

Registered number 01284170

THE BODY SHOP INTERNATIONAL PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
for the 52 week period ended 01 January 2011

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THE BODY SHOP INTERNATIONAL PLC

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THE BODY SHOP INTERNATIONAL PLC

COMPANY INFORMATION

Directors

Sophie Gasperment (Chief Executive Officer)

Jean-Paul Agon (Chairman)

Lady Sylvia Jay

Christian Mulhiez

Geoff Skingsley

Secretary

Iain Rubli

Auditors

Deloitte 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 1 January 2011 (2009 53 week period ended 2 January 2010)

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 and travel retail. It also acts as a holding company.

During 2010 the company proved resilient in a severely affected retail market environment. Revenue for the year was £332.1m (2009 £320.5m), and a post tax profit of £36.1m (2009 £34.0m). There were 311 (2009 329) stores in the UK at 1 January 2011, of which 297 (2009 295) were owned.

There was solid growth across Asia and the Middle East. However the economic climate continued to hamper footfall in a number of European countries.

At the end of 2010, the brand had a total of 2,605 stores in 63 countries (2009 2,550 stores in 63 countries).

Future prospects

The successful reorganisation of The Body Shop in 2009 which fundamentally increased our focus on customers the world over, was an important foundation for the long-term, sustainable growth of our brand. Whilst we continue to be confronted by challenges in some markets, as a direct result of the global economic downturn, our brand strategy for 2011 will ensure that our customers remain at the heart of all business decisions.

Growth in 2011 will come from the launch of an increasing number of innovative products. The Body Shop will continue to seek out natural, effective ingredients from all four corners of the globe as part of its Community Trade programme which improves the living conditions of more than 25,000 people worldwide. Our current Values campaign, *Stop Sex Trafficking of Children & Young People*, will endeavour in its aim to bring this fast growing issue to public attention, and to inspire those with decision-making power to take effective measures to address the situation. We have so far gathered over 6,000,000 signatures during the course of this campaign.

Through an unwavering and consistent implementation of its strategy, putting a focus on generating more innovative products and trailblazing values activities to appeal to an increasingly demanding ethical customer, The Body Shop is confident in its ability to resist the continued tough economic climate and to open the way to achieving sustainable growth worldwide.

Further information on the Company is set out in the Annual Report of L'Oréal SA for 2010 which is available from the registered office at 14, rue Royale, 75008 Paris - 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.

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.

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT (CONTINUED)

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 its 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 5.3% of gross accounts receivable. The financial and markets risks of the business are discussed further in note 33.

Liquidity Risk – All the Companies' liquidity needs are met completely and exclusively by L'Oréal SA, and as such the liquidity risk is minimal. The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.

The L'Oréal Group is rated by the credit rating agencies which respectively gave it, in November 2010 for Standard & Poor's and in July 2010 for Moody's and Fitch, the following short-term credit ratings: A1+, Prime 1 and F1+.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has been adopted in preparing the annual report and accounts.

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

Since the date of the balance sheet, the Company sold the trade and assets of Soapworks Ltd, a wholly owned subsidiary, as part of a management buy out. Soapworks Ltd changed its name to The Body Shop Queensland Ltd on 5th January 2011. Further details of this are contained within note 28.

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.

Results and dividends

As the Company is 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 £35.8m (2009: £22m).

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT (CONTINUED)

Directors

The current directors are listed on page 1 of the accounts. The Directors who served throughout the period were as follows.

Sophie Gasperment (Chief Executive Officer)

Jean-Paul Agon (Chairman)

Lady Sylvia Jay

Christian Mulliez

Geoff Skingsley

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 its 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 1 January 2011 were equivalent to 26 days (2009: 27 days) purchases, 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 5 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 performance. A mix of communication methods is used to engage and inform employees, including face-to-face communication sessions and intranet.

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

Our Values Agenda

Our 2010 Values Report has been published online in an exciting interactive format. To visit the Values Report please go to <http://www.thebodyshop.com/en/ww/values-campaigns/index.aspx>

Sourcing Responsibly

Community Fair Trade

Community Fair Trade is a targeted purchasing programme pioneered by The Body Shop™. Through careful management, The Body Shop™ uses its demand for ingredients, gifts and accessory items, to give marginalised producers access to a market otherwise out of reach. By frequent engagement with a variety of stakeholders, in particular the producers themselves, The Body Shop™ strives to do this in a fair way.

- Our Community Fair Trade Programme is now certified by the Institut F  der MarktO  kologie (IMO), a Swiss organisation with internationally renowned expertise in fair trade systems.
- In 2010 our efforts were focussed on the creation of a new CFT Charter, as well as the promotion of one of our oldest and newest ingredients - CFT shea butter and CFT organic alcohol.
- In 2011 the CFT team is facilitating a series of visits of The Body Shop Executive Board to CFT suppliers in order to raise awareness of the power and potential of fair trade.

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT (CONTINUED)

Ethical Trade

The Body Shop™ requires its suppliers to sign up to our Ethical Trade programme, based on the principles of engagement of the Ethical Trading Initiative. Through a system of audits and outreach work, we constantly review information from the supply base that tells us of the rights and conditions of the workers who make products on our behalf with a view to continuous improvement.

- In 2009 we also started a large expansion of the scope of the programme which prior to 2009 focussed mainly on direct product purchases. It will now include our indirect and 2nd tier sourcing activities.
- In 2010 we began to expand our Ethical Trade programme to include capacity building initiatives with key suppliers in high risk countries and industries.
- In 2010 this programme was also assessed by IMO, the findings of which will be implemented throughout 2011.

Palm Oil and wood

- The Body Shop is a prominent member of the Roundtable for Sustainable Palm Oil (RSPO) and has a target that 100% of our directly visible palm oil will come from RSPO certified sustainable sources by the end of 2011. We are already 90% of the way to meeting that target.

The Body Shop are members of the Worldwide Fund for Nature's (WWF's) Forest and Trade Network and by the end of 2011 all of our wooden accessories will come from FSC certified sustainable sources.

Minimising our impact on the environment

- *Climate Change* – We have set new carbon reduction targets for our own business: a 50% reduction in offices and warehouses by 2015 and a 50% reduction in stores energy consumption by 2020.
- *Responsible products* – We introduced an 'eco-conscious' standard in 2010, that meets our own stringent set of environmental criteria of respecting the aquatic environment, level of biodegradability and limiting of packaging waste. The Eco-conscious Rainforest Hair Collection is our first range of products to meet this standard.

