

L'ORÉAL

2007 SUSTAINABLE
DEVELOPMENT REPORT



Mounna, Mauritania

A portrait from Titouan Lamazou's exhibition *Women of the World*, supported by the L'Oréal Corporate Foundation, created in 2007.

25

Global brands

63,358

Employees

Over

130

countries

17,063

Million euros in consolidated sales

4,7

Billion units manufactured annually

560

Million euros in R&D investments



Titouan Lamazou photographs Halimé, a refugee at the UNHCR Camp at Goz Beïda in Darfur, Chad.



Cover: Moumna from Mauritania is one of the 200 women to have captured Titouan Lamazou's attention. She works as a merchant between Nouakchott and Dakar. At a very young age she started to trade products between Mauritania and Senegal after leaving school. Extremely independent, she has since set up her own company. She now dreams of becoming a great merchant.

A UNESCO Artist for Peace, Titouan Lamazou has captured the great humanity of women all over the world and revealed the variety of their beauty, reflecting the world's diversity.

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 2007.

Verification

Data relating to the environment, health and safety was verified by Environmental Resources Management (ERM), and social data, shown with the sign (☑), were reviewed 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

2007 KEY DATA

→ ECONOMIC

- Total shareholder return over ten years 11.26%

→ ENVIRONMENT, HEALTH & SAFETY

- Energy use reduced by 4%
 - Water use cut by 6.8%
 - Carbon dioxide emissions from factories and warehouses reduced by 7%
 - Sulphur dioxide emissions cut by 25%
 - VOC emissions reduced by 6%
 - Waste reduced by 6.2% (excluding returnable packaging)
 - 54% of our factories and warehouses send no waste to landfill
 - We raised our recovery, recycling or re-use rate by 4% to 95% globally
 - All of our factories worldwide are certified to ISO 14001
 - 33 of 40 of our factories are OHSAS 18000 certified or part of the OSHA VPP
 - Our lost time accident rate remains essentially unchanged (2.55 per million hours worked)
- Note: all reductions are per finished product.

→ R&D

- 576 patents registered
- €560 million invested in R&D
- 10% of raw materials evaluated under our Sustainability Assessment Framework
- Raw materials assessment on persistence, bio-accumulation and toxicity 95% complete
- 90% of relevant plant species assessed for impacts on biodiversity
- 20% of Advanced Research budget invested in tissue engineering to develop reconstructed skin for alternatives to animal testing

→ SOCIAL

- 28,000 employees in 14 countries took part in our PULSE opinion survey
- 56% managers are female
- 1,409 managers have now attended our 2-day diversity training course
- 24 Observatories of Diversity and Social Cohesion exist within the group
- €203 million of profits shared with employees
- 58% of all employees received training

→ SUPPLIER RELATIONS

- 585 independent labour standards audits carried out at our suppliers, subcontractors and traders
- 600 suppliers asked for feedback on the audit process
- 100 suppliers attended the L'Oréal "Together for Diversity" convention

→ CONSUMER RELATIONS

- Nearly 300 specialist Consumer Advisers in more than 50 countries
- Over one million consumer contacts worldwide
- 70% of contacts related to enquiries or advice, 30% to complaints

→ COMMUNITY

- L'Oréal Corporate Foundation set up with a budget of €40 million over five years
- Five outstanding female scientists awarded \$100,000 For Women in Science awards
- Hairdressers Against AIDS awareness-raising programme extended to 12 new countries
- €17 million of charitable donations and philanthropic activity

L'ORÉAL
PROFESSIONNEL
PARIS

KÉRASTASE
PARIS

MATRIX

REDKEN
5TH AVENUE NYC

MIZANI

L'ORÉAL
PARIS

GARNIER

MAYBELLINE
NEW YORK

SOFTSHEEN·CARSON™

LANCÔME
PARIS

BIOHERM

HR
HELENA RUBINSTEIN

GIORGIO ARMANI
PARFUMS

DIESEL

RALPH LAUREN

cacharel

Kiehl's
SINCE 1851

shu uemura

VIKTOR&ROLF

VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

innéov
nutricosmetics

SKINCEUTICALS

SANOFLORE
LABORATOIRE BIC

THE
BODY
SHOP

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Our commitment to sustainable growth

“ At the dawn of the 21st century, the world’s leading beauty company needs to be an authentic example in terms of sustainable development. ”

2007 has been a year of progress on the three objectives we set to ensure that L’Oréal is 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 our employees, and to which they devote their talents, energy and commitment. It is not, however, 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, more than ever before and more than anyone else, attract and retain the most talented individuals.

