Registered number 01284170

THE BODY SHOP INTERNATIONAL PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the 52 week period ended 29 December 2007

THE BODY SHOP INTERNATIONAL PLC

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THE BODY SHOP INTERNATIONAL PLC

COMPANY INFORMATION

Directors

Sophie Gasperment (Chief Executive Officer)
Peter Saunders (Non Executive Chairman)
Jean-Paul Agon (Vice-Chairman)
Richard Cymberg
Lady Sylvia Jay
Christian Mulliez
Geoff Skingsley
Tom Vyner C B E

Secretary

Iain Rubli

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom

Registered office

Watersmead
Littlehampton
West Sussex
BN17 6LS

Registered number

01284170

Solicitors

Baker & McKenzie
100 New Bridge Street
London
EC4V 6JA

Principal bankers

Barclays Bank PLC
Deutsche Bank AG

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the 52 week period ended 29 December 2007 (2006 44 weeks from 26 February 2006 to 30 December 2006)

Change of year end

In the prior year the Company changed its year end following its acquisition by L'Oréal SA The reporting period in 2006 is for a 44 week period and the amounts for the income statement, statement of changes in equity, cash flow statement and related notes are therefore not comparable

Business review and principal activities

The Company develops, distributes and sells naturally inspired skin and hair-care products and related accessories under "The Body Shop" ® trademark and other Company owned intellectual property The Company distributes and sells such products through its own shops, home sales, mail order catalogues, the internet and through franchised outlets It also acts as a holding company

Tragically, Dame Anita Roddick passed away in September 2007 Throughout her life she fought with determination for her ideals, which she forged into the five pillars of The Body Shop® Protect our Planet, Against Animal Testing, Activate Self Esteem, Support Community Trade and Defend Human Rights These Values continue to be propagated throughout the business

During 2007 the Company recorded a period of solid growth Turnover for the year was £329 5m (2006 £257 1m), and a post tax profit of £36 7m (2006 £3 2m) There were 322 (2006 312) stores in the UK at 29 December 2007, of which 282 (2006 261) were owned

Sales at the end of the year, traditionally the strongest period, were marked by a belated but good level of store frequentation, and the success of gift box sales Fourth quarter sales were held back by the difficulties of a large industrial subcontractor, causing disruptions to the availability of certain products

During the period the Company bought back the franchisee rights for the sale of The Body Shop® products in Sweden and Portugal Further details of these acquisitions can be found in Note 14 to the financial statements

The brand is now sold in 59 countries

Future prospects

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

Further information on the Company is set out in the Annual Report of L'Oreal SA for 2007 which is available from the registered office at 31 Rue Martre, 92117 Clichy, France

Principal risks and uncertainties

The Company's internal control is aimed at creating and maintaining an organisation which enables the prevention and management of risks, particularly those of an economic, financial and legal nature to which the Company may be exposed, even though no absolute guarantee of a total absence of risk can ever be provided The major risks during the period were

Intellectual property – the Company has a portfolio of trademarks - these are strategic assets Trademarks and the products themselves may be infringed or counterfeited by economic players wishing to illegally benefit from their reputation and goodwill The Group's legal department is entrusted with the protection of these assets

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Intellectual property (continued) – Before filing trademarks and as a part of the New Product Development process, prior rights searches are conducted In view of the number of countries in which the products are sold, we cannot rule out the possibility that third parties may claim prior rights with regard to certain The Body Shop® products and services This is a potential risk that has to be cited even though the likelihood of its occurrence is low due to the care taken when conducting prior rights searches

Product quality and safety – Consumer safety is an absolute priority The Company evaluates the safety of raw materials and finished products, and is vigilant with regard to any new scientific data in cooperation with the relevant authorities and is cautious in the event of substitution resulting from a proven risk

Image and reputation – The Company's reputation and brand image may be compromised at any time in a globalised world where the report of an incident is conveyed from one continent to the next at the speed of the internet The Body Shop International PLC has incorporated crisis management procedures to prevent, manage and limit the consequences of undesirable events on the Company The Body Shop International PLC has deployed an ethics charter throughout its Group aimed at reinforcing the rules of good conduct which ensures the integrity of The Body Shop® and enforces its ethics The purpose of these rules of good conduct is to guide actions and behaviour, inspire choices and employ the Company's Values in the everyday acts of every one of its employees

Changes in regulations – The Body Shop International PLC must fully comply with local legislation and it strives to adopt an attitude beyond reproach The Body Shop International PLC asks it employees to comply with these regulations

Competition – The Body Shop International PLC is subject to constant pressure from local and international competitors This competition is healthy, it leads our teams to always do their best to serve the interests of consumers and our brand

Information systems – The risk of a malfunction or breakdown in our internal information systems for exogenous or endogenous reasons cannot be precluded In order to minimise the impact that this type of occurrence could have we have strict rules with regard to data backups, protection access and security to both computer hardware and software applications

Financial and market risks – Financial risks include foreign exchange risk and credit risk Due to its international sales, the fluctuation of main currencies may therefore have an impact on the Company's results The Body Shop International PLC adheres to L'Oréal SA's foreign exchange risk hedging policy The credit risk may result from non-collection of receivables due to cash problems encountered by customers Due to the longevity of the franchisee relationships that The Body Shop International PLC enjoys, the amount considered as posing a risk of non-collection for which a provision for liability is therefore booked is set out in note 16, representing 11 9% of gross accounts receivable

Insurance – The objective of the Company's policy on insurance is to protect the Balance Sheet and Income Statement from the occurrence of identified material risks that could adversely affect it This risk transfer forms an integral part of the Company's risk management process

Post balance sheet events

On 31 January 2008 the Company acquired 100% of the share capital of Cosmenatura SA, a Company incorporated within Spain for consideration of £6 3m The principal activity of Cosmenatura SA will be the retailing of The Body Shop® products within Spain

Capital structure

The Body Shop International PLC is a wholly owned subsidiary of L'Oréal SA Details of the authorised and issued share capital of the Company are shown in note 24

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT (CONTINUED)

Results and dividends

As the Company is now wholly owned by L'Oréal SA, incorporated in France, it is no longer required to prepare consolidated accounts These financial statements therefore present information about the Company as an individual undertaking, and not about its Group

The Directors recommend the payment of a dividend of £10m (2006 £14m)

Directors

The Directors, who served throughout the period except as noted, were as follows

Adrian D P Bellamy (Chairman - resigned 31 March 2008)
Sophie Gasperment (Chief Executive Officer – appointed 12 May 2008)
Peter Saunders (Non-Executive Chairman)
Dame Anita Roddick (deceased 10 September 2007)
Jean-Paul Agon (Vice-Chairman)
Richard Cymberg
Lady Sylvia Jay
Christian Mulliez
Geoff Skingsley
Tom Vyner C B E

Directors' indemnities

The ultimate parent undertaking has made qualifying third party indemnity provisions for the benefit of the Company Directors which were made during the year and remain in force at the date of this report

Supplier payment policy

The Company agrees payment terms with it suppliers and in the absence of any dispute, payments are then made as expeditiously as possible within such terms Terms will vary according to the country of supply and type of goods and services provided Trade payables of the Company at 29 December 2007 were equivalent to 26 days (2006 24 days) purchased, based on the average daily amount invoiced by suppliers during the year

Employees

Details of the number of employees and related costs are set out in Note 4 to the financial statements

The Company is dedicated to engaging and inspiring customers to buy naturally inspired personal care products To do this, the Company focuses on attracting and retaining employees with great skills, knowledge and creative talent In return, the Company offers a unique opportunity for employees to be part of a globally recognised brand and to play an active role in promoting social and environmental change through the Company's campaigning, volunteering and community-giving programmes

The Company has a long-established policy of promoting diversity throughout the global business Internal and external recruitment processes are monitored to ensure there is no deliberate bias Human resources policies reflect the Company's commitment to a fair and equal organisation where everyone is encouraged to succeed regardless of sex, race, sexual orientation, age or disability

In the event of an employee becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged

The Company aims to ensure that employees' pay and benefits are competitive in the marketplace. A flexible benefits programme is offered, in which employees can opt to trade certain benefits, such as additional holidays

