L'ORÉAL

Half-year Report at June 30th, 2011

Contents

Half-year Report

at June 30th, 2011

Half-year situation at June 30th, 2011

The following statements have been examined by the Board of Directors and have been the object of a limited review by the Statutory Auditors.

This is a free translation into English of the L'Oréal 2011 Half-Year Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

Activity Report

It should be noted that L'Oréal's half-year results are not representative of the full-year results.

1. The Group consolidated

Based on reported figures, the **Group's sales** at June 30th, 2011 amounted to 10.15 billion euros, an increase of +5.0%. Like-for-like, *i.e.* based on a comparable structure and identical exchange rates, the sales growth of the L'Oréal Group was +5.2%. The net impact of changes in consolidation was +0.7%. Currency fluctuations had a negative impact of -0.9%. If the exchange rates at the end of July, *i.e.* €1 = $1.438, are extrapolated up to December 31st, the impact of currency fluctuations on sales would be approximately -1.8% for the whole of 2011. Growth at constant exchange rates was +5.9%.

1.1 Consolidated profit and loss accounts

Gross profit, at €7,260m, increased by 5.4%, and came out at 71.5% of sales, compared with 71.3% in the first half of 2010. Despite the unfavourable impact of higher raw materials prices, the improved efficiency and productivity of the factories, good stock management and finally the positive conversion effect, resulting from the strengthening of the euro, have contributed to this further improvement.

Research and development expenses have increased by 12.2%. This increase reflects the group's determination to step up its investments in Research and Innovation and, to a lesser extent, the integration of Q-Med.

Advertising and promotion expenses came out at 30.9% of sales, amounting to €3,135m, in line with the level for the full-year 2010.

Selling, general and administrative expenses amounted to €2,076m, representing 20.5% of sales, a level below that recorded in the full-year 2010.

Operating profit, at 16.8% of sales, amounted to €1,702m. This compares with the record level achieved in the first half of 2010 of 17.3%. The difference compared with the first half of 2010, that is 50 basis points, is the result of increased investments in R&D and advertising & promotion business drivers.

Overall finance costs, at €9m, have fallen sharply compared with the first half of 2010. This large reduction is the result of the significant decline in net debt.

The **dividend** received from Sanofi for 2010 amounted to €296m, an increase of +4.2%.

Profit before tax excluding non-recurring items amounted to €1,989m, an increase of +2.8%.

Income tax on non-recurring items amounted to €481m, less than in the first half of 2010.

Net profit excluding non-recurring items after non-controlling interests amounted to €1,506m, up by +6.7%. EPS amounted to €2.52, up by +5.4% compared with the first half of 2010.

After allowing for non-recurring items, **net profit after non-controlling interests amounted to €1,467m, an increase of +11.6%.**

1.2 Cash flow statements/balance sheet

Gross cash flow amounted to **€1,795m**, which is stable compared with the first half of 2010.

The **change in working capital** has increased by €701m. The greater increase compared with the first half of 2010 stems mainly from the trade accounts payable and tax items.

Total cash flows from operating activities amounted to €1,094m.

Investments amounted to **€400m** that is approximately 4% of sales.

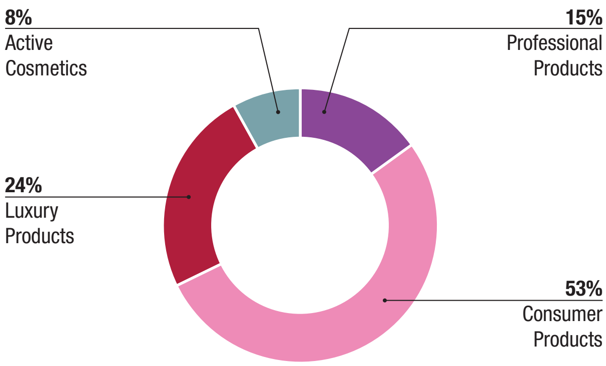
At June 30th, 2011, **net financial debt** totalled **€526m**. Gearing amounted to 3.3% of shareholders' equity.

The balance sheet structure, which was already robust, was further reinforced with **shareholders' equity** representing 64% of total assets.

2. Segment information

2.1 By branch

2.1.1 Cosmetics



The **Professional Products Division** posted growth of +2.1% like-for-like and +4.2% based on reported figures in the first half of 2011 (after taking into account the impact of currency fluctuations and of changes in consolidation due to the acquisition of distributors in the United States). In a professional market reflecting sharp contrasting trends, the division strengthened its worldwide leadership, thanks to its growth in the New Markets, and the continuing conquest of hair salons in Europe.

- At L'Oréal Professionnel, Inoa is now recognised as the new market standard for hair colourants. In haircare, Absolut Repair Cellular, a range of products enriched with lactic acid, and Mythic Oil, are proving highly successful. At Kérastase, Elixir Ultime has become the flagship product in the hair oil market. Redken is reinforcing its leadership in hair colourants with Shades EQ Cream and Matrix is launching Total Results, a range of professional haircare products at accessible prices.
- The division is slightly outperforming the market in North America and Western Europe, where the context remains difficult. In the New Markets, which are still proving dynamic, the division is making progress, particularly in hair colourants.
- The division is launching Salonworld.com, the first website to focus on the inspiration behind the hairdressing profession, and on exchanges between hairdressing professionals.

The **Consumer Products Division,** achieved sales growth of +5.2% like-for-like, and +4.5% based on reported figures. Maybelline is confirming its dynamism and L'Oréal Paris is accelerating.

- L'Oréal Paris confirmed the success of its Lash Architect 4D mascara, Sublime Mousse hair colourant and Elsève Volume Collagen shampoo. The launch of Revitalift Total Repair 10 skincare is very promising.

  Maybelline is performing well in all countries, particularly in Asia thanks to the BB Cream and Clear Smooth initiatives.

  Garnier, after good starts for Fructis Pure Clean shampoo and Intensive 7 Days body lotion, is continuing its initiatives with Fructis anti-dandruff, anti-bacteria shampoo.

- In Western Europe, in a flat market, the results are very encouraging in France, Germany and the Northern countries. In Greece and Portugal the difficulties are continuing.

  In North America, the division produced a very good performance, with significant market share gains.

  Eastern Europe has suffered a setback linked to the dismal economic environment, and partly to the phasing of business activity, particularly for Garnier.

  Latin America, in a lively market, is recording good results thanks to L'Oréal Paris hair colourants and haircare, along with Garnier deodorants.

  The markets are also buoyant in Asia excluding Japan, where the division is winning market share: Maybelline has proven particularly dynamic in this zone.

The first half sales of the **Luxury Division** increased by +8.5% like-for-like and by +6.9% based on reported figures. Sell-out trends are dynamic, particularly in Asia, the United States and in Travel Retail.

- Lancôme is expanding in all categories, with the launch of Absolu Nu lipstick and the success of Teint Miracle in make-up, Génifique and Rénergie Multiple Lift Yeux in facial skincare, and Trésor in Love in fragrances.

  Giorgio Armani is performing extremely well, reflecting the scores of its emblematic fragrances, the confirmed success of Acqua di Gioia and the launch of Code Sport. The skincare line Régénessence, a strategic launch, is confirming its good start.

  Yves Saint Laurent is consolidating its positions in make-up and in men's fragrances with L'Homme and La Nuit de L'Homme.