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.

Therefore we were very pleased to be rated as one of the 100 most sustainable companies in the world by Innovest and Corporate Knights in January 2008. This survey evaluates large corporations according to how effectively they manage environmental, social and governance risks and opportunities, relative to their industry peers. We were also named as one of the world’s most ethical companies by *Ethisphere Magazine*, and continued our membership of the FTSE4Good, Vigeo’s ASPI Eurozone and Ethibel sustainable investment indices. We see this as testimony that our sustainability strategy is taking us in the right direction—but we know we have a lot further to go.

L’Oréal is a company where talented men and women from all over the world like working, by contributing their own added value and their enthusiasm. Today more than ever, we are striving to create the most favourable environment for their self-fulfillment on a bedrock of strong values shared by everyone.

The appointment of a Worldwide Director of Ethics and the international launch of our new *Code of Business Ethics* are important steps forward, which will make L’Oréal one of the most advanced companies in this essential area. In 2007 we also signed up to the French Union of Advertisers’ (UDA) *Charter on Responsible Communication*. This Charter is based on five commitments to promote the positive impact of responsible corporate communication on society.

In the key area of corporate citizenship, a major milestone has been achieved with the creation of the L’Oréal Corporate Foundation, which will develop, oversee and make permanent L’Oréal’s major philanthropic initiatives in education, science and solidarity, with a budget of €40 million over five years. Our work on the “For Women in Science” programme with UNESCO and on “Hairdressers against AIDS” has been incorporated into this new Foundation, which this year have gone from strength to strength with both initiatives being extended to several more countries.

Our environmental performance improved, with absolute reductions in water use and carbon dioxide emissions despite growth in products manufactured. We exceeded almost all of our Safety, Health & Environment targets, and are proud that 54% of our factories and warehouses send zero waste to landfill. We signaled our commitment to action on climate change by signing up to the Bali Communiqué to world leaders, which called for a comprehensive, legally binding United Nations framework to tackle climate change. We also joined the Carbon Disclosure Project’s Supply Chain Leadership Collaboration programme to encourage supplier disclosure on carbon emissions.

We want to be a model of sustainable innovation. This year we continued to integrate sustainability principles into the daily running of the R&D Division. We rolled out our raw material Sustainability Assessment Framework, working with our suppliers to assess 10% of our raw materials by the end of 2007. We got a significant step closer to eliminating the need for animal testing with the approval by ECVAM of the skin irritation test on our Episkin epidermis model. Our increased investment on alternative testing methods also enabled us to create a complete reconstructed skin model (RealSkin), with living dermis and epi-



dermis. We set up a Natural and Organic Centre of Excellence to develop products of this type, and integrated six raw materials resulting from fair trade into our portfolio.

We constantly strive to bring on board staff from different horizons, nationalities, ethnic origins and backgrounds. As part of this effort, in 2007 over 1,400 managers attended a two-day training course on diversity. We were pleased that our Observatories of Diversity and Social Cohesion were identified by CSR Europe as good practice. We also held our annual supplier forum on the subject of diversity—over 100 suppliers took part in the day long L'Oréal "Together for Diversity" convention, together with several institutions and NGOs specialising in diversity.

Our programme to check that our suppliers abide by strict social standards accelerated this year, with a far-reaching programme involving 585 social audits at our suppliers' and subcontractors' production sites. Furthermore, we have been working with stakeholders to develop a simplified *Code of Conduct* and labour standards toolbox to ensure that first and second tier suppliers understand and comply with our labour standards requirements. We hope that this L'Oréal *Supplier Code of Conduct* will be ready in 2009.

Over the coming year, we intend to continue our efforts to improve our sustainability in a myriad of ways. To select a few of these: we hope in 2008 to reduce our total CO₂ emissions by 2%, reduce waste by 5%, and source all paper and board used in packaging to come from sustainably managed forests, ideally FSC-certified.

2007 was blighted by the untimely death of Dame Anita Roddick, founder of The Body Shop, and a woman who was quite simply extraordinary: inspired, visionary, very brave and extremely generous. We hope that Anita's vision of sustainable business will continue to motivate not only L'Oréal, but all companies and consumers around the world.

Sir Lindsay Owen-Jones
Chairman

Jean-Paul Agon
Chief Executive Officer

“ We constantly strive to bring on board staff from different horizons, nationalities, ethnic origins and backgrounds. ”



Jean-Paul Agon
Chief Executive Officer

Sir Lindsay Owen-Jones
Chairman

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 corporate governance at L'Oréal, how sustainable development is managed within the company, and highlight L'Oréal's new *Code of Business Ethics*.

