



L'ORÉAL

2006 SUSTAINABLE
DEVELOPMENT REPORT

Professor Gurib-Fakim

Laureate for Africa of the L'Oréal-UNESCO Awards
For Women in Science for her work on organic chemistry,
University of Mauritius

L'ORÉAL
PROFESSIONNEL
PARIS

KÉRASTASE
PARIS

REDKEN
5TH AVENUE NYC

MATRIX

L'ORÉAL
PARIS

GARNIER

MAYBELLINE
NEW YORK

SOFTSHEEN-CARSON™

LANCÔME
PARIS

BIOTherm

HR HELENA
RUBINSTEIN

GIORGIO ARMANI
PARFUMS

RALPH LAUREN

cacharel

Kiehl's
SINCE 1851

shu uemura

VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

THE
BODY
SHOP®



BACKGROUND TO THIS REPORT

L’Oréal publishes an annual sustainable development report in June each year. We also produce a shorter summary “pocket” version.

L’Oréal undertook this appraisal by examining current practices and studying the recommendations of international institutions and specialist organisations such as the UN, OECD, European Commission and WBCSD. The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines have helped guide this review.

Scope

This report covers all of L’Oréal’s operations over the year January-December 2006.

Verification

Data relating to safety, health and the environment was examined and verified by Environmental Resources Management, and social data, shown with an asterisk (*), were validated by PricewaterhouseCoopers Audit. The verification statements can be found at the end of the report.

Feedback

If you have any questions or feedback please contact sustainabledevelopment@loreal.com

For more detailed information, consult the group Internet site

www.loreal.com

2006 KEY DATA

19
Global brands

ECONOMIC

- €8,900 million value created
- Total shareholder return over ten years 10.36%

15,790
Million euros in consolidated sales

R&D

- 569 patents registered
- €533 million invested in R&D
- 41% of ingredients are of renewable plant origin
- 200 raw materials evaluated under our Sustainability Assessment Framework
- Nearly 200 plants assessed against sustainability criteria
- 100% patents assessed on equity and development criteria

4.5
Billion units manufactured annually

SOCIAL

- 54% managers are female
- €49.2 million of profits shared with employees
- Illness related absenteeism reduced to 2.3%
- 44,000 students participated in L’Oreal’s e-Strat Challenge
- 56% of all employees received training
- Each manager received nearly six days of training
- Independent audits of labour standards carried out at all our factories and warehouses

533
Million euros in R&D investments

SUPPLIER RELATIONS

- Merging our 36 industrial purchasing teams into 7 Sourcing Centres to facilitate suppliers contacting us
- 304 independent labour standards audits carried out at our suppliers, subcontractors and traders

Over 130
countries

ENVIRONMENT, HEALTH & SAFETY

- Energy use down by 3.5%
- Direct carbon dioxide emissions from factories and warehouses reduced by 4.8%
- Waste reduced by 2.4%
- Proportion of waste recovered or re-used up by 2.2%
- Water use cut by 14,000 m³ (0.4%)
- Chemical oxygen demand for waste water improved by 2.6%
- VOC emissions reduced by 9.5%
- Sulphur dioxide emissions down 9.6%
- All factories certified to ISO 14001
- Lost time injury rate reduced by 19.4% for L’Oreal employees
- Injury severity rate reduced by 14% for all employees
- More than half our factories are OHSAS 18000 registered or part of OSHA VPP

60,851
Employees

COMMUNITY

- Five outstanding female scientists awarded \$100,000 For Women in Science awards
- To date, 200,000 hairdressers in Africa have received training on raising awareness on AIDS prevention
- €22 million of charitable donations and philanthropic activity

CONTENTS

| | |
|---|-----------|
| CHAIRMAN & CEO MESSAGE | 02 |
| CORPORATE GOVERNANCE | 05 |
| ECONOMIC AFFAIRS | 10 |
| A growing market | 12 |
| Our business categories and brands | 12 |
| A sustainable growth strategy | 12 |
| Commitment to improve financial information | 15 |
| RESEARCH AND DEVELOPMENT | 16 |
| Advanced Research | 19 |
| Raw materials | 22 |
| Consumer safety | 26 |
| SOCIAL AFFAIRS | 28 |
| L'Oréal's commitment to employee development | 29 |
| Diversity, a basic L'Oréal value | 30 |
| Recruiting international and multicultural managers | 32 |
| Personalised career development | 33 |
| Skills development | 33 |
| A motivating compensation and benefits policy | 35 |
| An ongoing dialogue on all levels | 36 |
| Working conditions | 37 |
| Internal labour standards audit programme | 37 |
| SUPPLIER RELATIONS | 38 |
| Engaging with suppliers | 40 |
| Supplier assessment and integration | 41 |
| Upholding labour standards among our suppliers | 42 |
| Implementing our social responsibility programme with our suppliers | 44 |
| ENVIRONMENT, HEALTH & SAFETY | 46 |
| Environment | 47 |
| Health and safety | 59 |
| Packaging | 62 |
| COMMUNITY AFFAIRS | 64 |
| For Women in Science | 65 |
| A commitment to the community | 67 |
| Evaluation and measurement | 69 |
| THE BODY SHOP | 70 |
| History | 71 |
| The Body Shop values | 71 |
| Campaigns | 73 |
| VERIFICATION STATEMENTS | 74 |
| GRI content index | 76 |



Professor Ameenah Gurib-Fakim is the 2007 Laureate for Africa of the L'Oréal-Unesco Awards For Women in Science. A professor of organic chemistry and pro-vice chancellor, University of Mauritius, she studies the native plants of Mauritius and their bio-medical applications.

Our commitment to sustainable growth

Our vision

We would like to share with you our vision—the three objectives L'Oréal has set to assure its long-term success and make it count among the most exemplary companies of the 21st century.

The first essential and indispensable objective is economic success. This is of course our top priority, one that is shared by all of our employees, and to which they devote their talents, energy and commitment. It cannot, however, be our sole aim.

Our second objective is to make L'Oréal a company where all employees thrive both personally and professionally. If the company is to succeed today and in the future, we must take care, more than ever before and more than anyone else, to attract and retain the most talented individuals in all fields.

The third and final objective is to ensure that as a company, L'Oréal is seen as a "global citizen". At the dawn of the 21st century, the world's leading beauty company needs to be an authentic example in terms of sustainable development.

Our progress

We constantly strive to bring on board staff from different horizons, nationalities, ethnic origins and backgrounds. As part of this effort, this year we set up a Global Diversity Management unit, and a number of diversity managers were appointed in

different countries to form a worldwide network. In France, we set up 22 Observatories on diversity and social cohesion in our different subsidiaries. Their job is to promote diversity and employee awareness about all forms of discrimination. And an unprecedented training programme was launched to build awareness of diversity issues amongst our 8,000 managers in 32 European countries.

We want to be a model of sustainable innovation. This year we have further integrated sustainability principles into the daily running of the R&D division. We worked with eight suppliers to test our raw material Sustainability Assessment Framework, and developed indicators to measure the "naturalness" and environmental impact of our raw materials.

We are also seeking to use more renewable raw materials, the share of which is currently 41% of the total. We are deeply committed to using green chemistry techniques for the design and development of new compounds.

Our green chemistry approach contributed towards the development and launch of Pro-Xylane™, an anti-ageing active ingredient derived from beech trees. Introduced into the group's core brands, it gives them a major technological advantage in conquering the "seniors" market, our number one strategic opportunity in developed countries.

In 2006, we acquired SkinEthic to complement Episkin's reconstructed skin business and make L'Oréal the world leader in alternative methods for safety evaluation of cosmetics, the ultimate aim of which is to eliminate animal testing once and for all.

Our efforts are now also geared to encouraging the development of supply sources that are sustainable and benefit communities. With The Body Shop now part of the L'Oréal group and its founder Dame Anita Roddick being a consultant for L'Oréal, we will be able to do more to promote fair trade.

“A company that is highly successful economically. A company where people are enthusiastic about going to work. A company that respects the environment and acts as a global citizen.”



↑ Jean-Paul Agon, Chief Executive Officer and Sir Lindsay Owen-Jones, Chairman.

Our acquisition of Laboratoires Sanoflore gives us a foothold in organic cosmetics, a segment that is poised for strong growth worldwide.

We also want to set the standard when it comes to the reducing our direct environmental impacts and managing the safety of our employees. We made good progress in these areas during 2006, reducing the overall amount of energy, water and waste we used or generated, despite our growth. All of our factories are now certified to ISO 14001. We have also made significant improvements to our injury frequency and injury severity rates.

If L'Oréal is to be a good corporate citizen, we must above all be irreproachable in our individual and collective behaviour. Therefore a new position, Director of Ethics, was created this year, which reports directly to the Chief Executive. The Director's first task will be to adapt the Code of Business Ethics created in 2000 to today's challenges and to develop adequate training.

We have also stepped up our programme to check that our suppliers abide by strict social standards. To this end, we conducted a far-reaching programme this year involving 304 social audits at our suppliers' and subcontractors' production

“ If L'Oréal is to be a good corporate citizen, we must above all be irreproachable in our individual and collective behaviour.”

sites. Working with the same external organisation, we conducted the same audits at all of our own industrial facilities and distribution centres.

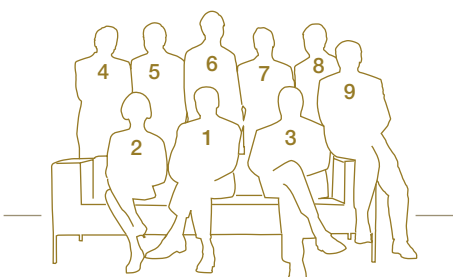
Lastly, we are deeply committed to our work with communities, and our work on the For Women in Science programme with UNESCO and on “Hair-dressers of the World Against AIDS” has gone from strength to strength.

All of these undertakings have earned L'Oréal a place in most of the world's sustainability indices, including Vigeo's ASPI Eurozone, FTSE4Good, Ethibel Sustainability Indices and, since this year, the Dow Jones Sustainability Index. This type of recognition is a testimony to L'Oréal's unwavering commitment to sustainable development and corporate citizenship. We intend this commitment to strengthen further over the coming years.

Sir Lindsay Owen-Jones
Chairman

Jean-Paul Agon
Chief Executive Officer

MANAGEMENT COMMITTEE



- 1 Jean-Paul Agon**
Chief Executive Officer
- 2 Béatrice Dautresme**
Executive Vice-President
Corporate Communications,
Sustainable Development
and Prospective
- 3 Jean-François Grollier**
Executive Vice-President
Research and Development
- 4 Jean-Jacques Lebel**
President
Professional Products
- 5 Marcel Lafforgue**
Executive Vice-President
Production and Technology
- 6 Christian Mulliez**
Executive Vice-President
Administration and Finance
- 7 Geoff Skingsley**
Executive Vice-President
Human Resources
- 8 Marc Menesguen**
President
Luxury Products
- 9 Patrick Rabain**
President
Consumer Products

CORPORATE GOVERNANCE

At L'Oréal, we believe that lasting business success is built upon high ethical standards which guide growth and on a genuine sense of responsibility to the community at large. Here we explain the governance of sustainable development issues within the company, and highlight L'Oréal's core values of diversity and the importance of high ethical standards.

CORPORATE GOVERNANCE

Separation of the functions of Chairman and Chief Executive Officer

In 2006, the Board of Directors decided to separate the functions of Chairman and Chief Executive Officer. At its meeting on April 25th 2006, the Board appointed the Chairman and the Chief Executive Officer. The new management organisation came into force with immediate effect.

A balanced Board, open debates and collective decisions

The L'Oréal Board has 13 members: the majority shareholders are represented by six members, of whom three represent Mrs Bettencourt and her family and three represent Nestlé. The two Vice-Chairmen of the Board respectively represent the two parties. Alongside the Chairman and the Chief Executive Officer, five other directors are independent personalities who have held professional responsibilities and have wide professional experience.

All directors are required to meet the highest standards of integrity, and to act with due care and attention, while having complete freedom of judgement and strictly respecting the collective nature of the decisions taken by the Board.

The Board met six times in 2006, with an average attendance rate of 87%. Many of the directors also attend the Annual General Meeting. The AGM received the 2006 Capitalcom Award for the Best Annual General Meeting of a CAC40 company.

With regard to insider information and insider status, the principles which the Board applies to itself comply with legal requirements, and are in line with the preventive measures taken by L'Oréal in relation to its employees, particularly with regard to internal control procedures. The goal is to prevent any improper use or transmission of insider information, and to make sure that investments in

the company's shares are carried out with a high degree of security.

To respect the interests of the company and all its shareholders, it is also compulsory for directors to notify the Board if any conflict of interest arises, even if the conflict is only potential, in which case they are not allowed to participate in the corresponding deliberations.

In the course of its meetings in 2006, the Board considered a large number of strategic aspects relating to the organisation and development of L'Oréal's businesses. The issues discussed throughout the year, in most cases in the presence of the senior executives concerned, enable the Board to regularly assess the various strategic challenges facing the group and to take the corresponding decisions.

Committees actively involved in preparing for the work of the Board

The Board's Committees carry out missions entrusted to them by the Board. They are actively involved in preparing for the Board's work, but do not themselves have any decision-making powers. They report to the Board on a regular basis.

The Committee for "Strategy and Implementation"

This Committee clarifies the strategic orientations, which are submitted to the Board, and monitors the implementation and progress of significant ongoing operations. It ensures that general financial stability is maintained.

With these aims in mind, the Committee reviews the main strategic lines of development, options and projections presented by the General Management together with their economic and financial consequences, acquisition opportunities, and financial transactions that could significantly change the balance-sheet structure. It also reviews paths for future development.

The “Management and Remuneration” Committee

This Committee assists, in complete independence, the Chairman and the Board in their review of succession plans for the group’s senior management positions. It reviews the composition of the Board of Directors and any possible changes. It makes proposals to the Board concerning the remuneration of corporate officers and attributions of stock options, and addresses general issues of remuneration policy in the company.

The Audit Committee

The role of this Committee is to ensure that the General Management is provided with information enabling it to identify and manage the economic, financial and legal risks faced by the group both inside and outside France in its routine and exceptional operations.

A periodical evaluation of the Board’s modus operandi since 1996

Each year, the Board carries out an assessment of its composition, organisation and modus operandi, with the help of interviews organised by the Secretary of the Board based on regulations, recommendations and generally accepted practices. It considers possible ways forward and takes any measures it considers useful to improve the situation.

The Board thus expressed satisfaction with the participation in 2006 of a greater number of senior managers in its meetings and with the quality of their presentations, in connection with the strategic aspects of their field of activity. The directors wish to encourage this practice, which moreover gives them an opportunity to get to know the senior managers better.

The intervals at which information is provided to directors on a regular basis was judged to be satisfactory. The Board wishes that this regularity be maintained, and that at the same time it should be ensured at all times that the information provided is relevant to the mission of the Board and the preparation of its work.

More detail on corporate governance can be found on pages 7 to 9 of the 2006 Annual Report.

GOVERNANCE OF SUSTAINABILITY ISSUES

L’Oréal’s progress on sustainability is driven by a Sustainable Development Steering Committee made up of managers from the different Divisions of the company, and is chaired by Pierre Simoncelli, the Director of Sustainable Development. This Steering Committee reports to the Executive Committee for Sustainable Development, made up of the five functional Executive Vice-Presidents, the Senior Vice-President in charge of External Relations and Public Affairs and the Director of Ethics, and chaired by the Chief Executive Officer, Jean-Paul Agon. This Executive Committee is responsible for overall sustainability strategy and implementation.

A POLICY OF SUSTAINABLE PROGRESS

This report paints an accurate picture of the economic, social and environmental reality at L’Oréal in 2006 and provides an objective appraisal of the situation with regard to sustainable development and the creation of value based on the non-financial elements of its business.

It is a step along the path of sustained progress, which has always been an objective of L’Oréal, and

→ BOARD OF DIRECTORS AS OF DECEMBER 31ST, 2006

Sir Lindsay Owen-Jones, Chairman of the Board
Jean-Paul Agon, Chief Executive Officer
Jean-Pierre Meyers, Vice-Chairman of the Board
Peter Brabeck-Letmathe, Vice-Chairman of the Board
Liliane Bettencourt, Board member
Françoise Bettencourt Meyers, Board member

Werner Bauer, Board member
Francisco Castañer Basco, Board member
Xavier Fontanet, Board member
Bernard Kasriel, Board member
Marc Ladreit de Lacharrière, Board member
Franck Riboud, Board member
Louis Schweitzer, Board member

GOVERNANCE OF SUSTAINABILITY ISSUES



enables the group to measure and improve its performance in the future.

The Sustainable Development Steering Committee, which regularly brings together the departments concerned, is currently considering a number of different initiatives, namely:

- raising awareness among employees of our sustainable development initiatives and performance,
- developing relationships with stakeholders, in particular, stronger relationships or partnerships with NGOs,
- further strengthening our work on diversity,
- incorporating sustainability principles into our business practices at all levels, for example our supply chain and raw material selection.

OUR VALUES AND GUIDING PRINCIPLES

Encouraging self-expression and diversity

L'Oréal takes care not to favour any particular model of beauty but to respond as effectively as possible to the needs and the desires of all. It does so through:

- research open to the world. L'Oréal's research teams seek to discover and evaluate the varying characteristics of skin and hair in different parts of the world in order to provide scientific responses tailored to the most diverse requirements,
- a varied brand portfolio. L'Oréal offers a range of brands and beauty concepts, with diverse cultural origins,

- multicultural advertising. The challenge of each brand is to contribute to the diverse perceptions of beauty, in particular through its choice of ambassadors who express the many varieties of beauty,

- our employees—a mosaic of individuals of different cultures, gender, colour, religious convictions and social origins.

L'Oréal is fully convinced that diversity enriches us, by making us more creative, more imaginative and more innovative. The diversity of our teams ensures that international development respects local cultures.

NOMINATION OF L'ORÉAL'S DIRECTOR OF ETHICS

During 2006 a new position of "Director of Ethics" was created at L'Oréal, which reports directly to the Chief Executive Officer, Jean-Paul Agon. The person appointed for this role is Emmanuel Lulin, who joined L'Oréal in 1999 as Group General Counsel for Human Resources and has been very active in this field for many years.

The Director of Ethics' role includes:

- acting as an ambassador in promoting and embedding good ethical practices throughout the group, offering help and guidance in ethical decision-making at all levels of L'Oréal's operations. He will ensure the development and implementation of L'Oréal's ethics programme, including training throughout the group,



- regularly measuring and assessing the company's performance in the ethics arena, providing regular reports to the Chief Executive Officer and to the Executive Committee,
- ensuring adherence to L'Oréal's ethical expectations and standards, addressing concerns and taking corrective action when required. He will have full access to all information and documents relating to L'Oréal's activities.

LOREAL'S CODE OF BUSINESS ETHICS

L'Oréal's values and guiding principles are formalised in L'Oréal's Code of Business Ethics (available at www.loreal.com). It focuses on 6 areas:

- respect for the law,
- respect for the individual,
- respect for the consumer,
- respect for the environment,
- partnership with customers, distributors and suppliers,
- principles of loyalty and integrity.

In 2000, our Code of Business Ethics was distributed to all of the 50,000 employees of L'Oréal worldwide and every new employee is given a personal copy. The Code of Business Ethics is translated into the languages of the countries in which the group operates (at present 26 languages). It applies throughout its operations and subsidiaries worldwide. L'Oréal's Code of Business Ethics sets

Partnership on Sustainability Issues



L'Oréal is a member of the Conference Board, a US-based organisation which creates and disseminates knowledge about management and the marketplace to help companies strengthen their performance and better serve society, for example on corporate citizenship, corporate governance and business ethics and compliance. For more information, see: www.conference-board.org.



L'Oréal is also a member of the World Business Council on Sustainable Development, www.wbcsd.org.

During 2006 we started discussions with several key environmental, human rights and animal welfare NGOs, and joined the Round Table on Sustainable Palm Oil.



Communication with Stakeholders On Sustainability

To ensure that our sustainability policy and achievements reached the widest possible audience, L'Oréal also produced a summary "pocket" version of the full 2005 Sustainability Report, which specifically targets our employees as an audience, as well as students and consumers. A hard copy of this report has been distributed to employees and other stakeholders, and is also available on our website. We intend to produce both documents again in 2007.



Sustainability indices

L'Oréal is a member of the Dow Jones STOXX Sustainability, FTSE4Good, ASPI Eurozone and Ethibel Sustainability indices.

"We are pleased to announce that L'Oréal has been selected as an index component of the Dow Jones STOXX Sustainability Index. The DJSI components are selected by a systematic corporate sustainability assessment and include only the leading sustainability companies worldwide. The DJSI therefore provide a bridge between

companies implementing sustainability principles and investors wishing to profit from their superior performance and favourable risk/return profiles."

"FTSE Group confirms that L'Oréal has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social, ethical and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice."

"L'Oréal is a member of the ASPI Eurozone index, which consists of the stocks of the 120 listed Eurozone companies (DJ Euro Stoxx universe) that perform best in social and environmental terms. The stocks are selected on the basis of Vigeo Group ratings."

"L'Oréal is a member of the Ethibel Pioneer Index and the Ethibel Excellence Index, which consist respectively of some 200 and 280 company stocks from Europe, North America, Japan and the Asia-Pacific regions. These are selected by the independent organisation Forum Ethibel (www.ethibel.org) based on Vigeo Group ratings (www.vigeogroup.com). The index is calculated by Standard & Poor's.

The Ethibel Pioneer Index consists of companies showing the most outstanding scores in terms of social and environmental sustainability and the Ethibel Excellence Index companies show above-average performance in terms of social and environmental sustainability. These companies meet the ethical criteria established by Forum Ethibel."



out what is expected of employees and what stakeholders can expect from L'Oréal. L'Oréal expects its employees not only to respect local law but also to comply with the minimum standards contained in this Code, whatever the role or business, or wherever in the world they operate. Awareness programmes and training, aimed at all employee levels, ensure that these values are properly communicated and embedded in every-day operations. Managers are specifically targeted for training on the Code of Business Ethics, as part of their duties includes monitoring the day-to-day application of L'Oréal's values.

Employees who have concerns relating to the Code of Business Ethics are encouraged to contact their line management or Human Resources Department. Employees may also contact the Director of Ethics, who is located at the group's Headquarters. All concerns are carefully examined and the group guarantees that all information will be treated on a strict need-to-know basis and ensures that there is no retaliation for those who have in good faith raised a concern. "Whistleblowing" mechanisms for raising ethical concerns also exist at country level, for example in the United States and Germany, in accordance with local requirements and culture.

L'ORÉAL'S COMMITMENT TO THE GLOBAL COMPACT

L'Oréal has been a signatory of the United Nations Global Compact since June 2003 and is committed to embracing, supporting and enacting, within its sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anticorruption as set out in the Global Compact's ten principles.

L'Oréal respects and supports the Universal Declaration of Human Rights and Jean-Paul Agon, Chief Executive Officer, has entrusted Emmanuel Lulin, Director of Ethics with the responsibility of ensuring strict compliance with the Code of Business Ethics, in particular with regards to Human Rights.

L'Oréal makes specific reference to the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work which cover freedom of association, elimination of all forms of forced or compulsory labour, effective abolition of child labour and the elimination of discrimination with respect to employment and occupation. The elimination of forced and child labour receives particular attention. L'Oréal has chosen to set a minimum age of 16 for all its employees, which is higher than the minimum age set by the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

L'Oréal respects the rights of employees to join associations of their choice and encourages constructive dialogue. Elimination of discrimination is at the forefront of L'Oréal's diversity policy (for more information, see pages 30-31 of this report).

Moreover, L'Oréal hopes that its partners will share and put into practice its values and therefore ensures that its supply chain is also free from violations of human rights. All L'Oréal suppliers and subcontractors are asked to comply with L'Oréal's General Terms of Purchase and Payment which includes an undertaking to comply with the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. Regular audits are carried out in order to monitor compliance (for more information, see pages 42-45 of this report).

L'Oréal supports the Rio Declaration on Environment and Development, which outlines the concepts of a precautionary approach to environmental challenges, promotion of greater environmental responsibility and development and diffusion of environmentally friendly technologies.

L'Oréal also condemns all forms of corruption, including extortion and bribery and abides by the United Nations Convention against Corruption. In particular, the Code of Business Ethics is supplemented by specific codes of conduct such as L'Oréal's Purchasing Code which addresses issues such as gifts, courtesy invitations and potential conflict of interest situations.

"COUNTRY REPORTING ETHICS" NOW IN ITS SECOND YEAR

2005 saw the launch of "Country Reporting Ethics": an annual reporting system* on ethical issues including communication of the Code of Business Ethics, prohibition of child and forced labour, discrimination, sexual and moral harassment and integrity and loyalty. The first year was a success with a 100% response rate* from the 58 countries* included in the reporting scope. The 2005 results confirmed that all employees are given the Code of Business Ethics and that 97% of employees have access to a Code of Business Ethics in their native language*. Areas of improvement were also identified including the need for additional training at country level and clearer reporting lines in case of grievances in certain countries. The 2006 reporting survey has been completed and already shows progress in certain areas and in particular in the level of training*.



**L'Oréal's commitment
To create value by combining our energies with
a strong business model.**

Photo: 2007 Annual General Meeting of the L'Oréal shareholders.

ECONOMIC AFFAIRS

As an international business L'Oréal is committed to growth that creates more value for more people with a stake in our success. The values that underpin our core business will be crucial as we grow further.

2006 was another year of strong economic growth for L'Oréal. The return to dynamic growth, the quality of our operating performance, and the strong increase in both profitability and cash flow have again proved the strength and relevance of the L'Oréal business model.

Our growth in 2006 was derived from six key areas—technological innovation, creation of major new products, enhanced value of our products, stronger brands, increased globalisation of brands and acquisitions.

KEY FIGURES

In € millions

15,790

Net sales

4,569

Cost of goods, materials and services purchased⁽¹⁾

4,783

Advertising and promotion

3,035

Total payroll and benefits

116

Interest on debt

515

Total corporate income taxes

633

Distribution to shareholders

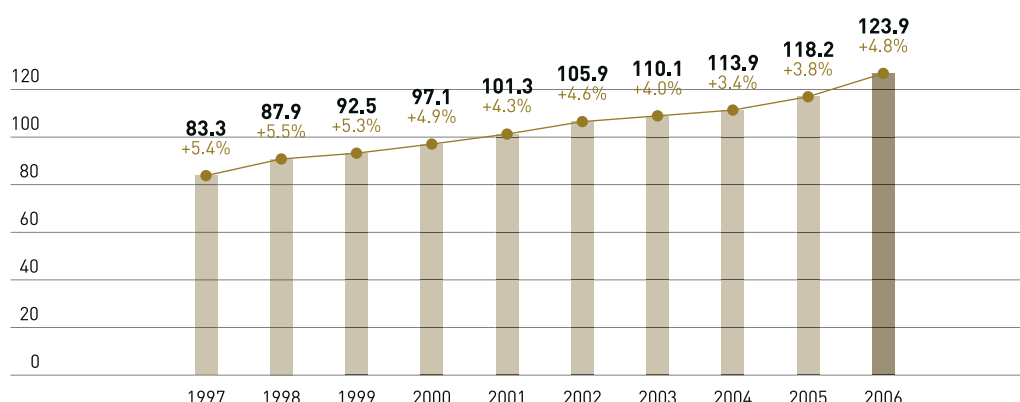
533

R&D investments

⁽¹⁾ Including related personnel costs.