  Kiehl's is continuing its very strong growth worldwide, thanks to its unique positioning and the success in skincare of Rosa Arctica, and Double Strength Deep Wrinkle Filler.

  Ralph Lauren and Viktor & Rolf are confirming their international dynamism.

- In Western Europe, Yves Saint Laurent and Kiehl's posted very good sell-out figures. In the first half, sales take into account an insurance benefit of 13.5 million euros received to offset the loss of sales resulting from partial damage which occurred in our Luxury Division dispatching centre.

  In the dynamic North American market, the division's sales have been bolstered by Lancôme, Kiehl's, Viktor & Rolf and Giorgio Armani.

  In the New Markets, the division's growth is still very strong, particularly in Asia (South Korea, China, Taiwan and Hong Kong). Growth in this zone is bolstered by Lancôme, Kiehl's, Giorgio Armani and Shu Uemura. The division's sales are also growing substantially in Travel Retail and in Latin America.

The **Active Cosmetics Division** delivered first-half growth of +3.2% like-for-like and +3.2% based on reported figures, driven by its successes in Latin America, and the worldwide advances of La Roche-Posay.

- La Roche-Posay is expanding on all continents in facial skincare in general, and was particularly successful with the launches of Tolériane Ultra and Substiane[+], and the Anthélios with Mexoplex® sun protection range. At Vichy, the Capital Soleil range of sun protection products is recording good scores. SkinCeuticals and Roger & Gallet are successfully continuing their internationalisation.
- In Western Europe, there are contrasting trends: La Roche-Posay, Roger & Gallet and SkinCeuticals are posting good growth rates, but the trend at Vichy is less dynamic.

  Growth in the New Markets is very strong in Latin America, and lively in Asia and in the Africa, Middle East zone. The pharmacy channel is experiencing difficulties in Eastern Europe.

2.1.2 The Body Shop

At end June, **The Body Shop** sales recorded like-for-like growth at +2.6%. Retail sales(1) are at +2.0%.

The Body Shop pursued its expansion programme in the New Markets, accelerated the pace of its growth in e-commerce and further boosted its visibility in Travel Retail. The brand is delivering strong growth in the Middle East, Eastern Europe and Southern Asia. Western Europe remains constricted by local economic influences.

The Body Shop is bolstering its militant approach to innovations, with launches including Brush with Fashion, a Cruelty Free limited edition make-up range and Body Butter Duos packed with Community Fair Trade ingredients.

The Body Shop continued to rally unprecedented customer engagement and support for its campaign to Stop Sex Trafficking of Children and Young People, and presented the biggest Human Rights petition ever to the European Union.

At end June 2011, The Body Shop has a total of 2,645 stores.

2.1.3 Dermatology (Group share, *i.e.* 50%)

Galderma's sales increased by +5.3%, like-for-like, and +13.6% based on reported figures.

Epiduo (acne), Clobex (scalp psoriasis), Azzalure (muscle relaxant for frown lines), Restylane (dermal filler for wrinkles) and Cetaphil (therapeutic skincare line) recorded double-digit growth rates.

While growth in the United States and Western Europe was challenged by pricing pressure from payers and by erosion from generic forms of some of Galderma's mature products, growth in Asia, Pacific and Latin America was particularly strong.

Q-Med, the Swedish medical device company acquired in March 2011, recorded sales growth of +18.1%.

(1) Retail sales: total sales to consumers through all channels, including franchisees.

2.2 Operating profit by branch and division

	06.30.2010		12.31.2010		06.30.2011	
	€ millions	% of sales	*€ millions*	% of sales	*€ millions*	% of sales
By operational division						
Professional Products	288	21.2%	552	20.3%	281	19.8%
Consumer Products	982	20.4%	1,765	18.5%	1,013	20.1%
Luxury Products	378	18.0%	791	17.5%	426	18.9%
Active Cosmetics	208	26.9%	278	20.1%	210	26.3%
Cosmetics divisions total	**1,856**	**20.5%**	**3,385**	**18.7%**	**1,930**	**20.3%**
*Non-allocated**	*-235*	*-2.6%*	*-513*	*-2.8%*	*-262*	*-2.8%*
Cosmetics branch	1,622	17.9%	2,872	15.8%	1,668	17.5%
The Body Shop	14	4.1%	65	8.7%	9	2.8%
Dermatology branch**	33	12.4%	119	19.8%	25	8.1%
Group	1,669	17.3%	3,057	15.7%	1,702	16.8%

* *Non-allocated = Central group expenses, fundamental research expenses, stock option and free grant of share expenses and miscellaneous items. As % of cosmetics sales.*
** *Group Share, i.e. 50%.*

The **Professional Products Division** is operating in a difficult market this year, and its profitability has edged down from 21.2% to 19.8%.

The profitability of the **Consumer Products Division** at 20.1% is slightly down on the first half of 2010, but is considerably higher than the full-year 2010 figure of 18.5%.

The profitability of the **Luxury Products Division**, at 18.9%, has grown strongly.

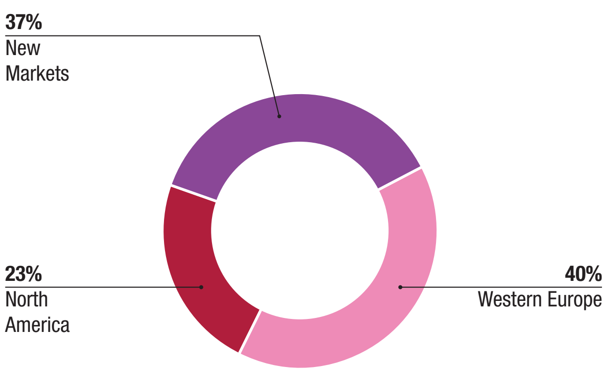
The **Active Cosmetics Division** has again recorded very high profitability at 26.3%.

The increase in non-allocated costs, at 2.8%, is mainly the result of the rise in Research expenses.

The profitability of **The Body Shop**, which is mainly achieved in the second half of each year, came out at 2.8%.

The decline in profitability of **Dermatology** is the result of two factors: firstly, competition from generics for *Differin* 0.1% gel and cream and for *Loceryl* and, secondly, negative exchange rate effects.

2.3 Cosmetics sales by geographic zone



2.3.1 Western Europe

In a globally flat market, L'Oréal achieved growth of +0.8% like-for-like and +1.4% based on reported figures, thanks to good scores in France, Germany and Northern Europe, and in Travel Retail. The situation is tougher in the countries of Southern Europe, particularly Greece and Portugal.

2.3.2 North America

In the first half, North America achieved good like-for-like growth at +5.8%, in an expanding market. The Luxury Products Division made a very good start to the year, thanks in particular to the rebound at Lancôme and another period of strong growth for Kiehl's and for fragrances. The Consumer Products Division is making clear market share gains in haircare, facial skincare and make-up. The sales growth at Essie augurs well for the future.

2.3.3 New Markets

In the first half, the New Markets recorded like-for-like growth of +10.1%. There is a contrast between growth rates in Asia and Latin America on the one hand, whose strong dynamism has been confirmed, and Eastern Europe on the other, now seeing a sharp slowdown.

- **Asia, Pacific**: Despite the disaster in Japan and its consequences, in the first half, the Group still recorded good growth figures of +13.0% like-for-like and +13.5% based on reported figures. If Japan is excluded, growth in this zone came out at +16.1% like-for-like and +15.6% based on reported figures. L'Oréal is continuing to win market share across the whole of the Asia, Pacific zone.