CORPORATE GOVERNANCE

Vigilance and balance inspire L'Oréal's governance. The Board of Directors constantly ensures that its organisation is adapted to changes in the group.

A harmonious allocation of roles

Following the separation of the roles of Chairman and Chief Executive Officer, pursuant to the decision made by the Board of Directors in 2006, the directors expressed the view, at the end of 2007, that this management organisation was proving satisfactory by making an effective contribution to the quality of the Board's work.

Responsible and experienced directors

The L'Oréal Board has 14 members. Drawing on their commitment, diversity and highly complementary professional experience, the directors take an active part in debates, have complete freedom of judgement and are available to provide any assistance needed. In a spirit of fairness, all directors have the same duty to act with due care

and attention, and to strictly respect the collegial nature of the decisions made by the Board.

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, six other directors meet the independence criteria advocated by the recommendations in force, and one of them has been a director for over 12 years.

Actively involved committees

The Board's Committees act strictly in accordance with the remit given to them by the Board. They are actively involved in preparing for the Board's work, and make proposals, but do not have any decision-making powers. They report on a regular basis to the Board, which makes the decisions, and, through its Chairman, reports to the shareholders.



BOARD OF DIRECTORS AS OF DECEMBER 31ST, 2007

Sir Lindsay Owen-Jones
Chairman of the Board

Jean-Paul Agon
Chief Executive Officer and
Board Member

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

Charles-Henri Filippi
Board Member

Xavier Fontanet
Board Member

Bernard Kasriel
Board Member

Marc Ladreit de Lacharrière
Board Member

Annette Roux
Board Member

Louis Schweitzer
Board Member



EXECUTIVE COMMITTEE

Jean-Paul Agon
Chief Executive Officer

Laurent Attal
Managing Director North America Zone

Joseph Bitton
Managing Director Latin America Zone

Jean-Philippe Blanpain
Managing Director Operations

Béatrice Dautresme
Executive Vice-President
Corporate Communications and
External Affairs

Jean-François Grollier
Executive Vice-President
Research and Development

Jean-Jacques Lebel
President
Professional Products Division

Brigitte Liberman
Managing Director
Active Cosmetics Division

Marc Menesguen
President
Luxury Products Division

Christian Mulliez
Executive Vice-President
Administration and Finance

Patrick Rabain
President
Consumer Products Division

Geoff Skingsley
Executive Vice-President
Human Resources

Jochen Zaumseil
Managing Director Asia Zone

The "Strategy and Implementation" Committee

This Committee clarifies, through its analysis, the strategic orientations which are submitted to the Board, and monitors the implementation and advancement of significant operations in progress. It ensures that the main financial balances are preserved. With these aims in mind, the Committee reviews the main strategic lines of development, options and projects 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 the Chairman and the Board, in complete independence, in their review of succession plans for the group's senior management positions. It considers the composition of the Board of Directors and any possible changes. It makes proposals to the Board concerning the remuneration of corporate officers, and allocations of stock options or free grants of shares.

At the end of 2007, the Board decided to split the "Management and Remuneration" Committee into two separate committees: an Appointments Committee and a Remuneration Committee.

The Audit Committee

The role of this Committee is to ensure that the General Management is provided with the means 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.

Systematic self-evaluation

Each year the Board carries out an assessment of its composition, organisation and *modus*

operandi. It considers new avenues of possible progress and makes any improvements it considers appropriate.

In 2007, the Board met five times with an average attendance rate of 91%. Many of the directors also attended the Annual General Meeting. In 2007, the Board of Directors firstly expressed satisfaction with its organisation, with the separation of the duties of Chairman and Chief Executive Officer, and the content of its meetings, as it considers that these have continued to improve in quality. It takes a more wide-ranging look at strategy, and the directors take the view that they have a better knowledge of businesses, markets and competition.

In accordance with its wishes, the Board was provided in 2007 with regular and reliable information about the group's business activities. The directors however still want to improve the quality and broaden the scope of their debates even further, by receiving prior information which is targeted and relevant in view of the decisions that the Board is being asked to take.

More details on corporate governance can be found on pages 7-13 of the 2007 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.

More detail of how Safety, Health and Environmental performance in particular is managed can be found on pages 16 to 31.

A policy of sustainable progress

This report paints an accurate picture of the economic, social and environmental reality at L'Oréal in 2007 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 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,

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 2007 we continued discussions with several key environmental, human rights and animal welfare NGOs. We are a member of the Roundtable on Sustainable Palm Oil.