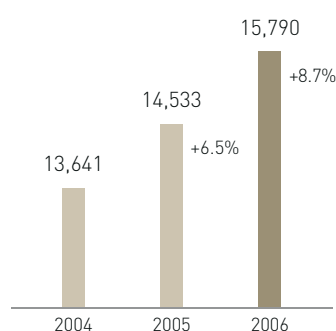
WORLDWIDE COSMETICS MARKET 1997-2006

Average annual growth rate, excluding exchange rate impact
(\$ billions)

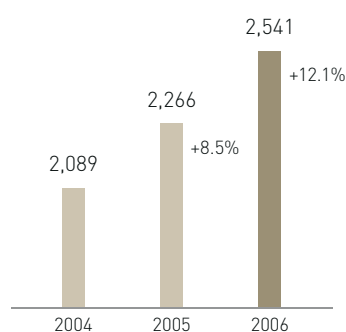


GROUP PERFORMANCE OVER THREE YEARS

Consolidated sales
(€ millions)



Operating profit
(€ millions)



A GROWING MARKET

Since 1990, the world cosmetics market has been growing steadily. It is still growing even in developed countries, thanks to new demands and new markets, but the growth of the cosmetics market is especially important in the emerging countries where the correlation between economic development and consumption of cosmetics is strong.

OUR BUSINESS CATEGORIES AND BRANDS

L'Oréal is active in cosmetics (95% of consolidated sales in 2006), and dermatology through the Galderma subsidiary in which the group holds 50%. L'Oréal is active in all distribution channels, and organised as such by divisions. The Professional Products Division sells products to hairdressers, for their own use and for re-sale; main brands are KÉRASTASE, L'ORÉAL PROFESSIONEL, REDKEN and MATRIX. The Consumer Products Division, with the brands L'ORÉAL PARIS, GARNIER and MAYBELLINE, sells products through mass market channels. The Luxury Products Division offers a selection of prestige brands—LANCÔME, ARMANI, RALPH LAUREN...—to department stores and perfumeries. The Active Cosmetics Division, with the brands VICHY and LA ROCHE-POSAY, sells products to pharmacies around the world.

A SUSTAINABLE GROWTH STRATEGY

L'Oréal considers internal growth to be the main focus of its development. The group ensures healthy long-term geographic and sector-based balance for its brands and increases the rate of its international expansion through a highly selective acquisition policy. As a result, L'Oréal has enjoyed double-digit growth in earnings for many years. L'Oréal looks to the growth of new markets, especially in developing regions such as in Asia, Eastern Europe and Latin America. However, the group's growth is never at the expense of a responsible attitude: by manufacturing locally as soon as practical, we contribute to local economic development, applying the principles outlined in our Code of Business Ethics.

2006 marked L'Oréal's increasing focus on the market for products of natural inspiration, one that is growing around the world. The acquisition of The Body Shop (see pages 71-73) was followed by the acquisition of the French Laboratoire Sanoflore, a pioneer in the design, manufacture and marketing of certified organic cosmetics. Sanoflore employs 147 people with sales of €15 million in 2006, 20% of which are outside France. The company will become part of L'Oréal's rapidly growing Active Cosmetics Division.

BREAKDOWN BY BRANCH⁽¹⁾

| 2006 consolidated sales | € millions | Growth | |
|------------------------------|------------|---------------|-------------------|
| | | Like-for-like | Published figures |
| Cosmetics | 15,011 | +5.6% | +5.6% |
| The Body Shop ⁽²⁾ | 435 | +9.7% | – |
| Dermatology ⁽³⁾ | 344 | + 8.6% | +8.1% |

(1) The group business is composed of the cosmetics and the dermatology branches and of The Body Shop.

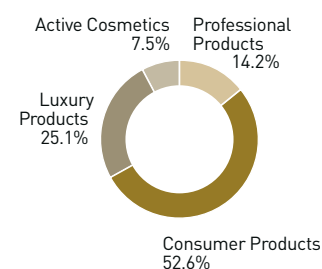
(2) Data from July 1st, 2006 to December 31st, 2006. (3) Group share, i.e. 50%.

COSMETICS BRANCH: 2006 CONSOLIDATED SALES

| By division | € millions | Growth | |
|--|---------------|---------------|-------------------|
| | | Like-for-like | Published figures |
| Professional Products | 2,126 | +3.8% | +3.2% |
| Consumer Products | 7,903 | +5.8% | +5.4% |
| Luxury Products | 3,773 | +5.1% | +5.3% |
| Active Cosmetics | 1,128 | +12.2% | +14.4% |
| Total cosmetics sales⁽¹⁾ | 15,011 | +5.6% | +5.6% |

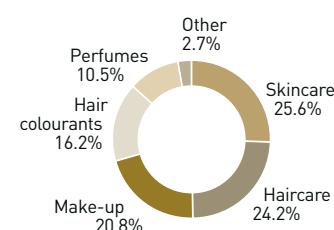
(1) The difference between the total cosmetics sales and the combined total of the 4 divisions (€81 million), consists mainly of mail order sales.

Division weight



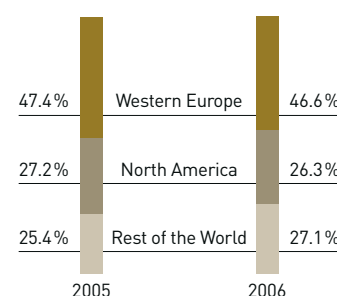
| By business segment | € millions | Growth | |
|------------------------------|---------------|---------------|-------------------|
| | | Like-for-like | Published figures |
| Skincare | 3,850 | +11.8% | +11.8% |
| Haircare | 3,633 | +3.8% | +3.7% |
| Make-up | 3,123 | +4.0% | +3.5% |
| Hair colourants | 2,432 | +3.2% | +3.1% |
| Perfumes | 1,572 | +7.8% | +6.9% |
| Other | 402 | -4.7% | -4.6% |
| Total cosmetics sales | 15,011 | +5.6% | +5.6% |

Business segment weight



| By geographic zone | € millions | Growth | |
|------------------------------|---------------|---------------|-------------------|
| | | Like-for-like | Published figures |
| Western Europe | 6,992 | +3.5% | +3.7% |
| North America | 3,954 | +2.7% | +2.2% |
| Rest of the World | 4,065 | +12.7% | +12.8% |
| Total cosmetics sales | 15,011 | +5.6% | +5.6% |

Evolution of the geographic zone weight



LOCALISED PRODUCTION

| 2006 | Cosmetics output | Cosmetics sales |
|-------------------|------------------|-----------------|
| Western Europe | 51% | 46.6% |
| North America | 26% | 26.3% |
| Rest of the World | 23% | 27.1% |
| Total | 100% | 100% |

The group's presence in a market is frequently accompanied by the setting up of manufacturing facilities in the country, creating jobs and directly contributing to the expansion of the geographic region.

INVESTMENTS

| | 2004 | 2005 | 2006 |
|--|-------|-------|-------|
| Millions of units | | | |
| Cosmetics plant output | 4,307 | 4,379 | 4,484 |
| € millions | | | |
| Cosmetics investments (production & physical distribution commitments) | 293 | 288 | 270 |

In creating products, the group sets itself the highest standards in quality and innovation to ensure total consumer satisfaction. This involves considerable investment in technology, both in production and in research facilities.



→ 2006 KEY FIGURES (IFRS STANDARDS)

2006 consolidated sales: €15,790 million.
 2006 net profit excluding non-recurrent items
 after minority interests: €1,834.4 million.
 Dividend put forward at the Annual General Meeting
 on April 24th, 2007: €1.18.

Workforce

60,851 employees of 100 different nationalities
 at December 31st, 2006.

Global presence

→ The group is present in more than 130 countries.
 → The group has more than 300 subsidiaries.

Industrial presence

→ The group has 40 factories worldwide.

Investment in research

3.4% of consolidated sales devoted to research.
 2,961 people engaged in cosmetics and dermatological research.
 569 patents registered in 2006.

10 YEARS INVESTMENT IN L'ORÉAL SHARES

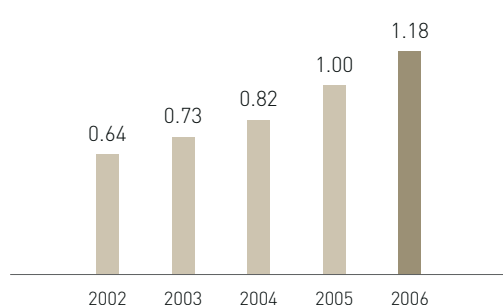
| | |
|---|-----------------|
| Purchase of 50 shares at €297.89 ⁽¹⁾ on December 31 st , 1996 | 14,894.50 euros |
| Valuation at December 31 st , 2006, including reinvestment of dividends (578 shares at €75.90) | 43,870.20 euros |
| Initial capital multiplied by 2.95 in 10 years Total Shareholder Return: 10.36% | |

(1) Non-adjusted share price.

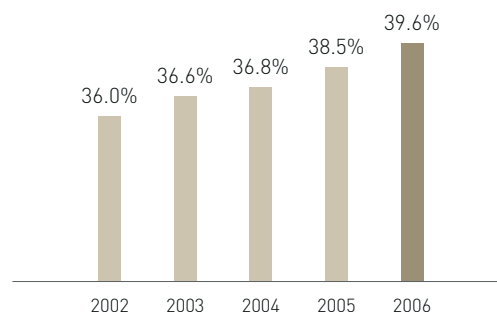
Our strong financial performance has resulted in a return to our shareholders over the last ten years of 10.36%.

CREATING VALUE FOR SHAREHOLDERS

Dividend per share from 2002 to 2006 (€)



Payout ratio 2002-2006 as % of net profit, with Sanofi in dividends



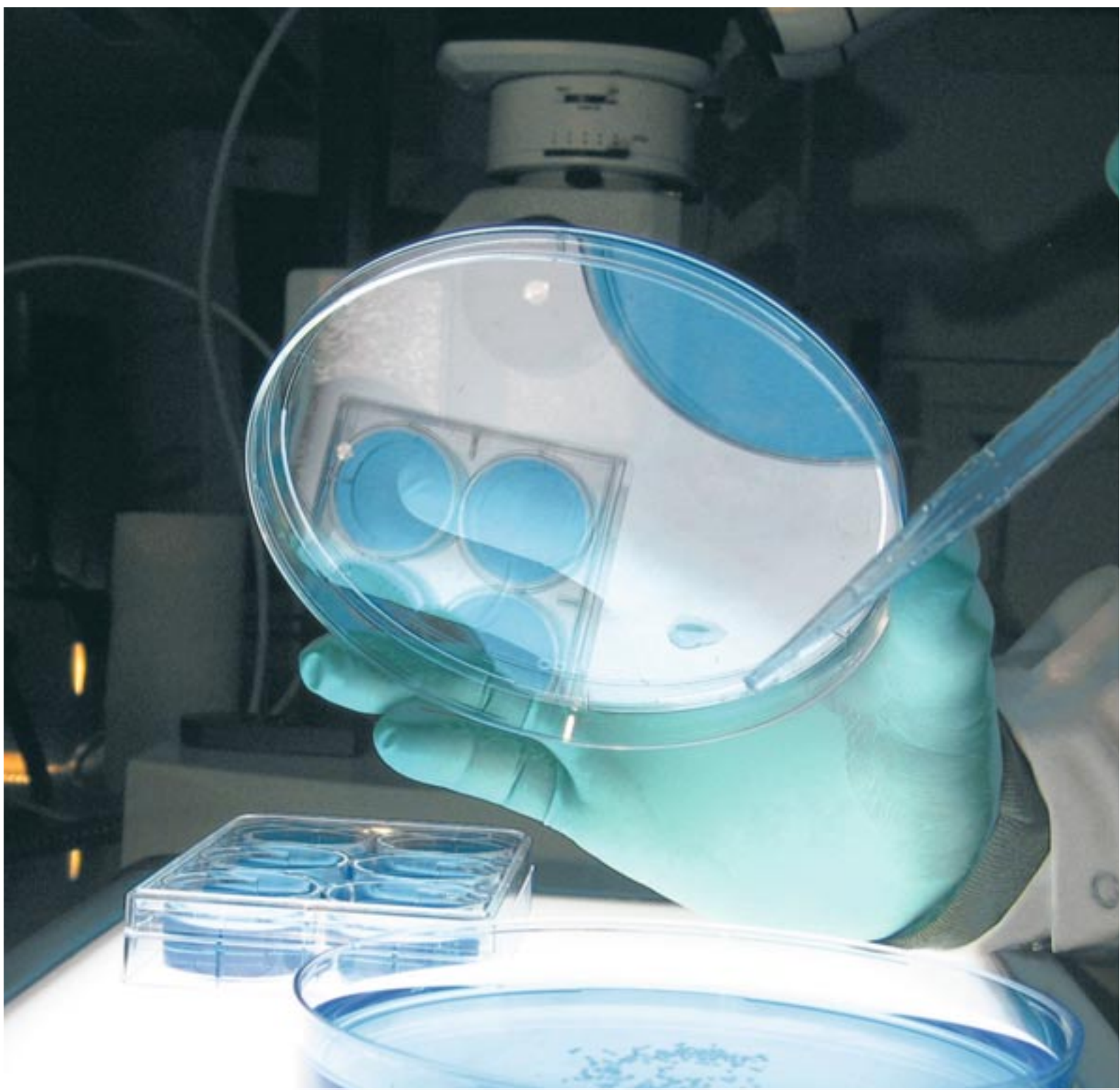
COMMITMENT TO IMPROVE FINANCIAL INFORMATION

Attentive to the needs of its shareholders and the financial community, including individual and institutional investors inside and outside France, L'Oréal constantly strives to meet their expectations and improve the quality of its financial information.

The Annual Report, the Reference Document, the Letters to Shareholders and the interactive financial Internet site (www.loreal-finance.com) are the information media regularly issued by L'Oréal to its shareholders.



For detailed information on L'Oréal's financials, see the group's 2006 Annual Report or www.loreal-finance.com



L'Oréal's commitment

**To promote sustainable innovation by
integrating the principles of sustainability into
our R&D processes and activities.**

Photo: ecotoxicity tests verify if a substance might be toxic for species (here the embryonic development of Medaka fish eggs is monitored) and for ecosystems.



RESEARCH & DEVELOPMENT

The need to protect both populations and ecosystems and find a way towards sustainable industrial production in both developed and developing countries, growing alarm over the climate, water and biodiversity and, finally, the need for safety and risk control over the medium and long term, are of concern to us all.

L'Oréal has not only taken stock of its own responsibility in this process; we have made a proactive, irreversible commitment to working towards a form of innovation that is both sustainable and responsible all along the chain, from suppliers of raw materials to finished products.

Our Advanced Research's laboratories, business units, raw materials and formulations are all an integral part of this process.

COMMITMENT TO SUSTAINABLE INNOVATION

L'Oréal R&D has put the principles of sustainability at the very core of its activities and processes. In 2005, this was taken a step further, when the division formulated a series of fundamental commitments to sustainability, based on:

Selecting raw materials

- Guaranteeing that ingredients are harmless to human health and the environment:
 - enabling the safe handling of raw materials,
 - assessing, as of the design stage, the safety of raw materials and formulas,
 - increasing the proportion of raw materials derived from renewable plant resources.
- Continuing to develop alternatives to animal testing.

2006 KEY ACHIEVEMENTS

Advanced Research

- Launch of Pro-Xylane™, a new anti-ageing, active ingredient developed using "green chemistry".
- Acquisition of SkinEthic.
- Implementation of the systematic safety testing of all raw materials and formulas on reconstructed skin models.
- Development of Asian skin models (banks of cells, reconstructed epidermises).

Raw Materials

- Completion of the pilot testing of our raw materials with the validation of the Sustainability Assessment Framework in collaboration with eight suppliers.
- Establishment of an indicator to measure the "naturalness" of raw materials: our entire

portfolio of raw materials has been assessed using this approach.

- Development of performance indicators to measure the impacts (biodiversity, fair trade, social) of our raw materials and the gradual establishment of a knowledge database on our plant sources.
- Systematic re-evaluation of all existing and pending patents from a sustainable development perspective.
- Development of a dialogue with wider society.
- Strengthening our "green chemistry" approach
- Joining the "Round Table on Sustainable Palm Oil".
- Contribution to the drafting of the future ISO 26000 standard.

In Chicago, researchers study the ethnicity of hair from around the world.



Working with suppliers

- Helping suppliers to integrate sustainable development considerations.
- Assessing sourcing and processing of raw materials against sustainability criteria.

Ensuring responsible sourcing

- Protecting biodiversity.
- Assessing the ecological impact of the most commonly used raw materials.
- Ensuring that our demand for raw materials supports local and regional development.
- Safeguarding the rights and interests of local populations by:
 - ensuring their access to raw material resources,
 - acknowledging their traditional skills and know-how,
 - making sure they receive a fair return.

Engaging in open dialogue

- Engaging in dialogue with civil society.

Comprehensive action plans, policies and programmes have been established to implement these commitments at every level of the R&D division, which were deployed in 2006. L'Oréal sees its achievements in 2006 as the first stage of a work in progress and plans to build on these results in the years to come.

Our commitment is manifest in corporate governance both at the level of executive management, which provides the impetus and strategic direction, and horizontally within L'Oréal's business lines and R&D divisions. Thus, the priority given to sustainable development is demonstrated on a day-to-day basis in the design, development and selection processes for all our products and the ingredients they contain.

Governance

The R&D Sustainable Development Committee reports directly to the Executive Vice-President responsible for Research and Development. Its mission is to turn identified sustainability issues into concrete action plans for the R&D laboratories and ensure that these plans are implemented. L'Oréal's Green Chemistry network works on the eco-design of new active ingredients and assures their design takes potential environmental impact into account from the outset. The network is backed by:

- a Green Chemistry manager who cross-coordinates all initiatives relating to the sourcing and use of raw materials extracted using environmentally sound processes,
- twelve experts who serve as contacts within the various departments and who help apply sustainable development criteria throughout the new product design phase.

A FOCUS ON RESEARCH

L'Oréal has a deep rooted, long-standing advantage in having focused from the start on cutting edge research combining Advanced Research for market-leading innovation, aimed at inventing new, high value-added raw materials and fundamental research on skin and hair, and Applied Research, focused on the finished product and structured around the various beauty lines.

Currently leading the field in several scientific and technological sectors, notably in the reconstruction of human skin, L'Oréal sees research as driving the advancement of knowledge. The company dedicates more than €500 million to this end, one third of which goes to Advanced Research.

Our laboratories in France, the United States, Japan and, more recently, China employ close to

€533M

Invested in R&D in 2006
(a 7.3% increase on 2005)

132

Molecules resulting from
Advanced Research patented
over the past thirty years

569

Patents registered in 2006



→ L'ORÉAL R&D CENTRES,
UNITED STATES & CHINA

→ Founded in 2000 in Chicago, L'Oréal's Research Institute for Ethnic Skin and Hair studies the properties and behaviour of the skin and hair of individuals of African origin. It partners with a number of universities and organises biennial international symposiums to share and spread knowledge on ethnic skin and hair among academics and researchers from the industrial world.

→ A second L'Oréal R&D centre for Asian skin and hair types was established in Shanghai in 2005, whose specific mission is to become a worldwide centre of excellence on Asian reconstructed skin types.



↑ Skin care evaluation in L'Oréal's R&D centre in Pudong (China).

3,000 people who apply their skills and knowledge in thirty different disciplines (including biology, medicine, chemistry, physics and physical chemistry).

ADVANCED RESEARCH

Understanding the diversity of
skin and hair types worldwide

One of L'Oréal R&D's main functions is to satisfy the diversity of demand, which is why we are committed to identifying the characteristics of different human hair and skin types (behaviour and reactions) in order to offer products adapted to the needs of populations across the world. Advanced Research is currently working on three key development areas:

- product personalisation adapted to each skin and/or hair type,
- pigmentation and skin tone, to understand the formation of blemishes and complexion heterogeneity by skin type,
- the understanding of chronological skin ageing, particularly the link between the skin and hormonal disorders in women.

Advanced technology helping to further
the understanding of skin and hair

Advanced Research invests in cutting edge technologies to further its knowledge of skin and hair, and dedicates significant resources to developing non-invasive investigative methodologies (*in vitro* reconstruction of human skin and physical optics methods).

Among these methods, some are based on nanotechnologies. In particular, our know-how in nanotechnology allows us to improve our understanding of the structure and behaviour of skin and hair, and to ensure the traceability of the nanomaterials used.

It is important to emphasise that the nanomaterials developed for cosmetics are different from the nanomaterials used in other industries. They differ by their shape and their molecular structure, the way that are used and their specific interactions with living organisms and the environment. They are called nano-emulsions and nanopigments. Nano-emulsions are in fact macroscopic preparations which contain droplets of water and oil reduced to nanometric size in order to increase the content of nourishing oil. Sometimes fragile ingredients that are sensitive to air, such as vitamins, are protected inside the nanometric vesicles called nanocapsules™ or liposomes, which release them upon contact with the skin at the time of application.

Nanopigments are minerals already present in our natural environment, in the form of clay for example. Titanium dioxide is one of the best known, and is renowned for its capacity to neutralise UV. It protects skin from cancers, such as melanoma, caused by too much exposure to the sun. Furthermore, titanium dioxide, an inert material, is a reference of non toxicity. That is why it is widely used in consumer goods (colouring agent E171) and the formulation of dental hygiene products (toothpaste).

Numerous studies have shown that they do not cross the skin barrier, even in the case where the skin is superficially damaged (acne, psoriasis). L'Oréal has developed and promoted an experimental method to test the ecotoxicology of nanomaterials under conditions that mimic the real world.

It is vital to exchange information through networking. L'Oréal researchers contribute to working groups and international collaborations with scientific institutions on the safe use of nanotechnol-

16

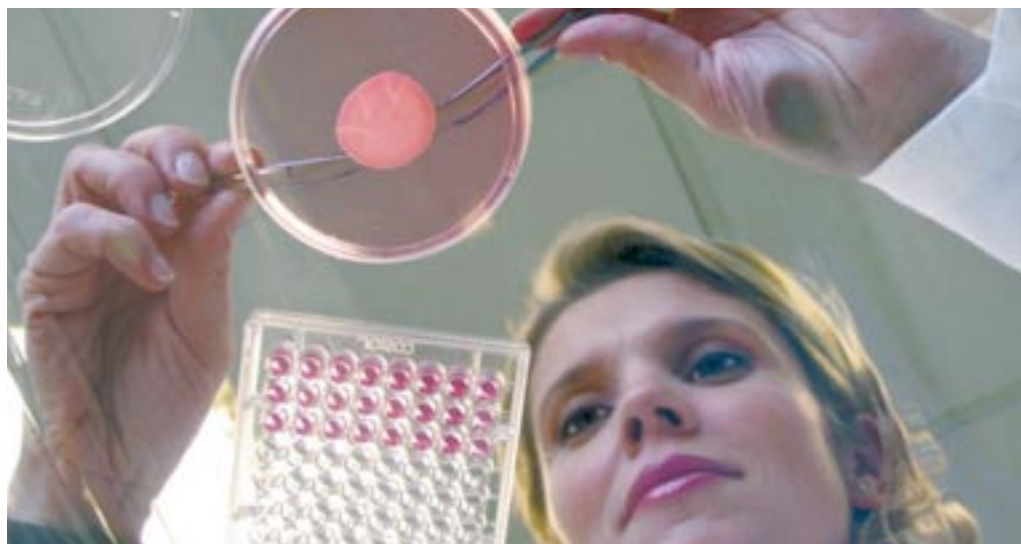
R&D facilities and 13 cosmetic
assessment centres worldwide

2,961

Staff representing
61 nationalities

Over 100

active scientific
partnerships worldwide



Reconstructed human skin models.

ogies, by both consumers and in the environment. L'Oréal is a founder member of the International Council on Nanotechnology (ICON) that recently published a global assessment of the current best practices for nanotechnologies. L'Oréal is actively involved in the project NANOINTERACT which, as part of a special programme of the European Commission, studies the interactions between nanotechnologies and the living world.

L'Oréal applies the Precautionary Principle. Any new technology has to be developed and applied while taking all of the necessary precautions to minimise the possible risks. However, it is necessary to allow researchers to optimise the benefits of scientific innovation in the interests of the public and the environment. Thus it is essential to build an international consensus, including representation from civil society, and to set up standards and good practices for nanotechnologies that are relevant and adapted according to the industry concerned.

TISSUE ENGINEERING

A significant investment in tissue reconstruction

L'Oréal R&D has long been researching cell biology and tissue engineering to further its understanding of skin and hair. Advanced Research designs reconstructed skins for its research into skin biology which have numerous applications.

Applications of reconstructed skin

- Developing skin models for toxicity tests enabling the reduction or even elimination of animal testing,
- Establishing, validating and standardising new alternative tests to evaluate the safety and tolerance of raw materials,

- Developing an understanding of the skin without the use of invasive clinical trials,

- Evaluating the safety and effectiveness of new raw materials.

The fact that these reconstructed skins can be used to advance knowledge, for evaluation purposes and as the basis of alternative testing methods to animal experimentation, means that tissue engineering has great promise for the future. L'Oréal's steady investment in this area over the past 25 years reflects the early recognition of its potential. In 2006, the company's work on reconstructed skin involved a team of 130 individuals.

L'Oréal has, notably, acquired and developed two biotechnology units specialised in the standardised manufacture of reconstructed tissue, Episkin, (epidermis and skin), and SkinEthic (human corneal and other epithelials, mucous membranes). They respond to the need of the international scientific community to evaluate the safety of chemical ingredients whatever their use may be.

Evaluating the safety of raw materials on reconstructed skins

In order to develop and share widely the use and applications of reconstructed skins, a ground-breaking strategic decision was taken in 2006 to systematically evaluate the cutaneous and ocular harmlessness of all raw materials used by the L'Oréal group using reconstructed skin systems.

Reducing or replacing animal testing

The European REACH legislation, voted through this year by the European Parliament, requires the evaluation and registration of chemical substances in order to improve product safety.

