS TAKEN IN FAVOUR OF HUMAN RIGHTS

L'Oréal became a signatory of the United Nations Global Compact in 2003, and undertakes to respect and promote Human Rights. This includes, in particular, the Fundamental Conventions of the International Labour Organisation (see 6.1.2.7. on page 198).

L'Oréal's Chairman and Chief Executive Officer has given the Chief Ethics Officer the mission of overseeing the respect of Human Rights.

The Chief Ethics Officer reports regularly to the Chairman and Chief Executive Officer. He informs the Board of Directors and the Executive Committee.

Country Managers are in charge of implementing the Human Rights policy in their country. The Group's Chief Ethics Officer meets systematically with each Country Manager in order to raise their awareness on Human Rights issues.

L'Oréal sets out its Human Rights policy in documents such as "The L'Oréal Spirit" or the Code of Business Ethics.

In the "As an Employer" section of "The L'Oréal Spirit", the Group describes its principal commitments to its staff, namely in terms of diversity. Its commitments on the abolition of child labour and forced labour are set out in the "As a Responsible Corporate Citizen" section of that document.

Furthermore, several chapters of the Code of Business Ethics are devoted to the practical implementation of respect for Human Rights: health, safety and security, diversity, bullying and sexual harassment, respect for privacy, contribution to the community, and supplier selection and fair treatment of suppliers.

All new employees receive a copy of the Code of Business Ethics, which is available in 35 languages (43 versions) and in Braille in French and English. This Code of Business Ethics is available on the www.loreal.com website.

Training sessions and communications on Ethics also cover Human Rights issues.

Every year, L'Oréal organises an Ethics Day in order to ensure ongoing internal communication on this topic. In 2012, each Country Manager discussed ethics with their employees. Around 22,000 employees took part in this dialogue and over 2,600 questions were asked worldwide.

At Corporate level, the Office of the Chief Ethics Officer led 21 training sessions for 529 employees, representing 1,190 hours of training.

Furthermore, in 2012, 92% of the Group's entities included subjects related to Human Rights in their local training programmes and 89% communicated on these topics.

Country Reporting Ethics, an annual reporting system on ethical issues, covers all the subjects addressed in the Code of Business Ethics. This information namely helps to assess the Group's performance in the application of Human Rights.

Within the scope of the legal due diligence reviews carried out prior to acquisitions, the Group's Legal Department includes an "ethics questionnaire" prepared by the Office of the Chief Ethics Officer. The answers to this questionnaire are intended to identify, within the internal control system existing in the target company, whether the risks of non-compliance with Human Rights (abolition of child labour and forced labour, etc.) have been taken into account.

An ethical risk assessment and analysis tool enables Country Managers to assess their possible local ethical risks (including in the field of Human Rights) and to take the necessary corrective action.

The analysis with regard to supplier and subcontractor risks is carried out by the Purchasing Department, namely through social audits (see section 6.3.3. on page 210).

L'Oréal's "Open Talk" policy enables employees to raise concerns they may have directly with the Chief Ethics Officer, including those relating to Human Rights, namely via a secure website. All concerns are examined in detail and appropriate mesures are taken, where applicable, in the event of non-compliance with the Human Rights policy.

METHODOLOGICAL NOTE

Societal commitment data scope, indicators, reporting method and systems

Scope of consolidation

The scope covers, depending on the indicators, L'Oréal parent company, France or the Group. The specific scope is specified for each indicator.

Indicators

The indicators chosen are those within the scope of the Grenelle II regulations, with the aim of data comparability.

Data

The following methods are used to collect data for the defined scope:

- a certain amount of data particularly concerning Ethics is collected by the Ethics Department using the "Country reporting" intranet system, also used to collect Human Resources data (see, in this respect, the Human Resources data reporting methodology described on page199).
- the other data are collected from the departments concerned (Communications and Sustainable Development Department, Human Resources Department, Purchasing Department, International Product Safety Assessment Department and the Director of Risk Management and Compliance).

6.4. Table of concordance in respect of social, environnemental and societal matters

Page	Grenelle II – French Decree of April 24th, 2012	GRI	Global Compact
	PRINCIPLES		
186, 198 to 199, 206, 213	Scope of reporting	3.1 to 3.11	
	Comply or explain	Principle	
	Data comparability	3.12	
	Reference to standards	3.12	
216 to 217	Attestation with regard to the exhaustiveness of information	3.12	
	Opinion with regard to the true and fair view given by the information	3.13	
	SOCIAL INFORMATION		
188	**Employment**		
	▪ Total workforce	LA1	
	▪ Distribution of employees by gender, by age and by geographic zone	LA1	
	▪ Recruitments	LA2	
	▪ Dismissals	LA2	
	▪ Remuneration and trends	LA3	
194	**Work organisation**		
	▪ Organisation of working time	LA	
	▪ Absenteeism	LA7	
195	**Labour relations**		
	▪ Organisation of the dialogue between employees and management	LA4	# 3
	▪ Situation with regard to collective agreements	LA4	
195	**Health & Safety**		
	▪ Health and safety conditions at work	LA6 & LA8	
	▪ Status report on agreements signed with trade union organisations with regard to health and safety at work	LA9	# 4-5
	▪ Frequency and severity of accidents at work	LA7	
	▪ Occupational diseases	LA7	
197	**Training**		
	▪ Training policy implemented	LA11	
	▪ Total number of hours of training	LA10	
197	**Equality of treatment**		
	▪ Measures taken to promote gender equality	LA14	
	▪ Measures taken in favour of employment and professional insertion of the disabled	LA13	
	▪ Policy to combat discrimination	LA13	
198	**Promotion & compliance with the provisions of the ILO conventions**		
	▪ Compliance with freedom of association and the right to collective bargaining	HR5; LA4 & LA5	# 3
	▪ Elimination of discrimination in respect of employment and occupation	HR4; LA13; LA14	# 6
	▪ Elimination of forced or compulsory labour	HR6; HR7	# 4 & 5
	▪ Effective abolition of child labour	HR 6	

Page	Grenelle II – French Decree of April 24th, 2012	GRI	Global Compact
	ENVIRONMENTAL INFORMATION		
200	**General environmental policy**		
	▪ Organisation of the Company to take into account environmental issues and, where applicable, environmental evaluation or certification measures		
	▪ Training actions and provision of information to employees with regard to environmental protection		
	▪ The means devoted to prevention of environmental risks and pollution	EN30	
	▪ The amount of the provisions and cover with regard to environmental risks, on condition that this information is not liable to cause serious harm to the Company in a lawsuit in process	EN28 and EC2	# 7, 8 and 9
201	**Pollution and waste management**		
	▪ Measures for prevention or reduction of, or to remedy, emissions into the air, water and soil seriously affecting the environment	EN22, EN23, EN24	
	▪ Waste prevention, recycling and elimination measures	EN27	# 7, 8 and 9
	▪ Taking into account noise pollution and any other form of pollution specific to an activity	EN25	
203	**Sustainable use of resources**		
	▪ Water consumption and water supply depending on local constraints	EN8, EN9, EN21	
	▪ Raw material consumption and measures taken to improve efficiency in their use	EN1, EN10	
	▪ Energy consumption, measures taken to improve energy efficiency and use of renewable energies	EN3, EN4, EN5, EN6, EN7	
	▪ Soil use		# 7, 8 and 9
205	**Climate change**		
	▪ Greenhouse gas emissions	EN16, EN17, EN 18, EN19, EN20	
	▪ Adaptation to the consequences of climate change	EN18, EC2	# 7, 8 and 9
206	**Protection of biodiversity**		
	▪ Measures taken to preserve or develop biodiversity	EN11 to EN15, EN25	# 7, 8 and 9
	SOCIETAL INFORMATION		
207	**Territorial, economic and social impact of the Company's activities**		
	▪ On employment and regional development	EC8, EC9	
	▪ On neighbouring or local populations	EC1, EC6	
208	**Relations maintained with people or organisations who are stakeholders of the Company's activities**		
	▪ Particularly, associations promoting professional insertion, educational establishments, environmental defence associations, consumer associations and neighbouring populations		
	▪ The conditions for the dialogue with these people or organisations		
	▪ Partnership or philanthropy actions		
210	**Subcontracting and suppliers**		
	▪ Taking into account social and environmental issues in purchasing policy	EC6, HR2, HR5 to 7	
	▪ The importance of subcontracting and taking their social and environmental responsibility into account in relations with suppliers and subcontractors	3.6, 4.14	# 1, 2
211	**Fair practices**		
	▪ The actions taken to prevent corruption	SO2 to SO4	# 10
	▪ The measures taken in favour of consumer health and safety	PR1; PR2	
212	**Other actions taken in favour of Human Rights**	HR	# 1, 2

6.5. Attestation of completeness and limited assurance report of the Statutory Auditors on selected social, environmental and other sustainable development information

(Year ended December 31st, 2012)

Pursuant to your request and in our capacity as Statutory Auditors of L'Oréal, we hereby present you with our attestation of completeness on the consolidated social, environmental and other sustainable development information present in the Management Report prepared for the year ended December 31st, 2012 pursuant to Article L. 225-102-1 of the French Commercial Code (Code du commerce) as well as our Limited Assurance Report on a selection of such information identified by the sign (✓).

Responsibility of the Company

The Board of Directors is responsible for preparing a Management Report including the consolidated social, environmental and other sustainable development information provided for in Article R. 225-105-1 of the French Commercial Code (hereinafter the "Information"), prepared in accordance with the reporting criteria used by the L'Oréal Group (the "Reporting Criteria") and available from the Human Relations and Environment Executive Management teams.

Independance and Quality Control

Our independence is defined by regulatory texts, the profession's Code of Ethics as well as by the provisions set forth in Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes the documented policies and procedures that aim to ensure compliance with rules of ethics, professional standards and the applicable legal texts and regulations.

Responsibility of the Statutory Auditor

Based on our work, our responsibility is:

- to attest that the required Information is presented in the Management Report or, in the event of omission, is explained pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code and Decree no. 2012-557 of April 24th, 2012 (Attestation of completeness);
- to express limited assurance on the fact that certain information selected by the L'Oréal Group and identified by the sign (✓) are presented, fairly, in all material aspects, in accordance with the Reporting Criteria (Limited Assurance Report).

To assist us in conducting our work, we referred to the corporate responsibility experts of our Firms.

1. ATTESTATION OF COMPLETENESS

We conducted the following procedures in accordance with professional standards applicable in France:

- we have compared the Information presented in the Management Report with the list set forth in Article R. 225-105-1 of the French Commercial Code;
- we have verified that the Information covered the consolidated scope, i.e., the Company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code, subject to the limits set forth in the methodological note presented in the section on social, environmental and other sustainable development information;
- in the event of omission of certain consolidated information, we have verified that explanations were provided in accordance with Decree n° 2012-557 of April 24th, 2012.

Based on our work, we attest to the completeness of the required Information in the management report.

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

2. LIMITED ASSURANCE REPORT ON A SELECTION OF CONSOLIDATED SOCIAL, ENVIRONMENTAL AND CORPORATE INFORMATION IDENTIFIED BY THE SIGN (✓)

Nature and scope of procedures

We conducted our procedures in accordance with ISAE 3000 (International Standard on Assurance Engagements) and professional guidelines applicable in France.

We have carried out the following work to obtain limited assurance on the fact that the Information selected by the L'Oréal Group and identified by the sign (✓) does not contain any material anomalies that would call into question its fairness, in all material aspects, in accordance with the Reporting Criteria. A higher level of assurance would have required more extensive work.

We performed the following procedures:

- we assessed the appropriateness of the Reporting Criteria with respect to its relevance, completeness, neutrality, clarity and reliability, by taking into consideration, when relevant, the sector's best practices;
- we have verified the set-up within the L'Oréal Group of a process to collect, compile, process and check the selected information with regard to its completeness and consistency. We have familiarized ourselves with the internal control and risk management procedures relating to the compilation of the information. We have conducted interviews with individuals responsible for social, environmental and other sustainable development reporting;
- concerning the selected quantitative information [(1)]:
- for the consolidating entity and controlled entities, we have set up analytical procedures and verified, using sampling techniques, the calculations as well as the consolidation of this information,
- at the sites that we have selected based on their activity, their contribution to consolidated indicators, their location and a risk analysis, we have:
  - conducted interviews to verify the proper application of procedures and obtained information to perform our verifications,
  - conducted substantive tests, using sampling techniques, to verify the calculations performed and reconcile data with supporting evidence.

Conclusion

Based on our work, we did not identify any material anomaly likely to call into question the fact that the information selected by the L'Oréal Group and identified by the sign (✓) has been presented fairly, in all material aspects, in accordance with the Reporting Criteria.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

Deloitte & Associés		PricewaterhouseCoopers Audit	
David Dupont-Noel	Eric Dugelay	Gérard Morin	Sylvain Lambert

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(1) *The Information is the following: [The contribution to Group data of the entities selected for our procedures represents 33% of the Finished Goods units produced by the Group and 22% of total employees.]: Finished goods units produced, Quantity of bulk produced, Volume of total emissions (direct and indirect) of CO_2, Total energy consumption, Volatile Organic Compounds emissions, Sulphur dioxide emissions, Total waste consumption, Chemical Oxygen Demand (COD) in the water before and after processing of transportable waste, Waste treatment, Number of hours worked, Conventional frequency rate, Extended frequency rate, Severity index, MESUR (Managing Effective Safety Using Recognition & Realignment) culture index, Safety culture index (SIO), Total employees, Number of employees on open-ended and fixed-term employment contracts, Breakdown of employees by gender and by geographical area, Age pyramid by gender, Average age by geographical area, Breakdown of personnel costs, 2011 World Profit-Sharing 2011 (paid in 2012), Minimum salary, Number of hirings and dismissals, Absentee rate, Absentee rate for sickness, Employee/social relations, Number of part-time workers by gender, Number of agreements signed in France, Number of agreements signed in the rest of the world, Number of agreements in force as of 12/31, Number of training hours, Number of social audits in 2012, Number of suppliers having participated in the Carbon Disclosure Project.*

7

STOCK MARKET INFORMATION AND SHARE CAPITAL

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

L'Oréal is a French *société anonyme* (limited company) listed on the Paris stock market. This chapter sets out the information relating to its share capital and the main details of its legal form and its Articles of Association. All the information on the L'Oréal share and L'Oréal share market are also included in this chapter.

7.1. Information relating to the Company

7.1.1. LEGAL FORM

L'Oréal is incorporated in France as a "*société anonyme*".