Partnership on climate change

In 2007 we signalled our commitment to action on climate change by signing up to the Bali Communiqué to world leaders, which called for a comprehensive, legally binding United Nations framework to tackle climate change (www.balicomunique.com). We also joined the Carbon Disclosure Project's Supply Chain Leadership Collaboration programme to encourage supplier disclosure on carbon emissions (www.cdproject.net). We hope to report on the results of this programme in 2008.

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 2006 Sustainable Development 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 2008.

External Recognition

L'Oréal's sustainable development initiatives were widely recognised during 2007:

→ L'Oréal was rated as one of the 100 most sustainable companies in the world by Innovest and Corporate Knights in January 2008. This survey evaluates large corporations according to how effectively they manage environmental, social and governance risks and opportunities, relative to their industry peers. The ranking includes companies from 17 countries, covering all sectors of the economy.

→ Innovest ranked L'Oréal as the leader in its sector for managing environmental, social and governance risks.

→ L'Oréal was ranked as a Carbon Leader by Merrill Lynch.

→ The Climate Counts Scorecard ranked L'Oréal as second in the Household Products sector in terms of our policy and action on climate change.

→ The Climate Disclosure Project rated L'Oréal as joint fourth in the Household and Personal Products sector.

→ L'Oréal is included in most sustainable development indices, including FTSE4Good, ASPI Eurozone, and Ethibel.





Launch of the new *Code of Business Ethics* in the Netherlands. All employees throughout the world received a copy of the *Code of Business Ethics*.

- 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.

ETHICS

How ethics are managed at L'Oréal

The Director of Ethics, Emmanuel Lulin, reports directly to the Chief Executive Officer, Jean-Paul Agon. The Director of Ethics' role includes:

- promoting and embedding good ethical practices throughout the group, namely by offering training and guidance,
- regularly measuring and assessing the group's performance on ethical issues, and providing regular reports to the CEO and the Executive Committee,
- ensuring compliance with L'Oréal's ethical standards, addressing concerns and taking corrective action when required.

The Director of Ethics has full access to all information and documents relating to L'Oréal's activities.

New Code of Business Ethics

"We believe that our commitment to live up to these powerful values, and to demonstrate our high ethical standards in all that we do, will ensure more than ever that L'Oréal is seen as an exemplary organisation: one which inspires trust and respect." – Sir Lindsay Owen-Jones, Chairman, and Jean-Paul Agon, CEO, on the new *Code of Business Ethics*.

L'Oréal released a new *Code of Business Ethics* worldwide on October 18th, 2007, seven years after the first edition was published. Every employee received a personal copy of the new Code, which is designed to be both practical and inspirational. We are proud that The Body Shop has since chosen to replace its existing code with the new L'Oréal *Code of Business Ethics*. The *Code of Business Ethics* is available in 43 languages at www.loreal.com.

L'Oréal subsidiaries organised local events to accompany the launch of the new Code, and feedback from staff has been very positive. This is largely due to the fact that the different countries were closely involved in drawing up the new edition. Employees representing 22 nationalities were invited to attend International Advisory Panels in Tokyo, Milan, Mexico and New York to give their comments on the Code. The new Code was then reviewed by each Country Manager, Human Resources Manager and local legal counsel.



“ The topic of business ethics has become more important than ever in recent years. We have undertaken research which demonstrates that ethical conduct is a crucial part of modern business practice. In our report *Does Business Ethics Pay?* we found that companies displaying a “clear commitment to ethical conduct” consistently outperform companies that did not have an explicit ethics policy. Doing business ethically isn’t a nice-to-do, it’s a business imperative for long term success. We have read L’Oréal’s new edition of their *Code of Business Ethics*. It shows that L’Oréal fully understands this point and is providing support for its employees to allow them to reach this goal. ”

PHILIPPA FOSTER-BACK
Institute of Business Ethics, London.

L’Oréal is grateful to the Institute of Business Ethics, London, and to the International Business Ethics Institute, Washington DC, for their constructive criticism and help in drafting the new *Code of Business Ethics*. These bodies are not-for-profit organisations which support high standards of ethical behaviour in companies across the world, by assisting them in establishing their business ethics policies and practices.

**Embedding the new
Code of Business Ethics**

The Office of the Director of Ethics unveiled a new intranet site packed with information to support the launch of the Code. In particular, the new Code is accessible to visually-impaired employees through this site.

The launch of the new Code will be followed in 2008 by a heightened level of education and training, with an ethics module being included in all our “Discovery” induction programmes and in L’Oréal’s Country Managers seminars.