  The Luxury Products Division recorded very positive growth in China, South Korea, Hong Kong and Taiwan, thanks in large part to Lancôme, Kiehl's and Shu Uemura which are very clearly improving their positions in dynamic markets.

  The Consumer Products Division is expanding thanks to accessibly priced innovations which are enabling it to extend its distribution, primarily in India, China, and the emerging countries of the South-East, such as Indonesia, Thailand and the Philippines.

- **Eastern Europe**: After several years of sustained growth, the zone's like-for-like growth came out at -3.4% in a dismal economic environment, where consumer confidence and market dynamism proved more difficult than expected, particularly in mass-market and the pharmacy channel. Furthermore, in this zone, launch phasing tends to be focused on the final months of the year.
- **Latin America**: Growth was very strong in Latin America in the first half at +17.3% like-for-like, with very dynamic trends in all countries, except Venezuela, and across all divisions.
- **Africa, Middle East**: The Africa, Middle East zone posted growth of +10.1% like-for-like in the first half. Turkey and the countries of the Levant are the main growth drivers. The new subsidiaries in Pakistan and Egypt are developing well. Conversely, the pace of growth in South Africa remains modest.

3. Important events during the period

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

  The Board voted unanimously in favour of appointing Mr Jean-Paul Agon as Chairman and CEO of L'Oréal. This appointment became effective as of March 17th, 2011.

4. Risk factors and transactions between related parties

4.1 Risk factors

Risk factors are similar to those presented in the volume 2 of the 2010 Annual Report (pages 75 to 81) and did not change significantly during the first half-year of 2011. The amounts relating to market and financial risks at June 30, 2011 are described in notes 14 & 15 in the section "Notes to financial statements" of this half-year report.

4.2 Transactions between related parties

Transactions between the companies consolidated on a proportional basis (no company consolidated under the equity method) don't represent a significant amount at June 30th, 2011. Furthermore, during the first half-year of 2011, there was no significant transaction concluded with a member of the senior management or with a shareholder having a material influence on the Group.

5. Prospects

Organic growth in the first half of 2011 has confirmed the good dynamics of the group, which is further strengthening its worldwide positions, particularly in North America, in Latin America and in Asia Pacific.

The first-half results are up, solid and of good quality. Gross profit is improving, despite the higher cost of raw materials. Operating margin is at a high level, and net profit is growing strongly. At the same time we are continuing to pave the way for the future with our ongoing policy of sustained investments in R&D and advertising & promotion business drivers. Finally, the group's debt is particularly low.

These performances reflect the quality and solidity of the L'Oréal business model, based on powerful innovation, the vitality of our brand portfolio and a vast potential for internationalisation. In an uncertain economic environment, these fundamentals make us more confident than ever in the group's ability to build sustainable and profitable growth.

For 2011, we confirm our ambition to outperform the market and improve the group's profitability.

6. Subsequent events

No significant events occurred between the balance sheet date and the date when the Board of Directors authorised the condensed half-year consolidated financial statements for issue.

Condensed consolidated financial statements

Compared consolidated profit and loss accounts

€ millions	Notes	1st half 2011	1st half 2010	2010
Net sales	3	**10,149.6**	**9,666.8**	**19,495.8**
Cost of sales		-2,889.5	-2,776.3	-5,696.5
Gross profit		**7,260.1**	**6,890.4**	**13,799.3**
Research and development		-346.3	-308.7	-664.7
Advertising and promotion		-3,135.4	-2,950.4	-6,029.1
Selling, general and administrative expenses		-2,076.1	-1,962.8	-4,048.6
Operating profit	3	**1,702.3**	**1,668.6**	**3,056.9**
Other income and expenses	6	-62.6	-107.0	-153.2
Operational profit		**1,639.7**	**1,561.5**	**2,903.7**
Finance costs on gross debt		-18.8	-23.5	-43.8
Finance income on cash and cash equivalents		12.7	9.2	17.2
Finance costs, net		**-6.1**	**-14.3**	**-26.6**
Other financial income (expenses)		-3.2	-3.5	-9.0
Sanofi dividends		295.6	283.8	283.8
Profit before tax and non-controlling interests		**1,926.0**	**1,827.5**	**3,151.9**
Income tax		-457.9	-511.5	-909.9
Net profit		**1,468.1**	**1,316.0**	**2,242.0**
attributable to:				
- owners of the company		1,466.6	1,314.3	2,239.7
- non-controlling interests		1.5	1.7	2.3
Earnings per share attributable to owners of the company *(euros)*	7	2.48	2.24	3.82
Diluted earnings per share attributable to owners of the company *(euros)*	7	2.46	2.23	3.79
Earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	7	2.55	2.41	4.04
Diluted earnings per share attributable to owners of the company excluding non-recurring items *(euros)*	7	**2.52**	**2.39**	**4.01**

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

€ millions	1st half 2011	1st half 2010	2010
Consolidated net profit for the period	1,468.1	1,316.0	2,242.0
Financial assets available for sale	*896.7*	*-653.8*	*-852.3*
Cash flow hedges	*37.7*	*-81.0*	*-8.0*
Actuarial gains and losses	*-1.0*	*-0.4*	*-213.5*
Tax effect on items directly recognised in equity(1)	*-25.8*	*32.8*	*92.0*
Cumulative translation adjustments	*-359.5*	*798.4*	*463.3*
Changes in gains and losses directly recognised in equity	548.1	96.0	-518.5
Total net profit and gains and losses directly recognised in equity	2,016.2	1,412.0	1,723.5
Attributable to:			
- owners of the company	**2,014.6**	**1,410.3**	**1,721.2**
- non-controlling interests	1.6	1.7	2.3

(1) The tax effect is as follows:

€ millions	1st half 2011	1st half 2010	2010
Financial assets available for sale	-15.2	11.3	14.6
Cash flow hedges	-10.8	21.3	1.1
Actuarial gains and losses	0.2	0.2	76.3
Total	**-25.8**	**32.8**	**92.0**

Compared consolidated balance sheets

€ millions	Notes	06.30.2011	06.30.2010	12.31.2010
ASSETS				
Non-current assets		17,945.8	17,605.6	17,048.2
Goodwill	8	5,705.9	5,894.9	5,729.6
Other intangible assets	8	2,232.0	2,297.0	2,177.5
Tangible assets	9	2,672.0	2,780.0	2,677.5
Non-current financial assets	10	6,729.0	6,043.9	5,837.5
Deferred tax assets		606.9	589.8	626.1
Current assets		7,230.2	7,160.0	6,996.3
Inventories		1,896.0	1,766.6	1,810.1
Trade accounts receivable		3,049.9	3,077.5	2,685.3
Other current assets		969.9	833.8	846.0
Current tax assets		60.0	48.1	104.5
Cash and cash equivalents	11	1,254.4	1,434.0	1,550.4
Total		**25,176.0**	**24,765.6**	**24,044.5**