At the same time, the Seventh Amendment of the European Cosmetics Directive, aimed at eradicating animal experimentation for evaluating product



Cytotoxicity test on reconstructed skin.

safety, requires the ending of animal testing to establish the safety of cosmetics raw materials in 2009 and sets a cut-off of 2013 for more complex tests.

L'Oréal demonstrated its commitment to animal welfare by ceasing, in 1989, to test finished products on animals prior to their launch on the market. The company has pre-empted legislation by investing massively, since the beginning of the 1980s, in the development of alternatives to animal experimentation.

Currently there are three areas of toxicity for which alternative methods have been scientifically validated and now replace animal testing: cutaneous corrosion of chemical substances, phototoxicity and percutaneous absorption. The first is a method which uses, among others, an Episkin human skin model of L'Oréal. Others are in the validation process.

Over the years, animal experimentation has enabled a valuable reference resource of toxicological data on ingredients to be established, supporting the development of *in vitro* methods. Currently, whenever the analysis of this data on the ingredient allows, L'Oréal promotes the alternative approach.

L'Oréal is also developing other alternatives to animal experimentation based on advances in cell and molecular biology as well as mathematical models to predict toxicity phenomena.

In addition to its in-house research, L'Oréal also participates in European programmes such as the SENS-IT-IV project on respiratory and cutaneous allergy, financed by the European Union (6th Framework Programme) which brings together a number of industries and universities.

L'Oréal is also a founding member of the European Partnership for Alternative Approaches to Animal Testing (EPAA) which was created in November

2005. It constitutes an unprecedented cooperation between seven industry sectors and various parts of the European Commission with the objective to make significant progress in replacing, reducing and refining animal use (the "3Rs") in the areas of safety testing. Information on the EPAA can be found at www.epaa.eu.com.

Furthermore, L'Oréal encourages its chemical industry suppliers to commit to a similar approach to assessing the safety of their ingredients through alternative methods.

Beyond the progress already made, industry and academic research are facing a major challenge in the forthcoming years: to develop new alternative methods for the safety assessment of chemical ingredients in several fields of toxicology where they are still lacking today, and ensure their validation by competent regulators.

Raw materials of natural origin too are subjected to a rigorous evaluation.



RAW MATERIALS

The selection and use of raw materials is at the heart of the sustainable development challenges linked to the protection of human health and that of future generations, the preservation of biodiversity, the respect for the environment and indigenous populations. For example, in its interaction with local rural communities, L'Oréal subsidiary Sanoflore promotes the maintenance and development of agricultural activity in Vercors (France). L'Oréal R&D is committed to reducing the impact of its activities on the environment and has developed procedures to establish formulas in an environmentally and socially responsible manner, notably with respect to the choice of raw materials.

This is demonstrated by the significant proportion of ingredients of renewable plant origin, which reached 41% in 2006, some 5% higher than in 2004. When the use of non-plant materials is necessary, L'Oréal prioritises those which are manufactured according to methods that respect the environment.

EVALUATION

L'Oréal is committed to evaluating the overall impacts of our raw materials on the environment and wider society in order to further our understanding of their profile from a sustainable development perspective. In order to achieve this, we have defined a set of evaluation criteria based on five key priorities: human health and safety, environmental protection, the preservation of biodiversity, the establishment of fair business practices and the evaluation of the social impact of L'Oréal's activities.

Based on these key priorities, L'Oréal establishes and uses a number of tools and indicators:

- the Sustainability Assessment Framework for raw materials, currently being validated, is intended to

enable our suppliers to evaluate the overall impact of their raw materials,

- the "environmental impact" indicator,
- the "biodiversity", "fair trade" and "social" impact indicators are used on a day-to-day basis to select raw materials for formulas within an ecologically and socially responsible framework,
- product life cycle analysis, evaluating the ecological footprint of a product,
- the "naturalness" index which indicates the origin of a raw material and the degree of transformation it undergoes,
- the evaluation of the patent portfolio to ensure that our patents respect the principles of sustainability, particularly with regard to indigenous populations.

The Sustainability Assessment Framework for raw materials

This evaluation and selection tool for raw materials integrates all the areas of sustainable development but especially those which relate to wider society. Based on international sustainability standards, the 25 sustainability criteria assess: the raw material involved, the manufacturing process associated with this raw material and the other raw materials used in its manufacture.

2006 saw the launch of a pilot programme that enabled the evaluation of 200 raw materials (plant extracts and active ingredients of plant origin). The deployment of this Assessment Framework to all categories of raw materials is underway and will continue in 2007-2008.

Furthermore, R&D is working with other L'Oréal divisions to develop a consistent approach with respect to suppliers. L'Oréal would thus like to involve suppliers in the development of socially responsible integrated business lines. Several new business lines are being considered and could be brought into effect during 2007.

Feedback from our suppliers on the Sustainability Assessment Framework



Isabelle Benoit
Laboratoires Sérobiologiques



Thierry Cruchon
Silab



Jean-François Molina
Solabia



Gaëlle Bathany
Symrise

“Since 2005, we have contributed to the establishment of L’Oréal’s Sustainability Assessment Framework. For certain raw materials of plant origin, the Assessment Framework allows us to identify specific issues. We can assess the local impact of some of our raw materials sourcing in order to determine how local populations perceive the added value of our developments. The sustainability assessment of our products initiated by L’Oréal is driving an continuous improvement process for Laboratoires Sérobiologiques.”

Isabelle Benoit, Global Marketing Manager, Laboratoires Sérobiologiques.

“The Assessment Framework allows us to ensure that we have a responsible approach to the impacts arising from the manufacture of cosmetics raw materials. Although we already had risk evaluation procedures in place, the Assessment Framework has raised a number of issues which will, over time, be included in our dialogue with suppliers. It is a fresh way of evaluating the impacts.”

Thierry Cruchon, General Director, Silab.

“L’Oréal has provided us with an Assessment Framework, enabling us to have a more thorough reflection on sustainable development and to establish guidelines aimed at improving our product sourcing policy.”

Jean-François Molina, Marketing Director, Solabia.

“When we started implementing the ideas of sustainable development within our company, it was L’Oréal who gave the initial and most important impulse, who set the highest standards in the industry and challenged us. Today, working with L’Oréal on sustainability issues is a process of cross-fertilisation and a joint effort to find always better solutions.”

Gaëlle Bathany, Global Account Director, Scent and Care Division, Symrise.

The “environmental impact” indicator

This indicator measures the impact of raw materials in terms of persistence, bioaccumulation and toxicity in light of available data and according to the criteria set down by REACH. It informs decisions as to whether it is necessary to replace those whose impact has been confirmed. In 2006, 50% of raw materials already in use were assessed and all were retained with the exception of triclosan (see page 26). The goal is to have tested 100% of raw materials used by the end of 2007.

The “biodiversity”, “fair trade”, and “social” impact indicators

R&D undertook an evaluation of the plants present in the raw materials portfolio in order to assess their potential impact against a number the key criteria; the respect of biodiversity, equitable business practice and impact on society. This evaluation took into account their origin and distribution

area, the biological availability of the species, their usage and the associated issues, and their social and environmental impact.

It provides us with an in-house tool for recording the sustainability profile of each plant in the raw materials portfolio and serves as the basis of constructive discussion with suppliers enabling us to add to the available data. Nearly 200 plants contained in the raw materials used were evaluated by the end of 2006.

Product life cycle analysis

Product life cycle analysis is a tool used in the eco-design of formulas to guide the choice of raw materials and the procedures implemented with regard to their ecological footprint, from the origin of the resource to its return to the biosphere. L’Oréal would like to pursue this approach by engaging in new partnerships with suppliers. (See page 62 for more details.)

Naturalness Index

Since there is no precise definition of what constitutes a "natural" substance in the cosmetics industry, L'Oréal R&D has developed an indicator enabling the evaluation of its raw materials and cosmetics formulas according to their "naturalness". The criteria taken into account are: the origin of the raw material, the type of transformation undergone by this raw material from its origin, and the degree of transformation.

This is an operational tool which enables the quality of the overall portfolio to be ascertained and a list of raw materials of "natural" origin to be established. L'Oréal uses it to choose raw materials and in the eco-design of its formulas as well as within the framework of its relationship with suppliers. Additionally, L'Oréal R&D is working with certification bodies on a universally accepted definition of "natural" with regard to cosmetics, which could rationalise the various references to the concept within a growing range of products. Within this framework, L'Oréal shares its methodology with such bodies.

Evaluation of the patent portfolio

L'Oréal recognises that a patent which claims the use of a particular natural resource can have a negative impact on the environment and on local populations who also use this resource. The company has thus undertaken an analysis of its patent portfolio, in order to avoid any difficulties in this regard. This analysis looked at two key criteria: the newness of the application of the resource in the patent compared with its traditional use, and whether buying the raw material contributes to the sustainable development of the local region.

This analysis has now been concluded and shows that the large majority of inventions described and patented to date by L'Oréal do not involve biological resources. Those which do involve the use of biological resources do not present any critical issue in terms of sustainable development. Nevertheless, a small number of patents are still undergoing this in-depth analysis.

L'Oréal has established a review process for all new patent applications which analyses the possible

consequences for local conditions of access to a resource and, if necessary, on a case by case basis, the company works closely with suppliers to guarantee that appropriate action is taken to ensure that the principles of respect and equity are always applied. The patents held by suppliers must also respect these principles. L'Oréal considers that responsibility should be shared by all the players in the supply chain and encourages its suppliers to ensure that:

- bio-prospecting has been carried out with respect for biodiversity and the local eco-balance,
- the protection of inventions is established while respecting traditional knowledge and the free access of populations to their resources,
- the exploitation of raw materials and biological resources is undertaken in line with the principles of equity and fair return.

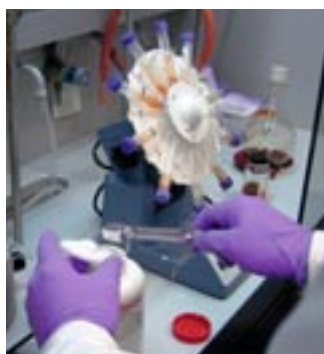
GREEN CHEMISTRY

Green chemistry brings together a range of principles defined by Paul Anastas⁽¹⁾ enabling the eco-design of new active ingredients. Abiding by these principles allows biodegradable, biocompatible molecules to be identified for new products thanks to processes which involve a lower degree of pollution and consume less energy than traditional processes.

This eco-design allows the upstream selection of compounds obtained with little or no synthesis, in order to preserve resources. The starting products are chosen from renewable compounds of plant origin with no risk of toxicity. Compounds identified as being potentially persistent or bioaccumulative are not developed.

L'Oréal also conducts "green chemistry" analysis of the company's industrial processes involved in the synthesis of molecules to assess the quantity of waste generated during the synthesis. The Environmental Factor (or E factor) reflects the relationship between the tonnage of waste and that of the desired molecule: the lower this figure, the less pollution is produced by the molecule. This factor is directly related to the

(1) Director of the Green Chemistry Institute at the American Chemical Society.



→ PRO-XYLANE™

Pro-Xylane™, an anti-ageing active ingredient that builds and hydrates skin tissue, is a xylose derivative obtained from beech pulp, a renewable raw material widely available in Western Europe. Easily biodegradable, non-bioaccumulative and non-ecotoxic, the molecule meets the extremely strict criteria of environmentally-friendly green chemistry. In solution, its E factor is 13, which is a very good score on a scale of 5 to 50. The effectiveness of Pro-Xylane™ was evaluated on reconstructed skin models.



In 2006, L'Oréal joined the Round Table on Sustainable Palm Oil.

volume of the molecule produced: for a low volume (<10 tonnes) the scale goes is 5 to 50; for volumes over 10 tonnes the scale is 0 to 0.5. At L'Oréal the six processes that generate the highest volumes (>100 tonnes) have a very low E factor, between 0.36 and 3.3. Recently, Pro-Xylane™, a new anti-ageing active ingredient resulting from seven years of Advanced Research interdisciplinary research, was designed using "green chemistry" processes.

Green chemistry partnerships

L'Oréal partners a number of academic and private scientific bodies involved in the green chemistry field and in the recycling of plant biomass. For example, our participation in the Synthons project (as part of the Industry and Agro-resources pole in Champagne-Ardenne, France) is aimed at developing new green chemistry processes using plant biomass. L'Oréal also prioritises cooperation with sustainable raw materials suppliers who respect the principles of green chemistry.

DIALOGUE WITH CIVIL SOCIETY

L'Oréal's activities involve a number of different players: those who are associated with them

directly (employees, shareholders, suppliers), and indirectly (consumers, local populations, industrial players, the scientific community, NGOs, working groups, government bodies). Dialogue, communication and cooperation with wider society is essential to building mutual understanding.

Relationships were initiated in 2005 and 2006 with civil society, particularly with NGOs and bodies working on sustainable development issues. For example, in 2006, L'Oréal joined the Round Table for Sustainable Palm Oil (set up by the WWF), which works to protect tropical forests and the living and working conditions of local populations in areas used for sourcing.

The leadership shown by The Body Shop on "Community Trade" is an area that L'Oréal would also like to develop alongside our own fair trade practices with suppliers and local populations.

Internally, L'Oréal encourages discussion on the processes, tools, and issues of sustainability and is strengthening its fundamental commitment through a number of recent acquisitions, specifically SkinEthic, Sanoflore and The Body Shop.

Furthermore, L'Oréal is participating in work to establish an ISO 26000 "Social Responsibility" standard (see below).

→ ISO 26000 STANDARD FOR SOCIAL RESPONSIBILITY

The ISO (International Organization for Standardization) is working to establish an ISO 26000 standard intended to provide guidance on social responsibility for all organisations, public and private, on an international scale. Since 2004, the draft ISO 26000 standard has progressively evolved through the input of different countries around the world, and has involved public, private, union, and non-governmental stakeholders. It will promote consistency between the many international CSR reference frameworks already in existence, and define the rules for responsible socio-economic development. Publication is expected in 2009.

Ecotoxicity: measuring the growth rate of unicellular algae in the presence of the molecule under analysis.



CONSUMER SAFETY

For L'Oréal, consumer safety is paramount and the company allows no compromise on this issue. This is why L'Oréal has supported European REACH legislation on chemical products right from its inception, because of the safety guarantees it provides and the advances it will lead to in the understanding of chemical substances.

RIGOROUS SAFETY EVALUATION

The International Safety Evaluation Division specifically evaluates the safety of formulas and products and, particularly, the toxicological profile of all the ingredients used, together with the tolerance of all the formulas, prior to their launch on the market. Raw materials and products are subject to a thorough safety evaluation. The safety of products marketed is monitored on an ongoing basis, notably thanks to an international cosmetovigilance network, which undertakes a rigorous analysis of the undesirable effects associated with the use of a product. For L'Oréal, this tool represents a very effective way of rapidly detecting even slight signs of intolerance of one of the products, allowing the company to immediately take the required corrective measures.

PUBLIC HEALTH AND THE ENVIRONMENT

L'Oréal has long applied very strict rules to guarantee the safety of ingredients used in its products. The substances used undergo rigorous scientific monitoring, which identifies and analyses all studies raising a risk to human health or to the environment. When a risk is confirmed, L'Oréal takes the necessary measures to remove or replace the relevant substance.

Given the concerns civil society may have with regard to certain substances and their impact on human health and the environment, L'Oréal's position is as follows.

Preservatives

Preservatives are substances commonly used in the food, chemical, pharmaceutical and cosmetics industries, to protect products from microbiological growth. They have proved very effective in this regard.

Parabens are amongst the preservatives used by L'Oréal. Recently their use was questioned by a scientific study that showed a low level of *in vitro* oestrogenic activity (not demonstrated *in vivo*) although, to date, no international health authority has confirmed the slightest link between cause and effect.

L'Oréal is monitoring developments and is working very closely with the competent authorities to evaluate the safety of preservatives and ensure that their use presents no risk to human health. The generally recognised need to optimise their use, particularly in reducing their concentration, has led L'Oréal to support a number of programmes in this area. L'Oréal ranges also include paraben-free products for customers who prefer them.

Triclosan

Triclosan is a broad spectrum anti-bacterial agent used for the past 35 years in consumer products, including cosmetics. L'Oréal does not use triclosan as a preservative and only uses it in limited concentrations as a bactericide active ingredient.

Within the European Union, triclosan is regulated by the Cosmetics Directive which authorises its use up to a level of 0.3% as a preservative, and no limit for its use as an anti-bacterial agent. However, since studies have shown that it may disrupt certain ecosystems, L'Oréal decided in 2006 to



SkinEthic markets reconstructed tissue kits for product safety evaluations.

discontinue the use of triclosan as a bactericide, given that a substitute is available (zinc salicylate). This measure will come into effect in 2007.

Phthalates

The only phthalate used by L'Oréal is diethyl phthalate as a denaturant agent⁽¹⁾ for alcohol in formulas and as a solvent in perfumes.

Certain phthalates have recently been called into question and are causing concern to consumers but, with regard to diethyl phthalate, the independent scientific committee reporting to the European Commission concluded that it is harmless and no specific precautionary measures or restrictions are recommended for its use in cosmetics. The American, Canadian and Japanese authorities also came to the same conclusions.

However, in line with our commitment made in 2005 to reduce phthalates, the decision to replace diethyl phthalate as a denaturant agent for alcohol was taken in 2006 for all L'Oréal formulas on the market. This will be carried out in 2007.

The replacement of diethyl phthalate as a solvent in existing perfumes is being studied and no new perfume will contain it as of 2007. A few newly developed products might still contain diethyl phthalate if they are part of an existing product line extension.

Musk ketones

As certain unconfirmed work has indicated that musk ketones can present an environmental risk, essentially through water contamination, L'Oréal began, in 2005, a comprehensive analysis of its perfumes in order to systematically detect the presence of musk ketone in products containing musk in order to replace it, if necessary.

Sun screens

A sun screen is a compound which is able to absorb certain ultra violet rays (UV). There are two main families, organic screens and mineral screens obtained by synthesis. In use for more than 20 years, mineral screens are insoluble powders (such as titanium dioxide), whereas organic screens are usually dissolved in the products. Mineral pigments filter out UV most effectively when their size is close to 60 nanometres, which is why a number of L'Oréal's sun screens use nanopigments of titanium dioxide to enable effective skin protection (see page 19).

To protect the environment against the risk of ecotoxicity, L'Oréal prioritises sun screens with the lowest environmental impact, such as Mexoryl SX and titanium dioxide. Mexoryl SX is an organic water-soluble and biodegradable sun screen, which has no impact on the environment. Titanium dioxide has successfully passed rigorous ecotoxicity and bioaccumulative tests and presents a very favourable environmental profile.

The European scientific authorities have confirmed the harmlessness of the sun screens used by L'Oréal and reaffirmed the need for consumers to protect themselves from the harmful effect of the sun.

Genetically modified organisms

L'Oréal does not use any genetically modified organisms.

(1) A denaturant agent makes the alcohol unfit for human consumption.



L'Oréal's commitment

To make L'Oréal a model for individual self-fulfilment, to promote diversity, and to assemble a community of talents to which all individuals contribute their creativity and enthusiasm.

Photo: Training in CEDEP (France). L'Oréal places the development of all its employees at the heart of its strategy.



SOCIAL AFFAIRS

L'Oréal believes that employee development is a fundamental driver of economic performance. L'Oréal therefore places the development of all our employees at the heart of our strategy, whether it is in terms of training, career evolution or sharing in the group's financial success. L'Oréal's growth and forward planning make it possible for the group to support the evolution of all our employees worldwide, to anticipate reorganisation, and to attract the best talent in order to build future success.

L'ORÉAL'S COMMITMENT TO EMPLOYEE DEVELOPMENT

For L'Oréal, a sustainable human resources and employee relations policy means:

- extending our diversity,
- maintaining optimal working conditions,
- promoting personal and professional development through training programmes and sharing experiences,
- motivating our teams, especially by taking an

assertive approach to offering opportunity and mobility,

- providing formal opportunities for dialogue with employees,
- offering opportunities to work internationally.

Workforce profile

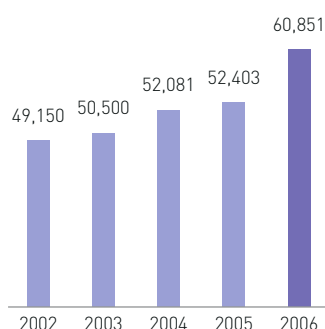
L'Oréal had a workforce of 60,851* in 2006, which includes 1,261 employees at our Galderma joint venture and 8,937 staff who joined us *via* the acquisition of The Body Shop. Believing that differences

2006 KEY ACHIEVEMENTS

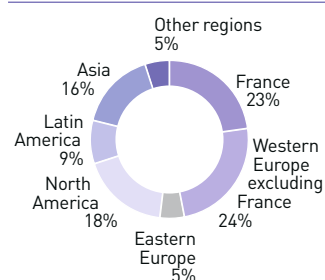
- Setting up Global Diversity Management, a new internal structure for managing diversity.
- Successfully piloting a two day training programme on diversity, ready for international roll-out in 2007-2009: around 8,000 managers will be trained across Europe.
- Setting up 22 Observatories on Diversity in our French subsidiaries.
- Helping set up and hosting the first Employment and Diversity Forum, a recruitment forum for the disadvantaged in France.
- Increasing the proportion of female managers to 54% overall, and to 34% in management committees.
- Carrying out independent audits of labour standards at all our factories and warehouses*.

- Reducing illness-related absenteeism to 2.3%* (excluding occupational accidents and disease).
- Sharing €42.9 million of profits* with all employees as part of the Worldwide Profit Sharing scheme.
- Being voted in the top 3 most attractive companies to work for in Europe by the Universum Institute's survey of European students.
- Signing the Charter for Corporate Commitment to Equal Opportunities in Education in France.
- Holding a European Forum on Inclusion and Social Commitment* to discuss how to help the disadvantaged find jobs.

WORKFORCE INCLUDING THE BODY SHOP AND GALDERMA



GEOGRAPHIC DISTRIBUTION OF WORKFORCE IN 2006



are a source of enrichment, L'Oréal considers it critical to attract a diverse group of employees and has people of 112 different nationalities among its managerial staff*. 27% of managers worldwide are French.

DIVERSITY, A BASIC L'ORÉAL VALUE

Managing diversity

Respecting and reflecting differences

Diversity is a founding value and one of the keys to L'Oréal's success. Teams that are diversified at every level and in every area allow greater creativity and a better understanding of consumers, which in turn allows L'Oréal to develop products that meet their expectations. The group therefore intends to continue to recruit open-minded employees and rejects any idea or practice of personal discrimination.

The group has 19 brands that are known internationally (see the inside cover for the full list). The plurality and complementarity of the brands and products is further witness to L'Oréal's commitment to enhancing all forms of beauty and well-being while respecting differences.

Reinforcing structures dedicated to diversity

Global Diversity Management was set up in early 2006 as a new governance body for managing diversity. This has its own team and relies on a network of local staff (Observatories of Diversity) and international staff (country diversity managers). It has its own operating budget.

Drawing up a formal policy

L'Oréal's ambition is:

- to reflect, in its teams and at every level, the diversity of its customers (in terms of nationality,

ethnic or social origin, etc.), in keeping with its catchment areas,

- to promote a gender mix within its teams, promoting the access of women to posts of responsibility and a better gender mix in those functions where it is unequal (marketing, production, etc),
- to promote work for disabled people,
- to accumulate skills and capitalise on the experience of its employees, taking advantage of the cultural diversity of its teams, extending careers and making use of experience.

The principles behind the group's action:

- respect for its demands of excellence in terms of individual skill and performance,
- attracting employees from beyond its usual catchment areas and identifying diversified profiles that open up new perspectives,
- a managerial culture that promotes the inclusion of all employees and makes the most of the diversity and multicultural aspect of the teams.

L'Oréal has decided to focus its action on six priority points:

- nationality,
- ethnic origin,
- social origin,
- gender,
- disability,
- age.

The group is active in the following five areas:

- training on diversity,
- recruitment and inclusion,
- internal careers/career management,
- management,
- communication.

→ THE OBSERVATORIES OF DIVERSITY AND SOCIAL COHESION

22 Observatories of Diversity* were set up in 2006, in each of the group's subsidiaries in France, and there are plans to extend the scheme to other countries in Europe in 2007. These Observatories are made up of staff and management representatives alongside volunteer employees. Diversity is considered from every angle—men/women, diversity in terms of age, disability, social disadvantage, ethnic origins, and academic background.

Objectives

- To exchange and pool information on measures adopted to combat all forms of discrimination and to promote diversity and equality of opportunity.
- To draw up an inventory and determine three priority areas for action.

- To organise awareness-raising events directed at employees.
- To set up a definite plan of action for the three areas selected, with progress indicators.

Examples of initial results

- Internal communication on diversity and what it involves
- Reception of pupils in the 4th year of secondary education from neighbouring disadvantaged schools.
- Communication with work/study training centres to encourage them to take account of diversity criteria when selecting candidates.
- Extension of management training to increase understanding of disability.
- Reception of a group of disabled apprentices in partnership with a specialised training centre.
- Organisation at Aulnay Chanteloup of a diversity awareness day involving all employees, with the production of a leaflet on the Observatory's activities.



→ AN IMPORTANT AREA FOR ACTION – TRAINING ON DIVERSITY, SPAIN

Objectives

1. To clarify the concepts of diversity and equity and illustrate why they are important for us at L'Oréal.
2. To help participants identify personal and organisational barriers to diversity.
3. To enable participants to create an action plan adapted to their level of responsibility.

Pilot Training Sessions

After carrying out a Training Needs Analysis to identify specific issues and to adapt the training to the various divisions and countries, three pilot training sessions were organised in Spain, France and the United Kingdom to

ensure an international coverage. These sessions were successful.

"I realised that differences not only concern visible criteria such as gender, skin colour etcetera but also and most of all invisible things. And these differences are indeed our richness." — Yolanda Gonzalez, Packaging Manager, L'Oréal Burgos factory.

The Burgos factory in Spain trained 100% of managers and middle managers in 2006, and already has an action plan for 2007.

The next steps

Around 8,000 managers in countries across Europe will attend this two day diversity training programme in 2007-2009.



↑ Training in diversity, Spain.

The different faces of diversity

Promoting an international mix and a male/female balance

112 different nationalities are represented among the group's management staff*.

The proportion of women managerial staff is 54%*.

The group makes sure that they have access to senior posts. In this respect, 32% of managers who were expatriated* and 52% who were promoted* were women in 2006. Women now represent 34% of the members of management committees and more than 15% of the group's executive committee. Since 2005, L'Oréal has been supporting European and international forums devoted to women leaders, including Women in Leadership, Women's Forum, and For Women in Science.