Embedding the Code requires the alignment of company processes with the values set out in the Code. For example, two new management competences have been integrated into L’Oréal’s annual staff appraisal system: “leading

with human sensitivity” and “achieves results with integrity”.

We also have an Open Talk process to encourage a culture of openness where employees can raise their genuine concerns. The normal route for employees to raise issues is via their management or Human Resources Manager. Additional resources may be available in countries such as specially appointed Ethics Correspondents, staff representatives, grievance procedures or helplines. Employees may also contact the Director of Ethics directly. Anonymous reports are not prohibited but not encouraged.

Monitoring ethics

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, has been helping assess the group’s performance since 2005.

In 2007, 12 of The Body Shop subsidiaries were integrated. In comparison to 2006, the 2007 results showed an increase in communication and training on the *Code of Business Ethics*, in part due to the launch of the new Code.

“ This was a rigorous process that identified a select group of companies that were unequalled in their industries for their commitment to ethical leadership and corporate social responsibility. These organisations go beyond making statements about doing business ethically; they translate those words into action. ”

ALEX BRIGHAM
Executive Editor of *Ethisphere Magazine*.

WORLD’S MOST ETHICAL COMPANIES



In 2007, L’Oréal was named one of the World’s Most Ethical Companies by *Ethisphere Magazine*, a publication dedicated to illuminating the important correlation between ethics and profit. The editors of the magazine chose fewer than 100 companies from several thousand organisations that they analysed over a six-month period.



A "Climate-Neutral" Code.
 The estimated 200 tonnes of carbon emissions arising from printing and distribution of the Code have been offset via a ClimateCare project to install efficient, clean-burning improved cooking stoves in Cambodia.
www.jpmorganclimatecare.com

L'ORÉAL'S COMMITMENT TO THE GLOBAL COMPACT & HUMAN RIGHTS

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

Jean-Paul Agon, CEO, has entrusted Emmanuel Lulin, Director of Ethics with the responsibility of ensuring strict compliance with the *Code of Business Ethics*, including with regards to human rights.

In particular, L'Oréal wants to help end the exploitation of children in the workplace and the use of forced labour. 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. All L'Oréal entities are required to check the age of employees upon hiring. Waivers may be granted by the Director of Ethics in countries where apprenticeship programmes or after-school work are the norm, but only if schooling is continued and an internal mentor is appointed. Employees aged 16 to 18 also benefit from special attention and in particular cannot work nights or overtime, handle dangerous machinery or carry heavy loads.

L'Oréal hopes that its partners will share and put into practice its values and therefore strives to ensure 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 in particular with regards child labour and forced labour. Regular audits are carried out in order to monitor compliance (for more information, see pages 58 to 65 of this report).

With regards corruption, L'Oréal supports the fight against corruption and abides by the United Nations Convention against Corruption. The *Code of Business Ethics* covers issues such as bribery and facilitation payments, conflict of interests and gifts and entertainment. L'Oréal's Purchasing Code also addresses these issues.



Part de marché L'Oréal* 1996–2007



base des estimations du marché mondial
révisées en 2007



* hors savons et dentifrices
2007 estimations provisoires
Estimations L'Oréal - IFRS depuis 2004

L'ORÉAL'S COMMITMENT

TO CREATE VALUE
BY COMBINING
OUR ENERGIES WITH
A STRONG BUSINESS MODEL.

L'ORÉAL



2008 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.

In 2007, L'Oréal's business model—based on innovation, quality and globalisation—once again demonstrated its outstanding ability to create value. The acceleration of growth and the strong improvement in profitability once more proved its efficiency and its remarkable modernity.

Growth was strong and homogeneous across all Divisions, as they each won market share in their respective distribution channels. Our growth accelerated compared with 2006. In Western Europe, over the last two years we have returned to solid growth, supported by expanding mar-

kets and market share gains by our Divisions. In North America, we achieved a strong growth rate, twice as fast as the market. Finally, growth in the rest of world accelerated faster than ever before, contributing more than 60% of the group's global growth. All in all, the group's share of the world market advanced substantially to 15.3% with significant gains on all continents.