€ millions	Notes	06.30.2011	06.30.2010	12.31.2010
EQUITY & LIABILITIES				
Equity	12	16,118.3	14,254.3	14,865.8
Share capital		120.5	119.9	120.2
Additional paid-in capital		1,251.2	1,053.9	1,148.3
Other reserves		12,322.5	11,052.9	11,107.1
Items directly recognised in equity		2,095.6	1,467.6	1,188.1
Cumulative translation adjustments		-449.1	245.4	-89.6
Treasury stock		-691.3	-1,002.5	-850.9
Net profit attributable to owners of the company		1,466.6	1,314.3	2,239.7
Equity attributable to owners of the company		16,116.0	14,251.5	14,862.9
Non-controlling interests		2.3	2.8	2.9
Non-current liabilities		1,854.5	2,593.5	2,596.6
Provisions for employee retirement and obligations and related benefits		1,012.0	1,006.4	1,129.0
Provisions for liabilities and charges	13	172.6	163.2	181.3
Deferred tax liabilities		506.1	429.4	462.0
Non-current borrowings and debt	14	163.8	994.5	824.3
Current liabilities		7,203.2	7,917.8	6,582.1
Trade accounts payable		2,997.3	2,950.1	3,153.5
Provisions for liabilities and charges	13	517.0	602.8	536.9
Other current liabilities		1,905.8	2,039.2	1,958.1
Income tax		166.4	213.4	166.6
Current borrowings and debt	14	1,616.7	2,112.3	767.0
Total		**25,176.0**	**24,765.6**	**24,044.5**

Compared consolidated statements of changes in equity

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2009	**584,735,660**	**119.8**	**996.5**	**11,933.5**	**2,169.9**	**-1,071.6**	**-552.9**	**13,595.2**	**3.1**	**13,598.3**
Consolidated net profit for the period				2,239.7				2,239.7	2.3	2,242.0
Financial assets available for sale					*-837.7*			*-837.7*		*-837.7*
Cash flow hedges					*-6.8*			*-6.8*		*-6.8*
Actuarial gains and losses					*-137.3*			*-137.3*		*-137.3*
Cumulative translation adjustments							*463.3*	*463.3*		*463.3*
Change in gains and losses directly recognised in equity					-981.8		463.3	-518.5	-	-518.5
Total net profit and gains and losses directly recognised in equity				**2,239.7**	**-981.8**		**463.3**	**1,721.2**	**2.3**	**1,723.5**
Capital increase	2,520,175	0.5	151.8					152.3		152.3
Cancellation of treasury stock		-0.1		-37.8		37.9		-		-
Dividends paid (not paid on treasury stock)				-878.8				-878.8	-2.2	-881.0
Share-based payment				84.8				84.8		84.8
Net changes in treasury stock	2,400,068			1.1		182.8		183.9		183.9
Purchase of non-controlling interests				-2.9				-2.9		-2.9
Other movements				7.2				7.2	-0.3	6.9
At 12.31.2010	**589,655,903**	**120.2**	**1,148.3**	**13,346.8**	**1,188.1**	**-850.9**	**-89.6**	**14,862.9**	**2.9**	**14,865.8**
Consolidated net profit for the period				1,466.6				1,466.6	1.5	1,468.1
Financial assets available for sale					*881.5*			*881.5*		*881.5*
Cash flow hedges					*26.8*			*26.8*	*0.1*	*26.9*
Actuarial gains and losses					*-0.8*			*-0.8*		*-0.8*
Cumulative translation adjustments							*-359.5*	*-359.5*		*-359.5*
Change in gains and losses directly recognised in equity					907.5		-359.5	548.0	0.1	548.1
Total net profit and gains and losses directly recognised in equity				**1,466.6**	**907.5**		**-359.5**	**2,014.6**	**1.6**	**2,016.2**
Capital increase	1,661,947	0.3	102.9					103.2		103.2
Cancellation of treasury stock								-		-
Dividends paid (not paid on treasury stock)				-1,065.3				-1,065.3	-1.9	-1,067.2
Share-based payment				39.0				39.0		39.0
Net changes in treasury stock	2,106,656			1.3		159.6		160.9		160.9
Purchase of non-controlling interests								-		-
Other movements				0.7				0.7	-0.3	0.4
At 06.30.2011	**593,424,506**	**120.5**	**1,251.2**	**13,789.1**	**2,095.6**	**-691.3**	**-449.1**	**16,116.0**	**2.3**	**16,118.3**

Changes in first half 2010

€ millions	Common shares outstanding	Share capital	Additional paid-in capital	Retained earnings and net profit	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Equity attributable to owners of the company	Non-controlling interests	Total equity
At 12.31.2009	**584,735,660**	**119.8**	**996.5**	**11,933.5**	**2,169.9**	**-1,071.6**	**-552.9**	**13,595.2**	**3.1**	**13,598.3**
Consolidated net profit for the period				1,314.3				1,314.3	1.7	1,316.0
Financial assets available for sale					*-642.5*			*-642.5*		*-642.5*
Cash flow hedges					*-59.6*			*-59.6*	*-0.1*	*-59.7*
Actuarial gains and losses					*-0.2*			*-0.2*		*-0.2*
Cumulative translation adjustments							*798.3*	*798.3*	*0.1*	*798.4*
Change in gains and losses directly recognised in equity					-702.3		798.3	96.0	-	96.0
Total net profit and gains and losses directly recognised in equity				**1,314.3**	**-702.3**		**798.3**	**1,410.3**	**1.7**	**1,412.0**
Capital increase	959,950	0.2	57.4					57.6		57.6
Cancellation of treasury stock		-0.1		-37.8		37.9		-		-
Dividends paid (not paid on treasury stock)				-878.8				-878.8	-2.0	-880.8
Share-based payment				38.7				38.7		38.7
Net changes in treasury stock	460,700			0.4		31.2		31.6		31.6
Purchase of non-controlling interests				-3.1				-3.1		-3.1
Other movements								-		-
At 06.30.2010	**586,156,310**	**119.9**	**1,053.9**	**12,367.2**	**1,467.6**	**-1,002.5**	**245.4**	**14,251.5**	**2.8**	**14,254.3**

Compared consolidated statements of cash flows

€ millions	1st half 2011	1st half 2010	2010
Cash flows from operating activities			
Net profit attributable to owners of the company	1,466.6	1,314.3	2,239.7
Non-controlling interests	1.5	1.7	2.3
Elimination of expenses and income with no impact on cash flows:			
- depreciation, amortisation and provisions	276.7	398.6	734.2
- changes in deferred taxes	14.2	39.4	110.0
- share-based payment	39.0	38.7	84.8
- capital gains and losses on disposals of assets	-3.1	-0.4	0.1
Gross cash flow	**1,795.0**	**1,792.3**	**3,171.1**
Changes in working capital	-701.1	-289.2	132.5
Net cash provided by operating activities (A)	**1,093.9**	**1,503.1**	**3,303.6**
Cash flows from investing activities			
Investments in tangible and intangible assets	-400.2	-320.9	-677.9
Disposal of tangible and intangible assets	7.1	6.0	18.3
Changes in other financial assets (including investments in non-consolidated companies)	-3.9	11.7	2.3
Effect of changes in the scope of consolidation	-330.9	-124.3	-160.7
Net cash (used in) from investing activities (B)	**-727.9**	**-427.5**	**-818.0**
Cash flows from financing activities			
Dividends paid	-1,096.8	-896.4	-921.6
Capital increase of the Parent Company	103.2	57.6	152.3
Disposal (acquisition) of treasury stock	160.9	31.6	184.0
Purchase of non-controlling interests	-	-8.4	-8.7
Issuance (repayment) of short-term loans	628.2	-9.6	-132.6
Issuance of long-term borrowings	-	-	4.0
Repayment of long-term borrowings	-411.0	-101.6	-1,462.5
Net cash (used in) from financing activities (C)	**-615.4**	**-926.8**	**-2,185.1**
Net effect of changes in exchange rates and fair value (D)	-46.6	112.1	76.9
Change in cash and cash equivalents (A+B+C+D)	**-296.0**	**260.9**	**377.4**
Cash and cash equivalents at beginning of the year (E)	**1,550.4**	**1,173.1**	**1,173.1**
Cash and cash equivalents at end of the period (A+B+C+D+E)	**1,254.4**	**1,434.0**	**1,550.4**

Income taxes paid amount to €399.4 million, €305.1 million and €713.3 million respectively for first half 2011 and 2010 and year 2010.