Against Animal Testing

We have never tested finished cosmetic products on animals and we do not ask others to test on our behalf. We are among the few companies to comply with the stringent requirements of the 'Humane Cosmetics Standard' (HCS) of the British Union for the Abolition of Vivisection (BUAV).

- In 2009 we were awarded a Lifetime Achievement Award by the Royal Society for Prevention of Cruelty to Animals (RSPCA) for our contribution to achieving an EU wide ban on animal testing on finished cosmetic products.

Our campaigns

True to The Body Shop's campaign heritage, international campaigns continued to create change around the world.

The Stop Sex Trafficking of Children and Young People campaign, launched in August 2009, in partnership with ECPAT International (End Child Prostitution and Trafficking of Persons), continued throughout 2010. Created in response to a human rights abuse which affects over 1 million children and young people every year, touching every country in the world, this 3 year campaign aims to raise awareness and inspire decision makers to take action to give children and young people greater protection. By December 2010 over 900,000 units of the 'Soft Hands Kind Heart' campaign hand cream had been sold to customers the world over and proceeds donated to ECPAT and other NGO partners to support advocacy and awareness raising initiatives and to directly help those affected or at risk.

Charitable and community involvement

The Company donated £1.3m (2009 £1.9m) to charitable organisations last period, of which £0.7m (2009 £0.7m) was donated to The Body Shop Foundation and the remaining £0.6m (2009 £1.2m) 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 £2.4m (2009 £2.2m).

THE BODY SHOP INTERNATIONAL PLC

DIRECTORS' REPORT (CONTINUED)

Directors' responsibility statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2006.

Deloitte 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



Sophie Gasperment
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BODY SHOP INTERNATIONAL PLC

We have audited the financial statements of The Body Shop International PLC for the 52 week period ended 1 January 2011 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 1 January 2011 and of its profit for the 52 week period ended 1 January 2011,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

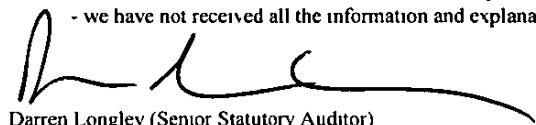
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Darren Longley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Southampton, United Kingdom

24 June 2011

THE BODY SHOP INTERNATIONAL PLC

INCOME STATEMENT

For the 52 weeks ending 01 January 2011

	Note	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Continuing operations			
Revenue	2	332.1	320.5
Cost of sales		(133.8)	(115.8)
Gross profit		<u>198.3</u>	<u>204.7</u>
Operating expenses	3	(165.1)	(181.2)
Restructuring costs		(0.6)	(11.0)
Operating profit	4	<u>32.6</u>	<u>12.5</u>
Investment revenues	7	15.1	24.4
Finance costs	8	(2.1)	(2.2)
Profit on ordinary activities before taxation		<u>45.6</u>	<u>34.7</u>
Tax	9	(9.5)	(0.7)
Profit for the period from continuing operations	27	<u><u>36.1</u></u>	<u><u>34.0</u></u>

THE BODY SHOP INTERNATIONAL PLC

STATEMENT OF CHANGES IN EQUITY

At 01 January 2011

	Attributable to the equity holders of the Company				Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	
Balance at 27 December 2008	11.3	74.7	(4.2)	155.8	237.6
Profit for the period	-	-	-	34.0	34.0
Profit recognised on cash flow hedges	-	-	7.3	-	7.3
Deferred tax on cash flow hedges	-	-	(2.1)	-	(2.1)
Deferred tax on loyalty scheme IFRIC 13	-	-	0.1	-	0.1
Total comprehensive income for the period	-	-	5.3	34.0	39.3
Share option expenses	-	-	0.8	-	0.8
Dividends	-	-	-	(11.6)	(11.6)
Balance at 2 January 2010	11.3	74.7	1.9	178.2	266.1
Profit for the period	-	-	-	36.1	36.1
Loss recognised on cash flow hedges	-	-	(1.6)	-	(1.6)
Deferred tax on cash flow hedges	-	-	0.5	-	0.5
Total comprehensive income for the period	-	-	(1.1)	36.1	35.0
Dividends	-	-	-	(22.0)	(22.0)
Share option expenses	-	-	0.9	-	0.9
Balance at 1 January 2011	11.3	74.7	1.7	192.3	280.0

THE BODY SHOP INTERNATIONAL PLC

BALANCE SHEET

At 01 January 2011

		01-Jan 2011 £m	02-Jan 2010 £m
	Note		
Assets			
Non-current assets			
Goodwill	11	7.7	7.1
Other intangible assets	12	2.4	2.6
Property, plant and equipment	13	48.0	56.5
Investments	14	155.5	157.8
Deferred tax asset	20	1.1	0.7
		<u>214.7</u>	<u>224.0</u>
Current assets			
Inventories	15	65.9	52.2
Trade and other receivables	16	54.2	56.5
Current tax receivables		-	1.3
Cash and cash equivalents	17	26.0	12.5
Derivative financial instruments	19	1.3	2.6
		<u>147.4</u>	<u>125.1</u>
Total assets		<u>362.1</u>	<u>349.1</u>
Liabilities			
Current liabilities			
Trade and other payables	22	(56.6)	(57.1)
Current tax liabilities		(6.2)	-
Obligations under finance leases	21	(1.7)	(2.1)
Borrowings	18	(2.0)	(2.0)
Provisions	23	(0.5)	(6.2)
Derivative financial instruments	19	(2.7)	(2.0)
		<u>(69.7)</u>	<u>(69.4)</u>
Net current assets		<u>77.7</u>	<u>55.7</u>
Non-current liabilities			
Deferred tax liability	20	(2.7)	(2.8)
Obligations under finance leases	21	(9.7)	(11.5)
		<u>(12.4)</u>	<u>(13.6)</u>
Total liabilities		<u>(82.1)</u>	<u>(83.0)</u>
Net assets		<u>280.0</u>	<u>266.1</u>

THE BODY SHOP INTERNATIONAL PLC

BALANCE SHEET (CONTINUED)