2007 was also a very active year for external growth. After smoothly integrating THE BODY SHOP, we started up the DIESEL fragrance business, and began to globalise SANOFLORE, our organic cosmetics brand. In 2007, we made

2007 KEY FIGURES

(in € millions)

17,063

Net sales

4,914

Cost of goods, materials and services purchased⁽¹⁾

5,127

Advertising and promotion

3,318

Total payroll and benefits

175

Interest on debt

860

Total corporate income taxes

726

Distribution to shareholders

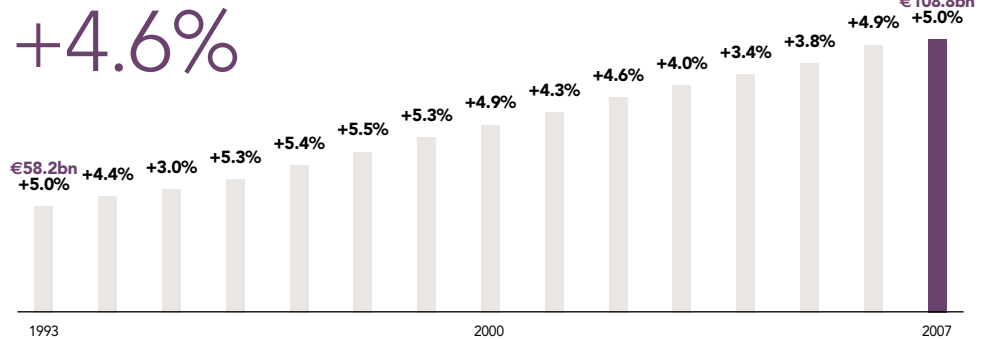
560

R&D investments

(1) Including related personnel costs.

WORLDWIDE COSMETICS MARKET 1993-2007⁽¹⁾

AVERAGE ANNUAL GROWTH RATE, EXCLUDING CURRENCY FLUCTUATIONS:
(€ billions)



(1) Excluding soap, toothpaste and razors. Provisional estimate for 2007. Source: L'Oréal estimates, manufacturer selling prices.

three major acquisitions in Professional Products in the United States, which will help us accelerate our conquest of this strategic market.

In terms of innovation, our research teams made several major technological advances and set up two new laboratories. The first is for organic and natural cosmetics for our brands THE BODY SHOP and SANOFLORE, and the second is for instrumental cosmetics, to "seize upcoming trends" in this promising area.

A GROWING MARKET

The growth of the world cosmetics market was confirmed in 2007 at +5%, once more above the average of the last 15 years.

This year our market reached a historic milestone: the newer countries (in areas such as Asia, Latin America and Eastern Europe), which we term the Rest of the World zone, became for the first time the largest market, on a par with Western Europe, which they should easily overtake in 2008.

This transformation is a historic opportunity for L'Oréal. Thanks to our diversified catalogue of brands, perfectly adapted to all the customers of the world, and to the location of our research centres on the different continents to meet the expectations of consumers all over the planet, we are perfectly poised to take advantage of the quite exceptional growth prospects offered by a truly globalised market.

OUR BUSINESS CATEGORIES AND BRANDS

L'Oréal is active in cosmetics (93% of consolidated sales in 2007), 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 NEW YORK, sells products through mass market channels. The Luxury Products Division offers a selection of prestige brands—LANCÔME,

GIORGIO 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

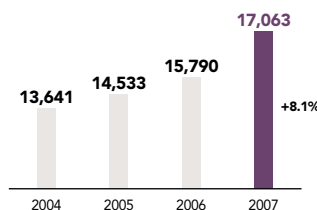
L'Oréal considers internal growth to be the main focus of its development. The group ensures healthy long-term geographic and sector-based balance for its brands and increases the rate of its international expansion through a highly selective acquisition policy. As a result, L'Oréal has enjoyed double-digit 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*.

“ The profound transformation of the cosmetics market is a historic opportunity for L'Oréal. ”

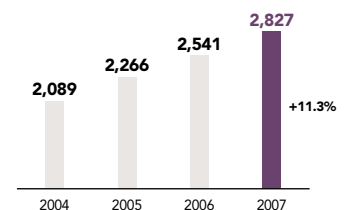
Jean-Paul Agon
CEO

GROUP PERFORMANCE OVER FOUR YEARS

CONSOLIDATED SALES
(€ millions)



OPERATING PROFIT
(€ millions)



BREAKDOWN BY BRANCH IN 2007⁽¹⁾

	CONSOLIDATED SALES			OPERATING PROFIT			
	€ millions	Growth Like-for-like	Growth Published figures	€ millions	Weight	Growth based on published sales	% of sales
Cosmetics	15,908	+8.0%	+6.0%	2,701	95.5%	+11.5%	17.0%
The Body Shop	787	+5.7%	+80.9%	64	2.3%	+9.3%	8.1%
Dermatology ⁽²⁾	368	+12.7%	+6.9%	62	2.2%	+4.3%	16.9%