7.1.2. LAW GOVERNING THE ISSUER

French law.

7.1.3. BUSINESS ACTIVITY

L'Oréal parent 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 marketing of the products made in the Group's factories. L'Oréal wholly owns the vast majority of its subsidiaries. In the other subsidiaries, non-controlling interests are not material. It also has substantial investments in non-consolidated companies, details of which are set out on pages 148 to 152 and pages 175 to 178.

7.1.4. 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."

7.1.5. 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/or 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, under 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."

7.1.6. COMPANY REGISTRATION NUMBER

632 012 100 Paris Trade and Companies Registry.

7.1.7. CONSULTATION OF DOCUMENTS RELATING TO THE COMPANY

The Articles of Association, financial statements, reports and information for shareholders can be consulted at the administrative headquarters at 41 rue Martre, 92117 Clichy, France, preferably by appointment. See also the www.loreal-finance.com website.

7.1.8. GENERAL MANAGEMENT (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)

"1. In accordance with legal provisions, the General Management of the Company is assumed, under its responsibility, either by the Chairman of the Board of Directors, or by another natural person appointed by the Board of Directors and bearing the title of Chief Executive Officer.

The choice between these two modes of exercising General Management is made by the Board of Directors each time a Chairman of the Board of Directors or a Chief Executive Officer is appointed or has his tenure renewed. The Board of Directors must inform shareholders and third parties of this choice in accordance with the statutory provisions.

The choice of the Board of Directors concerning the mode of exercise of the General Management is made on the basis of a majority vote of the Directors present or represented.

Changing the mode of exercise of the General Management does not involve a modification of the Articles of Association.

2. Depending on the choice made by the Board of Directors in accordance with the provisions of § 1 above, the General Management is carried out either by the Chairman, or by a natural person, appointed by the Board of Directors and bearing the title of Chief Executive Officer.

3. The Chief Executive Officer is granted the most extensive powers to act in all circumstances on behalf of the Company. He exercises these powers within the limitations of the object of the Company, and subject to the powers expressly granted by law to Shareholders' Meetings.

   The Chief Executive Officer represents the Company in its relations with third parties. The Company is bound even by actions of the Chief Executive Officer which are outside the object of the Company, unless the Company can prove that the third party was aware that the action was outside the object of the Company, or that the third party could not be unaware of this in view of the circumstances, it being stated however that the mere publication of the Articles of Association does not constitute such proof.

4. On the proposal of the Chief Executive Officer, whether this office is assumed by the Chairman of the Board of Directors or by another person, the Board of Directors may appoint one or more natural persons in charge of assisting the Chief Executive Officer, with the title of Deputy Chief Executive Officer.

   In agreement with the Chief Executive Officer, the Board of Directors determines the extent and duration of the powers granted to the Deputy Chief Executive Officers."

7.1.9. 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."

7.1.10. STATUTORY DISTRIBUTION OF PROFITS (ARTICLE 15 OF THE ARTICLES OF ASSOCIATION)

"A. From the distributable profits, the following amounts shall be withheld, in the following order:

1. The amount required to pay the "primary dividend" to the shareholders equal to five percent (5%) of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.

2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next fiscal year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds. Such reserve fund(s), which shall not bear any interest, may be distributed to the shareholders, or allocated to complete the 5% primary dividend for the shareholders, in the event of insufficient results during one or more fiscal years, or to acquire and to cancel shares in the Company, or to redeem in whole or in part such shares.

3. The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

   However, any shareholder who can prove at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of payment of the dividend paid for such financial year, will be entitled to a preferential dividend on the shares that are thus registered, equal to 10% of the dividend (initial dividend and additional dividend) paid on the other shares, including in the event of payment of the dividend in new shares, the preferential dividend thus paid being rounded down to the nearest lower cent, if necessary.

   Similarly, any shareholder who can prove, at the end of a financial year, that shares have been registered in his name for at least two years and that they continue to be registered in his name at the date of completion of an increase in capital carried out through capitalisation of reserves, profits or share premiums by the distribution of bonus shares, shall be entitled to an increase in the number of bonus shares to be distributed to him, equal to 10%, this number being rounded down to the nearest lower unit in the event of fractional share rights.

   The new shares created in this manner will be identical, for the purposes of calculating the rights to the preferential dividend and to the increased share allocations, to the old shares from which they result.

   The number of shares eligible for these preferential dividends may not exceed 0.5% of the share capital at the closing date of the past financial year, for the same shareholder.

B. The losses (if any) shall be charged to the retained earnings from preceding fiscal years or to the reserve funds, and the balance shall be booked into a special 'carry forward' account."

7.1.11. 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.

7.1.12. STATUTORY SHARE OWNERSHIP THRESHOLD

"Any holder, whether direct or indirect, of a fraction of the Company's share capital equal to 1%, or a multiple of this percentage lower than 5%, is required to inform the Company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association). This provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, of thresholds relating to one-twentieth, one-tenth, three-twentieths, one-fifth, one-quarter, three-tenths, one-third, one-half, two-thirds, eighteen-twentieths or nineteen-twentieths of share capital or of voting rights" (Article L. 233-7 of the French Commercial Code).

"If not disclosed in accordance with the conditions stipulated by law or by the Articles of association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' Meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital so request during the meeting" (Article 7, paragraph 3 of the Articles of Association).

See also the complete text of the Company's Articles of Association on the www.loreal-finance.com internet site.

7.2. Information concerning the share capital

7.2.1. STATUTORY REQUIREMENTS GOVERNING CHANGES IN THE SHARE CAPITAL AND SHAREHOLDERS' RIGHTS

None.

7.2.2. ISSUED SHARE CAPITAL AND AUTHORISED UNISSUED SHARE CAPITAL

The share capital amounted to €121,762,165.40 as of December 31st, 2012. It was divided into 608,810,827 shares with a par value of €0.20 each, all of the same class and ranking *pari passu*.

At the end of the Board meeting on February 11th, 2013, after the exercise of the stock options and the cancellations of shares, the share capital amounts to €120,862,724.20. It is divided into 604,313,621 shares with a par value of €0.20, all of the same class and carrying the same rights.

The table set out below summarises (particularly in application of Articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code) the currently valid authorisations granted to the Board of Directors by the Annual General Meeting of shareholders concerning the capital, shows the use made of such authorisations over the financial year and presents the authorisations which are to be put to the vote at the Annual General Meeting on April 26th, 2013.

Authorisations in force					Authorisations proposed to the Annual General Meeting of April 26th, 2013		
Nature of the authorisation	Date of AGM (resolution no.)	Length (expiry date)	Maximum authorised amount	Use made of the authorisation in 2012	Resolution No.	Length	Maximum ceiling
Share capital increases							
Capital increase through the issue of shares with maintenance of preferential subscription rights or via the capitalisation of share premiums, reserves, profits or other amounts	April 22nd, 2011 (9th)	26 months (June 22nd, 2013)	An increase in the share capital to €180,000,000	None	9th	26 months (June 26th, 2015)	An increase in the share capital to €169,207,813.88
Capital increase reserved for employees	April 22nd, 2011 (12th)	26 months (June 22nd, 2013)	1% of share capital at the date of the Annual General Meeting (i.e. a maximum of 6,017,878 shares)	None	11th	26 months (June 26th, 2015)	1% of the share capital at the date of the General Meeting (i.e. a maximum of 6,043,136 shares at February 11th, 2013)
Buyback by the Company of its own shares							
Buyback by the Company of its own shares	April 17th, 2012 (9th)	18 months (October 17th, 2013)	10% of share capital on the date of the buybacks (i.e. 60,881,083 shares at December 31st, 2012)	5,077,250 shares (Capital held by the Company at December 31st, 2012: 1.72% of the share capital)	8th	18 months (October 26th, 2014)	10% of share capital on the date of the buybacks (i.e. 60,431,362 shares at February 11th, 2013)
Reduction in the share capital via cancellation of shares							
Cancellation of shares purchased by the Company within the scope of Article L. 225-209 of the French Commercial Code	April 17th, 2012 (10th)	26 months (June 17tth, 2014)	10% of share capital on the date of cancellation per 24-month period (i.e. 60,881,083 shares at December 31st, 2012)	None			
Cancellation of shares purchased by the Company within the scope of Article L. 225-208 of the French Commercial Code	April 17th, 2012 (10th)	26 months (June 17th, 2014)	500,000 shares	None			
Stock options and free grants of shares							
Allocation of share purchase or subscription options (no discount with regard to exercise price)	April 22nd, 2011 (10th)	26 months (June 22nd, 2013)	0.6% of share capital on the date of the decision to allocate the options	None			
Free grant of existing shares or shares to be issued to employees	April 22nd, 2011 (11th)	26 months (June 22nd, 2013)	0.6% of share capital on the date of the decision to make the grant	1,325,050 shares	10th	26 months (June 26th, 2015)	0.6% of the share capital at the date of the grant decision

At December 31st, 2012, 20,699,283 share subscription options were allocated. All these options are exercisable on the basis of one new share per option, and are therefore liable to lead to the creation of the same number of shares. Furthermore, 657,800 conditional shares had been granted to Group employees. These shares will be created when necessary and, where applicable, by capitalisation of reserves. Accordingly, the potential share capital of the Company amounts to €126,033,582 divided into 630,167,910 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.

At February 11th, 2013, 20,119,239 stock options were attributed, in light of those exercised since January 1st, 2013.

At its meeting on February 11th, 2013, the Board of Directors cancelled the 5,077,250 shares bought back in 2012 within the framework of Article L. 225-209 of the French Commercial Code (10th resolution voted by the Annual General Meeting on April 17th, 2012).

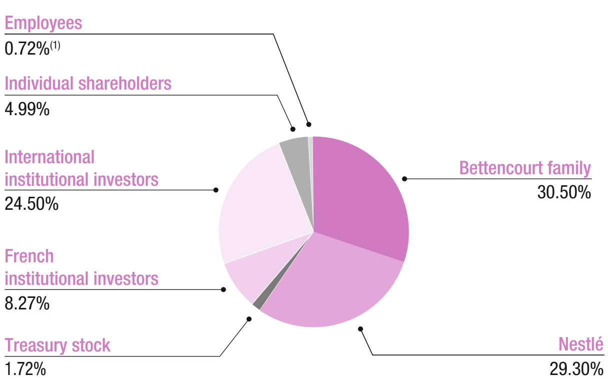
7.2.3. CHANGES IN THE SHARE CAPITAL OVER THE LAST FIVE YEARS

Date	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of the share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
12.31.2007				€123,595,122.00		617,975,610
02.13.2008	Cancellation of shares	-€1,437,400.00	-	€122,157,722.00	-7,187,000	610,788,610
02.14 to 08.27.2008	Exercise of share subscription options	€6,920.00	€2,087,532.00	€122,164,642.00	34,600	610,823,210
08.28.2008	Cancellation of shares	-€1,682,080.00	-	€120,482,562.00	-8,410,400	602,412,810
08.29 to 12.31.2008	Exercise of share subscription options	€600.00	€185,572.50	€120,483,162.00	3,000	602,415,810
02.16.2009	Cancellation of shares	-€794,120.00		€119,689,042.00	-3,970,600	598,445,210
02.17 to 12.31.2009	Exercise of share subscription options	€105,440.00	€31,026,370.50	€119,794,482.00	527,200	598,972,410
01.01 to 04.26.2010	Exercise of share subscription options	€149,080.00	€44,316,558.00	€119,943,562.00	745,400	599,717,810
04.27.2010	Cancellation of shares	-€100,000.00	-	€119,843,562.00	-500,000	599,217,810
04.27 to 12.31.2010	Exercise of share subscription options	€354,955.00	€107,450,074.75	€120,198,517.00	1,774,775	600,992,585
01.01 to 05.30.2011	Exercise of share subscription options	€233,719.40	€71,517,702.03	€120,432,236.40	1,168,597	602,161,182
05.30.2011	Conditional grant of shares	€80.00	-	€120,432,316.40	400	602,161,582
05.31 to 12.31.2011	Exercise of share subscription options	€164,500.00	€51,578,602.50	€120,596,816.40	822,500	602,984,082
01.01 to 12.31.2012	Exercise of share subscription options	€1,165,349	€407,590,294.85	€121,762,165.40	5,826,745	608,810,827

For information purposes, the share capital at February 11th, 2013 amounts to €120,862,724.20 divided into 604,313,621 shares with a par value of €0.20.

7.3. Shareholder structure

Shareholder structure at December 31st, 2012



7.3.1. LEGAL ENTITIES OR INDIVIDUALS EXERCISING CONTROL OVER THE COMPANY TO THE COMPANY'S KNOWLEDGE

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

(1) In the L'Oréal Company Savings Plan (PEE).

7.3.2. 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:

	12.31.2012			12.31.2011			12.31.2010		
	Number of shares	% of capital	% of voting rights (3)	Number of shares	% of capital	% of voting rights (3)	Number of shares	% of capital	% of voting rights (3)
Bettencourt family (1) (2)	185,661,879	30.50	30.50	185,661,879	30.79	30.79	185,661,879	30.89	30.89
Nestlé S.A. (2)	178,381,021	29.30	29.30	178,381,021	29.58	29.58	178,381,021	29.68	29.68
Company Savings Plan	4,379,821	0.72	0.72	4,404,950	0.73	0.73	4,260,700	0.71	0.71
Public	229,933,941	37.76	37.76	225,938,573	37.47	37.47	221,352,303	36.83	36.83
Treasury stock	10,454,165	1.72		8,597,659	1.43		11,336,682	1.89	
TOTAL	**608,810,827**	**100**	**98.28**	**602,984,082**	**100**	**98.57**	**600,992,585**	**100**	**98.11**

(1) Including 185,654,833 L'Oréal shares held in absolute or beneficial ownership by Téthys, a French "Société par actions simplifiée" (simplified joint-stock company) of which Mrs. Liliane Bettencourt holds almost all the shares and attached voting rights in beneficial ownership. Mrs. Françoise Bettencourt Meyers holds 76,441,389 L'Oréal shares in bare ownership, the beneficial ownership of which is held by Téthys of which she is the Chairwoman.
(2) The Bettencourt family and Nestlé S.A. act in concert (see 7.3.5. shareholders' agreements relating to shares in the Company's share capital on page 226).
(3) Calculated in accordance with Article 223-11 of the General Regulation of the Autorité des Marchés Financiers.

To the Company's knowledge, at December 31st, 2012, the members of the Executive Committee held less than 1% of the share capital.

The number of shares held by each of the members of the Board of Directors is set out in paragraph 2.2.1.2. on pages 33 to 45.