The Company prides itself on ensuring that all employees are aware of its financial and retail performance A mix of communication methods is used to engage and inform employees, including face-to-face communication sessions and intranet, as well as written publications such as 'body news' and 'everybody'

The Company formally consults employees via Consultation and Representation Committees, comprising employee-elected representatives

Our Values Agenda

Our commitment to our Values agenda continued to be strong in 2007

We published our 2007 Values Report online, and in an innovative move as part of this Report, we established a panel of our stakeholders, comprised of Non Governmental Organisations (NGOs), a Community Trade stakeholder, and members of The Body Shop® family They advised us on what to include in the Report and told us how well we are performing against our Values commitments and where we need to do more This commitment to taking action and being transparent about our progress are both clear signs that our Values remain at the heart of The Body Shop®

<u>*Protect our Planet*</u>

Packaging - We set a target of doubling the recycled content of all our polyethylene teraphthalate (PET) bottles, from 30%, by year-end 2008 By the end of 2007 we had already gone a step further by introducing our first 100% recycled PET bottle, initially for the 250ml Pink Grapefruit Shower Gel We're now aiming to introduce 100% recycled PET bottles across the entire 250ml range of products This achievement is a significant step forward in our programme We have also set a target of increasing the recycled content across all our packaging to 80% by 2010

Chemicals and Palm Oil - The Body Shop® operates a precautionary approach to the use of chemicals and has, for a number of years, been working with its external stakeholders to identify and discontinue the use of certain chemicals of concern Although some phthalates are legal and considered safe for use in our industry and by its regulators, we committed to removing it from our formulations, and now have just one product containing phthalates By the end of 2008 our full range will be 100% phthalate free We also adopted a precautionary approach with regards to polycyclic musks and are committed to discontinuing their use in our formulations by 2010 In June 2007 we became one of the first cosmetics company to source traceable, sustainable palm oil for use in our soaps and we are moving all our soaps to this sustainable palm oil base during 2008

Climate Change - The Body Shop® is committed to becoming a carbon neutral company by 2010 We will achieve this first by becoming more energy efficient, secondly by shifting to renewable electricity sources wherever possible, and thirdly by sustainably offsetting any remaining Carbon Dioxide (CO_2) emissions

<u>*Against Animal Testing*</u>

Tackling the issue of animal testing for cosmetic purposes is a fundamental part of The Body Shop® DNA The Body Shop® remains approved under the industry leading Humane Cosmetics Standard, which is run by the British Union for the Abolition of Vivisection (BUAV)

The Body Shop Foundation is proud to continue its long standing relationship with the BUAV, this year awarding a two year grant of £60,000 for the new position of BUAV European Union Policy Officer This will strengthen the BUAV Policy team in an area of crucial importance over the next two years within the European Union (EU) Parliament

<u>*Activate Self Esteem*</u>

Stop Violence In The Home - By 2007 the 'Stop Violence in the Home' campaign had reached 52 markets across the world, raising over £2 6 million for organisations working to stop domestic violence

Stop HIV Spray to Change Attitudes - As part of our ongoing commitment to HIV/AIDS awareness, we teamed up with MTV Music Television® to launch the 'Stop HIV Spray to Change Attitudes' campaign in 2007 Together we're working to raise awareness amongst young people about HIV/AIDS The campaign has raised over £430,000 for the Staying Alive Foundation, which supports grassroots charities around the world to help raise awareness and educate young people

We have now helped fund 33 new Staying Alive Award grantees in 18 countries who will use their new funding to campaign at a grassroots level

The Body Shop Foundation - Set up by Anita and Gordon Roddick in 1989, in 2007 The Foundation made 110 grants totalling over £940,000 Grantees included the BUAV, The Tropical Forest Trust, End Child Prostitution and Trafficking UK (ECPAT UK), the Microloan Foundation, and Candlelight, a Somali NGO

Our Values Agenda (continued)

Support Community Trade

In 2007 we celebrated 20 years of Community Trade, our unique fair trade programme We also continued to strengthen our commitment to Community Trade In keeping with the Community Trade Strategy that was agreed in 2006, The Body Shop® has increased its commitment to fair trade in many ways The number of farmers, producers and workers who derive a fair, respectful and predictable income directly from Community Trade now stands at over 25,000

Anita Roddick founded the Community Trade programme It was her passion, and she remains our inspiration for the growth of the programme One of her favourite maxims will continue to guide our work

"If you can't hear the voice of the farmers in everything you do, then what you're doing is wrong "

Defend Human Rights

A founder member of the Ethical Trading Initiative (ETI), The Body Shop® continues to align itself to ETI Base Code and Principles of Implementation This presents a set of standards covering the rights and working conditions of over 30,000 people who work in the many and varied supply chains of The Body Shop® Suppliers are expected to respect, uphold and promote these standards as a condition of trade with The Body Shop® Internal processes within our own operations are further geared to ensure compliance to ETI Principles

Throughout 2007, The Body Shop® has run an extensive training programme equipping all its buyers with the skills and knowledge they need to assess suppliers' ethical performance It is the suppliers' responsibility to ensure ethical standards are maintained Nevertheless, this training programme is viewed as a vital step in embedding ethical practices as our business expands

Charitable and community involvement

The Company donated £1 7m (2006 £0 9m) to charitable organisations last period, of which £0 7m (2006 £0 6m) was donated to The Body Shop Foundation and the remaining £1m (2006 £0 3m) to other organisations No political donations were made by the Company

The Company seeks to make a positive impact on the local communities in which it operates In both the Company owned and franchised markets throughout the world, staff are actively engaged in supporting many different community-based programmes

Research and development

The direct cost of research and development expenditure was £2 1m (2006 £4 0m)

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements The Directors have elected to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU Company law requires the Directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's (IASB's) 'Framework for the Preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and

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DIRECTORS' REPORT (CONTINUED)

Directors' responsibility statement (continued)

- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985

The Directors are responsible for the maintenance and integrity of the Company website Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on its behalf by.

Peter Saunders

Director

25 July 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BODY SHOP INTERNATIONAL PLC

We have audited the financial statements (the 'financial statements') of The Body Shop International PLC for the period ended 29 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 34 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any misstatements within in

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Company's affairs as at 29 December 2007 and of the Company's profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom
29 July 2008

THE BODY SHOP INTERNATIONAL PLC

INCOME STATEMENT

For the 52 weeks ended 29 December 2007

	Note	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Continuing operations			
Revenue		329 5	257 1
Cost of sales		(141 6)	(102 3)
Gross profit		187 9	154 8
Operating expenses	2	(158 1)	(138 6)
Operating profit	3	29 8	16 2
Investment revenues	6	17 5	1 3
Finance costs	7	(3 9)	(4 3)
Profit on ordinary activities before taxation		43 4	13 2
Tax	8	(6 7)	(10 0)
Profit for the period	27	36 7	3 2

THE BODY SHOP INTERNATIONAL PLC

BALANCE SHEET

At 29 December 2007

	Note	29 Dec 2007 £m	(restated)* 30 Dec 2006 £m
Assets			
Non-current assets			
Goodwill	10	3 1	2 7
Other intangible assets	12	4 9	5 6
Property, plant and equipment	13	60 7	66 9
Prior period restatement	13	-	(6 8)
Investments	14	166 0	162 0
		234 7	230 4
Current assets			
Inventories	15	43 3	40 3
Trade and other receivables	16	45 5	57 4
Cash and cash equivalents	17	7 8	11 9
Derivative financial instruments	19	1 1	0 6
		97 7	110 2
Total assets		332 4	340 6
Liabilities			
Current liabilities			
Trade and other payables	22	(66 2)	(72 9)
Current tax liabilities		(4 7)	(2 0)
Obligations under finance leases	21	(2 1)	(2 2)
Borrowings	18	(1 4)	(31 6)
Provisions	23	(5 0)	(0 6)
Derivative financial instruments	19	(3 6)	(0 3)
		(83 0)	(109 6)
Non-current liabilities			
Deferred tax liabilities	20	(0 3)	(1 6)
Long term provisions	23	-	(0 8)
Obligations under finance leases	21	(11 8)	(12 3)
		(12 1)	(14 7)
Total liabilities		(95 1)	(124 3)
Net assets		237 3	216 3