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

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

COSMETICS BRANCH: 2007 CONSOLIDATED SALES

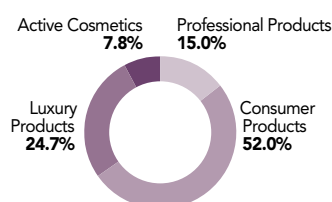
BY DIVISION	€ millions	Like-for-like growth	Growth based on published figures
Professional Products	2,392	+7.5%	+12.5%
Consumer Products	8,280	+7.9%	+4.8%
Luxury Products	3,928	+8.4%	+4.1%
Active Cosmetics	1,248	+10.8%	+10.7%
TOTAL COSMETICS SALES⁽¹⁾	15,908	+8.0%	+6.0%

(1) The difference between the total cosmetics sales and the combined total of the four divisions (€60 million), consists mainly of mail order sales.

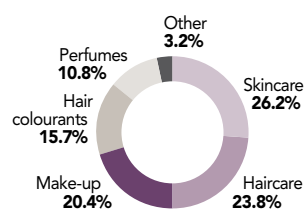
BY BUSINESS SEGMENT	€ millions	Like-for-like growth	Growth based on published figures
Skincare	4,162	+10.8%	+8.1%
Haircare	3,790	+5.7%	+4.3%
Make-up	3,240	+8.0%	+3.7%
Hair colourants	2,493	+5.2%	+2.5%
Perfumes	1,715	+12.5%	+9.1%
Other	509	+3.7%	+26.5%
TOTAL COSMETICS SALES	15,908	+8.0%	+6.0%

BY GEOGRAPHIC ZONE	€ millions	Like-for-like growth	Growth based on published figures
Western Europe	7,250	+4.1%	+3.7%
North America	4,004	+4.8%	+1.3%
Rest of the World, of which:	4,654	+17.9%	+14.5%
Asia	1,580	+14.3%	+7.0%
Latin America	1,124	+14.6%	+10.1%
Eastern Europe	1,142	+29.4%	+34.4%
Other countries	808	+15.4%	+12.5%
TOTAL COSMETICS SALES	15,908	+8.0%	+6.0%

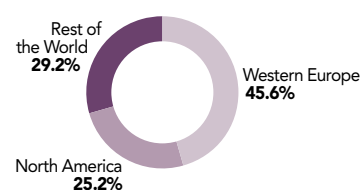
DIVISIONS WEIGHT



BUSINESS SEGMENTS WEIGHT



GEOGRAPHIC ZONES WEIGHT



LOCALISED PRODUCTION

2007	Cosmetics output	Cosmetics sales
Western Europe	50%	46%
North America	25%	25%
Rest of the World	25%	29%
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

	2005	2006	2007
Millions of units Cosmetics plant output	4,379	4,484	4,720
€ millions Cosmetics investments (production and physical distribution commitments)	288	270	248

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.

INVESTMENT IN L'ORÉAL SHARES

OVER 10 YEARS

Initial capital multiplied by 3.19 in 10 years
 Total shareholder return: 11.26%
 Purchase of 41 shares at €359.02⁽¹⁾ on December 31st, 1997: 14,719.82 euros
 Valuation at December 31st, 2007 including reinvestment of dividends (479 shares at €97.98): 46,932.42 euros

OVER 20 YEARS

Initial capital multiplied by 35.3 in 20 years
 Total shareholder return: 19.00%
 Purchase of 38 shares at €389.51⁽¹⁾ on December 31st, 1987: 14,801.38 euros
 Valuation at December 31st, 2007 including reinvestment of dividends (5,333 shares at €97.98): 522,527.34 euros

(1) Non-adjusted share price.

2007 KEY FIGURES (IFRS STANDARDS)

→ 2007 consolidated sales

€17,063 million

→ 2007 net profit excluding non-recurrent items after minority interests

€2,038.6 million

→ Dividend put forward at the Annual General Meeting on April 22nd, 2008

€1.38 per share

WORKFORCE

→ 63,358 employees of 100 different nationalities at December 31st, 2007.

INDUSTRIAL PRESENCE

→ The group has 40 factories worldwide.

GLOBAL PRESENCE

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

INVESTMENT IN RESEARCH

→ 3.3% of consolidated sales devoted to research.
 → 3,095 people engaged in cosmetics and dermatological research.
 → 576 patents registered in 2007.

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.

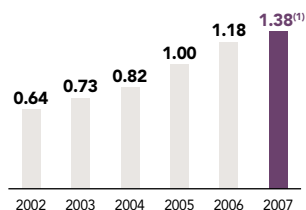
The Annual Report, the Reference Document, the Letters to Shareholders and the interactive financial Internet site (www.loreal-finance.com) are the information media regularly issued by L'Oréal to its shareholders.