Interests paid amount to €19.6 million, €25.2 million and €46.6 million respectively for first half 2011 and 2010 and year 2010.

Dividends received amount to €295.6 million, €283.8 million and €283.8 million respectively for first half 2011 and 2010 and year 2010, and are included within gross cash flow.

Notes to the condensed consolidated financial statements

NOTE 1 Accounting principles

The condensed half-year consolidated financial statements of L'Oréal and its subsidiaries ("the Group") have been prepared in accordance with the international accounting standard IAS 34. As condensed financial statements, they do not include all the information required by IFRS for the preparation of the annual financial statements and must therefore be read in conjunction with the Group consolidated financial statements prepared in accordance with IFRS as adopted in the European Union for the year ending at December 31st, 2010.

The Board of Directors closed the condensed half-year consolidated financial statements as at June 30th, 2011 on August 30th, 2011.

The accounting policies applied are identical to those applied in the annual financial statements at December 31st, 2010, except for those relating to income tax.

The tax charge (current and deferred) is calculated for the half-year financial statements by applying to the profit for the period the estimated annual tax rate for the current tax year for each entity or tax group.

The Group has not applied any standards or interpretations whose application is not yet compulsory in 2011.

Standards or amendments of published standards effective January 1st, 2011 do not have any impact for the Group.

The Group may be concerned by the following standards or amendments of published standards, applicable as from January 1st, 2013 but not yet adopted by the European Union:

- IFRS 9 "Financial instruments" phase 1 "classification and measurement";
- IFRS 11 "Joint arrangements";
- IAS 19 revised "Employee benefits".

NOTE 2 Changes in the scope of consolidation

2.1 First half 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™ for the production of stabilized non-animal hyaluronic acid.

Among other products, its current product portfolio includes Restylane® for smoothing out lines and improving facial contours, and the Macrolane injection for shaping the body.

Sales are made through the company's own subsidiaries and distributors in over 70 countries. Q-Med has approximately 636 employees in 20 countries, including around 364 based at the company's head office, R&D laboratories and production facility in Uppsala, Sweden.

In 2010, the company had total revenues of SEK 1.5 billion and adjusted operating profit of SEK 287 million.

The acceptance period for the offer started on January 4th and ended on March 11th, 2011.

The offer was SEK 79.00 in cash for each share, with the exception of shares owned by Q-Med founder Bengt Agerup, who has made a binding and unconditional commitment to sell its 47.5% ownership interest and voting rights in Q-Med to Galderma Holding AB at a price of SEK 58.94 per share in cash. An earn-out clause stipulates that the total price can under no circumstances exceed SEK 74.96 in cash per share.

On March 15th, 2011, Galderma declared the offer wholly unconditional and has acquired 95,361,096 shares, representing 95.95% of the existing issued share capital of Q-Med. Galderma has decided to compulsorily acquire the remaining Q-Med shares. Q-Med is consolidated by the proportional method from March 1st, 2011.

The cost of these new acquisitions amounts to approximately €408.0 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €151.9 and €177.1 million, respectively.

The impact of those acquisitions on net sales and profit for the half year amounts to €37.7 million and €4.6 million, respectively.

2.2 2010

On December 10th, 2010, L'Oréal USA acquired the professional distribution business of Peel's Salon Services, a Nebraska-based company. Peel's Salon Services supplies hair salons in 12 states across the mid-US, with a network of representatives and professional-only outlets. The company's net sales are approximately $100 million. This acquisition was fully consolidated as of December 11th, 2010.

On April 21st, 2010, L'Oréal USA signed an agreement to acquire the assets of Essie Cosmetics, the ultimate nail colour authority in the US, sold mainly in American salons and spas. The acquisition was completed on June 25th, 2010 and the company has been fully consolidated since June 30th, 2010. Essie's net sales were $25 million in 2009.

On June 1st, 2010, L'Oréal USA acquired 100% of the capital of C.B. Sullivan, a New Hampshire-based company. C.B. Sullivan supplies hair salons in six states across the north-eastern United States (Vermont, New Hampshire, Maine, Connecticut, Rhode Island and Massachusetts), with a network of representatives and professional-only outlets. The company's net sales in fiscal year 2009 were approximately $50 million. The acquisition was fully consolidated as of June 1st, 2010.

The cost of these new acquisitions amounts to approximately €201.7 million. The total amount of goodwill and other intangible assets resulting from the acquisitions was provisionally estimated at €117.8 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;
- **Luxury Products Division**: products sold in selective retail outlets, *i.e.* department stores, perfumeries, travel retail and the Group's own boutiques;
- **Active Cosmetics Division**: dermocosmetic skincare products sold in pharmacies and specialist sections of drugstores.

The *non-allocated* item includes expenses incurred by the Functional Divisions, fundamental research and the costs of stock options and free shares not allocated to the Cosmetics Divisions. It also includes activities that are auxiliary to the Group's core businesses, such as insurance, reinsurance and banking.

The "**The Body Shop**" branch: The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 50 countries), as well as through home and online sales. The Body Shop net sales and operating profit are characterised by strong seasonal fluctuations due to a high level of activity during the last few months of the year.

The **Dermatology** branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, meets the needs of dermatologists and their patients.

The data by branch and by division are prepared using the same accounting principles as those used for the preparation of the consolidated financial statements.

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

3.1.1 Sales of Branches and Divisions

€ millions	1st half 2011	1st half 2010	2010
Professional Products	1,420.2	1,362.6	2,717.1
Consumer Products	5,037.3	4,822.3	9,529.9
Luxury Products	2,249.8	2,104.0	4,506.6
Active Cosmetics	797.7	773.1	1,385.6
Cosmetics branch	**9,505.0**	**9,062.0**	**18,139.1**
The Body Shop branch	**337.4**	**334.3**	**754.9**
Dermatology branch	**307.2**	**270.5**	**601.7**
Group	**10,149.6**	**9,666.8**	**19,495.8**

3.1.2 Operating profit of Branches and Divisions

€ millions	1st half 2011	1st half 2010	2010
Professional Products	281.3	288.2	551.9
Consumer Products	1,013.3	981.9	1,764.6
Luxury Products	425.7	377.9	790.5
Active Cosmetics	209.9	208.2	278.2
Cosmetics Divisions total	**1,930.1**	**1,856.2**	**3,385.3**
Non-allocated	-262.1	-234.7	-512.9
Cosmetics branch	**1,668.0**	**1,621.5**	**2,872.4**
The Body Shop branch	**9.4**	**13.6**	**65.3**
Dermatology branch	**24.9**	**33.5**	**119.2**
Group	**1,702.3**	**1,668.6**	**3,056.9**