In France and certain other countries, legislation prevents the collection of data on other diversity indicators such as ethnicity, religious beliefs, and union membership. However, in 2005 we took part in the Institut national des études démographiques' experimental survey to gauge ethnic diversity in France, in order to find alternative approaches to measuring diversity.

Diversifying sources of recruitment

Promoting diversity talents upstream

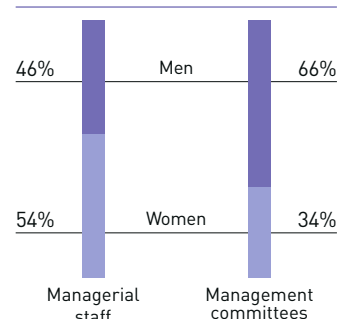
In the United States, South Africa, Latin America and France, for example, L'Oréal has set up partnerships with universities and management schools involved in diversity issues.

Creating and strengthening partnerships to promote employment

The group has set up a large number of partnerships in France with associations, recruitment agencies, temporary employment agencies and associations, temporary employment agencies specialising in inclusion, youth information offices and Internet sites. These partnerships make it possible to reach specific candidate profiles (candidates from visible minorities, from difficult neighbourhoods, or who are disabled) and offer them a chance to have access to recruitment interviews and therefore to employment.

For a number of years, L'Oréal has taken part in recruitment forums dedicated to minority groups in various European countries and in the United States and South Africa. The group has decided

MANAGERS BY GENDER IN 2006



"Diversity at L'Oréal USA goes hand in hand with our core principle of respect for the individual. This is one of our essential values.

In our opinion, it is so mandatory that we have incorporated it into our *Ethics Charter*. It is also part of our employee assessment criteria. Respect guides the whole of our human resources policy. It is the basis of all our efforts in the field of diversity. Embracing and respecting differences is a way of experiencing diversity to the fullest."

Edward Bullock, Vice-President for Diversity at L'Oréal USA.



657,429

Applications*
received worldwide in 2006,
of which 70% via the Internet

63,691

Interviews* held

2,333

Managers recruited*
(i.e. 15% more than in 2005),
of 79 different nationalities*

10%

Of the candidates recruited
in 2006 are not citizens of
the country in which they work

to take this a step further by organising its own recruitment forums for young graduates from minority groups.

Helping the disadvantaged find jobs

L'Oréal has been committed to solidarity with people in difficult circumstances and their integration into employment since 1995. This commitment takes the form of specific steps carried out on a local basis within a large number of subsidiaries worldwide, focusing on three main areas:

- encouraging the inclusion of disabled people. The Sicôs factory in Caudry (northern France) has successfully integrated a recruit with hearing difficulties in its teams as the result of an inclusion course making it possible to adapt a workstation and train the other members of the team in sign language,
- contributing to the professional and social reintegration of the long-term unemployed, those considered to be "difficult to employ" or people who have been the subject of discrimination, by enabling them to build social links, discover a trade, and reintegrate the employment market. The "Anzol" project in Brazil, for example, is intended to provide the mothers of sick children with the necessary coping resources—in partnership with a local association, L'Oréal trains the mothers in hairdressing and provides them with material support to help them start up their activity,
- developing socio-aesthetics by using L'Oréal's expertise in cosmetics to the advantage of victims of physical and mental suffering. In the Netherlands, beauty workshops are organised for women who have suffered domestic violence and abuse. These workshops have already helped about a hundred women to begin to make a fresh start. This policy and its related activities were promoted during the discussions that took place at the European Forum on Integration and Social Commitment organised in March 2006* at L'Oréal's headquarters in Clichy, which was attended by other specialist companies and organisations.

Following the Forum, a leaflet giving details of a number of exemplary initiatives of this kind was published and presented at the international Human Resources convention in October 2006. There are plans to circulate a complete list of all the inclusion activities carried out worldwide in 2007. These two documents are aimed at making people aware of the issue and encouraging the implementation of innovative, generous projects in the field of inclusion and corporate social responsibility.

RECRUITING INTERNATIONAL AND MULTICULTURAL MANAGERS

L'Oréal is implementing original programmes to identify international and multicultural managers with a view to supporting its growth. The group is heavily involved in academic relations and business games, and its quest for talent is a source of enrichment for the group.

Close collaboration with universities

The group is keen to participate in the development of certain academic modules, and has set up 206 partnerships* worldwide. The type of partnership varies with the institution. Examples include the supply of L'Oréal case studies and expertise to enhance student teaching.

The offer of work placements is also a key feature of L'Oréal's partnership with higher education establishments, as these give students initial, practical work experience. For L'Oréal, internships are not merely a brief stint within the company but the first step in a possible career within the group. In 2006, 2,577* internships were offered in 54 countries*, and 11,287 interviews were held. Student internships ultimately led to 304 jobs.

Transfer of skills via business-based games

L'Oréal has a reputation for creativity in the field of business games, and is keen to pass its skills on to future professionals. In 2006, 4,400 students from 32 countries took part in L'Oréal's "Brandstorm"

→ THE SIGNATURE IN FRANCE OF THE CHARTER FOR CORPORATE COMMITMENT TO EQUAL OPPORTUNITIES IN EDUCATION

On December 13th, 2006 L'Oréal was among the first forty companies to sign the Charter for Corporate Commitment to Equal Opportunities in Education in France. The group has been involved for many years in the education and inclusion of young people, particularly those from difficult neighbourhoods or disadvantaged backgrounds, through partnerships with schools, by training teachers, sponsoring deserving students, operating a strong apprenticeship policy, and through recruitment.

In the context of the Charter, L'Oréal's commitment involves more particularly:

1. Taking part in promoting equal opportunities in education through specific activities, including:

- tutoring, sponsorship, the creation of scholarships, providing extra help with schoolwork,
- reception of pupils, students and teachers to give them a better understanding of a corporate environment and the jobs it offers, making it easier to offer career guidance for pupils and students,
- recruiting young graduates from disadvantaged areas.

2. Opening these actions to all, regardless of origin, religion, gender, disability or sexual preference.



→ EMPLOYMENT AND DIVERSITY FORUM, FRANCE

Through a partnership established between L'Oréal and the French association "IMS-Entreprendre pour la cité", the group put together an innovative initiative in the form of the first "Employment and Diversity" employment forum, which was held on February 28th, 2006. This was the first ever recruitment forum co-organised by and within a company in France and directed at school leavers with 4 or 5 years of further education from visible minorities and/or difficult neighbourhoods. The event was held at our Technical and Research Centre at Aulnay-sous-Bois. Its purpose was to make access to employment easier for almost 200 candidates by putting them in direct contact with the recruiters of 16 large companies. As a result of this initiative, 22 young graduates were recruited.



↑ Employment and Diversity Forum, France.

and 44,000 students from 128 countries signed up for the L'Oréal e-Strat Challenge. At the same time, the group also launched a new game directed at young talent in factories and production, called L'Oréal Ingenius Contest, which attracted 108 students from six countries. Further information is available at www.loreal.com.

The Universum Institute (www.universum.se) carries out an employer image study each year among European students. In 2006, L'Oréal was ranked third most popular (see right).

PERSONALISED CAREER DEVELOPMENT

The group aims to offer each of its employees career opportunities geared to each personal situation.

Offering a personalised and imaginative approach to career tracking

L'Oréal is attentive to the expectations and career plans of its employees. It operates a manager appraisal system called Talent Development that involves two annual interviews designed to identify and discuss areas for personal development and remuneration aspects.

This appraisal system is transparent and implemented worldwide based on standards shared by all.

Encouraging mobility

The diversity that L'Oréal seeks relies on a policy of geographical and professional mobility.

The group is continually enhancing the quality of its international management and local teams through the presence of experienced expatriates of all nationalities. As these employees progress through successive positions in different countries, they will contribute to the group's development while broadening their own knowledge and honing their skills. At the end of 2006, 577 expatriates*

of 54 different nationalities* occupied mainly management positions in 53 countries*; 26% of them were women*. A total of 148 people were newly transferred abroad in 2006, 32% of them were women.

To promote internal mobility, L'Oréal set up COOL (Careers and Opportunities On Line), an intranet-based job exchange that facilitates employees' geographical and professional mobility. It offers a transparent means of finding out about all the vacancies in a given country, with the exception of management positions. COOL was developed and launched in April 2000 by L'Oréal USA before being set up in France in 2002; France is to serve as a pilot country for Europe.

Of the 380 job vacancies posted online* in 2006, 114 (i.e. 30%) were filled through COOL*. The group would like to use this system in other European countries, after adapting it to the cultural and linguistic environment of each country.

SKILLS DEVELOPMENT

In 2006, 68% of managers* and 56% of all employees* received training, with almost six days per manager*. Training and development accounted for 2.5% of total gross salary cost.

The Learning for Development (LFD) network mirrors L'Oréal's business organisation and is committed to being as close as possible to our business and to our people. 177 learning professionals operate across all the countries, business units and key functions within the group.

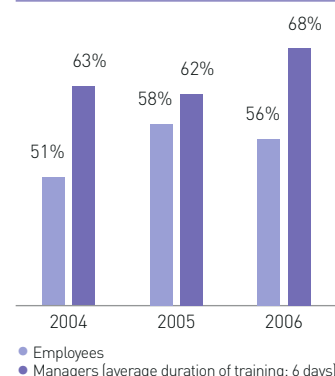
Four Management Development Centres (MDC) are located in Paris, Rio, Shanghai and New York. Their offer of an array of sophisticated programmes and initiatives is decentralised and rolled-out geographically, making it accessible to the greatest number and taking account of cultural diversity.

COMPANY RANKING

| | |
|-----------------------------|---|
| McKinsey & Company | 1 |
| The Boston Consulting Group | 2 |
| L'Oréal | 3 |
| Procter & Gamble | 4 |
| BMW | 5 |

In the 2006 study led by the Universum Institute, 7,217 students from 100 business schools and universities in 19 European countries were asked to name the companies they would most like to work for.

PERCENTAGE RECEIVING TRAINING



L'Oréal FIT—1 programme, 2 years, 6 dimensions to make L'Oréal “a great place to work”



FOLLOW-UP AND INTEGRATION TRACK (FIT)

→ L'Oréal FIT is an international cross-discipline project aimed at ensuring the optimum integration of new employees. FIT stands for Follow-up and Integration Track. Since 2005, each country has had responsibility for the integration of its new employees through the L'Oréal FIT programme*, according to the specific features of the country and its culture.

→ The principle of L'Oréal FIT is to arrange two years of personalised mentoring for all new employees (including those with substantial experience).

→ L'Oréal FIT makes it possible to pass on the culture, expertise and skills that have made L'Oréal successful.

COMMON CONSTRUCTION

The successful integration of a new employee depends on the commitment of all concerned and benefits everyone, from the management committee to the employee, including Human Resources, the Manager and the Mentor. L'Oréal FIT enables employees to gain a better understanding of their role within the group, to develop a professional network, and to quickly feel at ease in their new job.

Training that delivers high quality standards

With the overwhelming majority of training provided internally, L'Oréal experts inevitably get actively involved and share their experience. 50% of our LFD teams have had previous business experience within the group*.

A major effort is made to go beyond the group and to open ourselves to outside intelligence. Partnerships with leading universities worldwide include CEDEP (INSEAD campus), Cranfield University (United Kingdom), CEIBS (Shanghai), ITAM (Mexico), and Institut français de la mode (France).

Management and Personal Development

Management training is available at every step and represents a new level of responsibility of a manager's career at L'Oréal. The “Transition To” programmes, which support managers as they make the move from one managerial level to another, have become the cornerstone of the management development offering.

703 managers attended the “Transition To Team Management” programme in 2006 of which: 57% in Europe, 20% in Asia, 11% in North America, 11% in Latin America.

142 managers received the “Transition To Advanced Management” programme in 2006 of which: 76% in Europe, 14% in Asia, 6% in North America, 4% in Latin America. This programme, run in partnership with Cranfield University (United Kingdom), aims to prepare managers as they join a management committee or similar position.

The Senior Executive Programme responding to the needs of the 200 top managers worldwide was fully established in 2006. It incorporates leadership development actions, coaching, management team development, conferences and innovative learning expeditions. In addition, the Global Learning Alli-

ance—a long term partnership—brought together senior managers from L'Oréal and four other multinationals in a two-week programme conducted in Japan and Bangalore (India).

Build and maintain expertise throughout the business

Professional expertise training is essential to prepare our teams for a constantly evolving market. Some examples:

- **Marketing:** to boost creativity and innovation, a complete offering has been developed for all marketing professionals. Examples include “360° Launch Excellence”, creative coaching for an entire country or brand marketing team and “Osmose” which provides essential knowledge about research to marketing development teams.
- **Industry:** the ISIS project, which consists of deploying SAP in all 22 factories in Europe and North America, continued in 2006. Over 1,000 factory employees in three factories in France and the United States attended a total of 22,500 hours of training to prepare for important changes resulting from the implementation of SAP. 32 IT professionals in seven factories also received on average 14 days training, totalling 2,673 hours, of which 1,562 were dedicated to technical aspects of the tool.
- **Learning for development:** the project, LFD Pro, was initiated in 2006 to build people development expertise and ensure consistent learning practices and first-class training in all countries and across all subsidiaries. Via a dedicated intranet site, LFD Pro will progressively provide learning and training professionals with learning resources, a development path and in 2007 with an activity review tool.
- 13% of training in 2006 focused on language enhancement and office tools.

7,338

Managers attended at least one Management & Personal Development seminar in 2006*



↑ Apprenticeship at L'Oréal,
a means of promoting excellence.

Welcoming apprentices: a strong commitment

Apprenticeships at L'Oréal

L'Oréal has a long tradition of training young people. In 1993, L'Oréal extended its young persons training initiative by setting up an apprenticeship policy based on quality and selection.

This has now become a real resource for the professional inclusion of young people and the management of human resources and diversity within the company, combining theoretical training at a work/study training centre with initial work experience.

L'Oréal signed the Apprenticeship Charter in France in 2005, and by December 2006 had 430 apprentices on work/study courses in France* (apprenticeship contracts and professionalisation contracts), representing 3.6% of total employees*.

Every level of qualification (from an initial vocational diploma to a postgraduate qualification) and every type of job (secretarial, research, industrial, managerial, commercial, communication, human resources, IT) are represented.

L'Oréal sees apprenticeship as a means of promoting excellence that gives young people the resources to be successful by enabling them to acquire specific skills. L'Oréal gives them the possibility of being given real responsibilities within one of the group's teams. The volunteer apprenticeship mentors receive special training and ensure that the apprentice is monitored and assessed regularly as they pass on their knowledge and skills on an everyday basis.

2007 will be Apprenticeship Year, acknowledging the commitment of all concerned, reviewing at the group's policy on apprenticeships, organising the pooling of experience in France and in other countries, and pinpointing any areas for improvement.

A MOTIVATING COMPENSATION AND BENEFITS POLICY

L'Oréal is successful thanks to the quality of its employees and each individual's commitment contributes to the group's growth process.

Recognising individual contribution

L'Oréal's global pay policy reflects its recognition of employees' involvement in the company's development and at the same time aims to attract talented individuals.

Although it applies to all the group's employees, the application of the policy varies according to the job and to the level of responsibility involved.

In all its units, the group's compensation policy is based on an appraisal system standardised all over the world that recognises individual performance. Each employee's career and salary is managed individually.

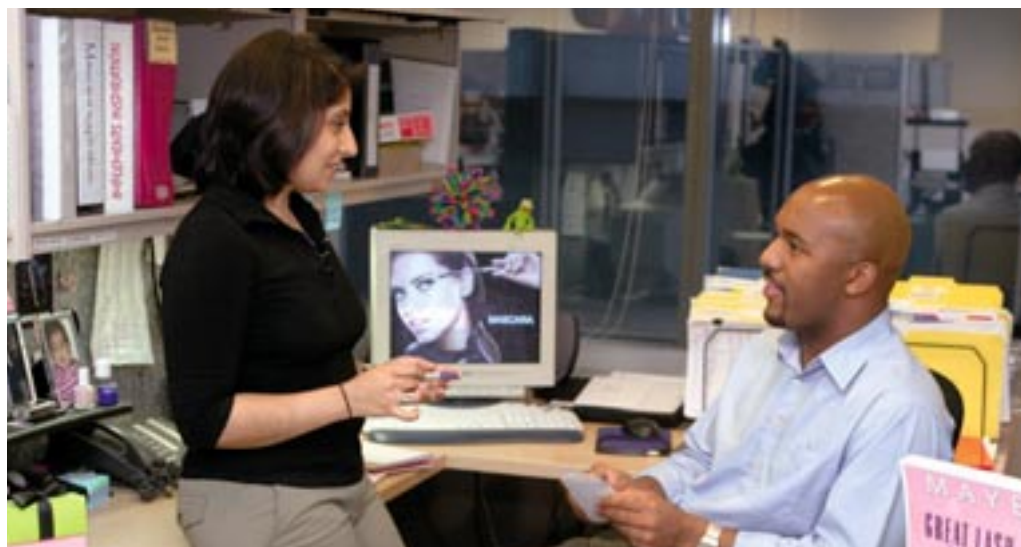
Offering a competitive compensation package

L'Oréal's objective is to offer a competitive compensation package to attract and retain talented individuals. In order to ensure its objective is ful-

→ INTERNATIONALISATION

The internationalisation of the apprenticeship scheme involves making international opportunities available for French apprentices, particularly in Great Britain, Spain and Poland, and developing all kinds of work/study training by subsidiaries in Europe and the United States.

This means that, during their three-year apprenticeship with L'Oréal, apprentice engineers have the opportunity of spending three months at one of the group's European production sites. This experience in another country gives the young apprentices an opportunity to supplement the skills acquired in France, to experience a different culture, and to perfect their knowledge of another language. About twenty apprentice engineers had the benefit of these international opportunities in 2006.



↑ L'Oréal is successful thanks to the quality of its employees.

filled, almost all of its subsidiaries participate in compensation surveys annually. Remuneration is linked to the job, but also to the individual performance and potential.

Sharing in collective achievement

L'Oréal gives a financial bonus to all employees to recognise the collective achievements of each country.

In France, an employee profit-sharing scheme has been in place since 1988. In 2006, it made up 18% of employee remuneration. 66% of profits re-invested by employees by the profit sharing scheme were placed in the L'Oréal investment fund.

Since 2001, a "Worldwide Profit Sharing Plan" (WPS) scheme has been implemented in all other countries, to strengthen employees' sense of belonging and increase their motivation. The scheme, based on group guidelines, has been set up in each of the 59 subsidiaries* by a Country Steering Committee whose role is to develop and define the rules of implementation including:

- performance objectives,
- number of weeks' salary to be paid,
- communication process.

A Group Coordination Committee makes sure that the principles are respected and organise reporting and statistics. The Committee also encourages exchanges of experience among the countries.

Benefit programmes to protect employees and their families

L'Oréal offers employee benefit programmes to protect employees and their families. These programmes are designed according to local practices and in accordance with local regulations. They aim to complete, where necessary, local social security and mandatory programmes to provide support against the financial risks related to retirement,

death and disability and medical expenses, for example. The group has established an International Benefits Steering committee to ensure proper coverage is offered to all its employees.

L'Oréal aims to provide reasonable retirement benefits whenever proper local regulations exist. In 2006, the group continued to review its retirement programmes around the world with new programmes implemented in countries including the Czech Republic, Netherlands, Spain and Mexico. In Japan, a new programme has been approved by the employees through a referendum in 2006 and will become effective in January 2007*.

Guaranteeing minimum salaries

In the vast majority of countries*, the minimum salaries paid are well above the legal minimum wage (national, regional or linked to collective agreement). For example, in the BRIMC countries (Brazil, Russia, India, Mexico and China) and in South Africa, the average minimum wage paid in 2006 was twice the average of the national statutory or negotiated minimum wage*.

AN ONGOING DIALOGUE ON ALL LEVELS

The quality of the "social climate" within the group is the result of an ongoing dialogue and the pursuit of a consensus between management, employees and their representatives. These exchanges are facilitated by decentralised structures of representation, both legal and informal.

In France, there are 101 bodies with 1,132 representatives*, including works councils and works committees, workers' representatives, union representatives, Health and Safety councils, the group committee (France) and RIEDS (informal meetings of social dialogue*). The matters dealt with by these bodies range from local issues to

€49.2 M*

Is the total amount L'Oréal paid in 2007 to reward 2006 success, with a slight increase (+1.4%) from last year at comparable exchange rates.

examination of the consolidated financial statements by the group committee.

Promoting social dialogue at European level

In 1996, an agreement was reached between management and the relevant French and European trade unions (FECCIA and EMCEF), relating to the creation of L'Oréal's European social dialogue body Instance européenne de dialogue social (IEDS). This agreement has been continually renewed ever since. The purpose of IEDS is to inform and discuss with staff representatives L'Oréal's current situation and prospects for economic, financial and social development. It currently has 30 members who all receive training in economic and labour-related matters. Following the enlargement of the European Union in 2004, IEDS covers 21 countries. A total of just over 24,000 employees are represented in IEDS*.

Following the enlargement of the European Union in 2007, IEDS will cover 23 countries and represent almost 24,500 employees*.

WORKING CONDITIONS

Looking after employees' health

Keeping our employees healthy is always a priority for L'Oréal. Whether it is a question of accidents at work or occupational ill-health, the group intends to pursue the implementation of preventative measures, namely:

- removal of biomechanical causes by phasing out packing lines involving a lot of manual intervention,
- stepping up awareness and training initiatives for employees and management,
- carrying out job and design ergonomics studies,
- dissemination of best practice,
- personalised health monitoring.

This commitment also relies on the introduction of indicators relating to health and working conditions. Since the plenary meeting of the IEDS in 2001, the number of occupational diseases in Europe and the means employed by countries to reduce the number of cases have been monitored on a yearly basis. This is in line with the continuous improvement approach that L'Oréal adopts with respect to employee health.

In 2005 the group set up an indicator for monitoring the level of absenteeism worldwide. In 2006 it covered 53 countries (out of a total of 61) and 98% of employees. The global level of absenteeism was 3.83%* (including authorised absences and maternity leave), which was lower than in 2005. The level of illness-related absenteeism (excluding occupational accidents and diseases) was 2.34% in 2006*, which was also lower than in 2005.

INTERNAL LABOUR STANDARDS AUDIT PROGRAMME 2006

In addition to L'Oréal's wider programme of labour standards audits of suppliers and subcontractors (see pages 42-45), it was also decided to carry out these independent audits at our own factories and warehouses. In the spirit of fairness, the audits of our sites were conducted by the same external auditors and according to exactly the same standards as we set for our suppliers and subcontractors.

By December 31st, 2006, 101 sites* in 40 countries* had been audited. The audits confirmed important points such as the absence of any employee under 16 years old. Certain areas of improvement were however identified such as "house-keeping", health and safety issues, and better control of working hours. Such issues have all been integrated into corrective action plans which will be monitored both internally and through follow-up audits by the external auditor.

Listening to our employees – internal opinion polls

L'Oréal has always placed particular importance on listening to our employees. This element is a founding feature of our culture and economic success. Since 2003, employees from 41 countries* have participated in opinion surveys, all in partnership with various worldwide institutions.

The method selected

In October 2006, with a view to achieving uniformity and coherence in the approaches used, L'Oréal selected a single service provider of worldwide repute—Towers Perrin-ISR—to measure the opinions of employees using a global approach.

A questionnaire specific to L'Oréal was compiled. This contains a common section serving as the basis of the questionnaire for each subsidiary, which may be supplemented by a series of further questions touching on specific issues that respond to local requirements.

The items covered are divided into eleven categories—commitment, leadership, development, remuneration, style of management, company image, direct supervision, efficiency, involvement and innovation, performance assessment, and workload and stress.

The objectives

On the basis of the replies from employees, the group has set up action plans to ensure that L'Oréal is a great company to work for.

This project is at the heart of the group's strategy, and global coordination of these opinion polls will ensure proper monitoring of the opinions of all employees and a proactive response to them.

ABSENTEEISM



More information on our Health & Safety performance can be found on page 59.



**L'Oréal's commitment
To build long-term partnerships with suppliers,
based on mutual respect, transparency and sharing of
information, strong communication and high standards.**

Photo: L'Oréal buyer with our supplier Igaratiba (Brazil).



SUPPLIER RELATIONS

L'Oréal bases its relationships with suppliers on a fundamental respect for their business, their culture, their growth, and the individuals who work there. L'Oréal is committed to remaining loyal to our local and international suppliers—more than 75% of our partners in terms of purchasing value have been collaborating with us for at least ten years. In fact, the majority of these suppliers have been working with us for several decades.

L'Oréal manufactures 94% of our finished products in our own plants, and subcontracts the remaining 6%, either for specific technologies such as lip or eyeliners and facial wipes, or where we have a capacity shortage. Our 40 factories and 70 warehouses manufacture and distribute finished products around the world, and are at the centre of a supply chain including all packaging, raw materials, industrial equipment, indirect purchasing and promotional item suppliers.

For L'Oréal, our commitment to long-lasting relations with our suppliers and subcontractors involves joint efforts to promote growth, business opportunities abroad, innovation, and encouraging high-quality and frequent exchanges of information.

2006 KEY ACHIEVEMENTS

→ Merging our 36 industrial purchasing teams into seven Sourcing Centres for a more simple and streamlined network of contacts for suppliers.

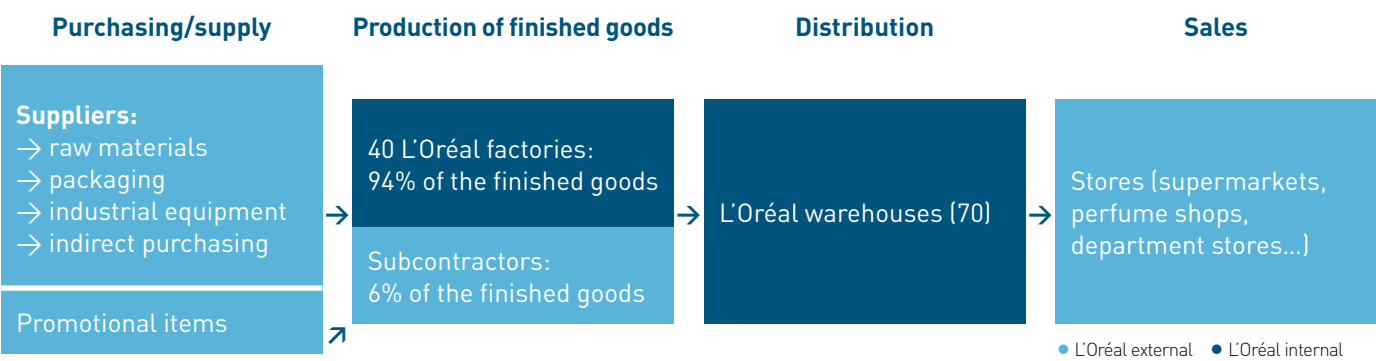
→ Aligning the purchasing strategy we use to manage our supplier community worldwide to ensure long-term sustainable relationships.