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BALANCE SHEET (CONTINUED)

At 29 December 2007

	Note	29 Dec 2007 £m	(restated)* 30 Dec 2006 £m
Equity			
Share capital	24	11 3	11 3
Share premium account	25	74 7	74 7
Other reserves	26	(1 7)	9 3
Retained earnings	27	153 0	121 0
Total equity		237 3	216 3

* See notes 13 and 22

The financial statements were approved by the Board of Directors and authorised for issue on 25 July 2008

They were signed on its behalf by

Peter Saunders, Director

THE BODY SHOP INTERNATIONAL PLC

CASH FLOW STATEMENT

For the 52 weeks ending 29 December 2007

	52 weeks to 29 Dec 2007 £m	(restated)* 44 weeks to 30 Dec 2006 £m
Cash flows from operating activities		
Operating profit	29 8	16 2
Depreciation	12 3	7 5
Loss on disposal of property, plant and equipment	0 4	0 5
Loss on disposal of intangible assets	-	0 1
Amortisation	2 0	1 1
Impairment of assets	0 3	9 3
Share option charge/(credit)	0 4	(1 8)
Other gains and losses	2 0	-
Exchange movement	(1 8)	(1 5)
Changes in working capital (excluding the effects of acquisitions)		
Increase in inventories	(3 0)	(11 9)
Decrease in trade and other receivables	12 5	10 7
(Decrease)/increase in trade and other payables	(7 4)	23 1
Increase in provisions	10 8	0 1
Interest paid	(3 9)	(4 3)
Income tax paid	(4 7)	(6 6)
Net cash from operating activities	**49.7**	**42.5**
Investing activities		
Interest received	0 3	1 3
Acquisitions of subsidiaries	(11 2)	(5 4)
Purchases of property, plant and equipment	(13 8)	(26 2)
Acquisition of intangible assets	(1 1)	(0 8)
Acquisition of franchisee businesses	(0 4)	(1 2)
Dividends received from subsidiaries	17 2	-
Net cash used in investing activities	**(9.0)**	**(32.3)**
Cash flows from financing activities		
Proceeds from the issue of ordinary share capital	-	9 2
Capital element of finance lease rental payments	(0 6)	(1 0)
Dividends paid to Company's shareholders	(14 0)	(9 0)
Repayment of borrowings	(30 2)	(19 2)
Net cash (used in)/from financing activities	**(44.8)**	**(20.0)**
Net decrease in cash and cash equivalents	(4 1)	(9 8)
Cash and cash equivalents at beginning of period	11 9	21 7
Cash and cash equivalents at end of period	**7.8**	**11.9**

* The allocation of cash flows for the 44 week period ended 30 December 2006 has been restated to ensure comparability and consistency of treatment with the current year cash flow statement

THE BODY SHOP INTERNATIONAL PLC

STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ending 29 December 2007

	Attributable to the equity holders of the Company				
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 26 February 2006	10 9	65 9	11 1	126 8	214 7
Changes in equity for 2006					
Employee share option scheme	-	-	(1 8)	-	(1 8)
Shares issued	0 4	8 8	-	-	9 2
Dividends	-	-	-	(9 0)	(9 0)
Net income recognised directly in equity	0 4	8 8	(1 8)	(9 0)	(1 6)
Profit for the period	-	-	-	3 2	3 2
Total recognised income and expense for the period	0 4	8 8	(1 8)	(5 8)	1 6
Balance at 30 December 2006	11 3	74 7	9 3	121 0	216 3
Changes in equity in 2007					
Share option expenses	-	-	0 4	-	0 4
Loss recognised on cash flow hedges	-	-	(2 1)	-	(2 1)
Transfer to retained earnings*	-	-	(9 3)	9 3	-
Dividends	-	-	-	(14 0)	(14 0)
Net income recognised directly in equity	-	-	(11 0)	(4 7)	(15 7)
Profit for the period	-	-	-	36 7	36 7
Total recognised income and expense for the period	-	-	(11 0)	32 0	21 0
Balance at 29 December 2007	11 3	74 7	(1 7)	153 0	237 3

* See note 26, share based payments transfer

1a General information

The Body Shop International PLC is a company incorporated in the United Kingdom under the Companies Act 1985 The address of the registered office is given within "Company Information" at the front of these financial statements The nature of the Company's operations and its principal activities are set out on page 1 of the Directors Report

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates

1b Adoption of new and revised standards

In the current period, the Company has adopted IFRS 7 Financial Instruments Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments Five interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current period These are IFRIC 7 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies', IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives', IFRIC 10 'Interim Financial Reporting and Impairment' and IFRIC 11 'IFRS 2 Group and Treasury Share Transactions' The adoption of these interpretations has not led to any changes in the Company's accounting policies

The following Standards and Interpretations have been published and are available for early adoption but they have not yet been endorsed by the EU or applied by the Company in these financial statements

IAS 23 Revised 'Borrowing costs' removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a cost of that asset The revised IAS 23 will become mandatory for the Company's 2009 financial statements The Company does not presently capitalise borrowing costs and will change its accounting policy for the 2009 financial statements This change is not expected to have a material impact on the Company's annual results

IFRIC 12 'Service Concession Arrangements' provides guidance on certain recognition and measurement issues that rise in accounting for public-to private service concession arrangements IFRIC 12, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any impact on the financial statements

IFRIC 13 "Customer Loyalty Programmes" addresses the accounting by entities who operate customer loyalty programmes with their customers which offer free or discounted goods or redemption of credits IFRIC 13 becomes mandatory for the Company's 2009 financial statements The Directors are currently assessing the impact of IFRIC 13 on the Company's financial statements

1c Accounting policies

The principal accounting polices adopted in the preparation of these financial statements are set out below The policies have been consistently applied to all periods presented, unless otherwise stated These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with those parts of the Companies Act 1985 applying to companies preparing their accounts under IFRS

Consolidated financial statements have not been prepared as the Company has taken advantage of the exemption granted by section 228 of the Companies Act 1985, since the Company itself is a wholly-owned subsidiary Its immediate parent undertaking is L'Oréal SA, a company incorporated in France, and therefore established under the law of a member state of the European Community As a result, these accounts present information relating to the Company as an individual undertaking only and not as a group

1c Accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the financial statements in accordance with International Accounting Standards implies that the Company makes a certain number of estimates and assumptions that may affect the value of the Company's assets, liabilities, shareholders' equity and net income/(loss) These estimates and assumptions mainly concern the valuation of goodwill and provisions Estimates used by the Company in relation to these different areas are detailed in each specific note

Revenue

Revenue represents the fair value receivable in the ordinary course of business for goods sold and services provided It excludes discounts given, VAT and other sales taxes

Revenue is recognised as follows

Sale of goods - wholesale
Revenue is recognised when the Company has transferred to the customer the significant risks and rewards of the ownership of the goods, and retains neither continuing managerial involvement to the degree usually associated with the ownership, nor the effective control over the goods

Sale of goods - retail
Revenue is recognised when the product is sold to the customer Retail sales are usually in cash or by credit card The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction

Royalty income
Royalty income is recognised on an accruals basis in accordance with the substance of the relevant royalty agreements

Sale of gift vouchers
Revenue from the sale of gift vouchers is initially recognised as a liability to the customer This is released to revenue as the vouchers are redeemed

Sale of loyalty cards
Loyalty cards entitle the holder to discounted purchases and gifts for a limited amount of time, in exchange for an initial payment fee Revenues are deferred and amortised over the expected period of usage of the loyalty card, related to the initial fee payment In addition, when a loyalty card is sold an appropriate accrual is made for the Company's liability to the customer for gifts of product due under the terms of the card

Goodwill

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses Gains and losses on the disposal of an entity include the write off of the remaining carrying amount of goodwill relating to the entity sold

Other intangible assets

Other intangible assets mainly relate to software. They are measured initially at cost and are then amortised on a straight-line basis over their useful economic life of three to five years The amortisation charges for the year are included within operating expenses in the income statement

1c Accounting policies (continued)