3.2 Information by geographic zone

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

3.2.1 Group net sales

	1st half 2011		Growth (%)		1st half 2010		2010	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	4,086.8	40.3%	2.3%	1.6%	3,995.2	41.3%	7,801.7	40.0%
attributable to France	1,264.9	12.5%	4.6%	4.6%	1,209.7	12.5%	2,323.9	11.9%
North America	2,402.3	23.7%	2.2%	7.3%	2,350.0	24.3%	4,818.7	24.7%
New Markets	3,660.5	36.1%	10.2%	10.2%	3,321.6	34.4%	6,875.4	35.3%
Group	**10,149.6**	**100.0%**	**5.0%**	**5.9%**	**9,666.8**	**100.0%**	**19,495.8**	**100.0%**

3.2.2 Cosmetics net sales

	1st half 2011		Growth (%)		1st half 2010		2010	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	3,765.3	39.6%	1.4%	0.8%	3,712.3	41.0%	7,181.0	39.6%
attributable to France	1,238.8	13.0%	5.0%	5.0%	1,179.6	13.0%	2,264.9	12.5%
North America	2,183.4	23.0%	3.0%	8.2%	2,118.8	23.4%	4,291.5	23.7%
New Markets	3,556.3	37.4%	10.1%	10.0%	3,230.9	35.7%	6,666.6	36.8%
Asia, Pacific	1,748.1	18.4%	13.5%	12.9%	1,540.2	17.0%	3,192.2	17.6%
Eastern Europe	680.0	7.2%	-3.8%	-3.5%	706.7	7.8%	1,398.9	7.7%
Latin America	830.7	8.7%	18.0%	17.3%	704.2	7.8%	1,517.7	8.4%
Africa, Middle East	297.6	3.1%	6.4%	9.8%	279.8	3.1%	557.8	3.1%
Cosmetics branch	**9,505.0**	**100.0%**	**4.9%**	**5.8%**	**9,062.0**	**100.0%**	**18,139.1**	**100.0%**

NOTE 4 Depreciation and amortisation expense

Depreciation and amortisation of tangible and intangible assets included in operating expenses amount to €352.5 million, €365.3 million and €767.7 million, respectively, for the first half 2011 and 2010 and year 2010.

NOTE 5 Foreign exchange gains and losses

Foreign exchange gains and losses break down as follows:

€ millions	1st half 2011	1st half 2010	2010
Change in time value	-24.5	-4.6	-17.0
Other foreign exchange gains and losses	-9.0	-27.2	-115.0
Total	**-33.5**	**-31.8**	**-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 profit and loss account under other foreign exchange gains and losses for a negative €0.6 million for the first half 2011, a positive €0.2 million for the first half 2010 and a negative €0.4 million for year 2010.

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

€ millions	1st half 2011	1st half 2010	2010
Cost of sales	-22.7	-31.4	-118.1
Research and development	-6.1	5.5	11.1
Advertising and promotion	-3.2	-3.9	-15.9
Selling, general and administrative expenses	-1.5	-2.0	-9.1
Foreign exchange gains and losses	**-33.5**	**-31.8**	**-132.0**

NOTE 6 Other operational income and expenses

This item breaks down as follows:

€ millions	1st half 2011	1st half 2010	2010
Capital gains and losses on disposals of tangible and intangible assets	3.1	0.4	0.3
Impairment of tangible and intangible assets(1)	-39.7	-22.1	-56.4
Restructuring costs(2)	-34.2	-18.7	-17.9
Other(3)	8.3	-66.6	-79.2
Total	**-62.6**	**-107.0**	**-153.2**

(1) These impairment charges mainly relate to:
- *in first-half 2011, the Softsheen Carson brand and goodwill for €21.6 million and €18.1 million, respectively;*
- *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 first-half 2011, €31.0 million relating to the reorganisation of industrial operations in the United States;*
- *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 first-half 2011, revision of risks relating to investigations carried out by competition authorities (see note 13.1) as well as costs relating to the acquisition of Q-Med; In 2010, risks relating to investigations carried out by competition authorities (see note 13.1).

NOTE 7 Earnings attributable to owners of the company excluding non-recurring items – Earnings per share

7.1 Reconciliation with net profit

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

€ millions	1st half 2011	1st half 2010	2010
Earnings attributable to owners of the company	1,466.6	1,314.3	2,239.7
Capital gains and losses on tangible and intangible asset disposals	-3.1	-0.4	-0.3
Tangible and intangible assets impairment	39.7	22.1	56.4
Restructuring costs	34.2	18.7	17.9
Other	-8.3	66.6	79.2
Tax effect on non-recurring items	-22.7	-10.0	-22.0
Earnings attributable to owners of the company excluding non-recurring items	**1,506.4**	**1,411.3**	**2,370.9**

7.2 Earnings per share

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

1st half 2011	Earnings attributable to owners of the company *€ millions*	Number of shares	Earnings per share attributable to owners of the company *€*
Earnings per share	1,466.6	591,277,366	2.48
Stock options	-	5,130,184	
Free shares	-	562,491	
Diluted earnings per share	**1,466.6**	**596,970,041**	**2.46**

1st half 2010	Earnings attributable to owners of the company *€ millions*	Number of shares	Earnings per share attributable to owners of the company *€*
Earnings per share	1,314.3	585,481,056	2.24
Stock options	-	3,879,541	
Free shares	-	189,092	
Diluted earnings per share	**1,314.3**	**589,549,689**	**2.23**

2010	Earnings attributable to owners of the company *€ millions*	Number of shares	Earnings per share attributable to owners of the company *€*
Earnings per share	2,239.7	586,582,918	3.82
Stock options	-	4,538,021	
Free shares	-	271,510	
Diluted earnings per share	**2,239.7**	**591,392,449**	**3.79**

7.3 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:

1st half 2011	Earnings attributable to owners of the company excluding non-recurring items € millions	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items €
Earnings per share excluding non-recurring items	1,506.4	591,277,366	2.55
Stock options	-	5,130,184	
Free shares	-	562,491	
Diluted earnings per share excluding non-recurring items	**1,506.4**	**596,970,041**	**2.52**

1st half 2010	Earnings attributable to owners of the company excluding non-recurring items € millions	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items €
Earnings per share excluding non-recurring items	1,411.3	585,481,056	2.41
Stock options	-	3,879,541	
Free shares	-	189,092	
Diluted earnings per share excluding non-recurring items	**1,411.3**	**589,549,689**	**2.39**

2010	Earnings attributable to owners of the company excluding non-recurring items € millions	Number of shares	Earnings per share attributable to owners of the company excluding non-recurring items €
Earnings per share excluding non-recurring items	2,370.9	586,582,918	4.04
Stock options	-	4,538,021	
Free shares	-	271,510	
Diluted earnings per share excluding non-recurring items	**2,370.9**	**591,392,449**	**4.01**

NOTE 8 Goodwill and other intangible assets

Impairment tests have been performed at June 30th, 2011 on the most sensitive Cash Generating Units. On this occasion, discount rates and cash flow forecasts were reviewed. The Softsheen Carson Cash Generating Unit led to the recognition of the impairment loss indicated hereafter.

The €23.7 million decrease in the "Goodwill" item results mainly from the negative variation in exchange rates for €171.9 million, the impairment loss on Softsheen Carson for €18.1 million partially offset by changes in the scope of consolidation and acquisitions of the period for €155.1 million.