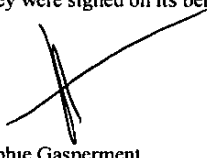
At 01 January 2011

	Note		
Equity			
Share capital	24	11 3	11 3
Share premium account	25	74 7	74 7
Other reserves	26	1 7	1 9
Retained earnings	27	192 3	178 2
Total equity		<u>280 0</u>	<u>266 1</u>

The financial statements were approved by the Board of Directors and authorised for issue on June 2011

The Company's registered number is 01284170

They were signed on its behalf by


Sophie Gasperment
Director

THE BODY SHOP INTERNATIONAL PLC

CASH FLOW STATEMENT

At 01 January 2011

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Cash flows from operating activities		
Operating profit	32.6	12.5
Depreciation	11.5	11.9
Loss on disposal of property, plant and equipment	2.7	0.3
Loss on disposal of subsidiaries	2.3	3.6
Amortisation	1.6	2.1
Reversal of Impairment of assets	(2.3)	(1.7)
Share option charge/(credit)	0.9	0.8
Other gains and losses	(1.1)	5.3
Exchange movement	0.3	-
Changes in working capital (excluding the effects of acquisitions)		
(Increase)/decrease in inventories	(13.7)	15.2
(Increase)/decrease in trade and other receivables	2.3	12.3
Increase/(decrease) in trade and other payables	(0.5)	(23.0)
(Decrease)/increase in provisions	(5.7)	2.5
Income tax paid	(2.6)	(4.5)
Net cash from operating activities	28.3	37.3
Investing activities		
Interest received	0.1	0.3
Interest paid	(2.1)	(2.2)
Purchases of property, plant and equipment	(3.6)	(4.4)
Acquisition of intangible assets	(1.2)	(0.3)
Acquisition of goodwill	(0.6)	(0.2)
Dividends received from subsidiaries	15.0	24.1
Net cash from investing activities	7.6	17.3
Cash flows used in financing activities		
Capital element of finance lease rental payments	(0.4)	(0.2)
Dividends paid to Company's shareholders	(22.0)	(11.6)
Raising/(Repayment) of borrowings	-	(39.8)
Net cash used in financing activities	(22.4)	(51.6)
Net increase in cash and cash equivalents	13.5	3.0
Cash and cash equivalents at beginning of period	12.5	9.5
Cash and cash equivalents at end of period	26.0	12.5

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ending 01 January 2011

1a Basis of preparation and general information

The Body Shop International PLC is a company incorporated in the United Kingdom under the Companies Act. 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.

All the Company's liquidity needs are met completely and exclusively by L'Oréal SA, and as such the liquidity risk is minimal. The L'Oréal Group's liquidity risk is managed with the primary aim of ensuring continued financing and optimising the financial cost of debt.

All references to 2010 in these financial statements relate to the 52 weeks ending 1 January 2011, or balances as at that date. Likewise, all references to 2009 relate to the 53 weeks ending 2 January 2010, or balances as at that date.

1b Adoption of new and revised standards

The following new and revised standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 3 (2008) - *Business Combinations*

IAS 27 (2008) - *Consolidated and Separate Financial Statements*

IAS 28 (2008) - *Investments in Associates*

Improvements to IFRSs (2009)

IFRIC 17 - *Distributions of Non-cash Assets to Owners*

IFRS 2 (amended) - *Group Cash-settled Share-based Payment Transactions*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9 - *Financial Instruments*

IAS 24 (amended) - *Related Party Disclosures*

IFRIC 19 - *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 14 (amended) - *Prepayments of a Minimum Funding Requirement*

Improvements to IFRSs (May 2010)

IAS 32 (amended) - *Classification of Rights Issues*

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company except for the measurement and disclosures of Financial Instruments when IFRS 9 comes into effect for periods commencing on or after 1 January 2013.

1c Accounting policies

The principal accounting policies 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 2006 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 2006, 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.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

1c Accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements under IFRS requires the Company to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a risk of causing a material adjustment to the carrying amount of assets and liabilities mainly concern the valuation of goodwill and provisions.

Impairment of goodwill

The Company is required to test whether goodwill has suffered any impairment. The recoverable amount is determined based on the value-in-use calculations. The use of this method requires the estimation of future cash flows and the use of a suitable discount rate in order to calculate the present value of these cash flows. Details of the impairment review calculation are set out in note 11.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Details of provisions are disclosed in note 23.

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.

Operating profit

Operating profit is stated before investment income, finance costs, other gains and movement in fair value of derivatives and forward contracts.

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.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

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 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 asset's 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 with 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.

Foreign currency translation

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting).

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

1c Accounting policies (continued)

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

Taxation

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 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.

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.

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.

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

Upon the acquisition of the Company by L'Oréal 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 6 and 31.

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.

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

Financial assets

The Company classifies its 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:

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

1c Accounting policies (continued)

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.

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.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

2 Revenue

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Sale of goods	295.6	295.8
Royalties	34.2	23.0
Freight income	2.3	1.7
	<u>332.1</u>	<u>320.5</u>

3 Operating expenses

Operating profit for the period has been arrived at after charging

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Operating costs relating to Company-owned shops, The Body Shop At Home™ and the internet	86.3	91.6
Selling and distribution costs	14.4	14.6
Administrative expenses	64.4	75.0
	<u>165.1</u>	<u>181.2</u>
Restructuring costs	0.6	11.0
	<u>165.7</u>	<u>192.2</u>

4 Operating profit

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

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Net foreign exchange gains	0.4	(1.2)
Research and development	2.4	2.2
Depreciation of property plant and equipment	11.5	11.9
Reversal of impairment of property plant and equipment	(2.3)	(1.7)
Amortisation of intangible assets	1.6	2.1
Loss on disposal of property plant and equipment	2.7	0.3
Stock written off	0.8	2.0
Bad debts written off	(0.4)	0.4
Operating lease rentals - Land and buildings	29.8	20.6
Operating lease rentals - Other	0.7	0.7

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

4 Operating profit (continued)

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
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 group the audit of the company's subsidiaries pursuant to legislation	0.3	0.3
Fees payable to the company's auditors for non-audit services		-
	<u>0.5</u>	<u>0.5</u>

5 Staff costs and numbers

Costs during the period including directors' emoluments which are disclosed in note 6, were as follows