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, 2012, the Company held, on this basis, 10,454,165 of its own shares (1.72% of the share capital), which, if they were to be valued at their purchase price, would represent €903.6 million in L'Oréal's parent company accounts. 1,511,160 of these shares were allocated to covering the stock option plans for the purchase of shares allocated to employees and corporate officers of Group companies that have not yet expired and 2,318,600 to a plan for the conditional grant of shares to employees.

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7.3.3. EMPLOYEE SHARE OWNERSHIP

The employees of the Company and its affiliates held 4,379,821 shares as at December 31st, 2012, that is 0.72% of the share capital, through the Company Savings Plan (PEE).

At that date, this stake in the capital is held by 9,741 employees participating in the Group Company Savings Plan.

7.3.4. DISCLOSURES TO THE COMPANY OF LEGAL THRESHOLDS CROSSED

During 2012, the Company was not informed of any crossing of the legal thresholds with regard to the holding of its shares or voting rights.

7.3.5. 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:

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

Clause limiting the shareholding

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

Lock-up clause

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

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

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

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

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

d) The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital or voting rights.

Pre-emption clause

The parties have reciprocally granted each other a pre-emption right concerning the L'Oréal shares they hold since the date of the merger, and those they will hold after such date.

This pre-emption right will come into force on expiry of the lock-up clause for a period of five years; as an exception, it will come into force before the expiry of the lock-up period in the event of a takeover bid for L'Oréal shares for a period beginning on the day of the clearance decision and ending the day after the publication of the notice of results.

"No concert party" provision

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right with regard to the shareholding of the party having committed such breach, for a price per share equal to the average of the share prices for the last thirty trading sessions prior to notification of exercise of the pre-emption right.

7.3.5.2. Board of Directors

The memorandum of agreement did not provide for any change to the composition of the Board of Directors as compared to its composition at the date of signing, but did stipulate an undertaking by the parties to vote in favour of the appointment as Directors of three members proposed by the other party.

The Bettencourt family and Nestlé also agreed to vote in favour of the appointment of two Vice-Chairmen of the Board of Directors, one proposed by the Bettencourt family, and the other by Nestlé.

The parties provided for the creation on the Board of Directors of L'Oréal of a committee called the *Strategy and Implementation* Committee which has six members, and is chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt family, two members proposed by Nestlé and one other independent Director. The committee meets six times a year.

7.3.5.3. Term

Unless otherwise stipulated, the memorandum of agreement will remain in force for five years from April 29th, 2004, and in all cases until a period of six months has elapsed after the death of Mrs. Bettencourt.

7.3.5.4. Concerted action between the parties

The parties declared that they would act in concert for a period of five years from April 29th, 2004 onwards.

On April 9th, 2009, the Bettencourt family and Nestlé published the following press release:

"On February 3rd, 2004, the Bettencourt family and Nestlé signed an agreement organising their relationship and the management of their stakes within the L'Oréal Company.

The agreement is public and remains unchanged. It foresees the non-transferability of their respective stakes in the capital of L'Oréal until April 29th, 2009, the other clauses (in particular, limitation on the shareholding, pre-emption, escrow, prohibition on constituting a concert party with any third party, composition of the Board of Directors and of the Strategy and Implementation Committee) continue to be effective until the expiry date mentioned in the 2004 deed.

The Bettencourt family and Nestlé will continue on acting in concert with regard to the L'Oréal Company beyond April 29th, 2009."

7.3.6. *BUYBACK BY THE COMPANY OF ITS OWN SHARES*

7.3.6.1. Information concerning share buybacks during the 2012 financial year

In 2012, the Company bought back 5,077,250 of its own shares, in accordance with the authorisation voted by the Annual General Meeting of April 17th, 2012.

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 22nd, 2011 (8th resolution)	April 17th, 2012 (9th resolution)
Expiry date of the authorisation	October 22nd, 2012	October 17th, 2013
Maximum amount of authorised buybacks	10% of capital on the date of the share buybacks (*i.e.* 60,298,408 shares at December 31st, 2011), for a maximum amount of €7,838.8 million	10% of capital on the date of the share buybacks (*i.e.* 60,881,083 shares at December 31st, 2012), for a maximum amount of €7,914.5 million
Maximum purchase price per share	€130	€130
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth
Board of Directors' meeting that decided on the buybacks (maximum amount)	None	08.28.2012
Purpose of buybacks	Not applicable	Cancellation
Period of buybacks made	Not applicable	August 30th to November 29th, 2012
Number of shares purchased	None	5,077,250
Average purchase price per share	None	€98.15
Use of shares purchased	Not applicable	None *

* *Shares cancelled by the Board of Directors of February 11th, 2013.*

7.3.6.2. Transactions carried out by L'Oréal with respect to its shares in 2012

Percentage of share capital held by the Company directly and indirectly at December 31st, 2012	1.72%
Including:	
■ those intended to cover existing share purchase option plans	0.25%
■ those intended to cover conditional shares	0.38%
■ those intended for cancellation	0.83%**
Number of shares cancelled during the last 24 months	0
Number of shares held in the portfolio at 12.31.2012	10,454,165
Net book value of the portfolio at 12.31.2012	€903.6 million
Market portfolio value at 12.31.2012	€1,096.6 million

	Total gross transactions	
	Purchases	Sales/ Transfers*
Number of shares	5,077,250	3,220,744
Average transaction price	€98.15 ***	
Average exercise price		€75.23
Amounts	€498.2 million ***	€242.3 million

* *Exercise of stock options for the purchase of shares granted to employees and corporate officers of Group companies.*
** *The percentage of capital held by the Company consisting of Treasury stock intended to be cancelled was reduced to zero after the cancellation decided by the Board of Directors on February 11th, 2013.*
*** *Before costs.*

No use was made of derivatives to make the share buybacks. There is no open purchase or sale position at December 31st, 2012.

7.3.6.3. 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 would be able to provide the Board of Directors with the means to enable it to continue its share buyback policy.

This authorisation would be given for a maximum period of 18 months as from the date of the Annual General Meeting and the purchase price per share could not exceed €170.

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

- their cancellation;
- their transfer within the scope of employee share ownership programmes and their allocation to free grants of shares for the benefit of employees and corporate officers of the Group;
- 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, i.e. for information purposes 60,431,362 shares, for a maximum amount of €10.27 billion at February 11th, 2013, it being specified that the Company may never at any time hold over 10% of its own share capital.

These shares could be acquired by any means, on one or more occasions, on the stock market or over the counter, including through purchases of blocks of shares.

7.4. Long-Term Incentive Plans

7.4.1. PRESENTATION OF THE STOCK OPTION PLANS FOR THE PURCHASE OR SUBSCRIPTION OF SHARES AND PLANS FOR THE CONDITIONAL GRANT OF SHARES TO EMPLOYEES (ACAs)

Policy

For several years, L'Oréal has set up long-term incentive plans in favour of its employees and corporate officers in an international context.

It pursues a dual objective:

- motivating and associating those who make big contributions with the future evolution of the Group's results;
- increasing solidarity and helping to instil a group spirit among its managers by seeking to foster their loyalty over time.

Until 2009, L'Oréal's Board of Directors exclusively granted stock options to the senior managers and executive officers whom L'Oréal wished to reward for their performance and their important role in business development and in the Group's current and future projects, wherever they may be located.

In 2009, L'Oréal's Board of Directors enlarged its policy by introducing a mechanism for the conditional grant of shares to employees (ACAs).

The objective was:

- to provide a long-term incentive offering greater motivation to all those who only received stock options occasionally or in limited numbers;
- to reach out to a broader population of potential beneficiaries, particularly internationally, in a context of increased competition with regard to talents.

In 2010, this policy remained unchanged, and was applied to an even larger number of beneficiaries.

In 2011, L'Oréal's Board of Directors decided to make plans for the conditional grant of shares to employees the primary tool for its long-term incentive policy by extending the grants of such shares to the Group's main senior managers who were previously motivated only through stock options: thus, except for the Chairman and Chief Executive Officer who received stock options only, the main senior managers of L'Oréal, including the members of the Executive Committee, received a mix of stock options and conditional grants of shares in order to encourage their entrepreneurial spirit and reward their medium- and long-term performance. Other eligible employees are stimulated by conditional grants of shares only.

In 2012, the Board of Directors, on the proposal of the Human Resources and Remuneration Committee, went one step further in this policy and decided to replace the grant of stock options by conditional grants of shares (ACAs) for all beneficiaries including the Chairman and Chief Executive Officer.

The plans are proposed by General Management to the Board of Directors which decides, after receiving the opinion of the Human Resources and Remuneration Committee, with regard to the opening of these plans and the applicable conditions and rules.

Since 2009, these grants are made after publication of the financial statements for the previous financial year, in accordance with the AFEP-MEDEF recommendation.

The decision with regard to each individual grant is, in every case, contingent on the quality of the performance rendered at the time of implementation of the plan with particular attention being paid to the main talents for the future. According to the eligibility criteria linked to the position held by the beneficiary and the size of the entity or the country in which the beneficiary works, in a concern for equity on an international scale, these grants are made every year, every two years or every three years.

The General Management and the Board of Directors stress the importance that is given to bringing together the interests of the beneficiaries of stock options and conditional grants of shares and those of the shareholders themselves.

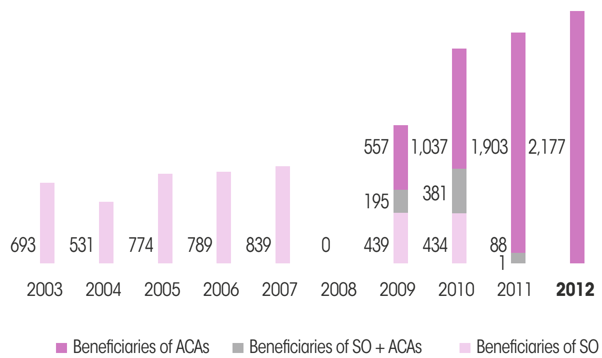
The employees and corporate officers who are the beneficiaries share with the shareholders the same confidence in the strong steady growth of the Company with a medium and long-term vision. This is why stock options were granted for a period of 10 years including a 5-year lock-up period, and conditional grants of shares for a period of 4 years followed by a 2 year waiting period for France during which these shares cannot be sold.

In all, over 3,000 employees (*i.e.* 13% of the senior managers throughout the world) benefit from at least one currently existing stock option plan or plan for the conditional grant of shares.

The Board of Directors draws the attention of the beneficiaries of stock options and conditional grants of shares to the regulations in force concerning persons holding "inside" information.

The beneficiaries of stock options and conditional grants of shares undertake to read the Stock Market Code of Ethics which is attached to the regulations for the stock option plans or the plans for the conditional grant of shares from which they benefit and to comply with the provisions thereof.

Change in the number of beneficiaries of Stock options and ACAs since 2003



7.4.2. *STOCK OPTION PLANS FOR THE SUBSCRIPTION AND PURCHASE OF L'ORÉAL PARENT COMPANY SHARES*

No stock options for the purchase or subscription of shares were granted in 2012, as the Board of Directors decided, on the proposal of the Human Resources and Remuneration Committee, to replace the grant of stock options with ACAs for all beneficiaries including the Chairman and Chief Executive Office.

In accordance with this policy, the Board of Directors has not proposed to the Annual General Meeting of April 26th, 2013 to renew the authorisation of April 22nd, 2011 to grant stock options for the subscription or purchase of shares.

7.4.2.1. Currently existing L'Oréal parent company share purchase or subscription options [1]

The main features of the plans that existed at December 31st, 2012 are included in the tables set out hereafter:

AGM authorisation date	05.22.2003	05.22.2003	05.22.2003	05.22.2003	05.22.2003	04.25.2006
Date of Board of Directors' meeting	**12.03.2003** [2]	**03.24.2004**	**12.01.2004**	**06.29.2005**	**11.30.2005** [4]	**04.25.2006**
Total number of beneficiaries	693	257	274	3	771	1
Total number of shares that may be subscribed or purchased,	5,000,000	2,000,000	4,000,000	400,000	6,000,000	2,000,000
Of which may be subscribed or purchased by the corporate officers [3]*:* *- Mr. Jean-Paul Agon* *- Sir Lindsay Owen-Jones*	*1,000,000*		*1,000,000*		*1,000,000*	*2,000,000*
Start date for exercise of the options	12.04.2008	03.25.2009	12.02.2009	06.30.2010	12.01.2010	04.26.2011
Date of expiry	12.03.2013	03.24.2014	12.01.2014	06.29.2015	11.30.2015	04.25.2016
Subscription or purchase price *(in euros)*	63.02 (S)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S)	72.60 (S)
	71.90 (A)				62.94 (A)	
Number of stock options exercised at 12.31.2012	2,685,825	1,690,107	2,457,500	200,000	3,372,575	0
Of which shares subscribed	*1,396,950*	*1,690,107*	*2,457,500*	*200,000*	*2,350,160*	*0*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	705,500	164,000	207,250	0	396,000	0
Number of option shares remaining to be subscribed or purchased at year-end	**1,608,675**	**145,893**	**1,335,250**	**200,000**	**2,231,425**	**2,000,000**

AGM authorisation date	04.25.2006	04.24.2007	04.24.2007	04.16.2009	04.22.2011
Date of Board of Directors' meeting	**12.01.2006**	**11.30.2007**	**03.25.2009**	**04.27.2010**	**04.22.2011**
Total number of beneficiaries	788	839	634	815	89
Total number of shares that may be subscribed or purchased,	5,500,000	4,000,000	3,650,000	4,200,000	1,470,000
Of which may be subscribed or purchased by the corporate officers [3]*:* *- Mr. Jean-Paul Agon* *- Sir Lindsay Owen-Jones*	*500,000*	*350,000*	*0*	*400,000*	*200,000* [5]
Start date for exercise of the options	12.02.2011	12.01.2012	03.26.2014	04.28.2015	04.23.2016
Date of expiry	12.01.2016	11.30.2017	03.25.2019	04.27.2020	04.22.2021
Subscription or purchase price *(in euros)*	78.06 (S)	91.66 (S)	50.11 (S)	80.03 (S)	83.19 (S)
Number of stock options exercised at 12.31.2012	2,527,250	439,400	0	0	0
Of which shares subscribed	*2,527,250*	*439,400*	*0*	*0*	*0*
Total number of options for subscription or purchase of shares that have been cancelled or lapsed	516,250	302,400	174,500	146,000	25,000
Number of option shares remaining to be subscribed or purchased at year-end	**2,456,500**	**3,258,200**	**3,475,500**	**4,054,000**	**1,445,000**

(1) There are no share purchase or subscription option plans at subsidiaries of L'Oréal.