→ Sending a revised letter of ethical commitment to around 3,000 suppliers, advising them of our labour standards policy and audit requirements.

→ Carrying out 304 independent audits on labour standards at our suppliers, subcontractors and traders.

→ Holding several internal and external meetings to raise awareness and train staff and suppliers on our labour standards requirements.

L'ORÉAL SUPPLY CHAIN



Our commitments and expectations are implemented *via*:

- our General Terms of Purchase—a contract signed by all suppliers before we buy from them,
- documents that are specific to each field (e.g., quality, logistics), including guidelines, specifications, and charters that are validated by our suppliers. Some of these documents are currently available on the internet, and we are working to make all these documents publicly available by January 2008,
- business trips made by our teams, audits performed by third party specialist companies, and shared improvement plans.

ENGAGING WITH SUPPLIERS

To support our suppliers over the long term, L'Oréal:

- makes our needs as visible as possible, for example with monthly news reports,
- promotes high-quality exchanges and share our expertise to overcome challenges (regular business reviews, quality, logistics, development, packaging, innovation meetings, etc.).

L'Oréal is committed to sourcing a significant proportion of our inputs from local suppliers, in addition to international suppliers (see page 13).

L'Oréal has a set of minimum standards that we share with suppliers and frequently update. This set of standards includes performance indicators and on-site audits, the results of which are communicated to suppliers on a regular basis. This gives rise to the progress plans that are jointly monitored by L'Oréal and the supplier in question. For suppliers that encounter the most problems, regular meetings between are organized. Over 300 Business Reviews were organized in 2006 for the group's main suppliers. During these Reviews, L'Oréal's Quality, Logistics, SHE (Safety, Health, Environment), Research and Purchasing teams meet with suppliers' General Management and teams, to identify strategic business opportunities, draw up improvement and development plans, and initiate opportunities for innovation. 2006 was marked by the merging of our 36 industrial purchasing teams into seven Sourcing Centres covering all of the group's geographic regions



Left: L'Oréal buyer with supplier Shya hsin (China).
Right: worker at supplier CCM Texen (France).





L'Oréal suppliers convention

Meeting with the major suppliers of packaging and raw materials. L'Oréal Executive Vice-President of Production and Technology launches the event.

and operational divisions. This simplification gives suppliers a clear, streamlined global network of L'Oréal contacts, which makes it easier to quickly and directly share new information, business opportunities and strategic direction.

In addition, L'Oréal is committed to holding forums for primary suppliers. For example in September 2006, L'Oréal organized a convention that brought together the 130 directors of L'Oréal's major suppliers of packaging and raw materials, with our Executive Vice President of Industry. We shared details on our business plan, our social auditing strategy and held a Q&A session.

SUPPLIER ASSESSMENT AND INTEGRATION

Long-term relationships based on transparency and partnership are key values that L'Oréal has maintained with our suppliers for many years. To integrate a new supplier or subcontractor into the community of L'Oréal suppliers, our teams follow a structured process with several formal stages, starting with an analysis of information related

to the supplier's financial and technical capacity, structure and geographic location. We also commission third party audits of quality, health and safety and labour standards. We then use on-site meetings, information sharing, requests for quotations, and detailed monitoring of any initial project to assess the supplier's competitiveness.

Support for suppliers is based on five assessment pillars—quality, logistics, innovation, competitiveness and social responsibility. Each of these five areas is quantitatively assessed and the results shared with the supplier in question. *Via* this structure, L'Oréal hopes to make long-lasting choices and share its growth with suppliers offering the best process, product or innovation proposals. L'Oréal aims to share its standards and commitments with all its suppliers in a homogenous and easily accessible manner, on a regular basis and in the framework of sustainable relations.

→ BUSINESS INTEGRITY

L'Oréal's "Purchasing Code of Ethics"

The Purchasing Department integrates L'Oréal's fundamental values in all its dealing with suppliers. All buyers are notified of our commitment when they take on their position *via* the "Purchasing Code of Ethics", and undertake to respect all items in this Code.

Supplier Equality in Request for Quotations

For the majority of purchasing categories, the for request for quotations process is structured by globally streamlined tools and operating modes:

- price breakdown scales are homogenous for all buyers in each category,
 - requests for quotations documents are sent to all consulted suppliers at the same time.
- Suppliers are rated against our performance indicators, and choice is made based on cost breakdown analysis.

Our supplier CSMI Texen (France) manufactures packaging for some of our cosmetics.



UPHOLDING LABOUR STANDARDS AMONG OUR SUPPLIERS

L'Oréal does its utmost to ensure that its suppliers respect basic human rights, notably the International Labour Organisation's (ILO) international labour law rules, and has strengthened this commitment through a reference guide and a methodology aimed at monitoring its community of suppliers and subcontractors.

Our process and progress in monitoring labour standards in our supply chain is set out on pages 44-45. In 2006 we made substantial progress in terms of audits: we initiated 304 audits (276 initial audits and 28 follow-up audits) in 42 countries, of our suppliers, subcontractors and traders, amounting to a total of 456 audits since 2002.

In the case where immediate suppliers are intermediaries or traders we consider that supply chain

risks must be controlled by an audit of the actual production site.

Process for Monitoring Labour Standards

L'Oréal has developed a 3-stage process:

1. Suppliers sign our letter of ethical commitment, undertaking to respect our labour standards policy

Our policy on labour standards is laid out formally in a letter of ethical commitment, which is available in 11 languages (French, English, Russian, Spanish, Portuguese, Chinese, Japanese, Polish, German, Indonesian and Italian). In this policy, L'Oréal requires conformity with the local and applicable laws and demands that the minimum age for contracted workers is 16.

This letter of ethical commitment was revised in 2006 and sent to 3,000 suppliers, subcontractors



→ COLLABORATION WITH AN SME— EBS ESPERANCE, FRANCE

L'Oréal's European factories use the services of EBS Esperance, a French packaging company set up in 1996 to help vulnerable people (for example the long-term unemployed, victims of domestic violence, and young people who have given up school) to be re-integrated into the work place. 45 people of 15 different nationalities are employed, 80% of whom are female.

Recruits are offered minimum two years contracts, during which time each person is personally assisted in the recovery of self-confidence in order to find a job in a more traditional framework.

A social audit was requested by L'Oréal and was carried out during 2006: the result was almost fully compliant.

L'Oréal encourages its suppliers to get involved in social responsibility initiatives.



↑ EBS Esperance factory in Chanteloup-les-Vignes (France).



→ REXAM, CHINA

We have been working with one of our largest packaging suppliers, Rexam, as part of its own sustainable development programme. As part of L'Oréal's social audit programme, a third party audit of labour standards was carried out at Rexam's Shenzhen factory by Intertek. This site has been SA 8000 certified since 2002, and follows the best practice recommended by this standard. Sport courts, a TV room, karaoke room, gym and a small library have been introduced to improve the standard of living of resident employees. Intertek's initial audit detected some opportunities for further improvement. Most corrective actions have since been fully implemented, and a pilot project will be implemented in 2007 to highlight best practice.



"We see the L'Oréal's social audit programme and the invitation to join the pilot as an opportunity to compare our current performance with the industry best in class, giving us the opportunity to reduce or eliminate potential gaps." — Fabio Salik, Managing Director Make Up Worldwide, Rexam.

↑ Rexam factory in Shenzhen (China).

and traders around the world who signed it, thus committing themselves to respecting our standards and accepting the principle of independent audits.

2. Third party audits

Audits are based on the principles set out by the SA 8000 standard, and carried out by a specialised third-party in the local language. Audits cover mainly labour standards, but also basic environmental standards. The initial audit is paid for by L'Oréal, and the resulting report is sent to the supplier in the same format and at the same time. Audits are carried out unannounced during a pre-arranged period of 30 days, and include a visit to the factory (workshops, offices, places of residence and gathering), a documentary journal and individual interviews with employees.

All subcontractors are audited wherever they operate, as well as all suppliers of packaging and raw materials in countries we have identified as "at-risk": a list we have drawn up with the help of Veritas and Intertek.

3. Creation and monitoring of a corrective action plan where necessary

Cases of non-compliance and the required corrective actions are identified and recorded in a corrective action plan and presented to the factory managers at the closing meeting. Our buyers monitor that the corrective action plans are implemented. More details of our response to non-conformities can be found on page 44.

Our emphasis is as much on compliance with our standards as it is ability and willingness of the supplier to implement corrective action. L'Oréal perceives this as a key point of performance.

Internal Communication

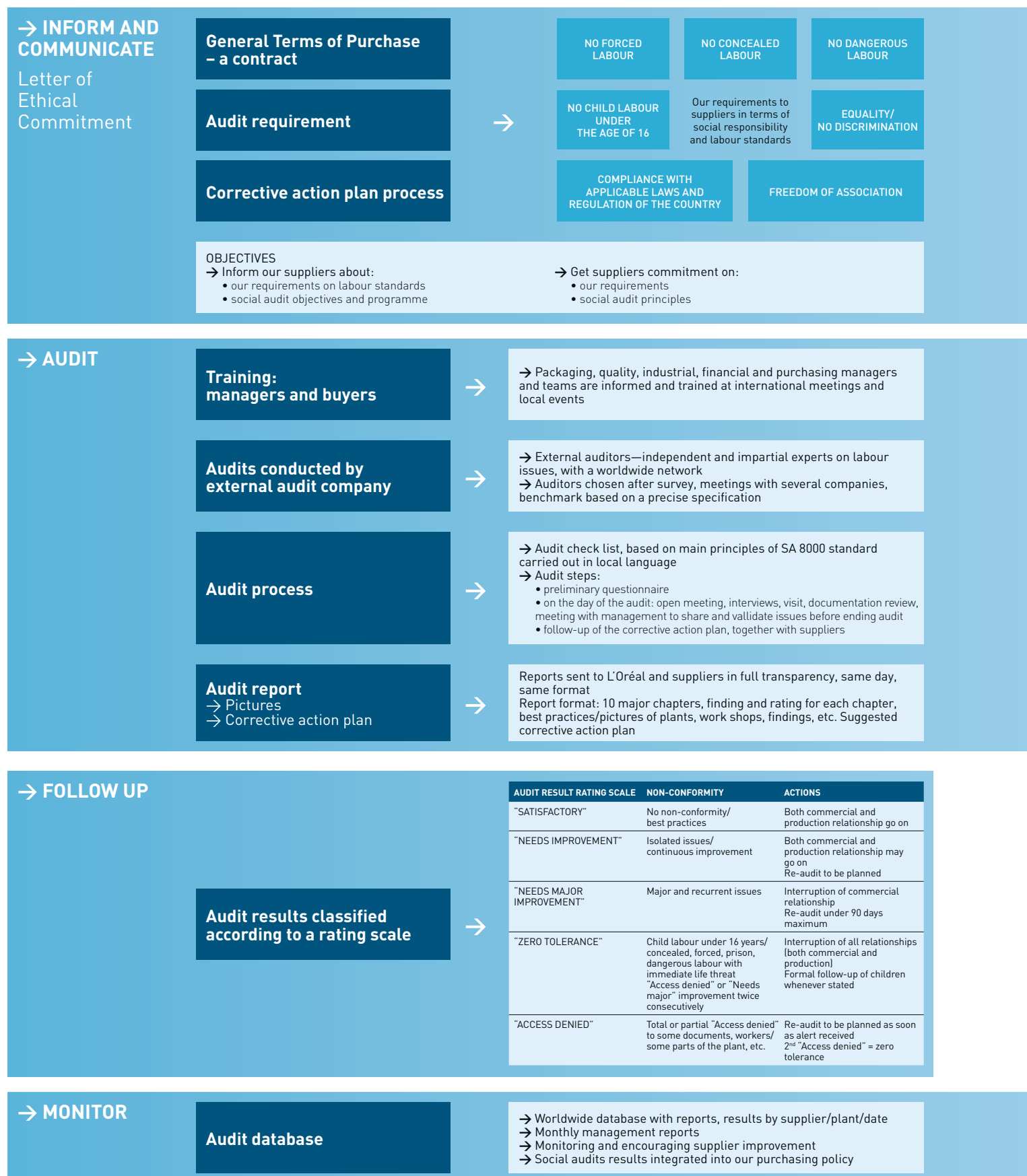
In 2006, L'Oréal again held several internal events to raise awareness of our policy on labour standards, attended by our international quality, development and packaging teams, factory managers, administrative and operations managers and technical managers. In addition, two presentations were made to our Executive Committee on the work on labour standards audits.

Scope

The labour standards audit programme applies to our own factories and warehouses, as well as to suppliers and subcontractors. L'Oréal has opted to carry out audits of our own facilities using the same process, the same two specialised auditors, Intertek and Veritas, and the same method of evaluation. More details on the audits of our own sites can be found on page 37.

IMPLEMENTING OUR SOCIAL RESPONSIBILITY

THE PLATFORM WE HAVE BUILT



PROGRAMME WITH OUR SUPPLIERS

PROGRESS IN 2006

We have once more reinforced supplier commitment in terms of respect for the L'Oréal's labour standards:

→ We sent out a new letter of ethical commitment to all the main purchase categories (packaging, raw materials, promotional items) worldwide (whether in countries considered at-risk or not), a total of around 3,000 suppliers. The CEO of each supplier was asked to sign and return this letter of undertaking.

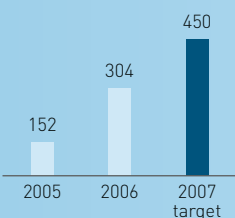
→ By information sessions in the case of China, where we decided to train 87 main suppliers.



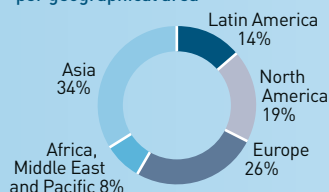
L'Oréal Suzhou factory supplier training (China).

In 2006, we comfortably exceeded our aim of carrying out 200 audits: 304 audits were carried globally:

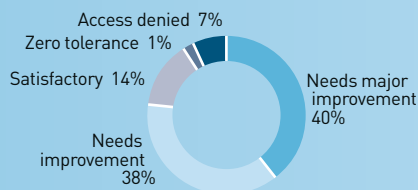
Number of audits carried out



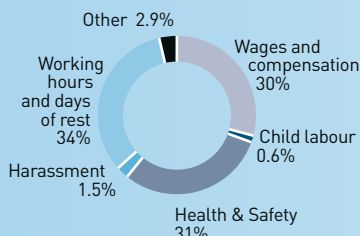
Distribution of audits per geographical area



Audits result 2006



Main non-conformities



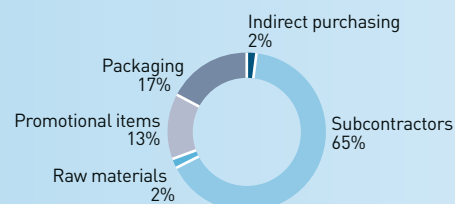
Our audit programme has been taken on by the teams of buyers for each market and purchase category. The database of audit reports is used on a global level by buyers. It is recognised as a key tool, aiding the incorporation of company audits into supplier selection process.

As shown opposite, in 2006 we rolled out our audit programme to the following groups of suppliers:

- All subcontractors.
- Suppliers of packaging and raw materials in "at-risk" countries.
- "Resident" suppliers of security, cleaning services and company cafeterias (indirect purchasing) in "at-risk" countries.

Details of our audits of our own factories and warehouses can be found in the Social Affairs chapter on page 37.

Distribution of audits carried out by the purchasing team



Raw materials



Packaging



Production



Finished product



Promotional item

AMBITIONS FOR 2007

We would like to continue to strengthen our social audit programme and assist our suppliers. To do this, we have identified these areas for improvement in 2007:

→ Formalising our commitment to ethical and responsible purchasing in a new "Code of Conduct" for suppliers.

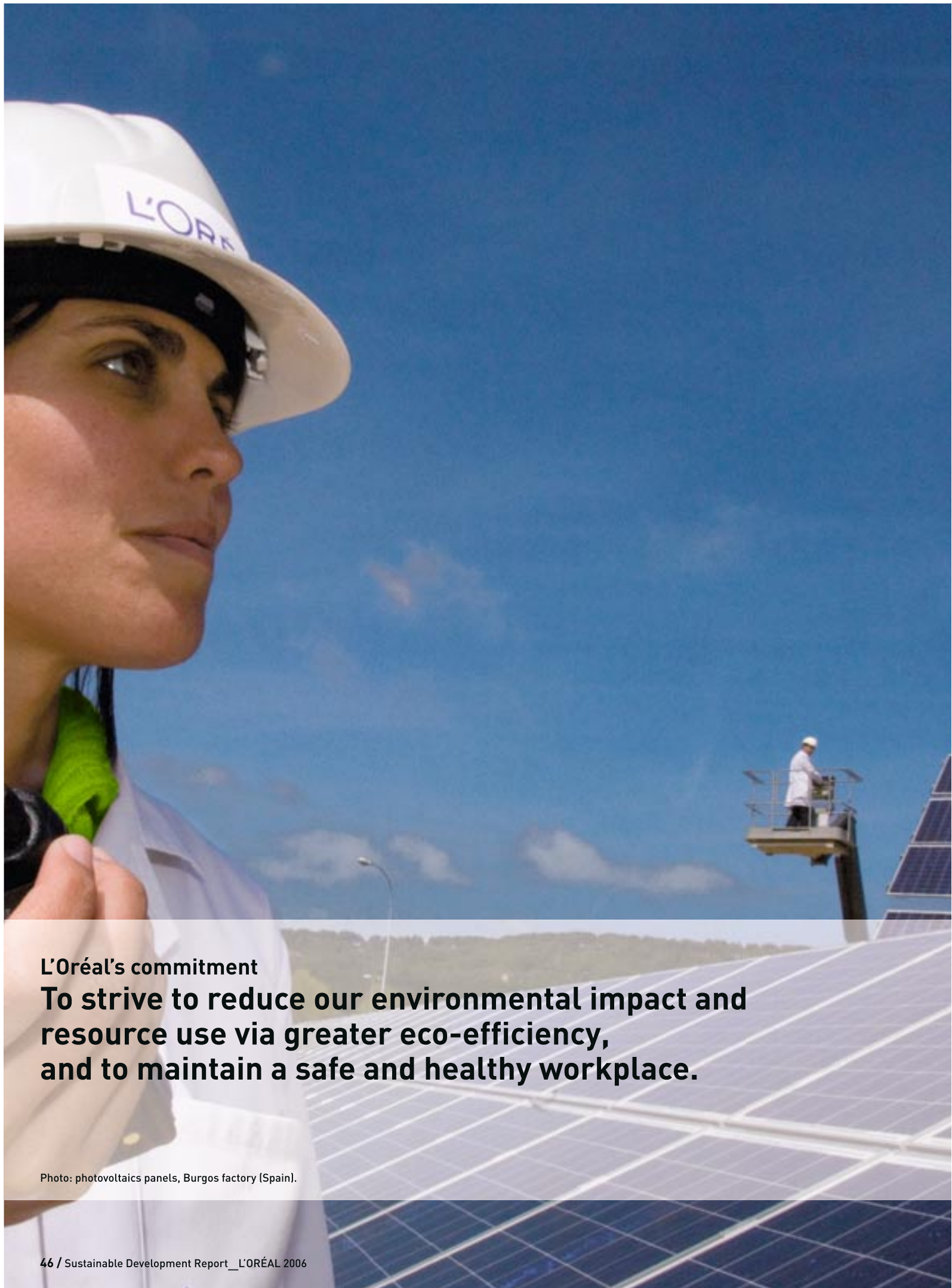
→ Reinforcing our communication to suppliers and improving our training tools through local information, guidelines and sharing of best practice.

The increase in auditing will continue into 2007 with the aim of carrying out 450 supplier audits globally. Our aim is to have audited the vast majority of our suppliers by the end of 2008.

Experienced gained from the 456 audits carried out since 2002 (including 58 follow-up audits) has led us to strengthen post-audit action in order to improve efficiency and relevance. These changes to the audit process demonstrate our strong will to lead our suppliers towards compliance:

→ The time schedule for conformity across the sites whose evaluation "requires major improvement" is has been increased from 60 to 90 days, in order to allow the implementation of the required corrective action. Implementing corrective action and the efficiency of this is checked during the follow-up audit.

→ For suppliers evaluated as "zero-tolerance", our trading relationship comes to an end. However, we have decided that if immediate remedial action is taken (with our help) and an audit shows the results to be positive, we will now resume commercial relations with the supplier.



L'Oréal's commitment

To strive to reduce our environmental impact and resource use via greater eco-efficiency, and to maintain a safe and healthy workplace.

Photo: photovoltaics panels, Burgos factory (Spain).



ENVIRONMENT, HEALTH & SAFETY

L'Oréal is committed to achieving excellence in our overall environmental performance. It is our policy and philosophy to reduce our impact through eco-efficiency and where possible, absolute reductions such as zero landfill. We are also committed to a safe and healthy workplace.

ENVIRONMENT

We feel that we have a demonstrated record of environmental achievement. We are pleased to report on those efforts in the last year.

SUMMARY OF ACHIEVEMENTS AND TARGETS

We have had an exceptionally good year of environmental performance in 2006 with all of our key

performance indicators (KPIs) improving. Most importantly, despite our growth in output, we have managed to make absolute reductions in energy, water and waste.

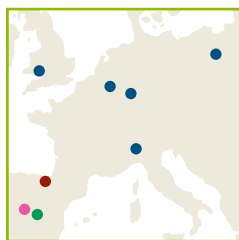
We regret missing targets in the following areas: we missed our target to reduce waste generated per unit of finished product by 5% from 2004, which instead grew by 12.2%, probably due to warehouses discarding older stocks and related factors. However, we did achieve a reduction of 4.6% of waste per unit of finished product from 2005 to 2006.

2006 KEY ACHIEVEMENTS

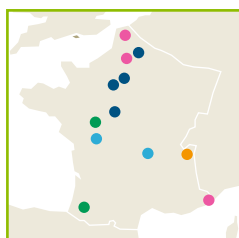
- Reducing our total energy use by 3.5%.
- Reducing our direct carbon dioxide (CO₂) emissions from our factories and warehouses by 4.8%.
- Reducing our waste by 2.4% (excluding returnable packaging).
- Increasing the proportion of waste recovered or reused by 2.2%.
- Reducing our total water use by 14,000m³ (0.4%), while decreasing our chemical oxygen demand (COD) index for waste water by 2.6% on a total basis.

- Reducing our volatile organic compound (VOC) emissions by 9.5% from 2005.
- Reducing our total sulphur dioxide (SO₂ emissions) by 9.6% from 2005.
- Achieving our goal of certifying all our factories to ISO 14001.

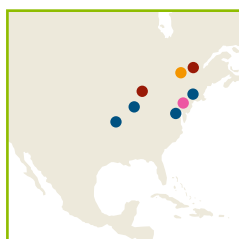
Industrial factories in the world



→ Europe
20 factories



→ within France
12 factories



→ North America
8 factories



→ South America
4 factories



→ Asia-Africa
8 factories

- Consumer Products: 24 factories
- Luxury Products: 6 factories
- Professional Products: 3 factories
- Active Cosmetics: 2 factories
- Dermatology: 2 factories
- Raw materials: 3 factories

2007 MAJOR ENVIRONMENTAL TARGETS

- To reduce total energy use by 2% from a 2005 baseline per unit of finished product at factories and warehouses.
- To reduce water consumed in factories by 2% per unit of finished product as compared to 2005.
- To reduce our direct CO₂ emissions by 2% from 2005 levels at factories and warehouses from fuel use.
- To reduce waste generated by factories and warehouses per unit of finished product by 5% based on year 2005 (excluding returnable packaging).
- To reduce the total weight of regulated waste generated by factories and warehouses by 10% from 2006 (regulated in the producing country as "hazardous").

Our operations

The performance data presented here covers the calendar year January-December 2006 and performance at our 42 factories and 70 warehouses around the world. This includes Galderma, our joint venture with Nestlé. It does not include The Body Shop which reports separately. In a few cases, factories or warehouses were closed in 2006 and our reporting reflects performance up until actual closure (at the end of 2006, we had 40 factories).

The SH&E policy and performance reporting requirements apply to all L'Oréal factories and warehouses worldwide. Those requirements that are applicable to administrative sites (offices)—as well as some unique requirements—are being rolled out at our research centres, stores and administrative sites worldwide. Presently, some administrative sites and research centres regularly report (generally our largest sites), but not all. We hope to have more complete data by the end of 2007.

SH&E risks

The cosmetics industry generally has a limited environmental risk profile, especially when compared to other industries. The majority of processes are essentially mixing ingredients approved for human use at atmospheric pressures and under low heat conditions. Nevertheless, there are risks as there are in any manufacturing and distribution operation. Some of the key aspects of these are discussed below:

- fire is the single most significant risk, principally from alcohol used in products. Propellant gases used in aerosols, cosmetic powders with explosion sensitive components, hair bleach oxidants and solvents used in nail polish also present fire risks.

We control these risks with very strict internal standards for fire protection (we follow National Fire Protection Association standards of protection worldwide), mandated safe practices for fire risks and a comprehensive inspection programme. As

a result, we are considered a relatively low risk by our insurers,

- storage of fuels and other chemicals stored underground and above. Underground fuels storage is quite limited, typically hundreds of gallons or less, and mostly for emergency generators, emergency pumps for fire fighting, and fuel in a few cases where there is no access to natural gas. Alcohols used in the manufacturing process, such as denatured ethanol and isopropanol, are also stored underground, presenting a very limited environmental hazard. All underground storage is strictly monitored for leakage. Storage of other liquid chemicals (for example, 20% aqueous ammonia) is generally in above ground tanks with concrete containment.

Any materials or chemicals that are toxic (human or environmental), reactive, corrosive, or flammable are segregated and placed in containment. All sites undergo environmental due diligence before being bought or sold as well as involvement in our auditing programmes discussed later.

Four sites in Europe are regulated by the requirements of the European Seveso Directive as Grand Seveso for the control of major accident hazards, due to the storage of chemicals or flammable gases. One of these sites is a warehouse used exclusively for the storage of aerosol products containing flammable gases. This site has state of the art fire protection, perimeter isolation, and is considered a model for Europe.

There are other environmental risks such as flooding and the loss of our waste treatment operations for some factories. In this regard, all sites have on-going continuity and contingency planning to reduce these risks and to be able to maintain our operations. We consider historical risks from previous operations as negligible.

New investment SH&E impact assessment

We have an internal standard which requires all manufacturing investments above approximately half a million euros to be reviewed and formally accepted for their impacts on safety, health and



Training session in Franklin factory (United States).

environment. No funding of such a project is permitted without this approval. New manufacturing equipment and processes must undergo a risk assessment by an outside expert party, unless a standard design is used. Building and renovation projects are also reviewed for SH&E impacts and a new Sustainable Building Guidance Document is being prepared for implementation (see page 61).