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment Assets that are subject to the amortisation or depreciation are reviewed for impairment whenever assets or changes in circumstances indicate that their carrying amounts may not be recoverable An impairment loss is calculated as the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of the assets fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows

Property, plant and equipment

All property, plant and equipment is shown at cost less depreciation and provisions for impairments, with the exception of freehold land which is shown at cost less any provision for impairment

Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, of all tangible fixed assets, except freehold land, over the expected useful lives Depreciation is calculated using the following rates

- Freehold property - over 50 years,
- Short term leasehold property - over the period of the respective leases,
- Plant and equipment - over 3 to 10 years

Inventory

Inventories are stated at the lower of cost and net realisable value

Cost is calculated at purchase price on the basis of weighted average prices, together the any additional costs to bring the inventories to their present location and condition, net of any provision for obsolete and slow moving items

Net realisable value is based on estimated selling price less further costs to completion and disposal

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment

A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate The amount of the provision is recognised in the income statement

Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made If the effect is material, provisions are measured using the expected future cash flows discounted at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract

1c Accounting policies (continued)

Foreign currency translation

Transactions in foreign currencies are recorded at the rates prevailing at the dates of the transactions

Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates

All foreign currency exchange differences are recognised in the income statement

Research and development

Expenditure on internally developed products is capitalised if it can be demonstrated that

- it is technically feasible to develop the product for it to be sold,
- adequate resources are available to complete the development,
- there is an intention to complete and sell the product,
- the Company is able to sell the product,
- sale of the product will generate future economic benefits, and
- expenditure on the product can be measured reliably

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred

Income taxes

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed It is calculated using rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net

Leased assets

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases

Assets held under finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments The corresponding leasing commitments, net of finance charges, are included in liabilities

1c Accounting policies (continued)

Leased assets (continued)

Leasing payments are analysed between capital and interest components so that the interest element is charged to the income statement over the period of the lease at a constant periodic rate of interest on the remaining balance of the liability outstanding

Depreciation on assets held under finance leases is charged to the income statement on a straight line basis

All other leases are treated as operating leases with annual rentals charged to the income statement on a straight-line basis over the term of the lease

Pension costs

Contributions to the Company's defined contribution scheme are charged to the income statement in the year in which they become payable

Share based payments

The Company has applied the requirement of IFRS 2, Share-based Payments, to all grants of share options or share awards that were vested as of 29 February 2004 or have been granted since that date

Prior to the acquisition of the Company by L'Oréal SA, the Company issued equity settled share-based payments to employees in the form of share options or performance share awards The fair value of the employee services received in exchange for the grant of options or share awards was determined at the date of grant by reference to the fair value of the options or share awards at the grant date The fair value was expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that would eventually vest, which is revised at each balance sheet date

Upon the acquisition of the Company by L'Oreal SA in 2006, the Company delisted from the London Stock Exchange As a result all share awards and options granted under the Company lapsed as at 25 July 2006

Pursuant to the share option scheme of L'Oréal SA (the "Scheme") the board of directors of L'Oréal SA may, at its discretion, grant options to eligible participants, including directors of The Body Shop International PLC and its subsidiary companies Details of options granted under that scheme and of the related costs incurred by the Company can be found in notes 4 and 30

Full details of the share options scheme of L'Oréal SA can be found in their financial statements

Financial assets

The Company classifies it financial assets into one of the following categories, depending on the purpose for which the asset was acquired Other than financial assets in a qualifying hedging relationship, the Company's accounting policy for each category is as follows

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset They are carried at cost less any provision for impairment

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity These assets are measured at amortised cost, which changes through the income statement

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

1c Accounting policies (continued)

Financial liabilities

The Company classifies its financial liabilities into trade payables and other monetary liabilities, which are recognised at amortised cost

Derivative financial instruments

The Company uses derivatives (such as forward foreign currency contracts) and non-derivative financial instruments (such as foreign currency loans) to provide commercial hedges of its net investments in foreign subsidiaries and against forecast cash flows designated in currencies other than the Company's functional currency

Derivative financial instruments are initially accounted for at cost and subsequently re-measured to fair value at each reporting date The gains or losses on re-measurement are taken to the income statement, except where the derivative is designated as a cash flow hedge and the hedge is effective in which case the gains or losses are taken to equity until such time that the hedged transactions are recognised in the income statement, at which time the accumulated gains and losses recognised in equity will also be recognised in the income statement

For financial instruments that do not qualify for hedge accounting, any gains or losses arising from the changes in fair value are taken directly to the income statement

Hedging

In accordance with IAS 39, the Company designates certain risks being hedged into a cash flow hedge

The gains or losses arising from hedges of the exposure to variability in future cash flows relating to firm commitments or highly probable forecasted transactions are deferred in equity Deferred gains or losses are released when the forecasted transactions occur

Any ineffective portion of the hedge is always recognised immediately in the income statement

2. Operating expenses

Operating profit for the period has been arrived at after charging

		52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Operating costs relating to Company-owned shops, The Body Shop At Home™ and the internet		66 0	-
Selling and distribution costs		14 4	8 9
Administrative expenses		77 7	86 3
	(1)	158 1	138 6

(1) Of which £9 6m concerns the restructuring of an important supplier of the Company

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

3. Operating profit for the period

Profit for the period has been arrived at after (crediting)/charging

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Net foreign exchange gains	(1 8)	(1 5)
Research and development	2 1	4 0
Depreciation of property, plant and equipment	12 3	7 5
Impairment of property, plant and equipment	0 3	9 3
Amortisation of intangible assets	2 0	1 1
Loss on disposal of property, plant and equipment	0 4	0 5
Cost of inventories recognised as expense	141 6	102 3
Auditors remuneration		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0 2	0 2
Fees payable to the Company's auditors and their associates for other services to the Company	-	0 1
	0 2	0 3
Tax services	-	0 8
Other services	-	0 2
Total non-audit fees	-	1 0

4. Staff costs and numbers

Costs during the period, including directors' emoluments which are disclosed in note 5, were as follows

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Wages	59 8	44 8
Social security and other taxes	5 0	3 7
Pension	3 4	2 4
Share based payments	0 4	(0 2)
	68 6	50 7

The Company operates a number of defined contribution pension schemes for employees, the assets of which are held in independently administered funds The pension charge represents contributions payable to the fund and amounted to £3 4 million (2006 £2 4 million) Other creditors includes an accrual for £0 4m (2006 £nil) in respect of accrued pension contributions

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

4. Staff costs and numbers (contnued)

The average number of employees dunng the penod was as follows

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Admınıstratıon	734	666
Dıstnbutıon / manufacturıng	138	179
Shops	2,045	2,139
	2,917	2,984

5. Directors' remuneration

The total amounts for dırectors' remuneratıon was as follows

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Emoluments	1 7	1 8
Gaıns on exercıse of share optıons	-	9 0
Amounts receıvable under long-term ıncentıve schemes	-	0 2
Money purchase pensıon contrıbutıons	-	0 1
	1 7	11 1

There were no dırectors ın the Company defined contrıbutıon pensıon scheme ın eıther penod

1 dırector was ıssued share optıons dunng the penod (2006 1 dırector)

No dırectors exercısed any share optıons dunng the penod

There was 1 dırector ın respect of whose qualıfyıng servıces, shares were receıved or receıvable under long term ıncentıve schemes (2006 1 dırector)

The emoluments of the hıghest paıd dırector were £1 4m (2006 £1 1m)

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

6. Investment revenues

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Interest revenue		
Other loans and receivables	0 3	1 3
Total interest revenue	0 3	1 3
Dividends from equity investment	17 2	-
	17 5	1 3

Investment revenue earned on financial assets analysed by category of asset, is as follows

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Loans and receivables (including cash and bank balances)	0 3	1 3
Held-to-maturity investments	17 2	-
	17 5	1 3

7. Finance costs

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Interest on bank overdrafts and loans	2 3	3 1
Interest on obligations under finance leases	1 6	1 2
	3 9	4 3

8. Tax

Analysis of charge in period

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Current tax		
Current period charge	10 1	4 7
Prior period (credit)	(2 7)	-
	7 4	4 7
Deferred tax		
Current period (credit)/charge	(0 7)	5 3
Total tax charge	6 7	10 0