(2) The stock option plan of December 3rd, 2003 is divided into two halves: a share subscription option offer at a price of €63.02 (S) and a share purchase option offer at a price of €71.90 (A). Each beneficiary received an offer comprising share subscription and purchase options, in equal parts.

(3) This is the number of stock options granted to the corporate officers during their terms of office within the scope of each of the above-mentioned plans. Mr. Jean-Paul Agon has been a corporate officer since April 2006.

(4) The stock option plan of November 30th, 2005 is composed, for 70%, of a share subscription option offer at a price of €61.37 (S) and for 30%, of a share purchase option offer at a price of €62.94 (A). Each beneficiary received an offer comprising share subscription and purchase options, in the above proportions. There were no fractional share rights.
These grants of stock options do not have any impact in terms of dilution, inasmuch as the Board of Directors authorised the Company to buy back its own shares to cancel them.

(5) The Board of Directors' meeting of April 22nd, 2011 allocated 400,000 share subscription options to Mr. Jean-Paul Agon. Mr. Agon waived the right to 200,000 of such options. He therefore benefits from 200,000 stock options under the Plan decided by the Board of Directors at its meeting on April 22nd, 2011.

There were 22,210,443 outstanding options granted by the Board of Directors within the scope of the authorisations voted by the Annual General Meetings and not yet exercised at December 31st, 2012, at an average price of €71.90, namely 3.65% of the 608,810,827 shares making up the share capital at such date.

See stock option plan performance conditions on page 130.

7.4.2.2. Stock options to purchase or subscribe for shares granted to employees other than corporate officers of L'Oréal or exercised by them during the 2012 financial year

	Total number of options granted/ shares subscribed or purchased	Weighted average price	Plan of 03.26.02 (S)	Plan of 09.04.02 (S)	Plan of 12.03.03 (A)	Plan of 12.03.03 (S)	Plan of 03.24.04 (S)	Plan of 12.01.04 (S)	Plan of 11.30.05 (A)	Plan of 11.30.05 (S)	Plan of 12.01.06 (S)	Plan of 11.30.07 (S)
Options **granted** by L'Oréal parent company to the ten employees (1) **to whom the largest number of stock options was granted**	No stock options granted in 2012	n/a	-	-	-	-	-	-	-	-	-	-
Options held with regard to L'Oréal parent company **exercised by the ten employees** (1) who have thus **purchased or subscribed for the largest number of options**	1,279,265	€66.22	40,000	55,000	97,500	52,500	215,000	238,000	140,316	240,949	160,000	40,000

(1) Employees other than corporate officers of L'Oréal parent company or employees of companies included in the scope of grant of the stock options.

7.4.2.3. Tables monitoring the performance conditions under the Stock Option plans

Stock Option Plan of 03.25.2009 (Executive Committee)	2010	2011	2012	2013
50% growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+1.4 point** (+5.6% /+4.2%)	**+0.4 point** (+5% /+4.6%)	**+0.9 point*** (+5.5% /+4.6%)*	to come
50% operating profit + advertising and promotional expenses as compared to cosmetic sales	**47.05%** (8,534.3/18,139.1)	**47.80%** (9,017.9/18,870.8)	**47.20%** (9,815.7/20,811.7)	to come

Stock Option Plan of 04.27.2010 (Executive Committee)	2011	2012	2013	2014
50% growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+0.4 point** (+5% /+4.6%)	**+0.9 point*** (+5.5% /+4.6%)*	to come	to come
50% operating profit + advertising and promotional expenses as compared to cosmetic sales	**47.80%** (9,017.9/18,870.8)	**47.20%** (9,815.7/20,811.7)	to come	to come

Stock Option Plan of 04.22.2011 (all beneficiaries)	2012	2013	2014	2015
50% growth in comparable cosmetics sales as compared to that of a panel of competitors **	**+0.6 point ***** (+5.5% /+4.9%) ***	to come	to come	to come
50% change in the Group's operating profit	**12.30%** (3,292.6/3,697.3)	to come	to come	to come

** Evolution of cosmetics market: source L'Oréal (see chapter 1 page 13).*
*** Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*
**** Provisional information taking into consideration only the data published by the companies of the panel at the time of L'Oréal's Board of Directors' meeting on February 11th, 2013.*

No Stock Option Plans after April 22nd, 2011.

7.4.3. PLANS FOR THE CONDITIONAL GRANT OF SHARES (ACAs)

7.4.3.1. Authorisation of the Ordinary and Extraordinary General Meeting of April 22nd, 2011

The Ordinary and Extraordinary General Meeting of April 22nd, 2011 gave the Board of Directors the authorisation to carry out free grants of existing shares and/or shares to be issued of the Company to employees and corporate officers of the Company and of its French or foreign affiliates under the conditions of Article L. 225-197-2 of the French Commercial Code.

This authorisation was granted for a period of twenty-six months.

The total number of shares that may be granted may not represent more than 0.6% of the share capital on the date of the Board of Directors' decision.

The free grant of shares is performance-related.

The mechanism for the Conditional Grant of Shares to employees complies with the AFEP-MEDEF Code of Corporate governance of April 2010 and in particular:

- any conditional grants of shares to the executive officers will be decided by the Board of Directors after assessment of their performance;
- the final vesting of all or part of the shares will be linked to performance conditions to be met that are set by the Board;
- the executive officers will be obliged to retain 50% of the shares that are definitively granted to them at the end of the vesting period in registered form until the termination of their duties;
- an executive officer may not be granted any shares at the time of his departure.

7.4.3.2. Conditional Grants of Shares granted in the framework of the authorisation of April 22nd, 2011 (ACAs Plan of April 17th, 2012)

The share capital at April 17th, 2012 consisted of 605,173,747 shares, which gave the possibility to distribute 2,593,042 shares in light of the 1,038,000 conditional shares already granted in 2011 within the scope of the authorisation granted by the Annual General Meeting on April 22nd, 2011.

The Board of Directors used this authorisation at its meeting of April 17th, 2012, by granting 1,325,050 free shares to 2,177 beneficiaries, the unit value of these shares amounting to €77.07 for French tax and social security residents and €84.62 for non-residents. The value of the shares here is to be understood as the estimated fair value for preparation of the consolidated financial statements of the Company pursuant to the IFRS.

The Board of Directors granted 50,000 conditional shares (ACAs) to the Chairman and Chief Executive Officer: the value of the shares thus granted to the Chairman and Chief Executive Officer in 2012 represents 3.6% of the value of all the free shares granted during this financial year. It should be noted that no stock options were granted in 2012.

The grant made on April 17th, 2012 is a free grant of existing shares.

Vesting of the shares is subject to a dual condition of:

- presence: the shares granted will only finally vest after a period of 4 years at the end of which the beneficiary must still be an employee of the Group (save the exceptions provided for by law or the Plan regulations);
- performance:
  - vesting of all or part of 50% of the shares granted will depend on the growth in comparable cosmetics sales for financial years 2013, 2014 and 2015 as compared to those of a panel of L'Oréal's biggest direct competitors consisting of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden,
  - vesting of all or part of 50% of the shares granted will depend on growth in the Group's consolidated operating profit, over the same period.

The calculation will be made on the basis of the arithmetical mean of the performances for the 2013, 2014 and 2015 financial years.

The Human Resources and Remuneration Committee is responsible for communicating to the Board of Directors the level of indicators recorded for the years to be used for the calculation of the performance conditions. The Board of Directors records, at the appropriate time, the level of performance achieved on which the number of shares that finally vests depends.

The data recorded year after year to determine the levels of performance achieved are published in the Annual Financial Report.

The vesting of the first 200 conditional shares is not subject to fulfilment of the performance conditions except for the members of the Executive Committee including the Chairman and Chief Executive Officer.

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

7.4.3.3. Existing Conditional Grants of shares at December 31st, 2012

Date of authorisation by the Extraordinary General Meeting	04.24.2007	04.16.2009	04.22.2011	04.22.2011
Date of grant by the Board of Directors	**03.25.2009**	**04.27.2010**	**04.22.2011**	**04.17.2012**
Total number of shares conditionally granted	**270,000**	**450,000**	**1,038,000**	**1,325,050**
Of which the ten employees other than corporate officers granted the largest number of shares (1)	*5,000*	*6,000*	*92,000*	*185,000*
Number of beneficiaries	752	1,418	1,991	2,177
Performance conditions:	▪ 50% growth in comparable sales as compared to growth in the cosmetics market ▪ 50% ratio of operating profit as compared to published cosmetic sales.	▪ 25% growth in comparable sales as compared to growth in the cosmetics market ▪ 75% ratio of operating profit as compared to published cosmetic sales	▪ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors (2) ▪ 50% growth in the L'Oréal Group's consolidated operating profit	▪ 50% growth in comparable cosmetics sales as compared to that of a panel of competitors (2) ▪ 50% growth in the L'Oréal Group's consolidated operating profit
Date of final vesting for French tax residents at the date of grant	03.25.2013	04.27.2014	04.22.2015	04.17.2016
Date of final vesting for non-French tax residents at the date of grant	03.25.2013	04.27.2014	04.22.2015	04.17.2016
End of the waiting period for French tax residents at the date of grant	03.25.2015	04.27.2016	04.22.2017	04.17.2018

(1) Employees who are not corporate officers of L'Oréal parent company or employees of companies included within the scope of the grant of shares.
(2) Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

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

The total number of shares granted in 2012 to the ten employees other than corporate officers who received the largest number of shares amounts to 185,000 shares.

7.4.3.5. Shares that have finally vested within the scope of the March 25th, 2009 Plan

The Board of Directors recorded at its meeting on February 11th, 2013 that the performance levels achieved during the three years taken into consideration within the scope of the March 25th, 2009 Plan, namely 2010, 2011 and 2012, exceeded the levels set for the conditional grant of all the shares (ACAs).

Accordingly, the beneficiaries who meet the conditions under the Plan on March 25th, 2013, and in particular the condition of presence in the Company, will receive all the shares that were granted to them.

For information purposes, no conditional grant of shares (ACAs) was made to the corporate officers under this Plan.

Table monitoring performance conditions: ACAs Plan of 03.25.2009

	2010	2011	2012	Arithmetical mean of performances for financial years 2010/2011/2012
50% Growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+1.4 point** (+5.6% /+4.2%)	**+0.4 point** (+5% /+4.6%)	**+0.9 point*** (+5.5% /+4.6%)*	**+0.90 point**
50% Ratio of Operating profit for cosmetics versus published cosmetic sales	**15.80%** (2,872.4/18,139.1)	**16.50%** (3,104.4/18,870.8)	**16.70%** (3,477.1/20,811.9)	**16.30%**

* *Evolution of cosmetics market: source L'Oréal (see chapter 1 page 13).*

7.4.3.6. Table monitoring performance conditions for the ACAs plans that are currently in progress

ACAs Plan of 04.27.2010	2011	2012	2013
25% growth in comparable cosmetics sales as compared to the increase in the cosmetics market	**+0.4 point** (+5% /+4.6%)	**+0.9 point*** (+5.5% /+4.6%)*	to come
75% ratio of Operating profit for cosmetics versus published cosmetic sales	**16.50%** (3,104.4/18,870.8)	**16.70%** (3,477.1/20,811.9)	to come

ACAs Plan of 04.22.2011	2012	2013	2014
50% growth in comparable cosmetics sales as compared to that of a panel of competitors **	**+0.6 point** *** (+5.5% /+4.9%) ***	to come	to come
50% change in the Group's operating profit	**12.30%** (3,292.6/3,697.3)	to come	to come

* *Evolution of cosmetics market: source L'Oréal (see chapter 1 page 13).*
** *Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*
*** *Provisional information taking into consideration only the data published by the companies of the panel at the time of L'Oréal's Board of Directors' meeting on February 11th, 2013.*

ACAs Plan of 04.17.2012	2013	2014	2015
50% growth in comparable cosmetics sales as compared to that of a panel of competitors *	to come	to come	to come
50% change in the Group's operating profit	to come	to come	to come

* *Panel of competitors: Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.*

7.4.3.7. Renewal of the authorisation for the conditional grant of shares submitted to the Ordinary and Extraordinary General Meeting on April 26th, 2013

The authorisations granted by the Annual General Meeting to the Board of Directors to grant stock options to purchase and/ or subscribe for shares and to make free grants of shares to the Group's employees and certain of its corporate officers are due to expire in 2013.

Further to the decision made by the Board of Directors of April 17th, 2012, upon the proposal of the Human Resources and Remuneration Committee, to replace the grant of stock options to purchase or subscribe for shares with free grants of shares for all the beneficiaries, including the Chairman and Chief Executive Officer, the Board of Directors is only asking the Annual General Meeting to renew the authorisation to make free grants of shares of the Company (see tenth resolution on pages 250 *et seq.*).

The main rules would be reapplied and in particular the following performance conditions which would take into account:

- partly the growth in L'Oréal's comparable cosmetics sales as compared to those of a panel of L'Oreal's biggest direct competitors;
- partly the growth in L'Oréal's consolidated operating profit.

The figures recorded year after year to determine the performance levels achieved are published in the Annual Financial Report.

The Board of Directors considers that these two criteria, assessed over a long period of 3 full financial years and applied to several plans, are complementary, in line with the Group's objectives and suitable to its specificities and should make it possible to promote balanced, continuing growth over the long term. They are demanding but remain a source of motivation for beneficiaries.

In order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period pursuant to the criterion related to sales, L'Oréal's growth must be at least equal to average growth in sales of the panel of competitors.This panel currently consists of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon, Elizabeth Arden.

No share will finally vest pursuant to the criterion relating to operating profit, if this profit does not increase in absolute value over the period.

These performance conditions will apply to all the individual grants of more than 200 free shares per plan, with the exception of those for the corporate officers and the Executive Committee members, to which they will apply in full.

7.5. The L'Oréal share / L'Oréal share market

7.5.1. *THE L'ORÉAL SHARE*

7.5.1.1. Information on the L'Oréal share

Isin code: FR0000120321.

Loyalty bonus code:

- Dividend +10% in 2013: FR0010970285.
- Dividend +10% in 2014: FR0011147487.
- Dividend +10% in 2015: FR0011356229.

Minimum lot: 1 share.