SH&E management tools and training

A comprehensive set of manuals and training ensures that our employees are trained in SH&E best practice. These include the following:

- our RIO (organization for industrial risks—meaning management) and RIS (safety for industrial risks—meaning alerts) are in-house documents that set out our internal standards on SH&E. In most cases, these internal standards are much more stringent than the prevailing legal requirements. We have more than 80 internal standards, on issues such as storage and handling of ammonia and aerosols, machine safety and workplace atmosphere monitoring,
- our Safety, Industrial Hygiene and Environmental References (SHER) provide internal best practice guidelines, covering issues such as planning for emergencies, water consumption, prevention of biological hazards and ergonomics,
- our Safety Hazard Assessment Programme (SHAP) is a risk analysis programme for prevention of accidents and adverse events,
- technical training programmes: the DGT SH&E Department and our DGT Training Department offer a number of technical training programmes. We are currently in the process of development of a new senior management training course on “leadership in SH&E”. This new course will be offered in 2008,
- training to raise awareness of SH&E issues. Modules for raising employees’ awareness of safety, health and environmental problems and sustainable development are incorporated into the group’s training programmes so that everyone who joins the company is involved regardless of their job.

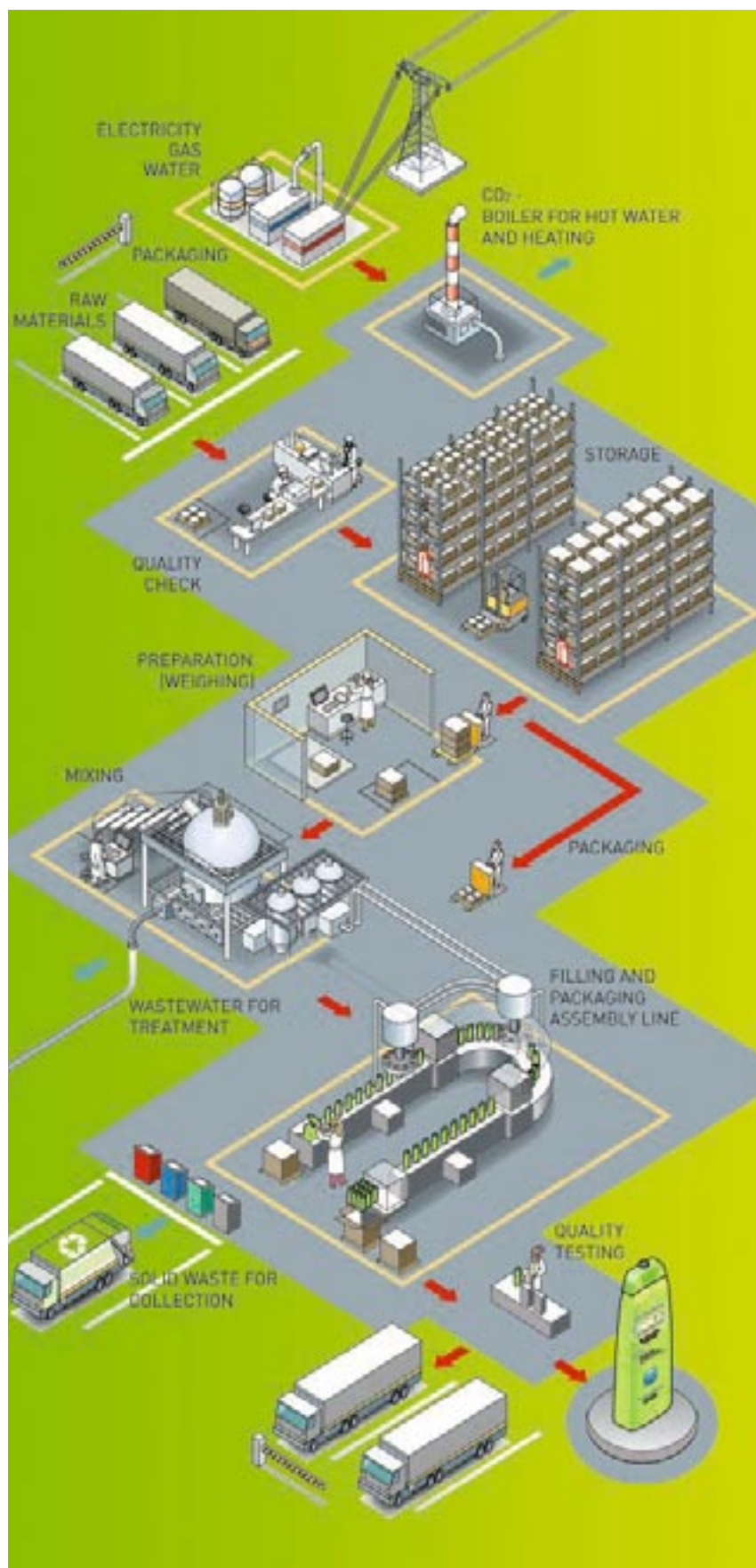
→ THE L'ORÉAL SAFETY, HEALTH & ENVIRONMENT (SH&E) POLICY

L'Oréal is committed to the development, production, distribution and sales of innovative products of the highest quality, to enhance beauty and improve well-being. We must fulfil this mission in an ethical manner, by minimising our impact on the environment and guaranteeing the safety and health of our employees, our customers and the communities in which we work.

To achieve these goals, we undertake to:

- measure and publish our SH&E performance,
- constantly improve all aspects of our SH&E policy,
- comply with all laws and regulations in force regarding SH&E, as well as internal standards, in all areas of our activities,
- promote a SH&E management system both internally and among our subcontractors and suppliers,
- promote the participation of our employees in our SH&E approach,
- assess all new products and significant processes to minimise SH&E risks,
- implement internal and external SH&E audits,
- promote the concept of sustainable development and publish our progress in this area.

Inputs, processes and outputs (simplified)
of a typical L'Oréal shampoo factory



KPI Data collection

SH&E Key Performance Indicators (KPIs) are collected monthly by all manufacturing, distribution sites and some administrative and research sites. For manufacturing and distribution, approximately 100 measures are collected monthly and reported—the most important of which can be found later in this section. Every senior manager knows their exact progress monthly as well as their benchmark against the other reporting groups. The remuneration of factory and distribution SH&E managers is linked to SH&E performance. This will also be factored into the reviews for research and development, administrative and store managers on a global basis in the future.

SH&E Auditing

A comprehensive group auditing programme for industrial sites has been in place for more than ten years to regularly assess risk and progress in terms of SH&E management and performance. Audits are also performed by our insurers (63 fire and environment audits in 2006), by ISO auditors (approximately 31 for ISO 14001 and OHSAS), government agencies and others.

At the group level, our factories are audited for an average of one week by teams of between four and seven experts for local SH&E legal compliance, compliance with group standards and best practices. Outside consultants independently perform about one-third of these audits as part of our programme. Normally, about one-quarter of the plants are audited each year, which means that each plant undergoes an in-depth inspection approximately every four years. For each audit, a detailed report is prepared with risk ranked recommendations. Action plans to resolve any deficiencies found are prepared following the audits. In 2006, we conducted 11 audits and in 2007, we have programmed 14 audits.

Labour standards audits

Third party audits on labour standards (see page 37 and pages 42-45) carried out at our sites and those of our suppliers and subcontractors include the most critical aspects of safety, industrial hygiene and environmental performance.

These audits are separate to the audits described above and vary in intensity based on countries or locations considered at risk. Suppliers or subcontractors with significant SH&E issues to be resolved are referred to technical experts for assistance. Those not willing to resolve critical issues lose authorization to do business with L'Oréal. Major subcontractors directly producing L'Oréal products undergo the normal labour standards audits but also are directly audited by L'Oréal quality and SH&E personnel.



Karlsruhe factory (Germany) won the L'Oréal SH&E Excellence Award in both 2006 and 2007.

Environmental pilot projects

Last year we identified two pilot projects with key suppliers. Alcan Packaging is a major packaging supplier and the parent company (ALCAN) is well known for active programmes in sustainability. We have worked with Alcan Packaging, in particular on the social auditing programme, and will continue to look for areas of mutual interest in 2007.

L'Oréal has also established a pilot programme with GEFCO to work together to diminish the environmental impacts of the transportation of our products. GEFCO is one of the major suppliers of transportation logistics for L'Oréal, and GEFCO is a subsidiary of PSA-Peugeot-Citroen, with a history of cooperative environmental initiatives with L'Oréal. GEFCO partnered with L'Oréal in the piloting of electric 10-tonne delivery trucks in Paris, for example. In 2006, GEFCO established a new position devoted to sustainable development and initiated a goal to have business units ISO 14001 accredited by 2008.

GEFCO initiatives include the reduction of partially full truck loads, optimisation of transport routing and the development and use of more environmentally efficient alternative modes of transportation (e.g. rail and sea). Today, approximately 25% of their journeys are completed using alternatives to road travel. For example, they were the first customer of the Toulon-Rome seaway route which opened in 2005. They also have the highest percentage of maritime transport (14%) of any European carrier.

GEFCO has taken a number of active steps to reduce its environmental impact, especially on greenhouse gas emissions, which includes driver training on reducing emissions, use of low resistance tyres, use of biodiesel where available, use of rail and marine transport and other initiatives. We will be meeting regularly in 2007 and will report on

this pilot programme and our progress together next year.

GOVERNANCE AND MANAGEMENT

Governance

The Executive Vice-President for the Production and Technology Department (DGT) has functional responsibility for SH&E. He is a member of the L'Oréal Executive Committee reporting directly to the CEO of L'Oréal. He has a Senior Vice-President reporting to him who manages the SH&E Department which is located within DGT. While this Department is administratively tied to DGT, it has group level responsibilities across L'Oréal for this function.

The SH&E Department is linked to each operational entity through SH&E managers who coordinate the actions of local experts at each of their sites. Each Division (e.g. Professional Products) or Zone (e.g. Latin America) has a dedicated person or persons responsible for the management of SH&E within their areas. This includes factories, warehouses, administrative sites, stores, and research centres.

At the local level, SH&E managers have responsibility for their operations. The number of people assigned this responsibility varies by the complexity of the operations and their size. For example, for a typical factory of 350 workers, three to four full time staff are usually found in SH&E department, while administrative sites typically have one person assigned this responsibility on a country wide basis. In a few countries (e.g. Spain, United Kingdom), we also have a person identified as being responsible for SH&E issues country wide in addition to our normal staffing for this responsibility. Typically, this is due to a legal requirement or a country management decision.

100%

Factories certified to ISO 14001 in 2006

More than 100

SH&E measures are collected monthly and reported internally

Every 4 years

an in-depth inspection of each plant

Coordination with the Director of Sustainable Development

The SH&E Department maintains an active partnership with the Director for Sustainable Development and the Sustainable Development Steering Committee (see page 07).

There are a number of joint activities with the Director for Sustainability such as presentations for professional organisations, financial analysts and other interested parties. There is also a dedicated member of the DGT SH&E department responsible for coordination of sustainability efforts. This manager is responsible for new sustainability initiatives, sustainability related presentations, benchmarking through active participation in various professional organisations and producing a quarterly sustainability newsletter which is distributed throughout the L'Oréal SH&E community.

Sharing best practice

The SH&E department organises many activities to share SH&E best practice internally. This includes:

- quarterly all day meetings in Paris of all regional SH&E managers worldwide for factories and separately for warehouses,
- a number of ongoing task forces comprising these members for the development of new standards, best practices, and technologies,
- "SH&E Strategic Retreats" where strategies and objectives can be formulated,
- finally, a three-day worldwide SH&E conference is held every two years for our 100 industrial SH&E managers and teams. The next meeting will be held in Mannheim, Germany in June 2007.

L'Oréal also participates in many technical organisations which allows for learning, benchmarking

and sharing of best practice. Many of these organisations are international in their scope, such as the Conference Board (Health & Safety and Environmental Councils), International Occupational Hygiene Association, World Business Council on Sustainable Development and others. We also participate in quarterly meetings with our industry peers to share best practice and compare our SH&E performance data.

SH&E management systems

L'Oréal makes use of several different internationally recognised SH&E management systems. For health and safety, this includes OHSAS 18001 and the Occupational Safety and Health Administration Voluntary Protection Programme (OSHA VPP) in the United States. For environmental management, we use ISO 14001.

We were pleased to achieve our target to have all L'Oréal and Galderma factories accredited to ISO 14001 by the end of 2006. In addition, 23 of 40 factories were either OHSAS 18001 or OSHA VPP at the end of the year. We now have a goal to have all factories registered to this standard by the end of 2007.

ENVIRONMENTAL PERFORMANCE

The context—growth in production

We produced 2.3% more finished goods in 2006 than 2005. Therefore we are particularly pleased in the cases where we have achieved absolute reductions in direct CO₂ generation, energy use, water use and waste generated as these values would be expected to increase due to production increases. In the last five years, the number of units produced has increased by approximately 29%.



↑ 2006 SH&E Awards Ceremony.

→ L'ORÉAL SH&E AWARDS

The SH&E awards are in-house prizes designed to motivate employees to improve risk management, contribute to environmental protection and promote sustainable development. The purpose of the awards is to foster continuous improvement and encourage initiative.

This year the five awards were won by the following sites:

→ **SH&E excellence, best overall performance well beyond our stated SH&E goals (factories and distribution centres)**: Karlsruhe factory (Germany), The Commercial Distribution Centre, "Centreal" (France), International Distribution Centre, Cosmetic Active International (France),

→ **the best environmental initiative (factories)**: Pune (India) for the design and implementation of a solar heating system for hot water that reduces total energy used by 6%,

→ **the best safety, health or environment initiative (distribution centres and office buildings)**: Chevilly-Larue Research Centre (France) for the design and construction of "sustainable building design" that improves performance and comfort while decreasing the environmental footprint of activities,

→ **the best community involvement (any site)**: Icheon Distribution Centre (Korea) has supported a group home for children with more than 60% of our employees having devoted significant personal time and effort.



Pune factory (India) won this year's internal Environmental Award for the use of solar heating to preheat wash water.

Energy consumption

Our principle energy sources are natural gas, light fuel oils and electricity.

Gas and Fuel Oils

Our policy is to use gas in preference to oil/diesel when available since it is a cleaner fuel which also produces less greenhouse gases (GHG). In some locations, natural gas is not available and we use the lowest sulphur containing fuel available (usually diesel blends). We use natural gas in 33 of our 42 factories and approximately 60 of 70 warehouses.

Natural gas and fuel oils are used for:

- building heat—about 40% of total use. As would be expected, our heating consumption is highly dependent on weather conditions. In our warehouses, all fuel use is for building heat (all but a few of our forklift trucks are electrical in both warehouses and factories),
- the heating of water—about 60% of total use—to produce low pressure steam and/or and hot water for washing and sanitisation. We are working on techniques and technologies that allow for lesser volumes and lower temperature hot water for washing and sanitisation since energy use has both financial and environmental consequences.

Electricity

We use electricity for the operation of machinery, lighting, ventilation, safety devices and other common uses. We have had an ambitious world-wide programme to reduce electricity use and to promote renewable energy for the past five years, which has lead to very significant energy savings. Significant increases in production and automation which increases energy use have occurred over the last five years. Even with these greater demands, our eco-efficiency has significantly improved. In the last year, we have also seen an absolute reduction in electricity use from 2004 which is a result of our work on energy reduction projects.

Green energy

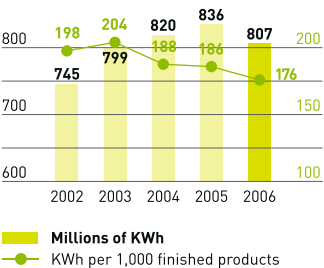
We are currently examining a number of “green energy” alternatives including use of bio-methane in Belgium. In India, our factory in Pune has installed a solar water heating system which preheats our washing water directly saving in fuel (gas is not available here and fuel oil must be used) and emissions. We are looking at other alternatives in a number of locations such as the feasibility of geothermal energy in Spain. Unfortunately, cogeneration for our factories is normally not economically feasible due to the small size of our boilers—we are well below the European standards of 20 megawatts for mandatory CO₂ reduction plans.

BREAKDOWN BY ENERGY SOURCE (in millions of KWh)

| Sources | 2002 | 2003 | 2004 | 2005 | 2006 | |
|-------------|------|------|------|------|------|------|
| Electricity | 336 | 355 | 373 | 378 | 374 | 46% |
| Gas | 354 | 387 | 397 | 409 | 379 | 47% |
| Fuel Oils | 55 | 57 | 50 | 49 | 54 | 7% |
| Total | 745 | 799 | 820 | 836 | 807 | 100% |

Note: one million Kilowatt-hours is equivalent to 3.6 gigajoules.

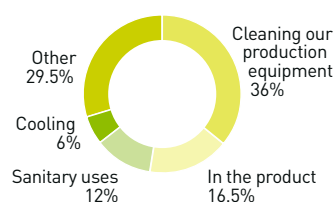
Total energy use for factories and warehouses



Water consumption for factories



Uses of water (Factories)



Performance analysis

We have achieved a significant drop in total energy use in absolute terms and increased eco-efficiency since 2003. This is rewarding from both a financial perspective as well as an environmental one. We are currently at a point that most of the typical energy reduction projects have been completed such as the installation of more efficient boilers, use of technologies such as solar heating, recovery of waste compressor heat, recovery of waste water heat, installation of solar power for power generation and other measures. More complex and difficult measures are now being studied. In addition, we will continue to investigate other alternatives as well as moving to renewable energy sources where feasible. We will do this while also achieving our ambitious targets for CO₂ reduction. Where further reductions are not reasonably achievable, we will focus on non-GHG emitting sources of electrical energy (e.g. solar, wind).

→ 2007 TARGET

2% reduction from 2005 in total energy used per finished product (factories and distribution centres)

Water consumption

Water is used primarily in our manufacturing operations and to a lesser extent in our warehouses, research and administrative centres. Product content represents about 17% of all of our water consumption in manufacturing. The other main use of water is for cleaning production equipment and our packaging lines to maintain our strict hygiene standards. This represents approximately 36% of our water use in factories. Human sanitary use (e.g. cafeterias, drinking water, wash-rooms, etc.) represents another 12%. The remaining 35% is used for heating, cooling, and other uses (for example, landscaping). Water use is also related

to the types of products produced (for example, a shampoo *versus* a powder) and number of products produced.

Since 2003, total water use and the eco-efficiency of its use have improved significantly, especially in light of our growth in production over the last five years.

→ TARGET SETTING

We use eco-efficiency goals where applicable, which measure our environmental impacts per unit of finished product (per FP).

Ratios based on other measures such as sales can be very misleading since they can be easily affected by other factors such as average sales price per unit and mix of products sold.

Most of our capital intensive or infrastructure changing SH&E goals are now standardised to a two-year basis (base year 2005 for our goals for 2007) since these can not be effectively done in a one year cycle. In some case, an even longer period may be used as was the case for our goal for ISO 14001 registration over three years. In all cases, our goals are to do more with less and in a few cases an absolute reduction (e.g., carbon dioxide emissions).

Since we have internal growth rate targets of 6% to 8% per year, the reduction rate is actually more significant than it might seem.

Performance analysis

Our plants have achieved excellent water conservation results in recent years—a reduction of 15% per unit of finished product since 2002, significantly exceeding our target of an 8% reduction.

Initiatives

For many years now machine-cooling water has been recycled and re-used to reduce water con-



↑ Rambouillet factory (France) has installed a system to recover waste heat.

→ Our new make up laboratory in Chevilly-Larue (France) uses a natural geothermal source to heat the building.

→ Our factory in Settimo (Italy) has installed a system to provide cooling from our nitrogen distribution system. The cooling capacity was previously lost to the atmosphere.

These examples and others have been gathered and distributed throughout the company in a best practice guide to reducing energy use.

→ ENERGY REDUCTION INITIATIVES

→ Last year we reported on an ambitious project by our factory in Montreal to recover lost heat in our waste water, which saved 80,000m³ of natural gas annually. This project cost around \$250,000 to install, and saves \$40,000 each year.

→ Following this success, our Faprogi factory in Rambouillet (France) has installed a similar system to recover waste heat. This cost around €253,000, and has resulted in a 23% reduction in natural gas use, and a cost saving of €102,000 per year. Moreover, because the factory no longer has to cool the effluent, another €52,000 per year is saved, with an 8% reduction in electricity use.

→ Our factory in Pune (India) won this year's internal Environmental Award for the use of solar heating to preheat wash water. This saved 93 tonnes of CO₂ per year, or 6% of total energy use.



→ WATER IN MONTREAL, CANADA

Our Montreal factory in Canada exemplifies the L'Oréal environmental spirit, winning several awards of recognition. It has embarked on a number of initiatives such as reduction in packaging, reduction in waste, energy recovery, water reduction projects and others. For example, the factory employed an aggressive water use reduction programme resulting in savings of more than 39,000m³ of water a year and establishing the benchmark for eco-efficiency. This is particularly remarkable given that water is free in Montreal, removing the extra financial incentive.



↑ Our Montreal factory (Canada) has an ambitious water use reduction programme.

sumption. Furthermore, several plants re-use the waste water generated by the demineralisation process for the first rinse of our vessels after being used, rather than demineralised water. This water is then sent to waste treatment. Since 2003, a special programme focussed on reducing water consumption has included the development of new cleaning technologies as well as the identification and reduction of water losses.

→ 2007 TARGET

2% reduction in water consumption per finished product compared with 2005 (factories)

Atmospheric emissions

Our principle atmospheric emissions consist of carbon dioxide (from fossil fuel use), sulphur dioxide (from light fuel oils), volatile organic compounds (VOCs) and particles (from producing powders).

Greenhouse gases

We generate greenhouse gas emissions mainly as CO₂ from the use of fossil fuels for the generation of steam and heating of the group's buildings. In addition, CO₂ is generated indirectly through our electricity use, and by third party transportation of our products. L'Oréal is exempt from the European regulations on CO₂ emission quotas due to the relatively small size of our energy requirements. However, we are committed to reducing these emissions by recommending the use of more efficient heating systems, use of techniques and technologies to reduce fuels and electricity use, reducing our transportation requirements and other means.

We were very successful in 2006 in our CO₂ target, reducing our direct CO₂ emissions from our factories and warehouses by 4.8% overall and by 7.2% in grams of CO₂ per finished product. While this

target addresses CO₂ from fuels such as oil and gas only, from this year we are also estimating indirect emissions from our use of electricity.

Electricity use represents approximately 63% of emissions and fuel use the other 37% (building heat and steam or hot water production) for factories and warehouses. We have also estimated an additional 67 Kilotonnes of CO₂ from electrical energy use at administrative sites for a total estimated emission level for all sites of approximately 290 Kilotonnes of CO₂. More detailed information is being gathered for our administrative sites and will be reported next year along with specific goals for these sites.

→ 2007 TARGET

Reduce direct CO₂ emissions by 2% from 2005 levels (factories and distribution centres)

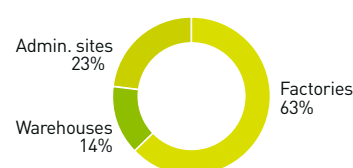
Transport

L'Oréal does not have its own trucking fleet and relies on contracted services from a number of logistics and transport firms. As such, CO₂ from transport is not part of our management accounts, as these subcontractors have their own CO₂ emission reduction programmes and include their results in their reports (see page 51 on GEFCO). Nonetheless, L'Oréal has for many years been developing less polluting transport solutions such as the adoption of combined road/rail transport methods. Some of the main initiatives in this area have been carried out on the France-Italy and France-Spain links and also for supplying northern Norway from the Copenhagen distribution centre.

Three years ago in partnership with GEFCO, EDF and ADEME, L'Oréal conducted trials of three 10-tonne electric trucks for the delivery of its products in Paris. However, this trial found the technology unviable, due to the low distances the trucks were

Estimated contribution by category for total CO₂ emissions

Note: the only energy included from administrative sites is electricity.



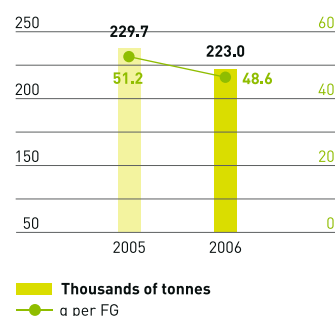
Direct CO₂ emissions for factories and warehouses from fuels

Note: excludes indirect CO₂ emissions from electricity consumption and third party transportation of products



CO₂ emissions for factories and warehouses from fuel and electricity use

Note: does not include administrative sites



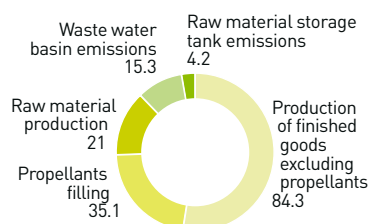
Varsaw factory (Poland)

L'Oréal has established a new logistics interface that coordinates movements of goods from our production and warehouses to our customers.



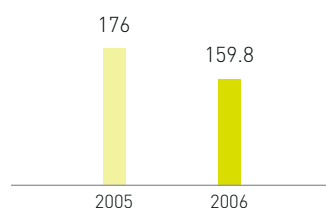
Estimated VOC emissions by source 2006

(tonnes)

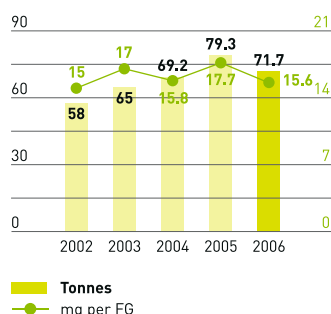


Estimated VOC emissions

(tonnes)



SO₂ emissions



able to travel. At present, the technology is not mature enough for this type of delivery truck, but we hope that in the future, this problem will be resolved.

There are very strong economic drivers for reducing the distances our products travel, as well as client service. We have established a new logistics interface to directly address the optimisation of this transport of our products. We call these our market supply logistics (MSL) centres. These centres now coordinate movements of goods from our production and warehouses to our customers. Their goal is to reduce the travel distances and otherwise improve the logistics of our supply. As an example, our MSL for our Consumer Products Division in Europe saved 2.8 million kilometres in travel routing for products travelling in the Germany, Poland and France regions using a hub system.

For the first time, this year we can provide estimates for our transportation of products in total:

- by land (truck & rail): 247,102Ktonnes*Km,
- by sea: 367,869Ktonnes*Km,
- by air: 25,459Ktonnes*Km,
- total: 640,431Ktonnes*Km.

Ktonne*Km is defined as the weight of the products times the distance travelled—one thousand tonnes over one kilometre.