Tax on items charged to equity

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Deferred tax on share based payments	-	1 8
Deferred tax on cash flow hedges	(0 8)	-
	(0 8)	1 8

The charge for the period can be reconciled to the profit per the income statement as follows

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Profit on ordinary activities before tax	43 4	13 2
Profit on ordinary activities multiplied by the rate of UK corporation tax of 30% (2006 30%)	13 0	4 0
Effects of		
Expenses not deductible for tax purposes	0 8	4 5
Double tax relief	(5 1)	-
Overseas tax suffered	0 7	-
Other	-	1 5
Prior period adjustment	(2 7)	-
Total taxation	6 7	10 0

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

9. Dividends

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the period ended 30 December 2006 of 6 2p per share declared and paid in 2007	14 0	-
Interim dividend for the period ended 26 February 2006 of 4 4p per share	-	9 0
	14 0	9 0
Proposed final dividend for the period ended 29 December 2007 of 4 4p per share	10 0	-

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability within these financial statements

10. Goodwill

	£m
Cost	
At 26 February 2006	1 5
Additions	1 2
At 30 December 2006	2 7
Additions	0 4
At 29 December 2007	3 1
Accumulated impairment losses	
At 26 February 2006, 30 December 2006 and 29 December 2007	-
Carrying amount	
At 29 December 2007	3 1
At 30 December 2006	2 7

10. Goodwill (continued)

Impairment tests for cash-generating units containing goodwill

Goodwill with an indefinite useful life is allocated to the Company's cash generating units

The recoverable amounts of the Company's cash generating units are determined based on value-in-use calculations These calculations use cash flow projections based on actual operating results and on budgets approved by management Cash flows beyond the initial budgeted period are extrapolated using a growth rate of 2% (2006 between 2% and 8%) The growth rate does not exceed the long-term average growth rate for the cosmetics and beauty products retail business in which the cash generating unit operates A pre-tax discount rate of 9 4% (2006 8 2%) has been used in discounting the projected cashflows This pre-tax discount rate is determined by L'Oreal SA and is the weighted average cost of capital (WACC), adjusted by applying a country risk premium if necessary The use of discounted cash flows is preferred in order to determine recoverable value, due to the lack of similar recent transactions easily available

11. Acquisitions

During the period the following businesses were acquired by the Company

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Franchisee businesses	0 8	1 6

The fair value of net assets acquired were as follows

	52 weeks to 29 Dec 2007 £m	44 weeks to 30 Dec 2006 £m
Non-current assets		
Property plant and equipment	0 1	0 1
Current assets		
Inventories	0 3	0 3
	0 4	0 4
Goodwill acquired	0 4	1 2
	0 8	1 6
Post acquisition results		
Turnover	2 3	3 3
Profit before tax	0 7	0 9

Acquisitions shown above reflect the purchase of the trade and assets of UK franchisees throughout the period from 31 December 2006 to 29 December 2007

If all of the above businesses had been purchased on 30 December 2006 their revenue and profit before tax for the period would have been £4 1m and £1 6m respectively

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

12. Other intangible assets

	Software £m
Cost	
At 26 February 2006	11 7
Additions	0 8
Disposals	(0 1)
Asset reclassification (note 13)	(2 4)
At 31 December 2006	10 0
Additions	1 1
Disposals	(0 2)
Asset reclassification (note 13)	0 2
At 29 December 2007	11 1
Amortisation	
At 26 February 2006	3 3
Charge for the period	1 1
At 31 December 2006	4 4
Charge for the period	2 0
Disposals	(0 2)
At 29 December 2007	6 2
Carrying amount	
At 29 December 2007	4 9
At 31 December 2006	5 6

13. Property, plant and equipment

	Freehold properties £m	(restated) Short term leasehold property £m	Plant and equipment £m	Total £m
Cost or valuation				
At 26 February 2006	0 3	53 6	49 9	103 8
Additions	-	14 3	11 9	26 2
Disposals	-	(0 1)	(3 4)	(3 5)
Asset reclassification (note 12)	-	(0 5)	2 9	2 4
At 31 December 2006	0 3	67 3	61 3	128 9
Additions	0 1	1 7	12 0	13 8
Disposals	-	-	(3 6)	(3 6)
Asset reclassification (note 12)	-	-	(0 2)	(0 2)
At 29 December 2007	0 4	69 0	69 5	138 9
Accumulated depreciation				
At 26 February 2006	-	23 4	24 8	48 2
Charge for the period	-	1 7	5 8	7 5
Impairment loss	-	9 3	-	9 3
Disposals	-	(0 1)	(2 9)	(3 0)
Asset reclassification	-	(0 3)	0 3	-
Prior period adjustment	-	6 8	-	6 8
At 31 December 2006	-	40 8	28 0	68 8
Charge for the period	-	3 3	9 0	12 3
Impairment loss	-	0 3	-	0 3
Disposals	-	-	(3 2)	(3 2)
At 29 December 2007	-	44 4	33 8	78 2
Carrying amount				
At 29 December 2007	0 4	24 6	35 7	60 7
At 30 December 2006	0 3	26 5	33 3	60 1

Prior period restatement

Accumulated depreciation in respect of short term leasehold property at 30 December 2006 has been adjusted to reflect an impairment provision of £6 8m which was accounted for within trade and other payables at that balance sheet date Accordingly both the carrying value of short term lease hold property and trade and other payables at 30 December 2006 have been restated This adjustment has had no effect on the total net assets of the Company See also note 22

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

13 Property, plant and equipment (continued)

Impairment loss

The impairment loss on short term leasehold property of £9 3m in 2006 arose as a result of a significant sub-tenant of a manufacturing property, of which the Company holds the head lease, entering administration during the period As a result, the sub-tenant vacated the property, which currently remains unoccupied The impairment loss is recognised within operating expenses in the income statement

No assets have been pledged to secure the borrowings of the Company (see note 18)

The Company's obligations under finance leases (see note 21) are secured by the lessors' title to the short term leasehold property, which have a carrying amount of £20 8m (2006 £22 1m)

At 29 December 2007, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2 2m (2006 £0 5m)

14. Subsidiaries

	2007 £m	2006 £m
Cost of investments in subsidiaries (less provisions)		
At 31 December 2006	162 0	149 0
Increase in provisions against subsidiary undertakings during period	(7 6)	(16 9)
Provisions against subsidiary undertakings written back during period	0 4	24 5
Additions	11 2	5 4
At 29 December 2007	166 0	162 0

The additions to investments consist of

	2007 £m	2006 £m
Acquisition of The Body Shop Svenska AB on 30 April 2007	7 8	-
Acquisition of DIBEL – Sociedade Importadora de Produtos de Beleza SA and DIBEL 3 – Sociedade Importadora de Produtos de Beleza SA on 30 October 2007	3 4	-
Recapitalisation of Soapworks Limited on 23 November 2006	-	4 6
Recapitalisation of The Body Shop Worldwide Limited on 15 September 2006	-	0 8
	11 2	5 4

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

14. Subsidiaries (continued)

The Company's principal subsidiaries at 29 December 2007 were

	% Holding of ordinary shares	Country of incorporation and operation	Aggregate amount of share capital and reserves as at 29 Dec 2007 £m	Retained profit or (loss) for the period ended 29 Dec 2007 £m
Soapworks Limited	100	Great Britain	3 0	0 4
The Body Shop Canada Limited	100	Canada	7 8	(3 7)
Skin & Hair Care Preparations Inc	100	USA	70 0	0 0
Buth-Na-Bodherge Inc	100	USA	18 3	(8 9)
The Body Shop (Singapore) Pte Ltd	100	Singapore	2 7	(7 6)
The Body Shop International (Asia Pacific) Pte Ltd	100	Singapore	3 0	0 6
The Body Shop Hong Kong Limited	100	Hong Kong	14 8	1 9
Mighty Ocean Company Limited	100	Hong Kong	4 0	1 1
The Body Shop (France) SARL	100	France	4 8	(0 2)
The Body Shop Beteiligungs GmbH	100	Germany	10 6	0 5
The Body Shop Benelux BV	100	Netherlands	0 9	(0 3)
The Body Shop Netherlands BV	100	Netherlands	(0 3)	0 4
The Body Shop GmbH	100	Austria	0 2	0 2
B S Denmark A/S	100	Denmark	1 5	0 1
The Body Shop Svenska AB	100	Sweden	9 3	1 2