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Wages	55.0	55.3
Redundancy costs	0.1	4.2
Social security and other taxes	4.7	5.0
Pension	3.0	3.2
Share based payments	1.3	0.8
	<u>64.1</u>	<u>68.5</u>

The average number of employees during the period was as follows

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Administration	594	642
Distribution / manufacturing	196	127
Shops	2,199	1,991
	<u>2,989</u>	<u>2,760</u>

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

6 Directors' remuneration

The total amounts for directors' remuneration was as follows

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Emoluments	0.7	1.1
	<u>0.7</u>	<u>1.1</u>

There were no directors in the Company defined contribution pension scheme in either period

One director was issued share options during the period (2009: one director)

One director exercised share options during the period (2009: no director)

During the year one director received shares under long term incentive schemes (2009: one director)

The emoluments of the highest paid director were £0.7m (2009: £0.7m)

The Board consider the directors to constitute key management personnel

7 Investment revenues

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Dividends received	15.0	24.1
Interest revenue	0.1	0.3
Loans and receivables (including cash and bank balances)		
	<u>15.1</u>	<u>24.4</u>

8 Finance costs

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Interest on bank overdrafts and intercompany loans	0.2	0.3
Interest on obligations under finance leases	1.9	1.9
	<u>2.1</u>	<u>2.2</u>

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

9 Tax

Analysis of charge in period

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Current tax	10.7	2.5
Current period charge	(1.2)	(2.3)
Prior period (credit)		
	9.5	0.2
Deferred tax		
Current period (credit)/charge	-	0.5
Total tax charge	9.5	0.7
Tax on items charged to equity		

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Deferred tax on share based payments	-	0.1
Deferred tax on cash flow hedges	0.5	(2.1)
	0.5	(2.0)

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

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Profit on ordinary activities before tax	45.6	34.7
Profit on ordinary activities multiplied by the rate of UK corporation tax of 28% (2009 28%)	12.8	9.7
Effects of		
Expenses not deductible for tax purposes	1.7	1.8
Non taxable dividends	(4.2)	(6.7)
Overseas tax suffered	0.5	1.1
Double taxation relief	(0.5)	(1.1)
Other	0.1	(2.8)
Prior period adjustment	(0.9)	(1.3)
Total taxation	9.5	0.7

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

10 Dividends

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Amounts recognised as distributions to equity holders in the period		
Final dividend for the period ended 2 January 2010 of 9.7p per share paid in 2010	22.0	-
Interim dividend for the period ended 27 December 2008 of 5.1p per share paid in 2009	-	11.6
	<u>22.0</u>	<u>11.6</u>
Proposed final dividend for the period ended 1 January 2011 of 15.8p per share	35.8	-
Proposed final dividend for the period ended 2 January 2010 of 9.7p per share	-	22.0
	<u>35.8</u>	<u>22.0</u>

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

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

11 Goodwill

Cost	£m
At 27 December 2008	6.8
Additions	0.3
At 2 January 2010	7.1
Additions	0.6
At 1 January 2011	<u>7.7</u>
Carrying amount	
At 1 January 2011	<u>7.7</u>
At 2 January 2010	<u>7.1</u>

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 0% (2009: 0%). 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 7.9% (2009: 7.9%) has been used in discounting the projected cashflows. This discount rate is determined by L'Oréal SA and is the weighted average cost of capital (WACC), adjusted by applying a country risk premium if necessary.

The Company has conducted a sensitivity analysis on the impairment test of each Cash Generating Unit. A cut in the sales growth rate by three percentage points would result in the carrying value of goodwill being reduced to its recoverable amount.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

12 Other intangible assets

	Software
At 27 December 2008	12.0
Additions	0.3
Disposals	(1.2)
Asset reclassification (note 13)	0.6
At 2 January 2010	11.7
Additions	1.2
Disposals	(2.1)
Asset reclassification (note 13)	0.2
At 1 January 2011	11.0
Amortisation	
At 27 December 2008	8.0
Charge for the period	2.2
Disposals	(1.1)
At 2 January 2010	9.1
Charge for the period	1.6
Disposals	(2.1)
At 1 January 2011	8.6
Carrying amount	
At 1 January 2011	2.4
At 2 January 2010	2.6

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

13 Property, plant and equipment

	Freehold properties £m	Short term leasehold property £m	Plant and equipment £m	Total £m
Cost or valuation				
At 27 December 2008	0.4	55.9	77.8	134.1
Additions	-	0.1	4.3	4.4
Disposals	-	(0.1)	(3.4)	(3.5)
Asset reclassification (note 12)	-	-	(0.6)	(0.6)
At 2 January 2010	0.4	55.9	78.1	134.4
Additions	0.0	0.2	3.4	3.6
Disposals	-	(2.6)	(1.0)	(3.6)
Asset reclassification (note 12)	-	-	(0.2)	(0.2)
At 1 January 2011	0.4	53.5	80.3	134.2
Accumulated depreciation				
At 27 December 2008	-	31.1	39.8	70.9
Charge for the period	-	1.8	10.1	11.9
Impairment reversal	-	(2.0)	0.3	(1.7)
Disposals	-	(0.1)	(3.1)	(3.2)
At 2 January 2010	-	30.8	47.1	77.9
Charge for the period	0.1	2.2	9.2	11.5
Impairment reversal	-	(2.1)	(0.2)	(2.3)
Disposals	-	-	(0.9)	(0.9)
At 1 January 2011	0.1	30.9	55.2	86.2
Carrying amount				
At 1 January 2011	0.3	22.6	25.1	48.0
At 2 January 2010	0.4	25.1	31.0	56.5

Impairment loss

In 2006 an impairment loss 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 remained unoccupied until 2009 when the Company began utilising the property itself. As a result a portion of this impairment was reversed in 2009.

In 2010 the Company exited a finance lease asset arrangement. Impairment had previously been recognised in relation to this asset and was reversed in 2010 as a result of this transaction.

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 £11.8m (2009: £13.5m).

At 1 January 2011 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £0.3m (2009: £0.4m).