The increase in the "Other intangible assets" item for €54.5 million results from the changes in the scope of consolidation for €177.1 million, acquisition of the period for €62.8 million offset by the impairment loss on Softsheen Carson for €21.6 million as well as the negative variation of exchange rates amounting to €94.2 million and the depreciation expense of the period.

NOTE 9 Tangible assets

Investments for the first half of 2011 amount to €326.9 million compared to €281.2 million and €598.0 million respectively for the first half of 2010 and year 2010.

The depreciation and provisions for the first half of 2011 amount to €290.5 million compared to €311.5 million and €637.4 million respectively for the first half of 2010 and year 2010.

NOTE 10 Non-current financial assets

€ millions	06.30.2011 Carrying amount	06.30.2011 Acquisition cost	06.30.2010 Carrying amount	06.30.2010 Acquisition cost	12.31.2010 Carrying amount	12.31.2010 Acquisition cost
Financial assets available for sale						
Sanofi(1)	6,554.5	4,033.5	5,855.8	4,033.5	5,657.2	4,033.5
Unlisted securities(2)	5.8	6.9	4.2	5.0	3.5	4.3
Financial assets at amortised cost						
Non-current loans and receivables	168.7	173.4	183.9	194.9	176.8	182.8
Total	**6,729.0**	**4,213.8**	**6,043.9**	**4,233.4**	**5,837.5**	**4,220.6**

(1) L'Oréal's stake in Sanofi was 8.76% at June 30th, 2011. The carrying amount at June 30th, 2011, June 30th, 2010 and December 31st, 2010 (€6,554.5 million, €5,855.8 million and €5,657.2 million respectively) corresponds to the market value of the shares based on the closing price at June 30th, 2011, June 30th, 2010 and December 31st, 2010 (€55.44, €49.53 and €47.85 respectively). The acquisition cost of €4,033.5 million corresponds to an entry cost of €34.12.
(2) As the fair value of unlisted securities cannot be reliably determined, they are stated at cost less any impairment losses.

NOTE 11 Cash and cash equivalents

€ millions	06.30.2011 Carrying amount	06.30.2011 Acquisition cost	06.30.2010 Carrying amount	06.30.2010 Acquisition cost	12.31.2010 Carrying amount	12.31.2010 Acquisition cost
Marketable securities	356.7	355.8	483.6	483.1	523.6	522.9
Bank accounts and other cash and cash equivalents	897.7	897.7	950.4	950.4	1026.8	1,026.8
Total	**1,254.4**	**1,253.5**	**1,434.0**	**1,433.5**	**1,550.4**	**1,549.7**

Marketable securities consist mainly of money-market SICAV investment funds and unit trusts (on which the return is based on EONIA) and short-term investments. Marketable securities are considered as *Financial assets available for sale*. At June 30th, 2011 as at December 31st, 2010, they consisted solely of investments in euro zone government bonds through mutual funds.

Unrealised gains amount to €0.9 million compared with €0.5 million at June 30th, 2010 and €0.7 million at December 31st, 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 12 Equity

12.1 Share capital and additional paid-in capital

The share capital consists of 602,654,532 shares with a par value of €0.20 at June 30th, 2011, compared with 599,432,360 shares at June 30th, 2010 and 600,992,585 shares at December 31st, 2010.

12.2 Treasury stock

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

a) 1st half 2011

The change in the number of shares for the first half 2011 is as follows:

In shares	Share capital	Treasury stock	Common shares outstanding
At 01.01.2011	**600,992,585**	**-11,336,682**	**589,655,903**
Cancelled shares			-
Exercised options	1,661,947	2,106,656	3,768,603
Treasury stock purchased	-		
At 06.30.2011	**602,654,532**	**-9,230,026**	**593,424,506**

The change in treasury stock for the first half 2011 is as follows:

In shares	Buyback programme	Allocated to stock options plans	Total	*€ millions*
At 01.01.2011	-	**11,336,682**	**11,336,682**	**850.9**
Cancelled shares			-	-
Exercised options		-2,106,656	-2,106,656	-159.6
Treasury stock purchased			-	-
At 06.30.2011	-	**9,230,026**	**9,230,026**	**691.3**
€ millions	-	**691.3**	**691.3**	

b) 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**
Cancelled shares	-500,000	500,000	-
Exercised options	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 plans	Total	*€ millions*
At 01.01.2010	-	14,236,750	14,236,750	1,071.6
Cancelled shares		-500,000	-500,000	-37.9
Exercised options		-2,400,068	-2,400,068	-182.8
Treasury stock purchased		-	-	-
At 12.31.2010	-	11,336,682	11,336,682	850.9
€ millions	-	850.9	850.9	

12.3 Share subscription or purchase options – Free shares

On April 22nd, 2011, the Board of Directors decided:

- the grant of share subscription options allowing the subscription of 1,470,000 shares;
- the conditional allocation of 1,038,000 free shares to employees.

1) Share subscription or purchase options

The 1,470,000-share option plan has a 5-year exercise period and is associated with performance conditions. The performance conditions associated with this plan concern:

- for 50% of shares 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 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 2012, 2013, 2014 and 2015 fiscal years and will use a predefined allocation scale based on the performance percentage reached.

The fair value of options is determined using the Black & Scholes method based on the following assumptions:

Risk-free rate of return	3.42%
Expected life span	8 years
Expected volatility	22.60%
Expected dividends	2.10%
Share price	€85.68
Exercise price	€83.19
Fair value	€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.

2) Free shares

On April 22nd, 2011, the Board of Directors decided to grant 1,038,000 free shares subject to certain conditions.

Vesting conditions

The free share plan provides for a 4-year vesting period after which vesting is effective and final, subject to meeting the conditions of the plan. After this vesting period, a 2-year mandatory holding period applies for French residents, during which the shares cannot be sold.

The performance conditions concern:

- for 50% of shares granted, the increase in comparable Cosmetic revenues for the 2012, 2013 and 2014 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 Group consolidated operating profit.

The calculation will be based on the arithmetic average of performance in the 2012, 2013 and 2014 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.

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 to 8.54% of the share value at the grant date.

On the basis of these assumptions, the fair values amount to €70.36 for French residents and to €77.67 for non-residents, compared to a share price of €85.68.

NOTE 13 Provisions for liabilities and charges

13.1 Closing balances

€ millions	06.30.2011	06.30.2010	12.31.2010
Non-current provisions for liabilities and charges	172.6	163.2	181.3
Provisions for restructuring	-	0.3	-
Other non-current provisions(1)	172.6	162.9	181.3
Current provisions for liabilities and charges	517.0	602.8	536.9
Provisions for restructuring	97.9	160.5	90.6
Provisions for product returns	208.5	227.5	209.4
Other non-current provisions(1)(2)	210.6	214.8	236.9
Total	**689.6**	**766.0**	**718.2**

(1) This item includes provisions for tax risks and litigation, industrial and commercial risks relating to operations (breach of contract), personnel-related costs and risks relating to investigations carried out by competition authorities.