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

14. Subsidiaries (continued)

	Principal activity
Soapworks Limited	This company manufactures soap, home fragrance oils and related products
The Body Shop Canada Limited	This company trades in The Body Shop® products in Canada
Skin & Hair Care Preparations Inc	This company acts as a holding company in the USA and does not otherwise trade
Buth-Na-Bodhaige Inc	This company trades in The Body Shop® products in the USA through retail outlets, through a home selling programme and through the internet
The Body Shop (Singapore) Pte Ltd	This company trades in The Body Shop® products in Singapore through retail outlets
The Body Shop International (Asia Pacific) Pte Ltd	This company operates the Asia Pacific region on behalf of The Body Shop International PLC
The Body Shop Hong Kong Limited	This company acts as a holding company in Hong Kong and does not otherwise trade
Mighty Ocean Company Limited	This company trades in The Body Shop® products in Hong Kong
The Body Shop (France) SARL	This company trades in The Body Shop® products in France
The Body Shop Beteiligungs GmbH	This company trades in The Body Shop® products in Germany through its wholly owned subsidiary The Body Shop Germany gmbH
The Body Shop Benelux BV	This company trades in The Body Shop® products in the Netherlands
The Body Shop Netherlands BV	This company trades in The Body Shop® products in Belgium
The Body Shop GmbH	This company trades in The Body Shop® products in Austria
B S Denmark A/S	This company trades in The Body Shop® products in Denmark
The Body Shop Svenska AB	This company trades in The Body Shop® products in Sweden

15. Inventories

	2007 £m	**2006 £m**
Finished goods	43 3	40 3

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

16 Other financial assets

Trade and other receivables

	2007 £m	2006 £m
Current assets		
Trade receivables	25 3	24 8
Less provisions for impairment of receivables	(3 0)	(0 6)
Trade receivables - net	22 3	24 2
Amounts owed by subsidiary undertakings	7 9	22 2
Prepayments	8 9	9 9
Other receivables	6 4	1 1
	45 5	57 4

Trade receivables

The standard credit period provided on sales is 30 days Trade receivables at the balance sheet date that have exceeded that period are aged below Standard Company policy is to provide fully for all receivables that are past due beyond 120 days and trade receivables between 30 days and 120 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience or local knowledge Interest is not charged on overdue receivables Receivables in respect of franchisees are provided for where there is an identified loss event, such as administration, receivership or liquidation, which is evidence of a reduction in the recoverability of the cash flows

The Company policies with regard to credit risk, and details of the management of such risk, is discussed in note 32

Ageing of past due receivables

	2007 £m	2006 £m
30-60 days	2 4	2 3
60-90 days	0 6	0 3
90-120 days	-	0 2
120+ days	2 3	1 1
Total	5 3	3 9

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

16. Other financial assets (continued)

Trade and other receivables

Movement in the allowance for doubtful debts

	2007 £m	2006 £m
Balance at the beginning of the period	0 6	0 8
Impairment losses recognised	2 5	0 2
Amounts written off as uncollectable	(0 1)	(0 2)
Impairment losses reversed	-	(0 2)
Balance at the end of the period	3 0	0 6

The increase in the impairment losses recognised in 2007 can be attributed to the restructuring of a significant supplier

17. Cash and cash equivalents

	2007 £m	2006 £m
Cash and cash equivalents	7 8	11 9

Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less In the opinion of the Directors, the carrying amount of these assets approximates to their fair value

18. Borrowings

	2007 £m	2006 £m
Unsecured borrowing		
Loans from related parties	1 4	31 6
Amount due for settlement within 12 months	(1 4)	(31 6)
Amount due for settlement after 12 months	-	-

18 Borrowings (continued)

	Sterling £m	Euros £m	HK dollars £m	Total £m
Analysis of borrowings by currency				
30 December 2006				
Loans from related parties	30 0	-	1 6	31 6
29 December 2007				
Loans from related parties	-	1 4	-	1 4

Amounts repayable to related parties of the Company carry interest of 4 648% (2006 5 378%) per annum charged on the outstanding loan balances

19. Derivative financial instruments

	2007 £m	2006 £m
Derivatives that are designated and effective as hedging instruments carried at fair value		
Forward foreign currency contracts held as assets	1 1	0 6
Forward foreign currency contracts held as liabilities	(3 6)	(0 3)
Net position at the balance sheet date	(2 5)	0 3

Further details of derivative financial instruments are provided in note 32

20. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period

	Accelerated capital allowances £m	Share based payments £m	Other temporary differences £m	Total £m
At 26 February 2006	(1 7)	6 8	0 1	5 2
Charge to income	(0 4)	(5 0)	0 4	(5 0)
Charge to equity	-	(1 8)	-	(1 8)
At 30 December 2006	(2 1)	-	0 5	(1 6)
Charge to income	0 4	-	0 1	0 5
Charge to equity	-	-	0 8	0 8
As 29 December 2007	(1 7)	-	1 4	(0 3)

20. Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2007 £m	2006 £m
Deferred tax liabilities	(1 7)	(2 1)
Deferred tax assets	1 4	0 5
	(0 3)	(1 6)

Deferred tax assets are recognised in respect of temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable Under current tax legislation, deductible temporary differences may be carried forward for relief against future tax liabilities

21. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts payable under finance leases				
Within one year	2 1	2 2	2 1	2 2
In the second to fifth years inclusive	8 3	8 4	5 9	8 7
After five years	28 2	30 3	5 9	3 6
	38 6	40 9	13 9	14 5
Less future finance charges	(24 7)	(26 4)	n/a	n/a
Present value of lease obligations	13 9	14 5		
Less Amount due for settlement within 12 months (shown under current liabilities)			(2 1)	(2 2)
Amount due for settlement after 12 months			11 8	12 3

It is the Company's policy to lease certain properties under finance leases The average lease term is 36 5 years For the period ended 29 December 2007, the average effective borrowing rate was 15% (2006 15%) Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

All lease obligations are denominated in sterling

The fair value of the Company's lease obligations approximates their carrying amount

The Company's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 13

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

22. Other financial liabilities

Trade and other payables

	2007 £m	(restated) 2006 £m
Trade payables	15 4	11 7
Social security and other taxes	4 1	1 1
Other payables	2 5	8 0
Accrued expenses	16 8	20 1
Prior period restatement	-	(6 8)
Deferred income	1 7	1 6
Amounts due to subsidiary undertakings	25 7	37 2
	66 2	72 9

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases is 26 days For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice Thereafter, interest is charged on the outstanding balances at various interest rates The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe

The Directors consider that the carrying amount of trade payables approximates to their fair value

Prior period restatement
As set out within note 13, accrued expenses at 30 December 2006 included an impairment provision of £6 8m, relating to short-term leasehold properties within property, plant and equipment This has been restated to property, plant and equipment

23. Provisions

	Onerous contracts £m	Total £m
At 31 December 2006	1 4	1 4
Additional provision in the period	3 6	3 6
At 29 December 2007	5 0	5 0

All amounts are included within current liabilities

The onerous contracts relate to buildings which the Company no longer occupy The affected lease agreements expire within 2 to 26 years Where possible the Company sublets the properties The amounts due net of rents receivable under subleases are discounted at the effective rate of interest of 9 4%, being the weighted average cost of capital (WACC) determined by L'Oréal SA and as detailed further in note 10

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

24. Share capital

	2007 £m	2006 £m
Authonsed		
300,000,000 ordinary shares of £0 05 each	15 0	15 0
Issued and fully paid		
226,710,000 ordinary shares of £0 05 each	11 3	11 3

The Company has one class of ordinary shares which carry no right to fixed income

25. Share premium account

	Share premium £m
Balance at 31 December 2006 and 29 December 2007	74 7

The share premium account consists of amounts subscribed for share capital in excess of their nominal value