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

14 Subsidiaries	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Cost of investments in subsidiaries (less provisions)		
Bought forward	157.8	161.4
Increase in provisions against subsidiary undertakings	(3.3)	(0.4)
Provisions against subsidiary undertakings written back	1.0	32.0
Disposals	-	(35.2)
Carried forward	155.5	157.8

The Company's principal subsidiaries at 1 January 2011 were

	% Holding of ordinary shares	Country of incorporation and operation	Aggregate amount of share capital and reserves as at 1 Jan 11 £m	Retained profit or (loss) for the period ended 1 Jan 2011 £m
Soapworks Limited	*100	Great Britain	3.7	1.3
The Body Shop Worldwide Limited	100	Great Britain	0.0	8.6
The Body Shop Canada Limited	100	Canada	7.8	2.1
Skin & Hair Care Preparations Inc	100	USA	91.1	0.0
Buth-Na-Bodhaige Inc	**100	USA	5.5	2.9
The Body Shop (Singapore) Pte Ltd	100	Singapore	5.5	3.4
The Body Shop International (Asia Pacific) Pte Ltd	100	Singapore	1.2	0.7
The Body Shop Hong Kong Limited	100	Hong Kong	28.9	9.4
Mighty Ocean Company Limited	***100	Hong Kong	2.6	0.4
The Body Shop (France) SARL	****100	France	(5.6)	(1.7)
The Body Shop Beteiligungs GmbH	100	Germany	13.8	0.0
The Body Shop Benelux BV	100	Netherlands	(0.2)	(0.1)
The Body Shop Netherlands BV	*****100	Netherlands	(1.3)	(0.8)
The Body Shop GmbH	100	Austria	0.7	0.3
B S Denmark A/S	****100	Denmark	1.7	0.1
The Body Shop Svenska AB	100	Sweden	7.8	4.6
Cosmenatura SA	100	Spain	0.9	(0.4)
Dibel SA	100	Portugal	2.9	0.4
Dibel 3 SA	*****100	Portugal	0.3	0.0

* Denotes that Soapworks Ltd changed its name on 4 January 2011 to The Body Shop Queenslie Ltd and that it sold its trade and assets on the same date and became a non-trading company from this date

** Denotes that Buth-Na-Bodhaige Inc is indirectly owned by The Body Shop International Plc, direct ownership is held by Skin & Hair Care Preparations Inc

**** Denotes that The Body Shop (France) SARL and B S Denmark A/S are indirectly owned by The Body Shop International Plc direct ownership is held by The Body Shop Worldwide Limited

***** Denotes that The Body Shop Netherlands BV is indirectly owned by The Body Shop International Plc direct ownership is held by The Body Shop Benelux BV

***** Denotes that Dibel 3 SA is indirectly owned by The Body Shop International Plc direct ownership is held by Dibel SA

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

14 Subsidiaries (continued)

Investments

Soapworks Limited *

Principal activity

This company manufactures soap home fragrance oils and related products

The Body Shop Worldwide Limited

This company acts as a holding company and does not otherwise trade

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-Bodharge Inc

This company trades in The Body Shop® products in the USA through retail outlets 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

Cosmenatura SA

This company trades in The Body Shop® products in Spain

Dibel SA

This company trades in The Body Shop® products in Portugal

Dibel 3 SA

This company trades in The Body Shop® products in Portugal through its parent Dibel SA

* Denotes that Soapworks Ltd changed its name on 4 January 2011 to The Body Shop International Queenslie Ltd and that it became a non-trading company

15 Inventories

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Finished goods	65.9	52.2

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

16 Other financial assets

Trade and other receivables

	52 weeks to 1 Jan 2011 £m	53 weeks to 2 Jan 2010 £m
Current assets		
Trade receivables	28.8	27.2
Less provisions for impairment of receivables	(1.5)	(2.1)
Trade receivables - net	27.4	25.1
 Amounts owed by subsidiary undertakings	14.2	20.9
Prepayments	11.9	10.2
Other receivables	0.7	0.3
	54.2	56.5

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 33.

Ageing of past due receivables

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
30-60 days	0.3	0.7
60-90 days	0.4	0.2
90-120 days	0.3	-
120+ days	0.6	0.3
Total	1.6	1.2

Movement in the allowance for doubtful debts

	2010 £m	2009 £m
Balance at the beginning of the period	2.1	1.3
Impairment losses recognised	0.1	1.1
Impairment losses realised	(0.7)	(0.3)
Balance at the end of the period	1.5	2.1

The provision balance above includes an element relating to some intercompany receivable balances.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

17 Cash and cash equivalents

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Cash and cash equivalents	26.0	12.5

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

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Unsecured borrowing		
Loans from related parties	2.0	2.0
Amount due for settlement within 12 months	2.0	2.0
	Sterling £m	Euros £m
02-Jan-10		
Loans from related parties	-	2.0
01-Jan-11		
Loans from related parties	-	2.0

Amounts repayable to related parties of the Company carry interest of 0.71% - 0.91% per annum charged on the outstanding loan balances.

The Body Shop International Plc is financed entirely through FINVAL, which is the financing arm of the L'Oréal SA in house bank via L'Oréal Group Central Treasury. The Company has no external borrowing facilities. Interest is charged on loans by FINVAL at arms-length rate that being 50 basis points above LIBOR or EURIBOR. The Company is therefore subject to interest rate variations and does not hedge its interest rate risk exposures.

Interest due to FINVAL on loans is payable at the end of each monthly accounting period. Interest amounts outstanding at 1st January 2011 are included in accruals. The average effective interest rates for 2010 were 0.91% and 0.86% for loans denominated in Sterling and Euros respectively.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

19 Derivative financial instruments

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Derivatives that are designated and effective as hedging instruments carried at fair value		
Forward foreign currency contracts held as assets	1.3	2.6
Forward foreign currency contracts held as liabilities	(2.7)	(2.0)
Net position at the balance sheet date	<u>(1.4)</u>	<u>0.6</u>

Further details on Derivative financial instruments can be found in note 33

Maturity analysis of borrowings and derivative financial instruments

	Within 1 year £m	2-5 years £m	5+ years £m	Total £m
2010				
Borrowings	-	-	-	-
Derivative liabilities	2.7	-	-	2.7
Trade and other payables	54.5	8.3	21.9	84.7
	<u>57.2</u>	<u>8.3</u>	<u>21.9</u>	<u>87.4</u>
2009				
Borrowings	2.0	-	-	2.0
Derivative liabilities	2.0	-	-	2.0
Trade and other payables	51.5	8.3	24.0	83.8
	<u>55.5</u>	<u>8.3</u>	<u>24.0</u>	<u>87.8</u>