Par value: €0.20

Trading on the spot market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

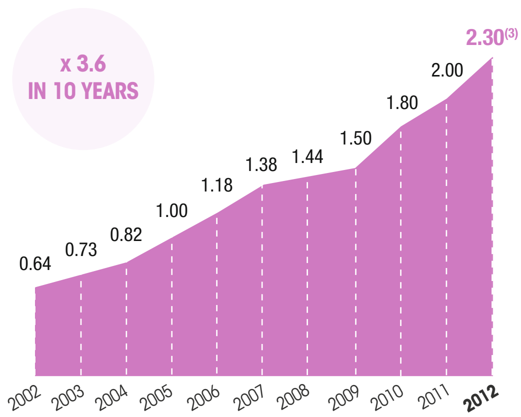
Unsponsored *American Depositary Receipts* are freely traded in the United States through certain banks operating in the United States.

7.5.1.2. Stock market data

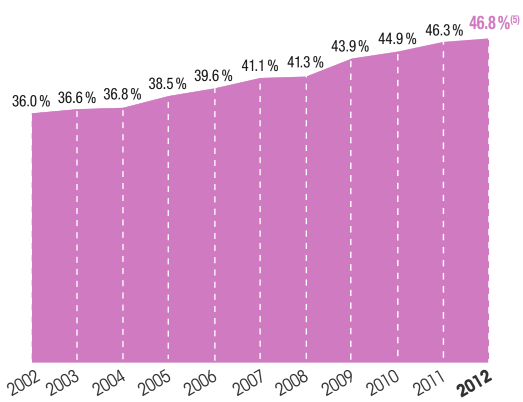
Price at December 31st, 2012	€104.90
Average of last 30 days' closing prices for 2012	€104.29
High	€106.40 at December 11th, 2012
Low	€79.22 at January 16th, 2012
Annual share price increase at December 31st, 2012	
▪ L'Oréal	+29.99%
▪ CAC 40	+15.23%
▪ Euronext 100	+14.85%
▪ DJ Euro Stoxx 50	+13.79%
Market capitalisation at December 31st, 2012	€63.86 billion (1)
At December 31st, 2012, the L'Oréal share weighed:	
▪ in the CAC 40	3.66%
▪ in the Euronext 100	3.92%
▪ in the DJ Euro Stoxx 50	1.59%

7.5.1.3 Dynamic shareholder return policy

- €4.91(2) net earnings per share.
- €2.30(3) dividend per share.
- A regular increase in the dividend per share *(in euros)*:



- Share of profits dedicated to dividends(4) *(as %)*:



(1) Out of the number of shares at December 31st, 2012, i.e. 608,810,827 shares.
(2) Diluted net profit excluding non-recurring items, group share, per share.
(3) Dividend proposed to the Annual General Meeting of April 26th, 2013.
(4) Dividend distribution rate based on net profit excluding non-recurring items diluted, group share, per share. Taking into account Sanofi not consolidated in this period.
(5) Based on the dividend proposed to the Annual General Meeting of April 26th, 2013.

7.5.2. L'ORÉAL SHARE MARKET

7.5.2.1. Trading volumes and change in the price of the Company's share

According to NYSE-Euronext data, the only stock market for which reliable retrospective statistics could be collected.

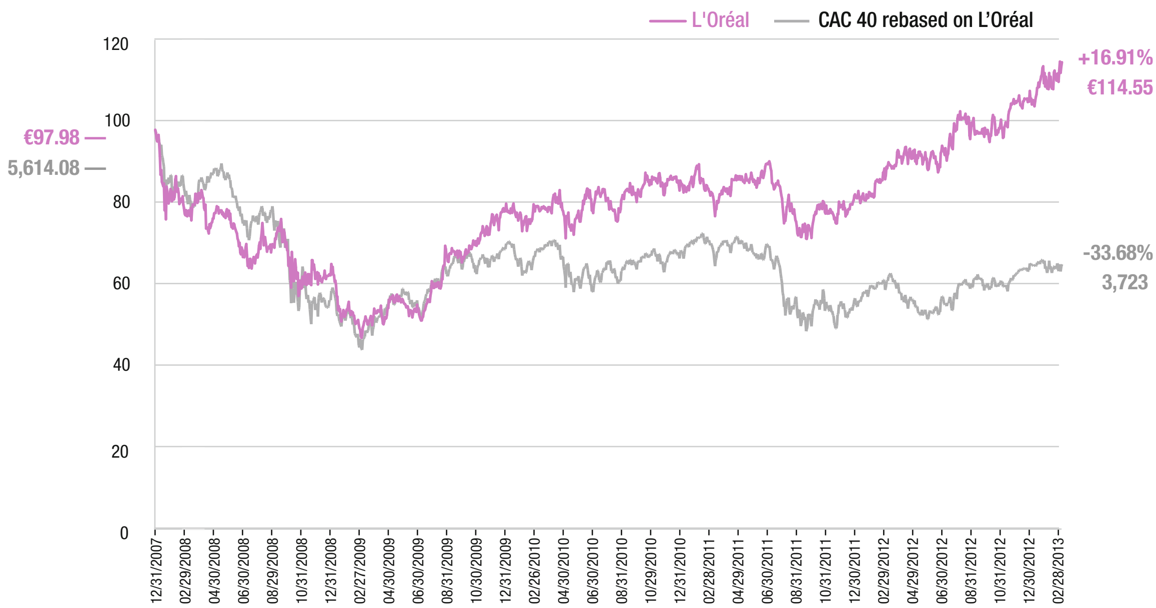
Date	Price in €			Average daily trading volume (€ million)
	High	Low	Average	
2010				
January	80.22	75.60	77.92	61.59
February	77.97	71.90	75.53	84.15
March	80.51	76.62	78.68	66.52
April	83.76	76.82	80.25	97.75
May	79.50	70.90	75.18	126.83
June	84.28	74.50	79.78	97.77
July	85.00	77.49	81.64	85.50
August	83.38	75.03	78.48	81.90
September	84.89	78.53	82.62	82.97
October	88.00	80.10	83.91	74.16
November	87.91	81.66	85.34	54.33
December	86.93	81.90	85.40	57.26

Date	Price in €			Average daily trading volume (€ million)
	High	Low	Average	
2011				
January	86.95	82.27	84.30	70.07
February	90.00	82.14	86.14	93.47
March	85.37	76.64	81.33	76.43
April	86.83	81.56	84.01	65.73
May	87.48	84.64	85.93	93.32
June	89.56	83.58	86.23	72.33
July	91.24	82.10	86.32	80.18
August	84.95	71.00	78.63	102.92
September	76.17	68.83	73.27	105.28
October	81.84	70.73	77.64	76.56
November	80.32	74.15	77.35	71.32
December	80.96	76.73	78.97	56.07

Date	Price in €			Average daily trading volume (€ million)
	High	Low	Average	
2012				
January	83.47	79.22	81.39	57.75
February	86.12	80.93	83.94	73.93
March	92.53	85.27	88.87	78.27
April	94.80	88.82	91.89	123.11
May	93.98	88.85	91.44	77.67
June	93.27	86.80	90.24	78.67
July	99.80	89.80	94.28	77.32
August	102.50	95.54	100.12	63.04
September	101.15	96.17	97.84	88.43
October	101.85	94.55	97.98	64.40
November	105.85	95.80	100.94	57.64
December	106.40	103.20	104.86	52.32

Date	Price in €			Average daily trading volume (€ million)
	High	Low	Average	
2013				
January	114.50	103.65	107.78	51.95
February	115.90	107.55	111.29	73.20

Change in the L'Oréal share price compared to the CAC 40 index from January 1st, 2008 to February 28th, 2013.



7.5.2.2. 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 is a synthetic measurement that takes into account not only the value of the share but also the dividend income received (excluding tax credits before January 1st, 2005).

7.5.2.2.1. 5-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.2007	Purchase of 153 shares at €97.98	14,990.94		153
04.30.2008	Dividend: €1.38 per share		211.14	153
	Reinvestment: purchase of 3 shares at €76.21	228.63		156
04.24.2009	Dividend: €1.44 per share		224.64	156
	Reinvestment: purchase of 5 shares at €52.015	260.08		161
05.05.2010	Dividend: €1.50 per share		241.50	161
	Reinvestment: purchase of 4 shares at €76.77	307.08		165
05.04.2011	Dividend: €1.80 per share		297.00	165
	Reinvestissement: purchase of 4 shares at €85.79	343.16		169
05.03.2012	Dividend: €2.00 per share		338.00	169
	Reinvestment: purchase of 4 shares at €92.84	371.36		173
TOTAL		**16,501.25**	**1,312.28**	
TOTAL NET INVESTMENT		**15,188.97**		

Portfolio value at 12.31.2012 (173 shares at €104.90): €18,147.70.

The initial capital has thus been multiplied by 1.21 over 5 years (5-year inflation rate = 7.7% – Source INSEE) and the final capital is 1.19 times the total net investment.

The Total Shareholder Return of the investment is thus 3.65% per year (assuming that the shares are sold on December 31st, 2012, excluding tax on capital gains).

Over the same period, the CAC 40 index fell by -4.41% per year [(1)].

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

(1) *Reinvested dividends; source: Datastream.*

7.5.2.2.2. 10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.2002	Purchase of 207 shares, at € 72.55	15,017.85		207
05.27.2003	Dividend: €0.64 per share, excluding tax credit		132.48	207
	Reinvestment: purchase of 3 shares at €61.10	183.30		210
05.14.2004	Dividend: €0.73 per share, excluding tax credit		153.30	210
	Reinvestment: purchase of 3 shares at €63.65	190.95		213
05.11.2005	Dividend: €0.82 per share		174.66	213
	Reinvestment: purchase of 4 shares at €56.50	226.00		217
05.10.2006	Dividend: €1.00 per share		217.00	217
	Reinvestment: purchase of 3 shares at €72.65	217.95		220
05.03.2007	Dividend: €1.18 per share		259.60	220
	Reinvestment: purchase of 3 shares at €86.67	260.01		223
04.30.2008	Dividend: €1.38 per share		307.74	223
	Reinvestment: purchase of 5 shares at €76.21	381.05		228
04.24.2009	Dividend: €1.44 per share		328.32	228
	Reinvestment: purchase of 7 shares at €52.015	364.11		235
05.05.2010	Dividend: €1.50 per share		352.50	235
	Reinvestment: purchase of 5 shares at €76.77	383.85		240
05.04.2011	Dividend: €1.80 per share		432.00	240
	Reinvestment: purchase of 6 shares at €85.79	514.74		246
05.03.2012	Dividend: €2.00 per share		492.00	246
	Reinvestment: purchase of 6 shares at €92.84	557.04		252
TOTAL		**18,296.85**	**2,849.60**	
TOTAL NET INVESTMENT		**15,447.25**		

Portfolio value at 12.31.2012 (252 shares at €104.90): €26,434.80.

The initial capital has thus been multiplied by 1.76 over 10 years (10-year inflation rate = 18.8% – Source INSEE) and the final capital is 1.71 times the total net investment.

The Total Shareholder Return of the investment is thus: 5.59% per year (assuming that the shares are sold on December 31st, 2012, excluding tax on capital gains).

Over the same period, the CAC 40 index increased by +5.44% per year [(1)].

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

(1) Reinvested dividends; source: Datastream.

7.5.2.2.3. 20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons and share attribution rights

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1992	Purchase of 92 shares at €162.66	14,964.72		92
06.25.1993	Dividend: €1.46351 per share, excluding tax credit		134.64	92
	Reinvestment: purchase of 1 share at €167.69	167.69		93
06.28.1994	Dividend: €1.64645 per share, excluding tax credit		153.12	93
	Reinvestment: purchase of 1 share at €167.69	167.69		94
06.28.1995	Dividend: €1.85988 per share, excluding tax credit		174.83	94
	Reinvestment: purchase of 1 share at €185.84	185.84		95
06.28.1996	Dividend: €2.02757 per share, excluding tax credit		192.62	95
	Reinvestment: purchase of 1 share at €260.54	260.54		96
07.01.1996	Issue of bonus shares (1 for 10)			105
07.31.1996	Compensation for 6 unused share attribution right at €22.85668 per right		137.14	105
	Reinvestment: purchase of 1 share at €236.91	236.91		106
07.01.1997	Dividend: €2.13429 per share, excluding tax credit		226.23	106
	Reinvestment: purchase of 1 share at €393.93	393.93		107
06.12.1998	Dividend: €2.43918 per share, excluding tax credit		260.99	107
	Reinvestment: purchase of 1 share at €473.05	473.05		108
06.15.1999	Dividend: €2.82031 per share, excluding tax credit		304.59	108
	Reinvestment: purchase of 1 share at €586.50	586.50		109
06.15.2000	Dividend: €3.40 per share, excluding tax credit		370.60	109
	Reinvestment: purchase of 1 share at €825.00	825.00		110
07.03.2000	Ten-for-one share split			1,100
06.08.2001	Dividend: €0.44 per share, excluding tax credit		484.00	1,100
	Reinvestment: purchase of 7 shares at €78.15	547.05		1,107
06.04.2002	Dividend: €0.54 per share, excluding tax credit		597.78	1,107
	Reinvestment: purchase of 8 shares at €74.95	599.60		1,115
05.27.2003	Dividend: €0.64 per share, excluding tax credit		713.60	1,115
	Reinvestment: purchase of 12 shares at €61.10	733.20		1,127
05.14.2004	Dividend: €0.73 per share, excluding tax credit		822.71	1,127
	Reinvestment: purchase of 13 shares at €63.65	827.45		1,140
05.11.2005	Dividend: €0.82 per share		934.80	1,140
	Reinvestment: purchase of 17 shares at €56.50	960.50		1,157
05.10.2006	Dividend: €1.00 per share		1,157.00	1,157
	Reinvestment: purchase of 16 shares at €72.65	1,162.40		1,173
05.03.2007	Dividend: €1.18 per share		1,384.14	1,173
	Reinvestment: purchase of 16 shares at €86.67	1,386.72		1,189
04.30.2008	Dividend: €1.38 per share		1,640.82	1,189
	Reinvestment: purchase of 22 share s at €76.21	1,676.62		1,211
04.24.2009	Dividend: €1.44 per share		1,743.84	1,211
	Reinvestment: purchase of 34 shares at €52.015	1,768.51		1,245
05.05.2010	Dividend: €1.50 per share		1,867.50	1,245
	Reinvestment: purchase of 25 shares at €76.77	1,919.25		1,270
05.04.2011	Dividend: €1.80 per share		2,286.00	1,270
	Reinvestment: purchase of 27 shares at €85.79	2,316.33		1,297
05.03.2012	Dividend: €2.00 per share		2,594.00	1,297
	Reinvestment: purchase of 28 shares at €92.84	2,599.52		1,325
TOTAL		**34,759.02**	**18,180.96**	
TOTAL NET INVESTMENT		**16,578.06**		

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Portfolio value at 12.31.2012 (1,325 shares at €104.90): €138,992.50.