Volatile organic compounds (VOCs)

We reduced our VOC emissions by 9.6% compared to 2005. Our VOC emissions result from the use of alcohol for fragrances and in other products, propellant gases for our aerosols (hairspray, etc.), and other sources such as wastewater effluent treatment. In 2004 and 2006, an outside expert firm was contracted to estimate our emissions of VOCs and to provide a means to continually monitor our progress in this area.

Our relative emissions sources by manufacturing activity are shown on the left. VOCs are emitted when filling aerosol products, from raw materials, and evaporation from mixing products, from the wastewater basins, and from the inkjet inks used in the printing process. We will continue to closely monitor our VOC emissions this year and investigate ways to reduce our evaporative and fugitive losses of the alcohols and gases used in our products.

Sulphur dioxide (SO₂)

SO₂ emissions are solely due to the use of fuel oil for heating. Sulphur content in fuel oil can vary greatly depending on the country of origin of the fuel as well as the refining process used. In all cases, we try to obtain the lowest level sulphur content of fuel possible. Additionally, L'Oréal uses

→ ZERO LANDFILL AT CLARK, UNITED STATES

The Clark plant has put in place best practices to enable it to achieve the zero landfill waste target.

An analysis of each waste stream was carried out to identify the best recovery method. 13% of waste is re-used, 76% recycled, and 12% incinerated with energy recovery.





Left: wormeries at Pune factory (India) convert waste sludge into useful manure, which can either be used on our gardens or sold to local garden centres. The proportion of waste recovered at this site will increase from 96% to 99% as a result. The wormery process uses around an eighth of the electricity, and annual running costs are six times lower. Right: waste recycling, Sao Paulo factory (Brazil).

natural gas whenever possible. We have not set a specific goal for SO₂, but expect it to decrease as a result of our efforts to reduce energy use by 2%. Over the last year we have achieved both a total emission reduction of 9.6%, and 11.9% per finished product.

Waste

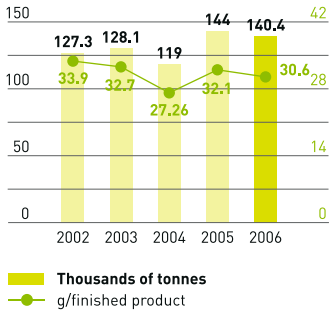
Reducing waste is a priority for L'Oréal. Our strategy is to minimise all waste sent to landfill, and to recycle or recover the energy or essential content whenever possible. This year we achieved an overall drop in waste of 2.4%. Our long-term goal is no waste to landfill. In 2006, 50 of our 112 sites, or 44%, did not landfill any waste, up from 38% of sites last year. In some countries, there is insufficient infrastructure and markets to allow for alternatives—for example, in many countries outside Europe, it is not possible to recover energy *via* incineration. However, we will continue towards this objective. All material leaving any L'Oréal site other than in products is considered a waste, even if used again (e.g., pallets). This includes construction debris, products rejected for quality reasons, residues from manufacturing and other such wastes. However, the term waste here excludes effluent and atmospheric emissions. Our performance in this area is shown on the right.

We have had aggressive goals over the last five years for the reduction of solid wastes, especially cardboard and paper. This year our eco-efficiency increased by 4.7%, meaning we generated 4.7% less waste per finished product from 2005 to 2006, although we missed the target we set in 2004 to reduce waste by 5% per finished product over this two- year period. We achieved the reduction this year by using a variety of approaches, for example, use of less packaging, and by encouraging the more environmentally friendly use of returnable packaging (packaging that is re-used a number of times rather than discarded). There is a significant increase from 2005 to 2006 in the category “other special wastes” and a significant decrease in “common solid wastes”. This is due to a change in definition. In the past, waste from packaging from raw materials which were discarded for a variety of reasons were considered as common solid waste. We changed this category to “special waste” in 2006. Sludges are the material removed from wastewater during treatment, and “regulated wastes” are those classified by local regulations as hazardous (e.g., flammable products). Over the next year we have a target to reduce this regulated waste by 10% in total.

WASTE (in thousands of tonnes)

| Type of wastes | 2002 | 2003 | 2004 | 2005 | 2006 | |
|----------------------|------|------|------|------|------|------|
| Common solid wastes | 64 | 63 | 59 | 65 | 53 | 38% |
| Returnable packaging | 14 | 15 | 18 | 33 | 36 | 26% |
| Sludges | 10 | 10 | 10 | 10 | 9 | 6% |
| Other special wastes | 29 | 30 | 22 | 26 | 42 | 30% |
| Total | 127 | 128 | 119 | 144 | 140 | 100% |

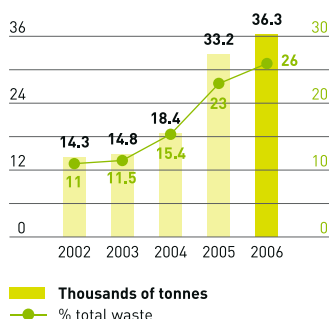
Waste



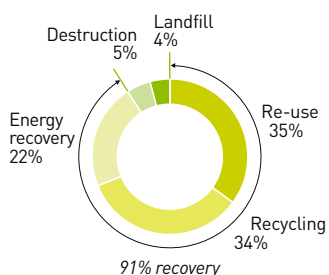
Water treatment,
Suzhou factory (China).



Returnable packaging



Waste by disposal method



Recovered waste



In 2006, we exceeded our target to reduce regulated waste by 5%, and in fact reduced it by 11.2% at factories and 22.6% at warehouses.

Returnable packaging

We significantly increased our use of returnable packaging in 2006—packaging that we return to the supplier to be re-used. For example, we are moving from single use cardboard boxes to sturdier cardboard or plastic containers which can be returned to supplier and re-used several times.

Waste by disposal method

The fate of our waste is shown on the chart “Waste by disposal method”. We have an overall rate of recovery of 91%, up from 89% last year, with only 9% of our wastes being incinerated without energy recovery or sent to landfill. We believe we are a global leader in this regard.

Waste water (effluent)

L’Oréal carries out pre-treatment appropriate for the type of effluent before discharging it into local waste water treatment plants operated by municipi-

palities. In 2007 nearly all L’Oréal factories which have waste water effluents will be equipped with equalisation tanks, which store waste to ensure a homogenous mix and prevent spikes of waste content. We do on-site treatment at approximately 60% of our sites using integrated state of the art treatment plants with biological as well as physical and chemical processes. All waste water is tested before being sent to such plants or discharged. Pre-treatment depends on the capacity of the local treatment plants and our waste stream which varies based on the technologies used at our factories. No significant waste water is generated at our warehouses other than normal sanitary wastes.

The best single common measure for measuring the need for treatment of waste water is chemical oxygen demand (COD). The graph “Waste water quality” shows our improvement in reducing COD on a global basis. This index is also tied to our water use reduction efforts in that as waste water is reduced the COD index would be expected to increase since it is more concentrated on a relative basis. We are very pleased to have improved our

→ AURORA WAREHOUSE, COLORADO, UNITED STATES

Significant efforts have been made to increase recycling at this site, which have resulted in the following improvements in 2006:

→ 143,550kgs of broken pallets have been sold to a pallet recycling company, which breaks the pallets into parts to make new pallets.

The 10% of the wood that is unusable as pallet parts is chipped and used as mulch. This has saved an estimated 2,684 trees.

→ 886kgs of plastic caps and 511kgs of lipstick caps from

damaged or out of date products have been removed for recycling.

→ 14,227kgs of plastic stretch film (low density polyethylene) has been recycled into new plastic.





Gauchy factory (France).

waste reduction methods (better emptying of tanks before cleaning, etc.) and treatment schemes to have achieved both a reduction in COD in total and on a per finished product basis—2.6% and 5.9% respectively.

Fines and prosecutions

In 2006, we had one fine, eight administrative notices and six neighbourhood complaints reported from our sites worldwide.

A very minor fine (€20) was imposed for improper construction waste disposal by a contractor working at our factory in Suzhou (China). We received eight administrative notices but no monetary fines in Japan, France, Canada, United States and the United Kingdom. All were relatively minor administrative issues which either have been or are being resolved. We received three complaints from our neighbours in Japan concerning truck and car noise and a foaming incident. We received two complaints from neighbours in Clark, New Jersey (United States) over noise and one complaint at our now closed factory in Savannah, Georgia for noise.

HEALTH & SAFETY

We are committed to a safe and healthy workplace at L'Oréal. In this regard, we have dramatically reduced our lost time injury rates over the last five years by more than 58% as well as our severity rate by more than 36%. We believe overall that we have had a very good year of safety and health performance in 2006.

More than 40 Safety and Health measures are collected monthly and reported internally

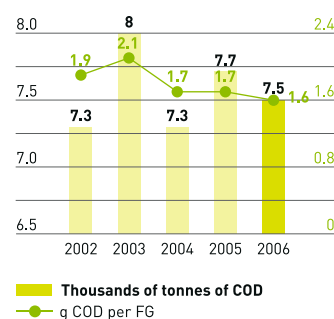
Performance

The lost time injury rate represents the number of L'Oréal personnel involved in an accident (absent from work on the day after the accident) per million hours worked.

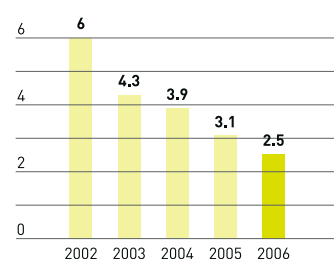
Our target for 2006 was for every factory and warehouse to be at a lost time injury rate of 2.5 or less, which corresponds to the OSHA industry benchmark rate of 0.5 per 200,000 hours worked. While 18 of 42 factories and 41 of 70 distribution centres had no lost time injuries in 2006, we unfortunately missed the target, with six of 42 factories and nine

Waste water quality—COD

Note: COD is the amount of oxygen needed to oxidise all the pollutants contained in the effluent



Lost time injury rate (factories and warehouses)



2006 HEALTH & SAFETY KEY ACHIEVEMENTS

- Reducing the lost time injury rate by 19.4% for L'Oréal employees.
- Reducing the injury severity rate by 14% for all employees.
- 18 of 42 factories and 41 of 70 warehouse had no lost time injuries.
- More than half (23 of 42) of our factories are OHSAS 18000 registered or part of OSHA VPP.

Left: firemen brigade,
Suzhou factory (China).
Right: training programme on
health and safety at
Libramont factory (Belgium).
The factory won this year
L'Oréal SH&E Awards for the best
safety and health initiative.



of 70 warehouses over this target rate. For some of our smaller warehousing sites, a single accident in a year results in rates of several hundred and hence for most of them, they must not have any lost time accidents to meet our goal. Therefore, we have made a more stringent goal for factories than for warehousing for 2007 since the factories have made greater progress in reducing accidents. Our ultimate goal is no accidents.

The injury severity rate expresses the number of days lost by L'Oréal personnel as a result of accidents at work per 1,000 hours.

Our severity rate improved in 2006 by 14% since 2005, and more than 36% over the last five years. It also confirms that the majority of our accidents involve minor injuries (sprains, sprains, cuts, etc.). We had no life threatening injuries or loss of limbs in 2006.

Fatalities

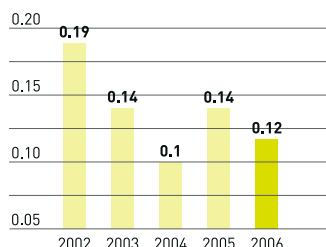
It is with great sadness that we report two fatalities in 2006, both of which occurred in France. This is the first employee fatality in more than 10 years and first contractor fatality in more than four years. One was a temporary employee at a subsidiary and the second was an outside contractor (window washer) at a joint venture. The first incident involved an unauthorized entry into confined space resulting in anoxia and the second a fatal fall from height. We are still in the process of investigating both incidents and have made a number of changes to prevent a reoccurrence.

Our injury rates for both temporary and full time employees have been drastically reduced over the last ten years [by more than a factor of four for both]. Benchmarking with our peers shows that our lost time injury and severity rates are much better than the industry averages. Nevertheless, we will continue to drive improvement in this area —no accident or injury is acceptable to us or our employees. We will put particular emphasis in 2007 on reducing our temporary injury rate which has not progressed as well as that for our regular full time employees.

→ 2007 TARGET

Lost time injury rate ≤ 2.0 per million hours worked for factories and ≤ 3.0 for warehouses
Long-term target: zero accidents

Injury severity rate
(factories and warehouses)



2007 MAJOR HEALTH & SAFETY TARGETS

- To reduce our lost time injury rate for L'Oréal employees and temporary employees by a further 20% from our previous goal of 2.5 to 2.0 per million hours worked for all factories, and 3.0 for all L'Oréal warehouse employees and temporary employees.
- To perform noise dosimetry measurements for all workers in areas above 75 dBA.
- To obtain OHSAS 18000 registration or OSHA VPP status (United States only) by the end of 2007 for all factories.



Ergonomic stretching exercises, Rio factory (Brazil).

→ L'ORÉAL SH&E AWARDS

The best safety and health initiative (factories):
Libramont factory in Belgium for
an exceptional training programme on
health and safety at work and in the home.

H&S reporting for administrative sites is still in progress. We have some partial reports which include our research centres. The overall reported

lost time accident rate per million hours worked for our Research Centres was 5.0 worldwide. Our partial reporting of one of our largest zones for administrative sites is a lost time accident rate of 2.0 per million hours worked. We have had no reports of work related vehicle fatalities at any of our sites worldwide.

We did not receive any fines or prosecutions for safety and health infractions in 2006.



↑ The Make-up R&D Centre, Chevilly-Larue (France), uses geothermal energy to heat the building.

→ SUSTAINABLE BUILDING

During 2006 we completed the construction of the Centre for Cosmetic Research at Chevilly-Larue (France). This centre is L'Oréal's first step in a new sustainable building policy we intend to roll out to all our operational facilities worldwide. This new global properties policy favours sustainable building for new sites, and for existing sites when they are due for renovation whenever possible.

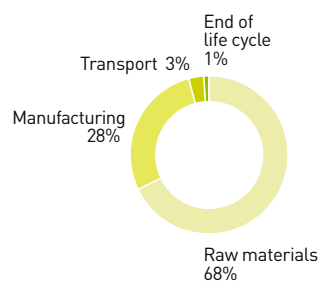
The 10,000m² building was the first laboratory building ever awarded with the french High Quality Environmental (HQE) label for green buildings.

The following environmental designs were incorporated:

- the building's energy for heating and hot water is derived from the municipal geothermal heating network. Use of this green energy will save an estimated 790 tonnes of CO₂ emissions annually.
- Water at a temperature of 70°C is pumped out of the ground from a depth of 2,000m and re-injected at about 40°C. This was the first geothermal heating network in Europe—today 24,000 houses are also connected to network,
- architecture that plays on natural light and a spatial organisation specifically suited to Research,
- triple-layer window panes with built-in shades allow better control of heat retention and loss,
- the collection and storage of 90m³ rain water from roofs for use in gardens reduces the site's water consumption.

Life cycle analysis of Elsève shampoo. Environmental impacts over life cycle

[Source: 02, 2006.]



PACKAGING

The packaging of a product serves many purposes:

- it protects the product during transport, storage and use,
- it preserves the product and shields it from the harmful effects of light, oxidation and water vapour,
- it is designed for easy use of the product while preserving it between uses,
- it provides the consumer with information on ingredients and conditions of use,
- lastly, it serves as a marketing device and a means of brand exposure.

To ensure top performance of all its products, L'Oréal uses a variety of packaging materials such as cardboard, plastic, glass and metal. Its purpose once served, packaging ends up as household waste. With that in mind, L'Oréal has, since the 1990s, adopted a proactive approach to minimizing the impact of packaging on the environment.

L'Oréal's approach to packaging:

- reduce the quantity of raw materials used (cutting back at the source),
- take into account the temporary function of packaging and promote recycling by limiting the variety of materials used and providing information on their nature and recoverability,
- involve packaging manufacturers in group efforts on a daily basis.

Moreover, a special team is in charge of monitoring technological developments and innovations in environmentally-friendly packaging as well as the latest industry regulations.

As a member of EUROPEN, the European organisation for packaging and the environment, L'Oréal takes on an active role in the development of European directives that promote respect of the environment.

A management framework in line with sustainable development

At L'Oréal, packaging raises many environmental issues, which are often reflected by significant consumer concern. That is why in 2006 a dedicated position was created, Packaging and Environment Manager, within the Packaging Research department.

The Manager's responsibilities include:

- advising, informing and assisting operational teams,
- increasing employee awareness of group policies on packaging and the environment,
- representing the group externally,
- coordinating the programmes to make packaging more environmentally-friendly.

Life cycle analysis

In 2006, L'Oréal conducted a life cycle analysis of one of its most popular products: Elsève shampoo in a 250ml bottle. The results clearly showed packaging material to be the number one factor impacting the whole of the bottle's life cycle. This analysis reaffirms the relevance of our packaging reduction policy and strengthens the group's desire to curtail the use of materials derived from non-renewable resources such as fossil fuels.

Reducing plastic consumption

Several years ago L'Oréal set up a programme to systematically cut back on the quantity of materials used in packaging. As a result, the 250ml Fructis shampoo bottle went from 24g to 20g ten years after its market launch in 1996, while no changes were made to its original design. Improvements continued as the bottle weight was further reduced by 1.5g in 2006.

Moreover, aware that the reduction of packaging weight has its limits, the group is exploring new ways to reduce plastic consumption. During 2006 we trialled many types of recycled plastic, from different suppliers and different countries in order to incorporate recycled plastic into packaging materials. The group aims to use recycled material as long as its standards of quality and quantity are met.

Recycling

The materials used in packaging are indicated on L'Oréal products in order to facilitate pre-recycling separation of waste. In this way the group encourages recycling in the home. L'Oréal is committed to reducing the different types of plastic used in packaging and to using plastics with a similar make-up in order to conform to current recycling facilities.

2006 KEY ACHIEVEMENTS

- Creating a new position of Packaging and Environment Manager.
- Introducing a new 100% FSC cardboard.
- Carrying out a lifecycle analysis of our Elsève shampoo bottle.

→ REDUCING PLASTIC—WEIGHT OF FRUCTIS SHAMPOO BOTTLE

**Biomaterials**

Aware of the potential advantages of biomaterials for the environment, L'Oréal runs regular tests on these new packaging materials and particularly plastics made from renewable resources. The group pays particularly close attention to technological developments in this area.

To date, a satisfactory bioplastic that meets group standards in terms of compatibility, aesthetic

quality and cost has yet to be found. This type of packaging material tends to disintegrate and lose its shape rapidly upon contact with products, and is highly prone to bacterial contamination. Nevertheless, L'Oréal is open to the possibility of using biomaterials in its secondary packaging.



↑ Packaging Research's team (France).

→ TRULOR: ENVIRONMENTALLY-FRIENDLY CARDBOARD DEVELOPED BY L'ORÉAL

Consisting of boxes, packing cases and leaflets, L'Oréal's paperboard business represents approximately 80,000 tonnes per year.

L'Oréal hopes eventually to only use suppliers accredited by the Forest Stewardship Council (FSC), an international body which certifies wood as sustainably sourced. That is why, in partnership with a European paper company, L'Oréal has developed an environmentally sound board: TRULOR.

This board provides the perfect combination of performance and respect for the environment:

- made of stiff, white, pure cellulose, resistant to different light sources,
- compatible with the technological requirements of both group and marketing printing processes,
- weighs less than traditional board used for the same purposes while offering the same degree of stiffness; less raw material is therefore needed in its manufacturing,
- TFC (Totally Chlorine Free),
- contains no heavy metals or optical brighteners,
- the pulp is 100% FSC accredited.

This board fulfils an ecological as well as an economical goal. To date, we have purchased 2,500 tonnes of this paper, and TRULOR is currently used in the packaging of a number of our brands including GARNIER, L'ORÉAL PARIS and BIODERM. Our entire paper/board activity is based on the use of material derived from renewable and biodegradable resources.



L'Oréal's commitment

To be a good corporate citizen, promoting women in science, community solidarity and educational opportunity.

Photo: 8th For Women in Science Award ceremony at UNESCO headquarters (France).



COMMUNITY AFFAIRS

As a company that believes in good corporate citizenship, L'Oréal is keen to contribute to projects that serve the wider community and that reflect the values we have upheld for almost a century. In every country where we do business, we support projects that contribute to the community at large through philanthropy and long-term partnerships. These local initiatives reflect our longstanding dedication to such worthy causes as promoting women in science, community solidarity and educational opportunity.

FOR WOMEN IN SCIENCE

The most symbolic and notable example of L'Oréal's societal commitment is the international corporate programme "For Women in Science", launched in partnership with UNESCO in 1998. This programme promotes the role of women in scientific research and thus helps to encourage young women around the world to enter this field, so critical to the future of our society.

In 2006, of the 230 members of the French Academy of Sciences, only 16 were women. From 1903 to 2006, only 12 out of 516 Nobel Prizes for Science were awarded to women. The For Women in Science partnership aims to address this under-representation of women at the highest levels of science.

"I am delighted to see the role of women in science highlighted... The commitment of a large corporation like L'Oréal alongside an organisation like

2006 KEY ACHIEVEMENTS

→ Another successful year of our partnership with UNESCO to encourage and reward outstanding female scientists through our For Women in Science programme.

→ Extending our HIV/AIDS education programme Hairdressers of the World Against AIDS to India, Brazil, China, France, and the United Kingdom.

→ Being given the Professional Excellence Award from the Global Business Coalition on HIV/AIDS for this programme.

→ Holding our first Volunteer Day in L'Oréal USA, in which 420 employees participated.

→ €22 million of philanthropic activity and charitable donations worldwide.

UNESCO is a perfect example of the partnerships we can forge with the private sector. A cooperative venture like this, which aims to involve more and more women in the great scientific adventure, leads to progress not only in science but also in society.”—Koïchiro Matsuura, Director General of UNESCO.

By supporting UNESCO, an organisation that facilitates understanding of cultural identities and recognition of their diversity, L’Oréal seeks to participate in the dialogue between cultures and to work for a better understanding between men and women from different traditions.

For L’Oréal, women and science are the two best vehicles for progress for the global community. It was necessary therefore to encourage not only the women who are already helping the modern world to move forward through their research work, but also female students who will be following in their footsteps in the future.

L’Oréal decided to form a partnership that goes far beyond the scope of private-sector support, in which the entire company is associated with a cause that it considers essential: the recognition of women and promoting their role in scientific research.

The group is all the more aware of the importance of the role of women in research because 55% of our scientists are women, a proportion unmatched in industry. The company’s history is scattered with women research scientists who have contributed to its expansion.

The For Women in Science programme has two parts: the L’Oréal-UNESCO Awards, and the International and National Fellowships.

The L’Oréal-UNESCO Awards

Each year, the L’Oréal-UNESCO Awards recognize five outstanding female research scientists, one from each continent, who have contributed to the advancement of science. The L’Oréal-UNESCO Awards are presented in alternate years to women engaged in research in Life Sciences and to those working in Material Sciences.

Since 1998, 42 scientists have received awards, their exceptional careers having opened up new and, in some cases, revolutionary avenues to making life better for humanity. Identified as role models for the generations to come, the Laureates each receive a personal award of \$100,000 from L’Oréal.



→ FOR WOMEN IN SCIENCE: A PORTRAIT OF PROFESSOR GURIB-FAKIM

A professor of organic chemistry at the University of Mauritius (where she also serves as Vice-Chancellor), Professor Ameenah Gurib-Fakim (seen on the cover of this report) is the 2007 Laureate for Africa. She studies the native plants of Mauritius and their bio-medical applications, and created the first ever full inventory of the medicinal and aromatic plants in Mauritius.

One example of her work is the study of *Momordica charantia* (bitter melon), a fruit known by the Mauritian population for its medicinal qualities. Professor Gurib-Fakim and her team investigated the potential diabetes therapies of this and other plants, which act as starch blockers to slow the release of free glucose into the bloodstream, and could be used in the treatment of diabetes.

A fervent advocate for the protection and sustainable use of biodiversity, Professor Gurib-Fakim would like to facilitate the use of medicinal plants by educating people about their benefits and potential side effects. Developing the medicinal plant industry is one of her dreams: *“to make inexpensive, effective drugs available to the poorer communities of this planet would create jobs and opportunities, and in doing so help alleviate poverty”*.

She also believes that the glass ceiling is still there: *“For a woman to make it, her portfolio has to be ten times heavier than that of her male counterpart. The message is there—the glass ceiling is very present. I would say this to girls and women: NEVER be afraid, work hard, believe in yourselves, and through honesty and integrity we shall overcome!”*

↑ Professor Gurib-Fakim is the Laureate for Africa of For Women in Science.

The two international juries for the L'Oréal-UNESCO Awards are made up of eminent scientists from around the world who ensure the seriousness, quality and credibility of the awards in an independent manner. Each jury is presided by a Nobel Prize winner.

The UNESCO-L'Oréal International Fellowships

The UNESCO-L'Oréal International Fellowships help young women scientists involved in promising, exemplary projects to pursue their research in laboratories outside their country of origin. Each fellowship is worth a maximum of \$40,000 over two years.

By sponsoring these young scientists and their hopes for the future, the programme aims to increase the role of women working in scientific disciplines. Since the scheme started, fellowships have been awarded to 90 young scientists from almost as many countries, including South Africa, Algeria, Cuba, New Zealand, Sudan, Bangladesh, Brazil, Albania, Congo, Nigeria, Azerbaijan and China.

The L'Oréal National Fellowships

The L'Oréal-UNESCO For Women in Science partnership extends to many different countries through National Fellowship programmes, which are launched with the support of the National Commissions for UNESCO.

These fellowships are designed to encourage young women scientists to pursue their research locally, and have been launched in 20 countries by the end of 2006, including Canada, China, Hungary, India, Indonesia, Italy, Korea, Latvia, Poland, Portugal, South Africa, Thailand, Turkey and the United States. Our goal is to launch National Fellowships in 50 countries by 2008.

A COMMITMENT TO THE COMMUNITY

Because L'Oréal's business is at the centre of people's everyday lives and well-being, the group is closely involved in the life of the communities in which its facilities are located. L'Oréal has a duty to conduct itself as a socially responsible company and seeks to support projects that are for the public good, in the form of long-term sponsorships and partnerships.