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
As 27 December 2008	(3.1)	-	3.5	0.4
Charge to income	0.3	-	(0.8)	(0.5)
Charge to equity	-	-	(2.0)	(2.0)
As 2 January 2010	<u>(2.8)</u>	<u>-</u>	<u>0.7</u>	<u>(2.1)</u>
Charge to income	0.1	0.4	(0.5)	-
Charge to equity	-	-	0.5	0.5
As 1 January 2011	<u>(2.7)</u>	<u>0.4</u>	<u>0.7</u>	<u>(1.6)</u>

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

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

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Deferred tax liabilities	(2.7)	(2.8)
Deferred tax assets	1.1	0.7
	<u>(1.6)</u>	<u>(2.1)</u>

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	
	2010	2009	2010	2009
		£m		£m
Amounts payable under finance leases				
Within one year	2.1	2.1	1.6	2.1
In the second to fifth years inclusive	8.3	8.3	4.9	5.8
After five years	21.9	24.0	4.8	5.7
	<u>32.3</u>	<u>34.4</u>	<u>11.3</u>	<u>13.6</u>
Less: future finance charges	(20.9)	(20.8)	n/a	n/a
Present value of lease obligations	<u>11.4</u>	<u>13.6</u>	<u>11.3</u>	<u>13.6</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1.6)	(2.1)
Amount due for settlement after 12 months			<u>9.7</u>	<u>11.5</u>

It is the Company's policy to lease certain properties under finance leases. The average lease term is 37.5 years. For the period ended 1 January 2011, the average effective borrowing rate was 16.38% (2009: 16.38%). 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 to 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 01 January 2011

22 Other financial liabilities Trade and other payables

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Trade payables	25.9	20.0
Social security and other taxes	3.5	3.6
Other payables	2.3	4.8
Accrued expenses	15.4	19.6
Deferred income	2.8	3.4
Amounts due to subsidiary undertakings	6.7	5.7
	<u>56.6</u>	<u>57.1</u>

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 26 days (2010: 27 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.

23 Provisions

	Onerous contracts £m
At 27 December 2008	3.7
Provision increase in the period	2.5
At 2 January 2010	<u>6.2</u>
Provision decrease in the period	(5.7)
At 1 January 2011	<u>0.5</u>

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 25 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 7.9%, being the weighted average cost of capital (WACC) determined by L'Oréal SA and as detailed further in note 11.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

24 Share capital

	As at 1 January 2011 £m	As at 2 January 2010 £m
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 1 January 2011 and 2 January 2010	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 27 December 2008	(5.2)	1.0	(4.2)
Share option expenses	-	0.8	0.8
Foreign currency forward contracts	5.3	-	5.3
Balance at 2 January 2010	0.1	1.8	1.9
Share option expenses	-	0.9	0.9
Foreign currency forward contracts	(1.1)	-	(1.1)
Balance at 1 January 2011	(1.0)	2.7	1.7

Hedging Reserve

The Hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

27 Retained earnings

	£m
Balance at 27 December 2008	155.8
Dividends paid	(11.6)
Net profit for the period	34.0
Balance at 2 January 2010	178.2
Dividends paid	(22.0)
Net profit for the period	36.1
Balance at 1 January 2011	192.3

28 Post balance sheet events

No material post balance sheet event has occurred

The information in note 14 outlines a wholly owned subsidiary changed its name and sold its trade and assets after the balance sheet date. This is not considered to be a material post balance sheet event.

29 Contingent liabilities and guarantees

The Body Shop International PLC, acting in 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.

30 Operating lease arrangements

The Company as lessee

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Minimum lease payments under operating leases recognised as an expense in the period	30.5	31.3

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:

	As at 1 Jan 2011 £m	As at 2 Jan 2010 £m
Within one year	27.9	28.5
In the second to fifth years inclusive	85.1	80.4
After five years	40.6	60.6
	153.6	169.5

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 01 January 2011

30 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

	52 weeks to 1 Jan 2011 £m	52 weeks to 2 Jan 2010 £m
Income from sub-leases recognised in the period	1.1	1.1

31 Share based payments

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 £1.3m (2009: £0.8m) 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:

	2010	2009
Risk-free rate of return	2.83%	3.15%
Expected life span	7 years	7 years
Expected volatility	24%	32%
Expected dividends	1.86%	2.83%
Share price	80.5	50.94
Exercise price	80.03	50.11
Fair value	17.17	12.16

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.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

31 Share based payments (continued)

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

	2010		2009	
	Number of options (millions)	Weighted (in £)	Number of options (millions)	Weighted (in £)
Stock option schemes				
Outstanding at beginning of period	0.2	91.7	0.2	91.7
Granted during the period	0.1	80.0	0.1	50.1
Forfeited during the period	(0.1)	-	(0.1)	-
Outstanding at the end of the period	<u>0.2</u>		<u>0.2</u>	
Exercisable at the end of the period	<u>-</u>		<u>-</u>	

Stock options were granted on 27 April 2010. The aggregate of the estimated fair values of the options granted at that date is £3.2m.

32 Retirement benefit schemes

Defined contribution schemes

The Company operates a group personal pension scheme 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 £3.0m (2009: £3.2m). Other creditors includes an accrual of £0.2m (2009: £0.2m) in respect of accrued pension contributions.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

33 Financial Instruments

Categories of financial assets & liabilities	As at 1 January 2011 £m	As at 2 January 2010 £m
Financial assets		
Derivative instruments in designated hedge accounting relationships	1 3	2 6
Loans & receivables		
Trade receivables	27 4	25 1
Amounts owed by subsidiary undertakings	14 2	20 9
Cash and cash equivalents	26 0	12 5
Loans & receivables	67 6	58 5
	68 9	61 1
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	2 7	2 0
Amortised cost		
Payables	49 9	51 4
Amounts due to subsidiary undertakings	6 7	5 7
Borrowings	2 0	2 0
Amortised cost	58 6	59 1
	61 3	61 1

Financial risk management objectives

The Company actively manages the risks arising from its operations, as well as the financial instruments put in place to mitigate those risks. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, and specifically for ensuring that the Company has adequate policies, procedures and internal controls in place to successfully manage and to mitigate the key risks to which the company is exposed. As a wholly-owned subsidiary of L'Oréal SA, The Body Shop International Plc is compliant with the Group's policies in all aspects of financial management.