The initial capital has thus been multiplied by 9.29 over 20 years (20-year inflation rate = 38.2% – Source: INSEE) and the final capital is 8.38 times the total net investment.

The Total Shareholder Return of the investment is thus 11.45% per year (assuming that the shares are sold on December 31st, 2012, excluding tax on capital gains).

Over the same period, the CAC 40 index increased by + 6.64% per year (1).

NOTE: Any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.

7.5.2.3. 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*.

7.6. Information policy

L'Oréal is pursuing its policy of ongoing improvement in the quality of its financial information and dialogue with its shareholders and French and international investors. The objective is not simply to fulfil statutory obligations, but also to support our shareholders and investors and to strengthen the links forged with the Group.

7.6.1. NEW MODERN AND COMPLEMENTARY COMMUNICATIONS MEDIA

In 2012, L'Oréal's Financial Communications Department took care to reinforce and enhance the information provided to the financial community as a whole and round out the range of communication tools proposed:

- Extra-financial information: shareholders and investors expect issuers to give more sense to financial performance and to the Company's business activities. For that reason, extra-financial information is now provided to supplement financial information in all our publications: Activity Reports, letters to shareholders, newsletters and our shareholders' magazine;
- Modern digital communications: Alongside our "paper" communication materials, a range of interactive electronic media have been put in place to enrich the circulation of our communications:

1. The e-newsletter sent to all the contacts in the Financial Communications Department database at the time of the major events on our financial calendar: annual results, Annual General Meetings, half-year results, etc.,
2. L'Oréal's shareholders' e-magazine, intended not only for our shareholders but also for all those who are looking for full information on the life of the Group, offers animated information, enriched with a large number of documents, videos, interviews and testimonials;
3. The mobile applications for iPad and iPhone and their Android version created in 2012.

- The guide describing the 5 reasons to take part in the L'Oréal adventure, was published in the autumn of 2011 for the Actionaria Stock Market fair. This publication, which has innovative content and format, is designed to fulfil our shareholders' desire to make more sense of their investment;
- In 2012, L'Oréal published for the first time a coherent set of 3 essential documents presenting comprehensively all the aspects of its business: the 2011 Activity Report, the 2011 Registration Document and the 2011 Sustainable Development Report.

In 2013, this set of three documents is also available online for the 2012 financial year on the www.loreal-finance.com and www.loreal.com websites and is available in paper format on request.

In all, L'Oréal's Financial Communications Department makes a vast array of communication tools available to the financial community:

- the Activity Report;
- the Registration Document;
- financial news releases;
- extra-financial news releases;
- letters to shareholders;
- e-newsletters;
- the shareholders' e-magazine;
- the mobile applications for iPad and iPhone and their Android version;
- the dedicated website www.loreal-finance.com.

Strongly committed to its communication policy, L'Oréal offers all shareholders and investors unrestricted access to these media or materials. Everyone can access and download them or can be sent them.

(1) Reinvested dividends; source: Datastream.

7.6.2. A LARGE NUMBER OF SHAREHOLDER EVENTS FOR A REGULAR AND DETAILED DIALOGUE

- As it does every year, the Financial Communications Department organised two major financial information meetings for analysts and investors, to which journalists specialising in the cosmetics sector are invited. The presentations of the L'Oréal Group's financial results and the business activities of the Operational Divisions are broadcast live online on the financial website www.loreal-finance.com, and the information presented is made available on this website on the same day, both for the annual results and the half-year results;
- 10 meetings with shareholders in several large provincial cities in France and also in foreign countries, in collaboration with the French Investment Club Federation (*Fédération Française des Clubs d'Investissement* – FFCI), the Society of Investor Relation Managers in France (*Cercle de Liaison des Informateurs Financiers en France* – CLIFF), shareholder associations and financial newspapers brought together over 2,000 participants;
- Participation in the Actionaria Stock Market Fair for the ninth year running offered an opportunity for 700 people to attend a presentation by Mr. Jean-Paul Agon, Chairman and Chief Executive Officer. Many shareholders were also able to meet representatives of the L'Oréal Group directly and obtain information on registering their shares.

Through all these events, our teams had the opportunity to meet nearly 6,000 individual shareholders in 2012.

- For the fourth year running, L'Oréal was given the special award for "Corporate Social and Shareholder Responsibility" by the *Mieux vivre votre argent* magazine in recognition of its overall vision of shareholder, social and environmental policy.
- On December 10th, 2012, our Investor Relations Department received the award for the best Investor Relations Manager (*Trophée du meilleur IR*) awarded by the "*Forum des Relations Investisseurs*" for all categories combined;
- One symbol of the loyalty of our shareholders who accompany the Group's development over the long term is the fact that more and more shareholders are showing an interest in becoming registered shareholders. Thanks to the preferential dividend and the numerous advantages offered by this method of shareholding, becoming a registered shareholder represents a real "loyalty bonus" for our shareholders;
- Created at the beginning of 2010, the "Shareholder Consultation Committee" consisting of 18 shareholders (both registered and bearer shareholders) who actively participate, through their reflections and their work, in developing and enriching the Group's financial communication on themes such as: the Annual General Meeting, digital communication, Research and Innovation or overhaul of the website. In 2012, the Shareholder Consultation Committee met 4 times;
- The Investor Relations Department organises numerous meetings throughout the year with institutional investors of the main international financial market places. In 2012, they thus met nearly 650 investors;
- The financial website www.loreal-finance.com, created in 1997 for the use of international finance professionals and all L'Oréal shareholders was completed overhauled in 2012, in particular with the launch of the above-mentioned e-magazine and the updating of the mobile website in order to make it more compatible with the current communication tools.

Finally, a freephone service is available to L'Oréal shareholders calling from France (0 800 66 66 66) or other countries (+33 1 40 14 80 50). An interactive vocal server gives shareholders round-the-clock access to information on the share price and key dates or provides them with a summary of the latest press release. The Shareholder Services Department is also available on this number during opening hours.

7.6.3. FINANCIAL NEWS RELEASES IN 2012

02.13.12	Board of Directors: End of the tenure as Director of Mrs. Liliane Bettencourt/Co-optation of a new Director, Mr. Jean -Victor Meyers
02.13.12	Annual Results 2011: Sustained growth in sales – Solid increase in profits
03.02.12	Board of Directors: Tenures as Director proposed to the next Annual General Meeting
03.19.12	Annual General Meeting of April 17th, 2012/2011 Registration Document
04.12.12	First-quarter sales 2012 – A promising start to the year
04.17.12	Annual General Meeting of April 17th, 2012
04.26.12	L'Oréal acquires 100% of Cadum
07.13.12	L'Oréal completes the sale of the home care business from the Cadum Group to Eau Ecarlate SAS
07.26.12	First-half results 2012 - Strong sales growth
08.28.12	First-half 2012 results: Strong increase in results
10.24.12	L'Oréal USA signs agreement to acquire Emiliani Enterprises extending its coverage of American hair salons
10.31.12	L'Oréal acquires the Vogue make-up brand in Colombia
11.06.12	Sales at September 30, 2012 - Strong sales growth
11.26.12	L'Oréal signs an agreement to acquire Urban Decay, specialty make-up brand in the USA
12.12.12	Galderma, the world leader exclusively dedicated to dermatology, acquires Spirig

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ANNUAL GENERAL MEETING

This chapter presents the Report of the Board of Directors on the draft resolutions and the full text of the resolutions which will be submitted to L'Oréal's Ordinary and Extraordinary General Meeting. This General Meeting will be held on April 26th, 2013 at the Palais des Congrès, in Paris.

DRAFT AGENDA

Ordinary Part

1. Approval of the 2012 parent company financial statements
2. Approval of the 2012 consolidated financial statements
3. Allocation of the Company's net income for 2012 and declaration of the dividend
4. Appointment of Ms. Virginie Morgon as Director
5. Renewal of the tenure as Director of Mrs. Françoise Bettencourt Meyers
6. Renewal of the tenure as Director of Mr. Peter Brabeck-Letmathe
7. Renewal of the tenure as Director of Mr. Louis Schweitzer
8. Authorisation for the Company to buy back its own shares

Extraordinary Part

9. Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts
10. Authorisation to the Board of Directors to make free grants to employees and corporate officers of existing shares and/or of shares to be issued entailing waiver by the shareholders of their preferential subscription right
11. Delegation of authority to the Board for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right
12. Powers for formalities

8.1. Draft resolutions and Report of the Board of Directors to the Annual General Meeting to be held on April 26th, 2013 (as at February 11th, 2013)

8.1.1. ORDINARY PART

Resolutions 1, 2 and 3: Approval of the Company financial statements, allocation of the Company's net income for 2012 and declaration of the dividend

Statement of reasons

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 an income statement which shows net income of €2,407,976,604.53 for 2012, compared with €2,169,772,192.21 for 2011;
- the 2012 consolidated financial statements.

The details of these financial statements are set out in the 2012 Annual Financial Report and the main data included in the file for calling this Annual General Meeting.

The Board of Directors proposes to the Annual General Meeting:

- an ordinary dividend of €2.30 per share, representing an increase of 15% compared with the dividend for the previous year;

The rate of distribution of the ordinary dividend (*ordinary dividend paid/net income excluding non-recurrent items, Group share, per share)* would be 46.8% and would thus continue to rise:

Year	2007	2008	2009	2010	2011
Rate of distribution	41.1%	41.3%	43.9%	44.9%	46.3%

- a preferential dividend of €2.53 per share.

The preferential dividend will be granted to the shares held in registered form since December 31st, 2010 at the latest, and which continuously remain in registered form until the dividend payment date in 2013. The number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder.

If the Annual General Meeting approves this proposal, the ex dividend date for the dividends (both ordinary and preferential) will be Tuesday, May 7th, 2013 and the dividends will be paid on Friday, May 10th, 2013.

The amount of the ordinary dividend and the preferential dividend is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

First resolution: Approval of the 2012 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 2012 parent company financial statements, as presented and the transactions included in these financial statements and summarised in these reports, showing net income of €2,407,976,604.53, compared with €2,169,772,192.21 for 2011.

Second resolution: Approval of the 2012 consolidated financial statements

The Annual General Meeting, having reviewed the reports of the Board of Directors and the Statutory Auditors, approves the 2012 consolidated financial statements.

Third resolution: Allocation of the Company's net income for 2012 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 2012 financial year amounting to €2,407,976,604.53, as follows:

No allocation to the legal reserve which already represents over one-tenth of the share capital	–
Amount allocated to the shareholders as a dividend* (including preferential dividend)	€1,397,400,604.00
Balance that will be allocated to the "Other reserves" item	**€1,010,576,000.53**

* *including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. the total amount of the share capital.*

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This amount is calculated on the basis of the number of shares forming the capital at February 11th, 2013 and will be adjusted to reflect:

- the number of shares issued between February 11th, 2013 and the date of payment of this dividend following the exercise of stock options or the final vesting of new free shares granted and giving entitlement to such dividend;
- the final number of shares eligible for the preferential dividend, taking into account sales or transfer to a bearer account between February 11th, 2013 and the date of payment of the dividend.

The Annual General Meeting therefore declares an ordinary dividend to be paid of €2.30 per share, the preferential dividend amounting to €2.53 per share. The preferential dividend will be granted to the shares held in registered form since December 31st, 2010 at the latest, and which continuously remain in registered form until the dividend payment date, it being specified that the number of shares giving entitlement to such preferential dividend cannot exceed 0.5% of share capital for any one shareholder.

The ex dividend date for the dividends (both ordinary and preferential) will be Tuesday, May 7th, 2013 and the dividends will be paid on Friday, May 10th, 2013.

In the event that, at the time of payment of the dividend, the Company holds treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of such shares, would be allocated to the "Other reserves" item.

It is specified that, as the law currently stands, for natural persons who have their tax residence in France, the dividend is liable for personal income tax on the basis of the progressive scale of tax rates and is eligible for the tax deduction provided for in Article 158-3-2° of the French Tax Code.

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:

	2009	2010	2011
Ordinary dividend per share	€1.50	€1.80	€2.00
Preferential dividend per share*			€0.20

* *The preferential dividend was distributed for the first time in 2012 with respect to the 2011 financial year.*

Resolutions 4, 5, 6, 7: Tenures as Directors

Statement of reasons

The appointment of a new Director is put to the vote of the Annual General Meeting as well as the renewal of three Directors whose tenures as Directors expire at the close of this Annual General Meeting.

1. L'Oréal's Board of Directors at December 31st, 2012

The Directors of L'Oréal come from different backgrounds. They complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and closely involved. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

The Directors have a duty of vigilance and exercise complete freedom of judgment. This freedom of judgment enables them in particular to participate, in complete independence, in the decisions or work of the Board and its Committees whose remits have been extended since 2011 (see paragraph 2.2.1.2. *Corporate officers* on pages 33 *et seq.* for more information).

2. Assessment of the independence of Directors

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

L'Oréal has a well-balanced Board comprising 14 members at December 31st, 2012: the Chairman and Chief Executive Officer, Jean-Paul Agon, the Honorary Chairman, Sir Lindsay Owen-Jones, six Directors appointed by the majority shareholders, three of whom are appointed by Mrs. Bettencourt's family group and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent Directors: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

The review of the independence of these Directors was made by the Appointments and Governance Committee at the end of 2012 on the basis, in particular, of the study of the relations existing between the Company and the companies in which the directors have offices. The Directors have no conflicts of interest. The other corporate offices and directorships held, their availability, their personal contributions and their participation in the work and discussions of the Board and its Committees in 2012 were taken into consideration by the Appointments and Governance Committee to evaluate the composition and *modus operandi* of the Board.

3. Appointment of a new Director in 2013

The Appointments and Governance Committee looked at the profile of a possible new Director who was approved by the Board of Directors. The proposed appointment of Ms. Virginie Morgon is submitted to the Annual General Meeting.

- **Virginie Morgon** (age: 43) worked for 16 years at Lazard, in particular as an investment banker in New York and London at the start of her career in 1991 and as a senior partner in Paris from 2001 to 2007. Virginie Morgon advised a large number of French and international groups on mergers and acquisitions. Since 2008 with Eurazeo, one of the top listed investment companies in Europe, she is a member of the Executive Board and was appointed as Chief Investment Officer in December 2012.