26. Other reserves

	Hedging reserve £m	Share based payments £m	Total £m
Balance at 31 December 2006	-	9 3	9 3
Share option expenses	-	0 4	0 4
Loss recognised on cash flow hedges			
Foreign currency forward contracts	(2 1)	-	(2 1)
Transfer to retained earnings	-	(9 3)	(9 3)
Balance at 29 December 2007	(2 1)	0 4	(1 7)

Share based payments reserve

The £9 3m brought forward in the share based payments reserve relates to historic charges made in respect of the Company's former share schemes as described in note 30

27. Retained earnings

	2007 £m
Balance at 25 February 2006	126 8
Dividends paid	(9 0)
Net profit for the period	3 2
Balance at 30 December 2006	121 0
Dividends paid	(14 0)
Transfer from share based payments reserve	9 3
Net profit for the period	36 7
Balance at 29 December 2007	153 0

28. Contingent liabilities and guarantees

There are no material contingent liabilities at 29 December 2007 or at 30 December 2006

The Body Shop International PLC, acting it its capacity as holder of all issued shares of The Body Shop Benelux B V has a guarantee in place to accept, jointly and separately, liability for debts resulting from the legal acts of The Body Shop Benelux B V

29. Operating lease arrangements

The Company as lessee

	2007 £m	2006 £m
Minimum lease payments under operating leases recognised as an expense in the period	29 2	17 3

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2007 £m	2006 £m
Within one year	24 7	19 4
In the second to fifth years inclusive	81 9	64 5
After five years	61 6	62 6
	168 2	146 5

Operating lease payments represent rentals payable by the Company for certain of its various outlets, warehouses and offices under non-cancellable operating leases The leases have varying terms, escalation clauses and renewal rights The Company also leases items of plant and equipment on short and medium terms leases The majority of leases are subject to rent reviews

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

29. Operating lease arrangements (continued)

Included in the above operating lease commitments, are leases whereby the Company has subsequently granted sub-leases to franchisees and other third parties Due to the varying nature of both sub-lease durations and sub-lease incomes, it is not possible to provide accurate information as to the split of expected incomes from sublet properties over future periods

Income from sublet properties recognised in the income statement in the current and prior periods are as follows

	2007 £m	2006 £m
Income from sub-leases recognised in the period	1 4	1 7

30. Share based payments

During the prior period the Company had a number of share schemes which entitled executive directors, senior management and employees to acquire shares in the Company These schemes had been in existence for many years The recognition and measurement principles in IFRS 2 were applied to all share awards not vested at 29 February 2004 or those granted since that date All these share schemes were equity settled

Following the acquisition of the Company by L'Oréal SA an offer was made to holders of all options that had vested, and any unvested or unexercised options lapsed on 25 July 2006 Details of this can be found in the table below

	2007		2006	
	Number of share options (millions)	Weighted average exercise price (in £)	Number of share options (millions)	Weighted average exercise price (in £)
Share option schemes				
Outstanding at beginning of period	-	-	15 1	1 14
Exercise during the period	-	-	(13 5)	1 08
Expired during the period	-	-	(1 6)	1 67
Outstanding at the end of the period	-		-	
Exercisable at the end of the period	-		-	
Share save option schemes				
Outstanding at beginning of period	-	-	1 1	1 27
Exercise during the period	-	-	(0 5)	1 17
Expired during the period	-	-	(0 6)	1 34
Outstanding at the end of the period	-		-	
Exercisable at the end of the period	-		-	

30. Share based payments (continued)

	2007 Number of share options (millions)	2007 Weighted average exercise price (in £)	2006 Number of share options (millions)	2006 Weighted average exercise price (in £)
Performance share awards				
Outstanding at beginning of period	-	-	1 9	-
Expired during the period	-	-	(1 9)	-
Outstanding at the end of the period	-		-	
Exercisable at the end of the period	-		-	

Pursuant to the share option scheme of L'Oréal SA the board of directors of L'Oréal SA may, at its discretion, grant options to acquire shares in L'Oréal SA to eligible participants, including directors of The Body Shop International PLC and its subsidiary companies

The details of the arrangements of L'Oréal SA were as follows

Stock option scheme

In accordance with IFRS 2 "Share-based payment", the value of the options granted calculated at the grant date is charged to the income statement over the vesting period, which is generally 5 years Only options issued after 7 November 2002 and not fully vested at 1 January 2005 are accounted for in accordance with standard IFRS 2

The impact on the result of the period of application of standard IFRS 2 is booked on the *Operating expenses* line of the income statement The group recognised total expenses in the year of £0 4m (2006 £Nil) related to equity settled share based payments transactions

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

The model is based on the following hypotheses

	2007	2006
Risk-free rate of return	4 01%	3 62%
Expected life span	7 years	7 years
Expected volatility	23%	22 52%
Expected dividends	1 24%	1 35%
Share price	94 93	74 60
Exercise price	91 66	78 06
Fair value	25 88	17 19

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

30. Share based payments (continued)

The stock options granted to eligible participants of The Body Shop International PLC have no performance conditions attached They have an exercise period of 5 years Details of the options granted are as follows

	2007		2006	
	Number of share options (millions)	Weighted average exercise price (in €)	Number of share options (millions)	Weighted Average Exercise price (in €)
Stock option schemes				
Outstanding at beginning of period	0 1	74 37	-	-
Granted during the period	0 1	91 66	0 1	78 06
Exercise during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	0 2		0 1	
Exercisable at the end of the period	-		-	

31. Retirement benefit schemes

Defined contribution schemes

The Company operates a number of defined contribution pension schemes for its employees, the assets of which are held in independently administered funds The pension charge represents contributions payable to the funds and amounted to £3 4m (2006 £2 4m) Other creditors includes an accrual of £0 4m (2006 £nil) in respect of accrued pension contributions

32. Categories of financial assets & liabilities

	2007 £m	2006 £m
Financial assets:		
Derivative instruments in designated hedge accounting relationships	1 1	0 6
Loans & receivables:		
Trade receivables	22 3	24 2
Amounts owed by subsidiary undertakings	7 9	22 2
Cash and cash equivalents	7 8	11 9
Loans & receivables	38 0	58 3
	39 1	58 9
Financial liabilities:		
Derivative instruments in designated hedge accounting relationships	3 6	0 3
Amortised cost:		
Trade payables	15 4	11 7
Social security and other taxes	4 1	1 1
Other payables	2 5	8 0
Accrued expenses	16 8	13 3
Amounts due to subsidiary undertakings	25 7	37 2
Current tax liabilities	4 7	2 0
Deferred tax liabilities	0 3	1 6
Obligations under finance lease	13 9	14 5
Borrowings	1 4	31 6
Provisions	5 0	1 4
Amortised cost	89 8	122 4
	93 4	122 7

Financial risk management objectives

The Company's activities give rise to a number of financial risks, market (currency and interest), credit and liquidity risk The Company has risk management policies that seek to limit any adverse impacts of these risks to financial performance

Subsequent to its acquisition by L'Oréal SA, The Body Shop International PLC takes the benefit of participating in the activities provided by the L'Oreal SA treasury function to manage financial risk by the use of financial instruments Exchange rate derivatives are negotiated by the central L'Oréal SA treasury function on behalf of The Body Shop International PLC

32. Categories of financial assets & liabilities (continued)

Foreign exchange risk

There were no fair value hedges in place during either 2006 or 2007

The Company is exposed from currency risk on the balance sheet and from future transactions considered to be highly probable It is policy to use forward exchange contracts/options (derivative financial instruments) and to hedge 100% of the impact of the projected cash flow items, generated by balance sheet movement and highly probable transactions

Highly probable transactions for foreign exchange risk include two elements, these being the forecast 12 month's sales to subsidiaries and raw material/finished goods purchases During the period July - December 2006 the Company was in a period of transition to the new policies and benefitted from the 100% cash flow hedge of payables and receivables only

Foreign exchange risk

The Company policy does not hedge on-balance sheet foreign exchange exposures including loans, net investments or dividends

The main impact of foreign exchange risk on the Company's results arises from the translation of GBP Sterling of the income and outcome streams from operations outside of the UK, the two most significant currencies being the American Dollar (USD) and the European Euro (EUR)