The principal financial risk groups for the Company can be categorised as: foreign exchange risk, interest rate risk, liquidity risk and credit risk.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

33 Financial Instruments (continued) Foreign Currency Risk Management

The Company undertakes transactions denominated in foreign currencies, consequently exposures to exchange rate fluctuations arise. In accordance with L'Oreal Group rules, all highly probable future transactions in foreign currency are hedged fully and systematically. This is explained in further detail below.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2010	2009	2010	2009
	'm	'm	'm	'm
AUD	0.1	-	-	-
CAD	0.3	0.0	2.9	5.8
DKK	4.2	-	10.6	9.5
EUR	4.0	(2.7)	11.0	12.1
HKD	0.0	0.0	31.0	27.3
JPY	10.1	4.4	8.4	-
MXN	18.3	-	2.6	26.0
SEK	0.1	-	7.4	15.3
SGD	2.9	5.9	3.7	6.1
THB	44.6	2.6	0.0	-
USD	6.5	(0.7)	8.5	4.2

Foreign Currency Sensitivity Analysis

The company is exposed to a number of currencies in the course of its normal operations.

The following table details the Company's sensitivity to a 8% increase and decrease in Sterling against the relevant foreign currencies. 8% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for an 8% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where Sterling strengthens 8% against the relevant currency. For a 8% weakening of Sterling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	2010	2009
	£m	£m
Income statement	(0.5)	0.2
Equity	1.6	3.9
TOTAL	1.1	4.1

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

33 Financial Instruments (continued)

	Income statement		Equity	
	(i)		(ii)	
	2010	2009	2010	2009
	£m	£m	£m	£m
Sensitivity by currency				
AUD	-	-	-	-
CAD	(0.1)	0.2	0.8	1.1
DKK	-	-	0.2	-
EUR	(0.2)	(0.3)	2.0	2.3
HKD	(0.1)	0.1	0.7	0.9
JPY	-	-	0.1	-
MXN	-	-	0.1	-
SEK	-	0.1	0.4	0.4
SGD	(0.1)	-	0.2	-
THB	-	-	(2.1)	-
USD	-	0.1	(0.8)	(0.8)
TOTAL	(0.5)	0.2	1.6	3.9

(i) This is mainly attributable to the exposure outstanding on receivables and payables in the Group at the balance sheet date

(ii) This is a result of the changes in fair value of derivative instruments designated as cash flow hedges

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. Forward foreign exchange contracts used to hedge the following years forecast cashflows are purchased prior to the end of the year (see below). The nominal value of the portfolio, and sensitivity of exchange rates on Other Equity is therefore more likely to be greater than during the rest of the year. Due to the hedging policy operated the impact on the Income Statement continues to be marginal.

Forward Foreign Exchange Contracts

To manage its exposure to currency risks arising in the course of its normal operations, the Company uses derivatives arranged on its behalf by L'Oreal Group Central Treasury. The L'Oreal Group negotiates currency contracts only with organisations with the highest credit ratings. In accordance with L'Oreal Group rules, currency derivatives are set up exclusively for the purposes of hedging thus ensuring no speculative positions are taken.

The Company is exposed to currency risk from transactions recorded on the balance sheet and from future transactions considered to be highly probable. The L'Oreal Group's approach to currency risk from its future commercial transactions is to hedge at the end of the year a very significant part of the currency risk for the following year using derivative contracts on the basis of operating budgets established in each subsidiary.

As part of this process the Company analyses all future foreign currency flows in detailed forecasts for the coming budgetary year. The resulting risks identified are hedged to a level between 80% to 100% using mostly forward contracts, and to a lesser extent options, to reduce as far as possible its exposure to currency risks. No other derivatives are used.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

33 Financial Instruments (continued)

Forward Foreign Exchange Contracts (continued)

For The Body Shop International Plc, highly probable transactions for foreign exchange risk fall into three principle categories, sales to subsidiaries, royalty income and the purchase of stock. Exchange risk from income arises primarily from the USD, EUR, CAD and HKD which together account for just over 80% of the total exposures at the end of 2010. On the purchases side, USD, THB and EUR payments accounted for just over 90% of the currency portfolio. It is specifically the volatility of GBP against EUR, THB, SEK and USD from the time of hedge contract purchase to the closing booking which has generated the fair value revaluations reported above at 01 January 2011. A complete analysis of the portfolio held at the balance sheet date 2010 and 2009 is provided.

Only operating flows and payments for capital investments are hedged by the Company. It is not practice to hedge either loans, investments or dividends.

Summary of Derivative Financial Instruments

The following table details the forward foreign currency ("FC") contracts outstanding as at the year end

	Average Exchange Rate		Foreign Currency		Nominal		Market Value	
	2010	2009	2010 'm	2009 'm	2010 £m	2009 £m	2010 £m	2009 £m
Buy								
GBP/AUD	1.5	-	(0.4)	-	(0.2)	-	-	-
GBP/CAD	1.6	1.7	(1.2)	(2.8)	(0.8)	(1.7)	-	-
GBP/DKK	8.7	8.2	(1.2)	(4.8)	(0.1)	(0.6)	-	-
GBP/EUR	1.2	1.1	(19.3)	(26.8)	(16.3)	(23.3)	0.4	0.5
GBP/JPY	127.3	148.5	(60.2)	(259.8)	(0.5)	(1.8)	-	-
GBP/MXN	19.3	-	(19.6)	-	(1.0)	-	-	-
GBP/SEK	10.7	11.5	(0.1)	(0.4)	-	-	-	-
GBP/SGD	2.0	2.2	(11.2)	(30.4)	(5.6)	(13.6)	0.1	(0.2)
GBP/THB	46.4	-	(1,339.6)	-	(28.9)	-	(0.3)	-
GBP/USD	1.6	1.6	(54.5)	(69.7)	(34.9)	(42.6)	0.4	0.5
					(88.3)	(83.6)	0.6	0.8
Sell								
GBP/CAD	1.6	1.7	17.9	28.5	11.4	17.0	(0.1)	0.3
GBP/DKK	8.6	8.3	34.2	29.8	4.0	3.6	-	0.1
GBP/EUR	1.2	1.1	61.9	53.9	52.5	47.2	(0.8)	(0.7)
GBP/HKD	12.0	12.6	119.4	167.7	10.0	13.3	-	-
GBP/JPY	127.7	148.2	295.7	243.0	2.3	1.6	-	-
GBP/MXN	19.4	21.3	42.2	38.4	2.2	1.8	-	-
GBP/SEK	11.1	11.5	59.2	63.1	5.3	5.5	(0.3)	-
GBP/SGD	2.0	2.2	15.4	18.0	7.7	8.0	(0.1)	0.1
GBP/USD	1.6	1.6	37.0	51.9	23.5	32.1	(0.4)	0.1
					118.9	130.1	(1.7)	(0.1)
Net Buy/Sell							(1.1)	0.7