  Virginie Morgon is a Director of Accor and Edenred* and a member of their Audit Committees. Virginie Morgon is a member of the Board of Directors of the Women's Forum for the Economy & Society.

  Virginie Morgon has concrete experience of the corporate world as an investor and will provide L'Oréal's Board of Directors with complementary experience and skills in this area.

This appointment of Ms. Virginie Morgon as an independent Director for a period of four years would increase the number of Directors to 15 and the number of women on the Board to 4, thus leading to a percentage of representation of women of 26.7% as opposed to 21.4% in 2012, and the number of independent Directors to 7, thus giving a percentage of independent Directors of 46.7% as compared with 42.9% in 2012.

4. Renewal of tenures as Directors in 2013

As the tenures as Directors of Françoise Bettencourt Meyers, Peter Brabeck-Letmathe and Louis Schweitzer expire in 2013, the renewal of their tenures for a period of four years is submitted to the Annual General Meeting.

For information purposes, if the Annual General Meeting votes in favour of the appointment and renewals proposed to it in 2013, the expiry dates of the terms of office of the 15 Directors of L'Oréal would be as follows:

	Expiry dates of terms of office			
Directors	2014	2015	2016	2017
Jean-Paul Agon	X			
Françoise Bettencourt Meyers				X
Peter Brabeck-Letmathe				X
Paul Bulcke			X	
Charles-Henri Filippi		X		
Xavier Fontanet	X			
Bernard Kasriel			X	
Christiane Kuehne			X	
Marc Ladreit de Lacharrière	X			
Jean-Pierre Meyers			X	
Jean-Victor Meyers			X	
Virginie Morgon				X
Sir Lindsay Owen-Jones	X			
Annette Roux		X		
Louis Schweitzer				X
Number of renewals per year	**4**	**2**	**5**	**4**

Fourth resolution: Appointment of Ms. Virginie Morgon as Director

The Annual General Meeting, having reviewed the Report of the Board of Directors, decides to appoint Ms. Virginie Morgon as Director for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2017 to review the financial statements for the previous financial year.

Fifth resolution: Renewal of the tenure as Director of Mrs. Françoise Bettencourt Meyers

The Annual General Meeting, having reviewed the Report of the Board of Directors, renews the tenure of Mrs. Françoise Bettencourt Meyers for a period of four years.

Her tenure will expire at the end of the Annual General Meeting to be held in 2017 to review the financial statements for the previous financial year.

Sixth resolution: Renewal of the tenure as Director of Mr. Peter Brabeck-Letmathe

The Annual General Meeting, having reviewed the Report of the Board of Directors, renews the tenure of Mr. Peter Brabeck-Letmathe for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2017 to review the financial statements for the previous financial year.

Seventh resolution: Renewal of the tenure as Director of Mr. Louis Schweitzer

The Annual General Meeting, having reviewed the Report of the Board of Directors, renews the tenure of Mr. Louis Schweitzer for a period of four years.

His tenure will expire at the end of the Annual General Meeting to be held in 2017 to review the financial statements for the previous financial year.

* *Until March 6th, 2013 .*

Resolution 8: Authorisation for the Company to buy back its own shares

Statement of reasons

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

Pursuant to the authorisation voted by the Annual General Meeting of April 17th, 2012 and during the period from August 30th to December 31st, 2012, the Board of Directors bought back L'Oréal shares for an amount of €498 million with a view to their cancellation. The 5,077,250 shares purchased in this manner were cancelled by the Board of Directors on February 11th, 2013.

As the existing authorisation is due to expire in October 2013, it is proposed that the Annual General Meeting give the Board a new authorisation which will enable it to resume its share buyback policy where applicable, depending on the opportunities that may arise, except during periods of public offers with regard to the Company's capital.

The Company could buy back its own shares with the aim of:

- their cancellation;
- their sale within the scope of employee share ownership schemes and their allocation to free grants of shares for the benefit of employees and corporate officers of the L'Oréal Group;
- market animation of the share;
- 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.

The authorisation would be granted for a period of 18 months at a purchase price per share that may not be greater than €170. The authorisation would concern no more than 10% of the capital, namely, for information purposes, 60,431,362 shares for a maximum amount of €10.27 billion at February 11th, 2013, it being stipulated that the Company may at no time hold over 10% of its own capital.

Eighth resolution: Authorisation for the Company to buy back its own shares

The Annual General Meeting, having reviewed the Report of the Board of Directors, authorises the Board of Directors, with the possibility for it to delegate to the Chairman and Chief Executive Officer, to purchase shares of the Company, in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, and subject to the following conditions:

- the purchase price per share may not be greater than €170;
- the number of shares that may be bought by the Company may not exceed 10% of the number of shares forming the capital of the Company at the time the shares are bought back, that is, for information purposes, as of February 11th, 2013, 60,431,362 shares for a maximum amount of €10.27 billion, it being stipulated that the Company may at no time hold over 10% of its own capital.

In the event of any transaction affecting the Company's capital, the prices and numbers indicated above will be adjusted where applicable.

The Company may buy its own shares for the following purposes:

- their cancellation by a reduction in capital;
- their allocation or sale to employees and corporate officers of the Company and affiliates, under the terms and conditions provided for by French or foreign law, and in particular within the scope of employee profit sharing schemes, free grants of shares or all employee share ownership programmes as well as carrying out any transaction to cover the above-mentioned employee share ownership programmes;
- market animation of the share through a liquidity agreement entered into with an investment services provider;
- retaining them and subsequently using them as payment in connection with external growth transactions.

The purchase of these shares may be carried out by any means, on one or more occasions, on or off the stock markets, including through the acquisition of blocks of shares.

These transactions may be carried out at any time, in accordance with the regulations in force at the time of the transactions concerned, except during periods of public offers with regard to the Company's capital.

The Annual General Meeting decides that this authorisation will expire at the end of a period of 18 months following this Annual General Meeting and renders ineffective as from the date hereof any prior authorisation for the same purpose.

The Board of Directors will have the possibility of allocating all the treasury shares currently held by the Company to any of these objectives under the conditions provided for in this share buyback programme. Full powers are granted to the Board of Directors, with the possibility for it to delegate, for the implementation of this resolution.

8.1.2. *EXTRAORDINARY PART*

Resolution 9: Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or *via* the capitalisation of share premiums, reserves, profits or other amounts

Statement of reasons

It is proposed that the Annual General Meeting give an authorisation to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts.

The total amount of the capital increases that may thus be carried out may not lead to the share capital, which amounts to €120,862,724.20 as of February 11th, 2013, being increased to over €169,207,813.88. The increases that may be carried out pursuant to Resolution 11 will also be deducted from this ceiling. It corresponds to a maximum increase of 40% of the capital.

In the event of a free grant of shares, the allotment rights forming fractional shares will not be negotiable or transferable. The corresponding shares will be sold and the amounts resulting from the sale will be allocated to the holders of these rights.

No overallocation option is provided for.

This delegation of authority would be valid for a period of 26 months as from the date of the Annual General Meeting.

Ninth resolution: Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts

The Annual General Meeting, having reviewed the Report of the Board of Directors and in accordance with Articles L. 225-109 *et seq.* of the French Commercial Code, and in particular Article L. 225-129-2 of the French Commercial Code:

1) delegates to the Board of Directors the authority to decide on one or more increases in the share capital:

   a) through the issue of ordinary shares of the Company, and/or

   b) via the capitalisation of share premiums, reserves, profits or other amounts in the form of allocations of bonus shares or an increase in the par value of existing shares.

   The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months as from the date of this Annual General Meeting;

2) decides that the total amount of the capital increases that may thus be carried out may not lead to the share capital, which amounts to €120,862,724.20 as of February 11th, 2013, being increased to over €169,207,813.88;

3) decides, if the Board of Directors uses this delegation of authority within the scope of the share issues referred to in paragraph 1.a that:

   a) the shareholders will have a preferential subscription right to the shares issued pursuant to this resolution, in proportion to the amount of their shares,

   b) if subscriptions made by shareholders by way of right on the basis of the shares they hold and, where applicable, their subscriptions for excess shares, do not cover the full number of shares issued, the Board of Directors will be able to offer to the public all or part of the non-subscribed shares;

4) decides that, if the Board of Directors uses this delegation of authority within the scope of capitalisations of share premiums, reserves, profits or other amounts referred to in paragraph 1.b, where applicable, in accordance with the provisions of Article L. 225-130 of the French Commercial Code, the fractional share rights will not be negotiable or transferable and the corresponding shares will be sold; the amounts derived from the sale will be allocated to the holders of the rights within thirty days at the latest after entry in their account of the whole number of shares allocated;

5) records that this delegation renders ineffective any prior delegation for the same purpose.

Resolution 10: Authorisation to the Board of Directors to make free grants of share to employees and waiver by their shareholders of their preferential subscription right

Statement of reasons

The authorisations granted by the Annual General Meeting to the Board of Directors to grant stock options to purchase and/or subscribe for shares and to make free grants of shares to the Group's employees and certain of its corporate officers are due to expire in 2013.

Further to the decision made by the Board of Directors of April 17th, 2012, upon the proposal of the Human Resources and Remuneration Committee to replace the grant of stock options to purchase or subscribe for shares with free grants of shares for all the beneficiaries, including the Chairman and Chief Executive Officer, the Board of Directors is only asking the Annual General Meeting to renew the authorisation to make free grants of shares of the Company.

Within the scope of this authorisation, the number of free shares that may be granted may not represent more than 0.6% of the share capital on the date of the Board of Directors' decision.

The total number of free shares granted to the corporate officers during a financial year may not represent more than 10% of the total number of free shares granted during that same financial year.

The free grant of shares to beneficiaries would become final and binding, subject to satisfaction of the other conditions set at the time of grant, including in particular the condition of presence in the Company, for all or part of the shares granted:

1. either at the end of a minimum vesting period of four years, in such case without any minimum holding period;
2. or at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of final award thereof.

The Board of Directors will have the possibility, in any case, to set vesting or holding periods which are longer than the minimum periods set, including in the event that the minimum holding period provided for by French law with regard to French residents is abolished. This mechanism would make it possible to harmonise the various operations with the different local constraints.

If the Annual General Meeting votes in favour of this tenth resolution, any free grants of shares will be decided by the Board of Directors on the basis of the proposals of the Executive Management examined by the Human Resources and Remuneration Committee.

The Board of Directors will determine the identity of the beneficiaries of the free grants of shares and the performance conditions to be met for the final vesting of all or part of the shares.

These performance conditions would take into account:

- partly the growth in L'Oréal's comparable cosmetics sales as compared to those of a panel of L'Oreal's biggest direct competitors;
- partly the growth in L'Oréal's consolidated operating profit.

The figures recorded year after year to determine the performance levels achieved are published in the Annual Financial Report.

The Board of Directors would once again apply the performance conditions that it uses in application of the authorisation in force which was voted on by the Annual General Meeting of April 22nd, 2011.

The Board of Directors considers that these two criteria, assessed over a long period of 3 full financial years and applied to several plans, are complementary, in line with the Group's objectives and suitable to its specificities and should make it possible to promote balanced, continuing growth over the long term. They are demanding but remain a source of motivation for beneficiaries.

In order for all the free shares granted to finally vest for the beneficiaries at the end of the vesting period pursuant to the criterion related to sales, L'Oréal's growth must be at least equal to average growth in sales of the panel of competitors. This panel currently consists of Procter & Gamble, Unilever, Estée Lauder, Shiseido, Beiersdorf, Johnson & Johnson, Henkel, LVMH, Kao, Revlon and Elizabeth Arden.

No share will finally vest pursuant to the criterion relating to operating profit, if this profit does not increase in absolute value over the period.

These performance conditions will apply to all the individual grants of more than 200 free shares per plan, with the exception of those for the corporate officers and the Executive Committee members, to which they will apply in full.

The free grant of shares may be carried out without any performance condition within the scope of grants that may be made to all the employees of the Group, or for shares granted in respect of cash subscriptions made within the scope of an increase in capital reserved for the Group's employees pursuant to the eleventh resolution.

Any grants of shares to the corporate officers will be decided by the Board of Directors on the basis of the proposals of the Human Resources and Remuneration Committee, after assessment of their performance.

The corporate officers will be obliged to retain 50% of the free shares that will be definitively granted to them at the end of the vesting period in registered form until the termination of their duties.

A corporate officer may not be granted free shares at the time of termination of office.

The authorisation requested from the Annual General Meeting would be granted for a period limited to 26 months as from the decision by the Annual General Meeting.

Tenth resolution: Authorisation to the Board of Directors to make free grants to employees and corporate officers of existing shares and/or of shares to be issued entailing waiver by the shareholders of their preferential subscription right

The Annual General Meeting, having reviewed the Report of the Board of Directors and the Special Report of the Statutory Auditors, in accordance with Articles L.225-197-1 *et seq.* of the French Commercial Code:

- authorises the Board of Directors to make, on one or more occasions, to employees and corporate officers of the Company and of French and foreign affiliates as defined by Article L. 225-197-2 of the French Commercial Code or certain categories of such employees or corporate officers, free grants of existing shares or shares to be issued of L'Oréal;
- sets at 26 months as from the date of this Annual General Meeting, the period of validity of this authorisation which may be used on one or more occasions;
- decides that the number of free shares thus granted may not represent more than 0.6% of the share capital at the date of the decision made by the Board of Directors, it being specified that this maximum number of shares, either existing or to be issued, does not take into account the number of additional shares that may be allocated due to an adjustment in the number of shares granted initially as the result of a transaction affecting the Company's capital;
- decides that the number of free shares granted to corporate officers of the Company during a financial year pursuant to this resolution may not represent more than 10% of the total number of free shares granted during a financial year pursuant to this resolution;
- decides that the Board of Directors will determine the identity of the beneficiaries of the grants, and the number of free shares granted to each of them as well as the conditions to be met for the grant to finally vest, and in particular the performance conditions, it being stipulated that the free grant of shares may be carried out without any performance condition within the scope of a grant made (i) to all the employees and corporate officers of L'Oréal and, where applicable, of its affiliates as defined by Article L.3332-14 of the French Labour Code or Article 217 *quinquies* of the French Tax Code, or (ii) to employees and corporate officers of foreign companies subscribing to an increase in capital carried out pursuant to the eleventh resolution of this Annual General Meeting or participating in an employee share ownership transaction through the sale of existing shares or (iii) to employees who are not members of the Executive Committee for at most 200 of the free shares that are granted to them within the scope of each of the plans decided by the Board of Directors;
- decides that the grant of such shares to beneficiaries will become final and binding, subject to satisfaction of the other conditions set at the time of grant, for all or part of the shares granted: either
  - at the end of a minimum vesting period of four years, in such case without any minimum holding period, or
  - at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of the final award thereof;
- decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (*Code de la sécurité sociale*) and that such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code;
- authorises the Board of Directors to make, where applicable, during the vesting period, adjustments to the number of shares, related to any potential transactions with regard to the Company's capital within the meaning of Article L. 225-181 of the French Commercial Code, in order to preserve the rights of the beneficiaries;
- records that this authorisation automatically entails, in favour of the beneficiaries of free shares granted, the waiver by the shareholders of their preferential subscription right and the portion of the reserves which, where applicable, will be used in the event of the issue of new shares;
- delegates full powers to the Board, with the possibility to delegate within the legal limits, to implement this authorisation, it being specified that the Board of Directors will be able to provide for vesting and holding periods which are longer than the minimum periods set above.