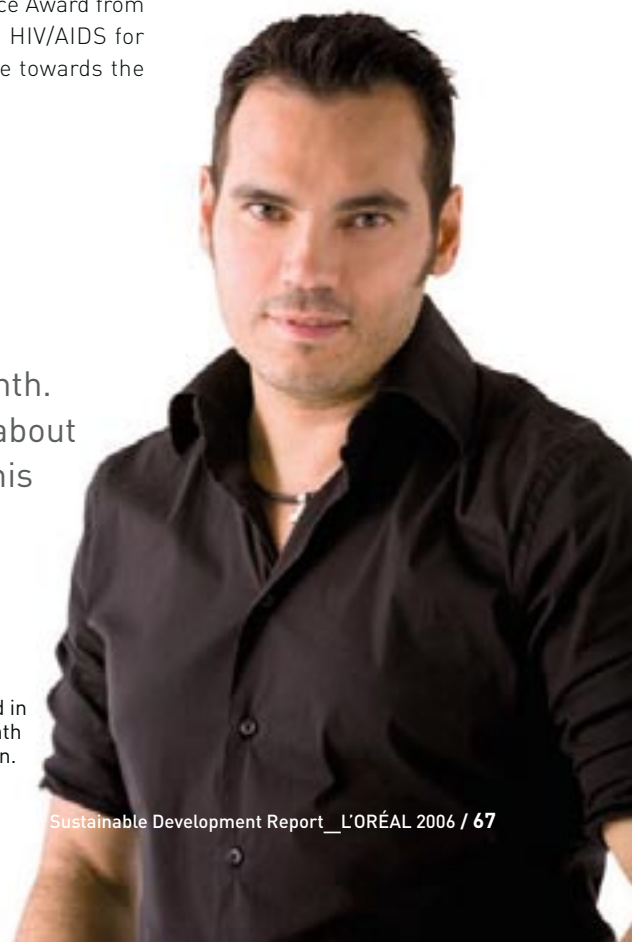
These are often local initiatives focusing on specific, clearly identified issues—solidarity, education—and are consistent with the values that the group has advocated for almost a century. The aim of these initiatives is to provide a strong foothold in the economic and social life of the countries in question. The group endeavours to preserve what gives these initiatives their strength and effectiveness, namely the independence of our locally-based companies and their ability to adapt to specific cultural environments.

AIDS prevention

In May 2005, L'Oréal's Professional Products Division and UNESCO launched the preventative education programme "Hairdressers of the world against AIDS". This programme promotes awareness of the HIV virus through the regular training we provide to our global network of hairdressers. These hairdressers then pass on their knowledge to customers at their salons, which are centres for the exchange of ideas and dialogue all over the world. Training materials compiled with UNESCO include an innovative film, presentation materials and an interactive quiz. In May 2006, L'Oréal received the Professional Excellence Award from the Global Business Coalition on HIV/AIDS for directing its key training expertise towards the fight against AIDS in this way.

"I discuss the AIDS issue with around 250 clients per month. Most of them have a strong positive reaction when I talk about this project. They compliment me and L'Oréal for doing this important social work. Some clients told me they have relatives with AIDS and we became special friends. They are pleased to see someone fighting against any kind of discrimination."

Hairdresser **Viktor I.** from Vimax Beauty in Curitiba, Brazil, has participated in the training programme, and as a result, more than 1,000 clients per month see the campaign materials displayed in his salon.



Left: preventive education programme "Hairdressers of the world against AIDS" in a hair salon in Brazil.
 Right: "Look Good... Feel Better" workshop, France.
 This programme helps women offset appearance-related changes from cancer treatment.
 In France, it is called "La vie de plus belle".



Our efforts to combat HIV/AIDS began four years ago in South Africa where we offer our staff and their dependents a full service which includes education and prevention, anonymous HIV testing, and if needed, anti-retroviral therapy. Since then, over 200,000 hairdressers from 24 African countries have benefited from the training. Pilot programmes adapted for the culture of each country have since been launched in India, Brazil, France, the United Kingdom and China. In 2007 we plan to expand the programme into other countries in Europe, Asia and North and South America. This educational project has a potentially huge impact: every year we reach 1.2 million partner hairdressers all over the world through our training centres and major professional events. This programme is also used in professional schools and may be used by partner salons for their own initiatives. It is freely accessible to all through our dedicated website.

www.hairdressersagainstaids.com

Look Good... Feel Better

"Look Good... Feel Better" is a programme that originated in the United States to help women offset appearance-related changes from cancer treatment. In 1989, a cancer specialist called on the American Association of Cosmetic Industries on behalf of one of his patients suffering from cancer and badly affected by the physical damage caused by her treatment. The young woman regained a thirst for life and the courage to fight her cancer. The result was this industry programme for women who have undergone cancer treatment: it is now active in 16 countries. The programme consists of non-medical workshops held in hospitals, which teach the women to cope with some of the side effects of chemotherapy through a 12-step skin-care and make-up lesson. L'Oréal

is one of the drivers behind this worthy venture, notably in France where the programme is called "La Vie de plus belle".

www.lookgoodfeelbetter.org

Restaurants du Cœur

For the past eight years, we have been providing the French charitable organisation "Restaurants du Cœur" with kits containing five of the group's hygiene products covering basic family needs. They are handed out during the association's winter campaign right across France. Through this gesture, L'Oréal seeks to put into practice its commitment to forming closer ties with people in difficulty and so help them regain their place in society by retaining a positive image of themselves.

www.restosducoeur.org

Supporting the Nicolas Hulot Foundation

In 1995 L'Oréal became a founder member of the Nicolas Hulot Foundation for Nature and Mankind, and has supported it ever since. The Foundation's mission is helping educate the public to be environmentally friendly. Since its creation in 1990, it raises awareness among young people and adults of the riches and the fragility of our natural heritage and supports concrete initiatives in aid of the environment in a move for sustainable development. This complements L'Oréal's efforts to limit the impact of our industrial activity on the environment as much as possible.

www.fondation-nicolas-hulot.org

Staff volunteers for Planète Urgence

In 2005 we set up a partnership with Planète Urgence, a French organisation which sends volunteers overseas to participate in various humanitarian missions to help local populations in their development efforts or to work on environmental



→ L'ORÉAL USA EMPLOYEE VOLUNTEER DAY

Firmly committed to supporting the communities in which it does business, L'Oréal USA initiated the first Employee Volunteer Day in 2006.



Building upon the numerous local and national charities that the subsidiary supports with cash grants and product donations, employees in the American headquarters' New York City office were invited to give their time and talents to help those less fortunate.

In partnership with New York Cares, a volunteer organization that matches volunteers with the needs of charities in the five New York boroughs, L'Oréal full-time employees were offered the opportunity to volunteer during regular work hours on one of 12 volunteer projects.

Several months in advance of the event, team leaders were identified and trained to the lead project activities on Volunteer Day. An on-site Volunteer Fair was hosted to showcase projects and charitable partners and to offer employees a chance to learn more about Volunteer Day. Over 420 employees from all divisions and management levels demonstrated their commitment to helping others by preparing meals for the sick or homeless; reading to disadvantaged children; playing bingo with the elderly; helping victims of domestic violence get a new start in life; assisting the unemployed in resume preparation and interview skills; and raking, cleaning and planting at an East Side ecological centre—among many other things.

Planning is underway for the 2007 L'Oréal USA Volunteer Day and more than 600 employees are expected to participate in what has become an annual event.

www.nycares.org

↑ L'Oréal USA employees painting a mural at the Henry Street School.

protection programmes. During the last two years ten members of our staff volunteered to work on various missions in several African and South American countries. We plan to send 45 staff volunteers in 2007.

www.planete-urgence.org

EVALUATION AND MEASUREMENT

Our current internal accounting reports €22 million of philanthropic activity and charitable donations worldwide.

With a view to putting a realistic and integrated value on the group's worldwide commitment toward communities in the future, L'Oréal joined the London Benchmarking Group (www.lbg-online.net) in 2006. A pilot project was launched in 2006, and plans are to roll-out the model worldwide in 2007. Through the use of this new process, L'Oréal

hopes to take reporting beyond the scope of charitable donations in order to include the overall range of the group's contribution to communities, resulting in better management and maximised impacts both internally and for the beneficiaries.



**L'Oréal's commitment
To preserve and uphold The Body Shop's Values;
to combine our expertise to enhance The Body Shop's growth.**

Photo: Guastatoya Aloe farmer—Community trade suppliers in Guatemala.



THE BODY SHOP

In July 2006, L'Oréal welcomed The Body Shop to our family of brands. L'Oréal places great value on The Body Shop's exceptional emphasis on being a sustainable and ethical business, and we intend that close co-operation between our businesses will result in shared best practice and the identification of opportunities for improving our sustainability performance. For example, in December 2006, L'Oréal joined the Round Table on Sustainable Palm Oil, partly due to The Body Shop's experience on this issue.

HISTORY

The Body Shop was launched by Dame Anita Roddick with one store in 1976, and soon created a new market for cosmetics that were naturally inspired, free from animal testing and had a minimal impact on the environment. It has carried on its business for over 30 years with integrity and care for all those that it touches and has been an inspiration to many others who are now coming to realise that the operation of business can be a force for social, as well as economic, good.

Today, The Body Shop focuses on developing and selling cosmetics and toiletries through 2,300 stores in 56 markets, a home party business in four markets and online sales in two markets.

THE BODY SHOP VALUES

In 2006 a new set of Values were published that clarify the company's commitment to sustainable business. A number of operating principles and policies are grouped under these Values, that give guidance and consistency to the company's decision-making. Workshops will be held for all global

employees during 2007 and 2008 that will make sure all employees are fully conversant with the spirit as well as the detail. These five Values are:

1. Support Community Trade

The commitment to Community Trade means that over 1,000 products (60% of all products) include Community Trade ingredients or come from a Community Trade supplier. This means working with Community Trade suppliers across more than 20 countries, reaching over 15,000 people.

Trading fairly means that marginalised communities get a fair deal and a sustainable income that enables them to invest in their future and that of their families. Community Trade also gives communities rare access to a global market that would otherwise be out of their reach.

As well as a fair price for the ingredients, there is also a social premium allocated that is invested in improving the community, such as education or access to clean water. In many cases the trade is also preserving traditional farming and wild harvesting skills that preserve the natural environment, such as the Amazon rainforest where Brazil nuts are sourced for their oil.

MADE WITH
PASSION™

AGAINST
ANIMAL
TESTING

SUPPORT
COMMUNITY
TRADE

ACTIVATE
SELF
ESTEEM

DEFEND
HUMAN
RIGHTS

PROTECT
OUR
PLANET

The Body Shop's new store in Mumbai (India), opened in 2006.



2. Protect Our Planet

Since its foundation The Body Shop has operated with high regard for the natural world. Whether it is energy use, chemical use or the product packaging, choices are made that have due concern for the needs of future generations and the long-term health of the planet. For example, the company operates under an energy hierarchy of efficiency, renewable energy sourcing and carbon offset to achieve its objective of carbon neutrality by 2010.

The operation of a precautionary approach to chemical use responds directly to the concerns expressed by the customers who purchase The Body Shop products. As early as 1993 PVC was banned from packaging and in 2005 a commitment made to phase out all polycyclic musks and phthalates. The chemicals policy is fully transparent and has been recognized as best practice by external groups. The policy is reflected in the development of new products, for example a new range of preservative free Aloe products were offered to customers in 2006 to make sure that they had a choice.

Over the last three years The Body Shop has played a leading role in the Roundtable on Sustainable Palm Oil. The work on sustainable ingredients also focused on wood accessories which are now made from Forest Stewardship Council or similar certified wood sources, or sourced from a Community Trade supplier.

3. Against Animal Testing

One of the principles that made The Body Shop unique and which is still robustly adhered to today is the commitment to ban animal testing of cosmetics and their ingredients. We believe that no animals should be harmed in the testing of toiletries and cosmetics. We do not ask others to test

on our behalf and suppliers must certify that they have not carried out animal tests on ingredients to support their use for a cosmetics purpose. The way we monitor our ingredients to ensure that they have not been tested after our fixed cut off date is highly thought of by leading animal protection groups and The Body Shop is the only global retailer of cosmetics to meet the requirements of the Humane Cosmetics Standard. The company has worked closely with the British Union for the Abolition of Vivisection to lobby the European Union to ensure that new chemical legislation does not result in a growth in animal experimentation.

4. Activate Self-Esteem

The Body Shop is committed to being selling products with a purpose and activating the self-esteem of customers and employees. The Body Shop believes that individuals are unique, and marketing language and advertising is not used that asks customers to conform to a stereotype or that preys on insecurity. The company is proud to campaign on issues that give women a voice and celebrates their strength and diversity.

5. Defending Human Rights

Ensuring decent working conditions in our suppliers is central to our Defend Human Rights value. Our Ethical Trade programme focuses on working in partnership with our suppliers to continually improve working conditions. We regularly assess suppliers against our Code of Conduct, using questionnaires and site visits. If issues are found and a supplier does not meet our standards, we agree a corrective action plan and monitor improvements in its working conditions. Through this we have produced good results and brought about positive change to thousands of workers in our supply chain.



Community Trade

31 Community Trade suppliers in 24 countries provide The Body Shop with raw materials such as honey (see photo) cocoa butter, shea butter and marula oil. These programmes provide income for more than 15,000 people across the world.

CAMPAIGNS

The Body Shop directly involves its retail customers in a number of campaigns on important social and environmental causes. All around the world it uses its voice to make a difference. There are two current global campaigns:

The Stop Violence in the Home campaign

Studies show that domestic violence affects 1 in 3 women from all walks of life, cultures and nations. 2006 was the third year for the global Stop Violence in the Home campaign and saw it launched in 48 markets. Two products were sold to raise funds to support victims of domestic violence. Since its beginning the campaign has made a real difference to the lives of many women, for example in the law being changed in some markets to give women greater rights, especially within marriage. The theme for 2006 was children and The Body Shop

combined with the United Nations to produce a groundbreaking study on the effect of domestic violence on children.

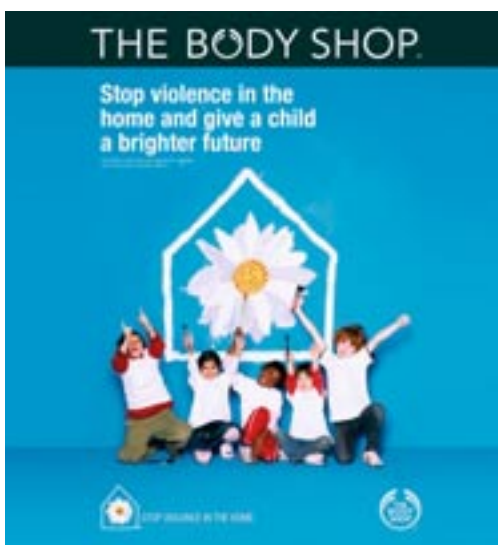
Body Shop customers and employees helped raise over £500,000 in donations to organisations working in this important social cause.

The Stop HIV: Spray to Change Attitudes campaign

This was launched with MTV in 2006 to raise awareness with young people about the dangers of HIV/AIDS and to encourage a change in attitude and behaviour.

Many other causes are supported by local employee activities or by donations from The Body Shop Foundation, our charitable trust.

Environmental and social data from The Body Shop can be found separately in The Body Shop Values Report, at www.thebodyshopinternational.com



Campaigns

The Body Shop directly involves its retail customers in a number of campaigns on important social and environmental causes like Stop Violence in the Home (left) and the Stop HIV: Spray to Change Attitudes campaign (right).

Verification statement

SCOPE AND METHODOLOGY

Environmental Resources Management (ERM) was retained by L'Oréal to verify the Safety, Health and Environmental (SHE) data to be disclosed in this sustainable development report, focusing on:

- the SHE data collection process,
- the SHE data management process,
- the SHE data and tables presented in the report.

ERM reviewed both source data from the plants, as well as data management systems, including questionnaires, spreadsheets and databases for 2006.

The SHE data verification performed in 2006 was based on the new reporting process deployed since 2005 (e.g. modification of the Key Performance Indicators, new web-based data collection software...) and now fully operational.

The review process focused on environmental, health and safety data and evidence of processes. ERM did not review information in relation to corporate social responsibility and community relations, nor were discussions held with external stakeholders.

To date, ERM has visited 25 plants out of 42, some several times, and a sample of about 10% of the distribution centres. We have interviewed corporate staff involved in data management as well as operational staff responsible for data collection and reporting.

FINDINGS

The review indicated that, for the sample covered, the data collection and management systems provided accurate information. Slight minor inaccuracies were identified at each of the sites visited, but were found to be immaterial in the context of the overall consolidated group results.

Internal organisation changes (e.g. new sites, division changes) were taken into account in the data consolidation and analysis.

The performance indicators published are similar to former reports, and their choice is considered relevant.

The selection made regarding the disclosed indicators was similar to former issues of this report and was found to be reasonable.

Presentation of the SHE data evolution over five years is consistent with the previous reports, both regarding scaling and easy-to-read graphics.

SHE data presented in this report address a perimeter including only manufacturing sites and distributions centres, and still do not include research centres and administrative buildings.

Divergences previously noted regarding the nature of accidents without lost time reported by the sites were not found any more.

One of the visited manufacturing plants did show divergence on the working hours counting, basic data to calculate the frequency and gravity rates. Still, the discrepancy found did not lead to significant effect on the consolidated group data.

One manufacturing plant declared compliance of wastewater discharge with regulation though the effluents were non-compliant some months.

OPINION

We believe that the SHE data presented in this report and set out in the text, tables and graphs, relating to the year 2006, provide a fair, transparent and reasonable representation of the SHE performance of L'Oréal's manufacturing sites and distribution centres.

Overall improvement in SHE performance appears to reflect real progress at the sites and have also shown a high evenness in the reporting reliability level for the L'Oréal group.

Paris, March 2007

Vincent Sauvaire
Managing Director ERM France



Review by one of the Statutory Auditors on the procedures used to compile certain social data published on the group's website

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

Further to your request and in our capacity as Statutory Auditor of the L'Oréal group, we have performed a review designed to provide moderate assurance on the procedures used to compile certain social data published on the L'Oréal group's website and identified by the sign (*). These procedures, together with the data published on the group's website, were prepared under the responsibility of the Human Resources Executive Management in accordance with the group's internal reporting standard. This standard is available on the group's website. Our responsibility is to express a conclusion on the procedures for compiling the selected social data.

NATURE AND SCOPE OF OUR WORK

We performed the work described below in order to obtain moderate assurance as to whether procedures used to compile the selected social data are free of material misstatement. A higher level of assurance would have required more extensive procedures. Accordingly, we are unable to express, and we do not express, a conclusion on the accuracy of the figures published.

We performed the following work:

At headquarter level

For each of the areas reviewed, we met with various representatives from the departments listed below responsible for organising the reporting procedures as well as for the consolidation of social data at group level: Labor Relations Department, International Human Resources (HR) Department, HR Legal Department, HR Information Systems Department, International Recruitment Department, Corporate HR Support Services, International Mobility Department,

Training and Development Department, Diversity and Inclusion Department, and Corporate Learning for Development Department.

Based on interviews with these representatives and reviews of documents (group consolidation manuals and subsidiary reporting schedules), we obtained assurance on the:

- existence of instructions concerning definitions of the data to be compiled and the related calculation methods,
- existence of reporting and consolidation procedures,
- consistency of the data published with the scope set for such data,
- due and proper inclusion of the social data obtained from the reporting systems in the consolidation packages, assessed on a test basis.

At subsidiary level

Additional tests were carried out to ensure the understanding and correct application of group reporting procedures by the subsidiaries. These tests were carried out at country consolidation level, on a selection of five countries and in respect of the following sample indicators:

- Argentina, Canada, Germany, and Korea: number of nationalities at executive level, number of executives recruited, number of applications received, number of executive staff trained, absenteeism and sickness rates, amount allocated to WPS programme, L'Oréal minimum wage compared with national minimum wage.
- France: number of nationalities at executive level, number of executives recruited, number of applications received (example of one division out of nine), number of executive staff trained, absenteeism and sickness rates, number of trainees on work/study programmes.

Our work was based on interviews with the individuals responsible for reporting at country level as well as with other people involved in the data collection and reporting procedures. The tests involved assessing:

- the understanding and application of group data definitions and data collection procedures at country and subsidiary level,
- the consolidation procedures at country level and exhaustiveness of the scope,
- the existence and appropriateness of internal control procedures at country level with a view to ensuring compliance with such procedures by the subsidiaries.

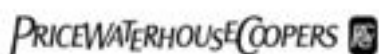
We were assisted in our work by Sylvain Lambert, Partner in charge of our Sustainable Development Practice.

CONCLUSION

We noted, for some indicators and in the majority of the countries reviewed, a lack of formalisation of the data collection and consolidation procedures at country level. This does not however call into question the quality and deployment of the data collection and consolidation procedures at headquarter level.

Based on our work and subject to the above-mentioned exception, no material misstatement came to our attention that would cause us to believe that the social data selected and published on the group's website has not been prepared in accordance with the group's reporting procedures.

Neuilly-sur-Seine, May 14th, 2007



Statutory Auditor
Etienne Boris

Sustainable Development Practice Partner
Sylvain Lambert

Caveats in relation to information published on websites


The maintenance and integrity of this Sustainable Development website is the responsibility of L'Oréal Management. The procedures performed by PricewaterhouseCoopers did not involve any consideration of these matters. This statement only concerns certain social data from the 2006 Sustainable Development website, as published online on June 18th, 2007. We did not perform any work in relation to information updated after the initial date of publication.

GRI G3 content index

| GRI INDICATOR | GRI INDICATOR DESCRIPTION | PAGE |
|---------------------------------|--------------------------------------|------------------------------------|
| 1.1 | Strategy and analysis | 02-03 |
| 1.2 | Strategy and analysis | Inside cover, 02-03, 48 |
| 2.1 | Organisational profile | Inside cover |
| 2.2 | Organisational profile | Inside cover |
| 2.3 | Organisational profile | 12-13 |
| 2.4 | Organisational profile | Back cover |
| 2.5 | Organisational profile | Inside cover, 48 |
| 2.6 | Organisational profile | 05, Annual Report 54 |
| 2.7 | Organisational profile | 13 |
| 2.8 | Organisational profile | Inside cover, 11-13, 30 |
| 2.9 | Organisational profile | 29, 71 |
| 2.10 | Organisational profile | 5, 33, 65, 67 |
| 3.1 | Report profile | Inside cover |
| 3.2 | Report profile | Inside cover |
| 3.3 | Report profile | Inside cover |
| 3.4 | Report profile | Inside cover |
| 3.6 | Report scope and boundary | Inside cover, 48, 73 |
| 3.12 | GRI content index | 76 |
| 3.13 | Assurance | 74-75 |
| 4.1 | Governance | 05-07, 18 |
| 4.2 | Governance | 05 |
| 4.3 | Governance | 05 |
| 4.4 | Governance | Annual Report 54 |
| 4.5 | Governance | 36, 50 |
| 4.8 | Governance | 07-09, 17-18, 29-30, 42-45, 49, 62 |
| 4.10 | Governance | 06 |
| 4.11 | Commitments to external initiatives | 09, 20, 72 |
| 4.12 | Commitments to external initiatives | 09, 32 |
| 4.13 | Commitments to external initiatives | 08, 20-21, 25 |
| ECONOMIC INDICATORS | | |
| EC1 | Economic performance | 11, 69 |
| EC5 | Market presence | 36 |
| EC6 | Market presence | 13, 40 |
| EC7 | Market presence | 29-31 |
| ENVIRONMENTAL INDICATORS | | |
| EN3 | Energy | 53 |
| EN5 | Energy | 54 |
| EN7 | Energy | 54 |
| EN8 | Water | 54-55 |
| EN14 | Biodiversity | 22-24, 26-27 |
| EN16 | Emissions, effluents, and waste | 55 |
| EN18 | Emissions, effluents, and waste | 54-56 |
| EN20 | Emissions, effluents, and waste | 56 |
| EN21 | Emissions, effluents, and waste | 59 |
| EN22 | Emissions, effluents, and waste | 57-58 |
| EN26 | Products and services | 22-27, 62-63 |
| EN28 | Compliance | 59 |
| EN29 | Transport | 55-56 |
| SOCIAL INDICATORS | | |
| LA1 | Employment | 30 |
| LA4 | Labour / management relations | 36-37 |
| LA7 | Occupational health & safety | 37, 59-61 |
| LA8 | Occupational health & safety | 68 |
| LA10 | Training and education | 33 |
| LA11 | Training and education | 33-35 |
| LA12 | Training and education | 33 |
| LA13 | Diversity and equal opportunity | 04, 06, 31 |
| HR2 | Investment and procurement practices | 44-45 |
| PR1 | Customer health & safety | 20-21, 24-27 |
| SO3 | Corruption | 07-09 |

Published by the Corporate Communications and External Affairs Division of L'Oréal group.

Photographs: David Arraez (P.28, 41, 63), Carole Bellaïche (P.4), Steve J. Benbow/Jill Mead (P.73), Xia Bin Ru (P.14), Alain Buu (P.38, 40, 42, 45, 46, 49, 51, 52, 54, 56, 57, 58, 59, 60, 61), Jean-Jacques Cecarini (P.3), Rémy Cortin/Gamma (P.14), Bertrand Closset (P.60), Mai Duong (P.68), Gamma (P.64), Getty Images/Stockbyte (P.25), Getty Images/Zenshui/Michèle Constantini (P.25), Sébastien Godeffroy (P.42), Jean-François Grasset (P.23), Hélène Kerhervé/Gamma (P.45), L'Oréal (P.33, 53, 57), L'Oréal Human Resources (P.35), L'Oréal Research (P.16, 20, 21, 22, 24, 26, 27), Guillaume Magnaudet (P.23), Luis Mendes/Gamma (P.14), Eric T. Michelson (P.31, 69), Braca Nadezdic/Gamma (P.14), Sumeet Nayyar (P.72), Frédéric Neema (P.18), NFOE (P.55), Micheline Pelletier/Gamma (cover, P.36, 66), Alain Pérus & Myli Bourigaults/L'Œil du Diaph (P.10), Assis Produçãos (P.68), Fabio Salik (P.43), Solabia (P.23), Hanson Su (P.45), Bertrand Stark (P.19), Symrise (P.23), Jason Taylor (P.70), The Body Shop Int'l PLC full rights (P.73), Federico Velez Gonzalez/Foto Fede (P.31), Santosh Verma (back flap), Antonio Wolf (P.67), X.

Design:  Publicis Consultants | 133, avenue des Champs-Élysées – 75008 Paris – France



This mark aims to certify the origin of paper-making fibres from integrated and sustainable forestry operations where controlled felling and replanting policies are enacted.



The Selected Secondary Fibers mark certifies the use of recycled (secondary) pulp fibres originating from selected materials to ensure high quality raw materials which are free of impurities and mechanically sound.



L'ORÉAL

Incorporated in France as a "Société Anonyme"
with registered capital of €125,225,382
632 012100 R.C.S. Paris

Headquarters:
41, rue Martre
92117 Clichy - France
Tel.: +33 1 47 56 70 00
Fax: +33 1 47 56 75 01

Registered Office:
14, rue Royale
75008 Paris - France