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

33 Financial Instruments (continued)

Maturity analysis of borrowings and derivative financial instruments

	Within 1 year £m	2-5 years £m	5+ years £m	Total £m
2010				
Borrowings	-	-	-	-
Derivative liabilities	2.7	-	-	2.7
Trade and other payables	54.5	8.3	21.9	84.7
	<u>57.2</u>	<u>8.3</u>	<u>21.9</u>	<u>87.4</u>
2009				
Borrowings	2.0	-	-	2.0
Derivative liabilities	2.0	-	-	2.0
Trade and other payables	51.5	8.3	24.0	83.8
	<u>55.5</u>	<u>8.3</u>	<u>24.0</u>	<u>87.8</u>

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	2010			2009		
	Level 1 £'m	Level 2 £'m	Level 3 £'m	Level 1 £'m	Level 2 £'m	Level 3 £'m
Financial assets						
Derivative instruments in designated hedge accounting relationships	-	1.3	-	-	2.6	-
Financial Liabilities:						
Derivative instruments in designated hedge accounting relationships	-	2.7	-	-	2.0	-

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

33 Financial Instruments (continued)

Interest rate risk management

This relates to the interest incurred on loans taken out with the L'Oreal in-house bank FINVAL and is explained in further detail in Note 18 Borrowings

Liquidity Risk

The Company is exposed to liquidity risk as part of its normal activities, which is exacerbated by the seasonal nature of the retail business. Borrowings traditionally peak during the third quarter as a result of inventory increases in preparation for Christmas trading, whilst the benefits from the corresponding cash in-flows from sales receipts come in at the end of the year.

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 investment. Liquidity requirements are assessed and reviewed regularly through the forecasting process. In any case, all the Company's liquidity needs are met completely and exclusively by L'Oreal SA, and as such the liquidity risk is minimal.

Credit risk management

The Company sells to subsidiaries, wholesale franchisees, travel retail and to the general public via its retail outlets. 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 transacted in cash or major credit cards.

Derivative counterparties and cash transactions dealt on our behalf through the L'Oreal Group are limited to high-credit-quality financial institutions. The Group 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 companies 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.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

34 Related party transactions (continued)

Loans from related parties

	2010 £m	2009 £m
Loans from Finval	2.0	2.0
	<u>2.0</u>	<u>2.0</u>

Amounts repayable to related parties carry interest of 0.85% - 4.09% (2008: 2.4% - 4.65%) per annum charged on the outstanding loan balances.

35 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 14, rue Royale, 75008 Paris - France.

THE BODY SHOP INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 52 weeks ending 01 January 2011

34 Related party transactions

Transactions between the Company and its subsidiaries and transactions between the Company and fellow subsidiaries of L'Oréal SA, the Company's ultimate parent undertaking which are related parties are disclosed below

Trading transactions

During the period, the Company entered into the following transactions

	Sale of goods		Purchase of goods		Amounts owed by related parties net of impairment		Amounts owed to related parties net of impairment	
	Including services		Including services					
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
The BS (France) SARL	3.9	8.0	-	-	-	0.4	0.5	-
BS Denmark A/S	1.3	1.5	-	-	-	0.4	0.1	-
TBS Germany GmbH	5.4	8.4	-	-	-	0.6	0.4	-
TBS (Singapore) Pte	10.2	9.0	-	-	1.2	2.6	-	-
TBS Int'l (Asia Pacific) Pte	-	-	7.4	8.4	-	-	1.1	2.9
The BS Mighty Ocean	14.4	9.4	-	-	2.5	2.6	-	-
TBS Canada Ltd	14.1	16.4	-	-	1.9	3.4	-	-
TBS GmbH (Austria)	2.2	1.1	-	-	0.3	0.6	-	-
TBS Benelux BV	1.4	3.3	-	-	-	0.5	0.1	-
The Body Shop Netherlands BV	0.9	3.5	-	-	-	0.1	0.3	-
Dibel 3	2.7	2.7	-	-	0.6	0.9	-	-
TBS Svenska	8.4	9.2	-	-	0.7	1.3	-	-
Cosmenatura SA	2.4	3.5	-	-	-	-	0.1	0.7
Buth-Na Bodhage Inc	10.3	20.1	-	14.6	3.9	4.1	-	-
Soapworks Ltd	-	-	0.1	1.4	-	-	1.5	0.7
TBS Americas	9.3	-	-	-	-	-	0.6	-
TBS Worldwide Ltd	-	-	-	-	1.6	1.8	-	-
Cimarrones SA de CV	1.3	1.7	-	-	-	1.2	0.8	-
Small subsidiaries	0.7	0.8	-	2.8	1.5	0.3	1.1	0.7
Moyens Communs G G Clichy	-	0.0	2.1	2.5	-	-	0.3	0.0
L'Oréal Marly	1.0	-	-	-	0.1	-	-	-
L'Oréal UK Limited	-	-	-	0.6	-	-	-	-
LeHoux et Jacques	-	-	0.2	-	-	-	-	-
Cosmetique Active International	-	-	0.1	-	-	-	0.1	-
L'Oréal Golden	-	-	1.0	0.4	-	-	0.1	0.1
Sanoflore Laboratoire Bio	-	-	1.2	1.3	-	-	-	-
Beaute Createurs France	0.1	0.2	-	-	-	-	-	-

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 £0.7m (2009: £2.2m)