Resolution 11: Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right

Statement of reasons

The delegation of authority granted to the Board of Directors to increase the share capital, and the authorisations to make free grants of shares to be issued, give rise to a corresponding obligation to submit to the Annual General Meeting a draft resolution enabling a potential capital increase to be carried out reserved for employees.

In accordance with the French Labour Code, the issue price may not be higher than the average of the trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period. It also may not be over 20% lower than this average, it being specified that the Board of Directors, or the person to whom it delegates, if it deems it appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account legal and tax regimes applicable in the countries of residence of certain beneficiaries of the capital increase.

The Annual General Meeting is therefore asked to delegate to the Board of Directors the authority to decide to carry out this increase in capital on one or more occasions, for a period of 26 months and within the limit of 1% of the share capital, namely for information purposes at February 11th, 2013 through the issue of 6,043,136 new shares: the amount of the increase or increases in capital that may be carried out in this respect would be deducted from the total ceiling for increases in capital provided for in the ninth resolution.

Eleventh resolution: Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right

The Annual General Meeting, having reviewed the Report of the Board of Directors and the special Report of the Statutory Auditors, deciding under the quorum and majority requirements for Extraordinary General Meetings, and acting in accordance with the provisions of Articles L. 225-129-2, L. 225-129-6 and L. 225-138-1 of the French Commercial Code and Articles L. 3332-18 *et seq.* of the French Labour Code:

- delegates to the Board of Directors the authority to carry out, on one or more occasions, on its own decisions, in the proportions and at the times it may consider appropriate, the issue of shares or securities giving access to the Company's capital reserved for employees, and eligible former employees, of the Company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code, who are members of a company savings scheme;
- decides to cancel the preferential subscription right of shareholders for the shares or securities giving access to the Company's capital, it being specified that the subscription of the shares or securities giving access to the Company's capital issued in accordance with this resolution may be carried out through any employee investment fund or other collective body authorised by the regulations;
- sets the period of validity of this delegation at 26 months as from the date of this Annual General Meeting, and records that this delegation renders ineffective any prior delegation for the same purpose, for the unused part thereof;
- decides to set at 1% of the share capital existing at the date of this Annual General Meeting, the capital increase that could thus be completed (that is, for information purposes as at February 11th, 2013, an increase in the share capital by a maximum nominal amount of €1,208,627.20 through the issue of 6,043,136 new shares);
- decides that the amount of the increases in capital that may be carried out pursuant to this resolution will be deducted from the total ceiling for increases in capital provided for in the ninth resolution presented to this Annual General Meeting;
- decides that the subscription price may include a discount as compared with the average of the trading prices on the NYSE-Euronext Paris market for the twenty trading days prior to the date of the decision setting the opening date of the subscription period. Such discount may not exceed 20% of this average, it being specified that the Board of Directors, or the person to whom it delegates, if it deems it appropriate, is expressly authorised to reduce or eliminate the discount, in particular to take into account legal and tax regimes applicable in the countries of residence of the beneficiaries of the capital increase;
- decides, pursuant to Article L. 3332-21 of the French Labour Code, that the Board of Directors may provide for the free grant to the beneficiaries specified above of shares that have already been issued or are to be issued, as an additional employer contribution that may be paid pursuant to the employee savings scheme regulations, and/or in respect of the discount, provided that taking into account their equivalent monetary value, assessed on the basis of the subscription price, it does not lead to the limits provided for in Articles L. 3332-11 and L.3332-19 of the French Labour Code being exceeded;
- decides that the Board of Directors will have full powers, with the possibility to delegate further under the conditions provided for by law, to implement this delegation of authority within the limits and under the conditions specified above in particular in order to:
  - set the conditions that must be met by the employees and eligible former employees to be able to subscribe, individually or through an employee investment fund, for the shares issued pursuant to this delegation,

- decide on the list of the companies whose employees may benefit from the share issue,
- decide on the amount to be issued, the features, where applicable, of the securities giving access to the Company's capital, the issue price, the dates of the subscription period and the terms and conditions of each share issue,
- set the time period allotted to the beneficiaries to pay up their shares or securities and the payment terms,
- set the date, even with retrospective effect, as of which the new shares will carry dividend rights,
- deduct, where applicable, the costs, taxes and fees of such issues from the amount of the share premiums and deduct, where applicable, from the amounts of the share premiums, the amounts required to increase the legal reserve to the level required by the French legislation and regulations in force,
- in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be appropriate or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and record the final completion of the capital increase or capital increases made pursuant to this delegation of authority and amend the Articles of Association accordingly.

Resolution 12: Powers for formalities

Statement of reasons

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

Twelfth 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.

8.2. Statutory Auditors' Special Report on the authorisation for the free granting of existing shares and/or shares to be issued to employees and corporate officers of the Company

(Annual General Meeting of April 26th, 2013 - Tenth resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Article L. 225-197-1 of the French Commercial Code (*Code de commerce*), we have prepared this report on the proposed free granting of existing shares and/or shares to be issued to employees and corporate officers of L'Oréal and affiliated companies within the meaning of Article L. 225-197-2 of the French Commercial Code, or to certain categories of employees and corporate officers, a transaction on which you are asked to vote.

Based on its report, shareholders are requested to authorise the Board of Directors to grant, for a period of twenty-six months, for no consideration and on one or more occasions, existing shares and/or shares to be issued.

It is the role of the Board of Directors to prepare a report on the transaction which it wishes to conduct. It is our role, where necessary, to comment on the information which is communicated to you on the proposed transaction.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying that the proposed terms and conditions presented in the Board of Directors' Report comply with the provisions provided for by law.

We have no comments to make on the information given in the Board of Directors' Report relating to the proposed free granting of shares.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

This is a free translation into English of the Statutory Auditors' Special Report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

8.3. Statutory Auditors' Special Report on the share capital increase reserved for employees of the Company

(Annual General Meeting of April 26th, 2013 – Eleventh resolution)

In our capacity as Statutory Auditors of your Company and in accordance with Articles L. 228-92 and L. 225-135 *et seq.* of the French Commercial Code (*Code de commerce*), we hereby present you with our report on the proposal to delegate to the Board of Directors the authority to carry out, on one or more occasions, the issue of shares or securities giving access to the Company's share capital with cancellation of preferential subscription rights, such increase being reserved for employees and eligible former employees of your Company and affiliated companies, within the meaning of Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labour Code (*Code du travail*), who are members of a L'Oréal Group corporate savings scheme, a transaction on which you are asked to vote.

This proposed share capital increase is submitted to you for approval pursuant to Articles L. 225-129-6 of the French Commercial Code and Article L. 3332-18 *et seq.* of the French Labour Code.

The total number of shares likely to be issued, on one or more occasions, pursuant to this delegation, cannot exceed 1% of the Company's share capital existing as of the date of this Annual General Meeting, it being specified that the total share capital increases likely to be carried out under this resolution shall be allocated to the overall limit stipulated in the ninth resolution.

On the basis of its report, the Board of Directors asks you to delegate, for a period of twenty-six months, the authority to decide one or several share capital increases and to cancel your preferential share subscription rights to the shares to be issued. Where appropriate, the Board of Directors shall set the final terms and conditions of the share capital increases.

It is the role of the Board of Directors to prepare a report in accordance with Articles R. 225-113 *et seq.* of the French Commercial Code. It is our role to comment on the fair presentation of financial data taken from the accounts, on the proposed cancellation of your preferential subscription rights and on certain other information concerning the issue, presented in this report.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France. These procedures consisted in verifying the content of the Board of Directors' Report in respect of this transaction and the terms and conditions for determining the share issue price.

Subject to the subsequent review of the terms and conditions of each share capital increase that the Board of Directors may decide, we have no comment to make on the terms and conditions for determining the share issue price as set forth in the Board of Directors' Report.

As the final terms and conditions governing the share capital increase(s) have not been set, we do not express an opinion thereon and consequently on the proposed cancellation of preferential share subscription rights.

In accordance with Article R. 225-116 of the French Commercial Code, we shall prepare an additional report for each share capital increase that your Board of Directors may decide to perform.

Neuilly-sur-Seine, February 15th, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Gérard Morin	David Dupont-Noel

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This is a free translation into English of the Statutory Auditors' Special Report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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APPENDIX

9.1. Statutory Auditors

9.1.1. AUDITORS

2010, 2011 and 2012	Current appointments: Date of first appointment	Date of appointment	Term of office	Expiry date
Auditors				
PricewaterhouseCoopers Audit Auditor, member of the "Compagnie Régionale de Versailles", represented by Gérard Morin 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	AGM reviewing the financial statements for 2015 to be held in 2016
Deloitte & Associés Auditor, member of the "Compagnie Régionale de Versailles", represented by David Dupont-Noel 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Substitute auditors				
Mr. Yves Nicolas 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29th, 2004	April 27th, 2010	6 years	
Société BEAS 195 avenue Charles de Gaulle 92200 Neuilly-sur-Seine (France)	April 27th, 2010	April 27th, 2010	6 years	

9.1.2. FEES OF AUDITORS AND MEMBERS OF THEIR NETWORKS CHARGED TO THE GROUP

See note 30 to *Consolidated financial statements* on page 147 of this present document.

9.2. Historical financial information included by reference

In accordance with Article 28 of European Regulation EC n° 809/2004 of April 29th, 2004, this 2012 Registration Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31st, 2011, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 87 to 146 of the 2011 Registration Document filed with the Autorité des Marchés Financiers on March 14th, 2012 under the number D. 12-0155, and also information extracted from the 2011 Management Report presented on pages 70 to 85 of the Registration Document;
- the consolidated financial statements for the year ended December 31st, 2010, prepared in accordance with IFRS and the related Statutory Auditors' Report presented on pages 4 to 63 and page 195 of Volume 2 of the 2010 Registration Document filed with the Autorité des Marchés Financiers on March 17th, 2011 under the number D. 11-0143, and also information extracted from the 2010 Management Report presented on pages 66 to 73 of Volume 2 of the Registration Document.

9.3. Person responsible for the Registration Document and the Annual Financial Report

Mr. Christian Mulliez, Executive Vice-President Administration and Finance, on the authority of L'Oréal's Chairman and Chief Executive Officer, Mr. Jean-Paul Agon.

9.4. Declaration by the person responsible for the Registration 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 Registration 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 elements of the Management Report included in this present document, as detailed in the table of concordance section 9.8. page 263, present 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 present document and have read the Registration Document in its entirety."

Clichy, March 15th, 2013

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez

Executive Vice-President Administration and Finance

9.5. Registration Document table of concordance

In order to facilitate the reading of this Registration Document, the following table provides the page references of the main information required by the Annex 1 of European Regulation no. 809/2004/CE.

Schedule based on annex 1, commission regulation no. 809/2004/CE	Pages
1. Persons responsible	
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3. Selected financial information	**78-92**
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6. Business overview	
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7. Organisational structure	
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8.1. Existing or planned material tangible fixed assets	15-16, 18, 106, 125-126
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9.1. Financial condition	78-92, 96-100, 156-159
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11. Research and development, patents and licenses	**14, 23**
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13. Profit forecasts or estimates	**n/a**

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9.6. Annual Financial Report table of concordance

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 and by Article 222-3 of the General Regulation of the *Autorité des Marchés Financiers*.

9.7. Table of concordance with the AMF Tables on the remuneration of corporate officers

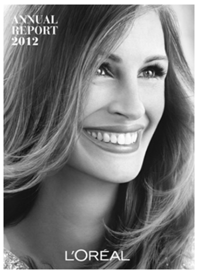
The following thematic table has been prepared in order to make it possible to look at the information provided on remuneration from the perspective of the presentation in the form of 10 tables recommended by the AMF in its recommendations of December 22nd, 2008 relating to "the information to be provided in reference documents on the remuneration of corporate officers" (see also the AFEP/MEDEF Code). It should be noted that some information is not presented in table form in light of its content (see the tables marked with an asterisk* below).

9.8. Table of concordance of the Management Report

In order to review the elements of the Management Report, the following thematic table makes it possible to identify the main information provided for by Articles L. 225-100 et *seq.*, L. 232-1 and R. 225-102 et *seq.* of the French Commercial Code.

TO FIND OUT MORE

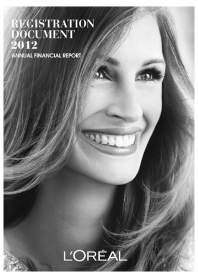
Consult the whole range of Group publications



The Activity Report

L'Oréal in 2012, with its divisions, brands and countries, driven by its mission: the universalisation of beauty and beauty for all.

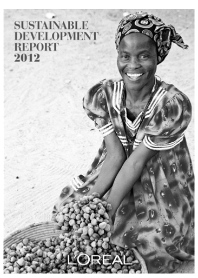
Beauty is universal/ L'Oréal offering beauty for all / Beauty is a science / Beauty is a commitment



The Registration Document

This document includes the 2012 financial statements, the Management Report of the Board of Directors, the Annual Financial Report and a section on Social and Environmental Responsibility.

Presentation of the Group / Corporate governance / Key figures and comments on the financial year / Consolidated financial statements / Parent company financial statements / Corporate social, environmental and societal responsibility / Stock market information / Share capital / Annual General Meeting / Appendix /



The Sustainable Development Report

Presentation and concrete examples of the Group's sustainable development strategy.

Sustainable Innovation / Sustainable Production / Sustainable Consumption / Shared Development

These documents can be downloaded at www.loreal.com and are available on request from the Image and Corporate Information, and the Financial Communications Departments.

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