Sales to foreign subsidiaries - During 2007 a strategic decision was made to change the exchange type used for the Company's Canadian and Mexican subsidiaries, previously invoiced in USD 2007 non GBP currency turnover comprised of 72% transactions in USD and EUR compared to 80% in 2006 There was a 33% decrease in the USD based transactions and a 25% increase in the EUR This change in invoicing has reduced the USD exposure, but created risk to Canadian Dollar (CAD) and Mexican Peso (MXN)

Purchases - Non GBP purchases comprised of 98% in USD and EUR compared to 99% in 2006

The use of financial instruments to mitigate the foreign exchange risk provides an exposure in two areas - impact on the balance sheet caused by changes in the fair value of the USD and EUR forward exchange contracts/options and on the operating profit due to the Company's actual performance variance versus the values of the USD and EUR cash flow hedges

Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise Exchange rate exposures are managed within approved policy parameters using foreign exchange contracts

Foreign currency sensitivity analysis

At the end of 2007 the Company had become less sensitive to foreign exchange as a result of a reduction in borrowings from £31 6m (2006) to £1 4m (2007) This has occurred as a direct result of the adoption of the L'Oréal SA foreign exchange policy, wherein all foreign currency loans were paid off and internal financing has been made available via the L'Oréal SA facilities

The following table provides the Company's sensitivity to an eight percent average increase and decrease in USD and EUR Eight percent has been used as it was the average movement experienced by the Company during 2007 and is considered representative of reasonable change

The calculation is based on outstanding foreign currency denominated USD/EUR monetary items and adjusts their translation for an eight percent change in foreign currency rates A positive figure denotes an increase in operating profit/equity

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

32. Categories of financial assets & liabilities (continued)

Foreign currency sensitivity analysis (continued)

	2007 £m	2006 £m
Profit or loss	0.5	2.5
Equity	0.2	-
	0.7	2.5

Derivative financial instruments

Derivative forward exchange contracts and options are arranged by L'Oreal SA central treasury department on behalf of The Body Shop International PLC These are created to cover 100% of the exposure to specific payments and receipts Typically the derivatives are 80% contracts and 20% options

The fair value of the financial assets and liabilities are determined as follows -

Foreign currency forward contracts are valued using quoted forward exchange rates matching the maturity of the contract

Foreign currency options are measured using quoted forward exchange rates matching maturities of the contracts and foreign currency volatilities derived from quoted prices for similar foreign currency options

Interest rate risk management

The Body Shop International PLC is financed via the L'Oreal SA central treasury department, through loans issued by the financing arm of the L'Oréal SA in-house bank Interest is charged on the loans at an arms length rate and is therefore subject to interest rate risk variations In line with the afore-mentioned policy, the Company does not hedge risks associated with loans

As at 29 December 2007, the Company's borrowings were £1.4m, and there is not considered to be a significant exposure to interest rate risk

Credit risk management

The Company sells to intercompany subsidiaries, wholesale franchisees and to the general public via its retail outlets Sales to intercompany subsidiaries are settled to invoice terms The Company has policies and processes in place to ensure that wholesale sales are made to customers with an appropriate credit history and adherence to the credit terms is closely monitored Sales to retail customers are made in cash or major credit cards

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions The Company has policies that limit the amount of credit exposure to any one financial institution and does not have any significant exposure to any single counterparty or any group of counterparties with similar characteristics

The carrying amount of financial assets recorded in the financial statements is net of impairment losses and represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained

32. Categories of financial assets & liabilities (continued)

Liquidity risk management

The Company is exposed to liquidity risk as part of its normal activities as a result of the seasonal nature of retail business Borrowings traditionally peak during the third quarter as a result of inventory increases in preparation for Christmas trading

The liquidity risk policy ensures that the Company has sufficient funds to meet its obligations as and when they fall due and to maintain sufficient flexibility to fund projected investment Liquidity requirements are assessed and reviewed regularly through both short and longer term forecasts All liquidity requirements are met through the L'Oréal SA in-house bank

Maturity analysis of borrowings and derivative financial instruments

	Within 1 year £m	2-5 years £m	5+ years £m	Total £m
2007				
Borrowings	1 4	-	-	1 4
Bank interest	1 5	-	-	1 5
Finance lease payments	2 1	8 3	28 2	38 6
Derivative liabilities	3 6	-	-	3 6
Trade and other payables	64 5	-	-	64 5
Provisions	5 0	-	-	5 0
Tax liabilities	4 7	0 3	-	5 0
	82 8	8 6	28 2	119 6
2006				
Borrowings	31 6	-	-	31 6
Bank interest	2 7	-	-	2 7
Finance lease payments	2 2	8 4	30 3	40 9
Derivative liabilities	0 3	-	-	0 3
Trade and other payables	71 3	-	-	71 3
Provisions	0 6	0 8	-	1 4
Tax liabilities	2 0	1 6	-	3 6
	110 7	10 8	30 3	151 8

Fair value of financial instruments

The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instructions

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements, in the Director's opinion, approximate their fair values

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, are disclosed below

Trading transactions

During the period, the Company entered into the following transactions with its subsidiaries

	Sale of goods Including services		Purchase of goods Including services		Amounts owed by related parties net of impairment		Amounts owed to related parties net of impairment	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
TBS (France) SARL	2 2	1 7	-	-	0 9	5 4	-	-
BS Denmark A/S	1 1	0 9	-	-	-	0 5	0 2	-
TBS Germany GmbH	4 4	5 0	-	-	-	-	3 5	1 8
TBS (Singapore) Pte	5 0	4 2	-	-	-	-	1 0	8 4
TBS Int'l (Asia Pacific) Pte	-	-	6 5	-	-	-	5 5	5 3
TBS Hong Kong Ltd	-	-	-	-	-	2 0	-	-
Mighty Ocean Company Ltd	8 4	-	-	-	1 8	1 6	-	-
TBS Canada Ltd	13 3	-	-	-	1 6	-	-	6 6
TBS GmbH (Austria)	1 2	1 7	-	-	-	-	0 6	-
TBS Benelux BV	0 6	2 6	-	-	-	-	0 4	-
Dibel 1 & 2	-	-	-	-	0 2	-	-	-
TBS Svenska	-	-	-	-	0 6	-	-	-
BSI USA Inc	31 8	38 7	12 1	-	-	12 5	0 3	-
Soapworks Ltd	-	-	8 0	10 0	-	-	1 3	5 6
TBS Worldwide Ltd	-	-	-	-	0 6	-	-	0 8
Small subsidiaries	-	18 7	-	-	2 1	1 7	12 6	10 2
L'Oreal Moyens Communs	0 1	-	0 4	-	0 1	-	0 2	-
L'Oreal Brasil Comercial LTDA	-	-	0 1	-	-	-	0 1	-
L'Oreal Golden Limited	-	-	0 3	-	-	-	-	-

All transactions with related parties are on the Company's standard payment terms of 30 days from the date of the invoice

The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received Provisions have been made for doubtful debts in respect of the amounts owed by related parties totalling £19 5m (2006 £26 7m)

Loans from related parties

	2007 £m	2006 £m
Loans from Finval	1 4	31 6
The Body Shop Canada Limited	-	6 6
The Body Shop (Singapore) Pte	-	9 8
	1 4	48 0

Amounts repayable to related parties carry interest of 4 648% (2006 4 760% - 5 378 %) per annum charged on the outstanding loan balances

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 29 December 2007

33 Related party transactions (continued)

Loans to related parties

	2007 £m	2006 £m
Mighty Ocean Company Limited	-	1 9
TBS (France) SARL	-	2 5
BS Denmark A/S	-	0 1
The Body Shop (Singapore) Pte	-	0 6
TBS Benelux BV	-	0 4
	-	5 5

Amounts receivable from related parties carried interest 4 120% - 6 888 % per annum charged on the outstanding loan balance The amounts outstanding were unsecured and will be settled in cash No guarantees have been given or received

34. Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking is L'Oréal SA, a company incorporated in France and listed on the French stock exchange

L'Oréal SA is the holding company respectively of the smallest and largest group of which the Company is a member and for which group accounts are prepared Copies of the group accounts may be obtained from its registered office at 31 Rue Matre, 92117 Clichy, France