(2) National competition authorities from several European countries have launched investigations focusing on the cosmetics industry.
In 2010, notifications of complaints were sent to the Group's subsidiaries in Germany, the Netherlands, Spain and Switzerland. A decision was handed down by the national competition authority regarding Italy on December 15th, 2010, against which an appeal is in process.
At December 31st, 2010 total provisions for competition disputes amounted to €91.3 million.
In the first half of 2011, legal proceedings that had been initiated against our subsidiary in the Netherlands were abandoned. Spain received notification of a fine and the provision was revised accordingly, to €73.2 million at June 30th, 2011.
Other requests for information have also been sent and investigations launched in other European countries, although no notification of complaints had been received in these countries at June 30th, 2011.

13.2 Changes in provisions for liabilities and charges during the period

€ millions	06.30.2010	12.31.2010	Charges(2)	Reversals (used)(2)	Reversals (not used)(2)	Impact of change in scope/ Exchange rate/Other(1)	06.30.2011
Provisions for restructuring	160.8	90.6	31.8	-21.3	-	-3.2	97.9
Provisions for product returns	227.5	209.4	106.3	-81.5	-21.5	-4.2	208.5
Other provisions for liabilities and charges	377.7	418.2	54.5	-54.3	-34.0	-1.2	383.2
Total	**766.0**	**718.2**	**192.6**	**-157.1**	**-55.5**	**-8.6**	**689.6**

(1) Mainly resulting from translation differences.
(2) These figures can be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (not used)
- Other income and expenses	35.2	-27.4	-15.7
- Operating profit	156.3	-128.6	-32.8
- Financial (income)/expense	0.3	-	-
- Income tax	0.8	-1.1	-7.0

NOTE 14 Borrowings and debt

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

14.1 Debt by type

	06.30.2011		06.30.2010		12.31.2010	
€ millions	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	524.4	-	160.1	-	71.1
MLT bank loans	101.2	813.0	914.7	1,750.0	751.2	563.0
Debt on capital lease contracts	50.0	9.4	62.8	10.1	53.2	10.9
Overdrafts	-	35.5	-	57.6	-	47.9
Other borrowings and debt	12.6	234.5	17.0	134.5	19.9	74.1
Total	**163.8**	**1,616.7**	**994.5**	**2,112.3**	**824.3**	**767.0**

14.2 Debt by maturity date

€ millions	06.30.2011	06.30.2010	12.31.2010
Under 1 year(1)	1,616.7	2,112.3	767.0
1 to 5 years	142.0	961.6	796.1
Over 5 years	21.8	32.9	28.2
Total	**1,780.5**	**3,106.8**	**1,591.3**

(1) The Group has confirmed undrawn credit lines of €2,335 million at June 30th, 2011. The availability of theses credit lines is not dependent on financial covenants.

14.3 Debt by currency (after allowing for currency hedging instruments)

€ millions	06.30.2011	06.30.2010	12.31.2010
Euro (EUR)	624.0	2,235.5	1,122.8
Swedish krona (SEK)	371.4	5.2	6.7
US dollar (USD)	203.9	283.0	127.2
Rouble (RUB)	98.6	23.6	2.5
Swiss franc (CHF)	80.7	130.9	79.4
Canadian dollar (CAD)	70.6	55.6	25.5
Yen (JPY)	52.0	89.5	64.4
Other	279.3	283.5	162.8
Total	**1,780.5**	**3,106.8**	**1,591.3**

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

€ millions	06.30.2011	06.30.2010	12.31.2010
Floating rate	1,716.3	3,028.0	1,517.3
Fixed rate	64.2	78.8	74.0
Total	**1,780.5**	**3,106.8**	**1,591.3**

14.5 Effective interest rates

Effective debt interest rates after allowing for hedging instruments were respectively 1.77% and 0.24% at June 30th, 2011 and June 30th, 2010 and 0.21% at December 31st, 2010 for short-term paper and respectively 1.52% and 0.93% at June 30th, 2011 and June 30th, 2010 and 1.15% at December 31st, 2010 for bank loans.

14.6 Average debt interest rates

Average interest rates on debt after allowing for hedging instruments were respectively 1.26% and 0.96% for first half 2011 and 2010 and 0.99% in 2010 for the euro, respectively 0.28% and 0.30% for first half 2011 and 2010 and 0.36% in 2010 for the US dollar and 2.33% for first half 2011 for the Swedish krona.

14.7 Fair value of borrowings and debt

The fair value of fixed-rate debt is determined for each loan by discounting future cash flows, based on bond interest rate curves at the balance sheet date, after allowing for the spread corresponding to the Group's risk rating.

The net carrying amount of outstanding bank loans and other floating-rate loans is a reasonable approximation of their fair value.

At June 30th, 2011, the fair value of borrowings and debt amounts to €1,780.6 million, compared with €3,107.3 million and €1,591.8 million respectively at June 30th, 2010 and December 31st, 2010.

NOTE 15 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.

15.1 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.

Based on information supplied by the subsidiaries, future operating transactions are covered by exchange rate hedges, either by options, or by purchases or sales of forward contracts.

At June 30th, 2011, the change in the intrinsic value of the hedging instruments allocated to future transactions and deferred through equity amounts to €37.7 million, compared with -€72.1 million and €0.2 million respectively at June 30th, 2010 and December 31st, 2010.

15.2 Hedging of interest rate risk

As in the case of currency risk, the Group's policy is not to take a speculative position.

The Group therefore mainly refinances at floating rates.

Furthermore, the financial derivative instruments which are negotiated in this connection are for hedging purposes.

At June 30th, 2011, the market value of the interest rate hedging instruments deferred through equity is -€1.5 million compared with -€2.3 million and -€1.7 million respectively at June 30th, 2010 and December 31st, 2010.

15.3 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 June 30th, 2011, cash was invested exclusively in euro-zone government bonds through mutual funds.

At June 30th, 2011, the Group holds 118,227,307 Sanofi shares for an amount of €6,554.5 million (note 10). A change of plus or minus 10% in the market price of these shares relative to the market price of €55.44 on June 30th, 2011 would have an impact of plus or minus €655.5 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 the profit and loss account.

NOTE 16 Subsequent events

No significant events occurred between the balance sheet date and the date when the Board of Directors authorised the condensed half-year consolidated financial statements for issue.

Statutory Auditors' review Report on the 2011 half-year financial information

(Six months ended June 30, 2011)

This is a free translation into English of the Statutory Auditors' review 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.

In compliance with the assignment entrusted to us by your Shareholders' Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code («Code monétaire et financier»), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of L'Oréal, for the six months ended June 30, 2011;
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of half-year financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II. Specific verification

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine, August 30th, 2011

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit
Etienne Boris

Deloitte & Associés
David Dupont-Noel

Declaration by the person responsible for the half-year financial Report

I declare that, to the best of my knowledge, the summary consolidated financial statements for the ending semester have been prepared in accordance with applicable 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 this half-year activity report includes a fair review of the important events which occurred during the first six months of the year, their impact on the half-year financial statements, and the main transactions between related parties, together with a description of the principal risks and uncertainties that they face in the remaining six months of the year.

Clichy, August 30th, 2011

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez,

Executive Vice-President, Administration and Finance

L'ORÉAL

Incorporated in France
as a *"Société Anonyme"*
with registered capital
of €120,198,517
632 012 100 RCS Paris

Headquarters:
41, rue Martre
92117 Clichy – France
Tel.: +33 1 47 56 70 00
Fax: +33 1 47 56 86 42

Registered Office:
14, rue Royale
75008 Paris

www.loreal-finance.com

Labrador +33 (0)1 53 06 30 80