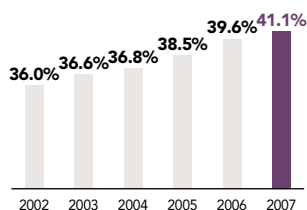
For detailed information on L'Oréal's financials, see the group's 2007 Annual Report or www.loreal-finance.com

CREATING VALUE FOR SHAREHOLDERS

DIVIDEND PER SHARE (in euro)



PAYOUT RATIO as % of net profit with Sanofi dividends



(1) Dividend put forward at the Annual General Meeting on April 22nd, 2008.

A group of five people, including Zack Mansdorf and his SH&E team, are inspecting a bamboo garden. They are all wearing white lab coats. The garden consists of many tall, thin bamboo stalks growing in rows. The ground is covered with green grass and some small plants. The background shows a clear blue sky and more bamboo stalks.

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.

Zack Mansdorf, head of SH&E for L'Oréal, with SH&E team, inspecting the bamboo gardens planted at our new wastewater treatment site at our factory in Suzhou (China) (part of the tree planting effort at our factory in Suzhou).



ENVIRONMENT, HEALTH & SAFETY

L'Oréal is committed to being a great citizen of the world and this means achieving excellence in our environmental performance. It is our policy to reduce our impact through eco-efficiency and where possible, absolute reductions in our impacts, for example via a policy of zero landfill. We are also committed to a safe and healthy workplace.

New to our SH&E reporting this year are a Sustainable Building Policy, additional information on our greenhouse gas emissions, data on energy, water and waste by tonne of product as well as per finished product for easier comparison with other companies, and wider coverage in our administrative site data.

ENVIRONMENT

SUMMARY OF ACHIEVEMENTS AND TARGETS

We had another exceptionally good year of environmental performance in 2007 with all of

our key performance indicators (KPIs) improving and exceeding our targets. We also managed to make absolute reductions in water use and carbon dioxide emissions despite a 5.3% growth in the number of products manufactured.

We regret missing our target for regulated waste for factories: the improvement was 8.5% compared to the 10% target. However, our overall waste goal was achieved. In Safety, our performance was disappointing in that we did not continue the level of improvement of previous years.

2007 KEY ACHIEVEMENTS

→ Exceeding our **energy** reduction goal of 2% from 2005 per unit of finished product, achieving 9.6% for the two-year period, and 4% last year.

→ Exceeding our goal of reducing **water** consumed in factories by 2% per unit of finished product from 2005, achieving 9.5%, with a reduction of 6.8% in 2007. We also decreased our total water use by 4.4% over the last five years and by 2% in 2007.

→ Exceeding our goal of reducing our total direct **CO₂** emissions from fuel use by 2% from 2005, achieving 5.5%. We also achieved a 5% cut in both direct and indirect CO₂ emissions over this same period and achieved a reduction of 7% per finished product manufactured in 2007.

→ Reducing our total **sulphur dioxide** (SO₂) emissions last year by 21.5%.

→ Reducing our total emissions of **volatile organic compounds** (VOCs) by 1.1% in 2007.

→ Exceeding our goal of reducing **waste** generated per unit of finished product by 5% from 2005 (excluding returnable packaging) by achieving 9.7%, and a reduction of 6.2% last year.

→ Increasing the proportion of our factories and warehouses sending **zero waste to landfill** from 44% to 54%.

→ Increasing the proportion of **waste recovered, re-used or recycled** from 91.2% in 2006 to 94.9% in 2007.



Suzhou distribution centre
(China).

ORGANISATION OF SH&E AT L'ORÉAL

The Managing Director of the Operations Division (DO) is responsible for SH&E. He is a member of the L'Oréal Executive Committee reporting directly to the CEO of L'Oréal. A Senior Vice-President reports to him and manages the SH&E Department. While this Department is administratively tied to the DO, it has group level responsibilities across L'Oréal for this function. The SH&E Department is linked to each operational entity across the group 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.

At the local level, SH&E managers have responsibility for their operations. A typical factory of 350 workers will have three to four full time staff in the 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 responsible for SH&E issues country-wide. Typically, this is due to a legal requirement or a country management decision.

The remuneration of factory and distribution 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.

The SH&E Department maintains a close partnership with the Director for Sustainable Development and the Sustainable Development Steering Committee (see page 06). There is also a dedicated member of the DO SH&E Department responsible for coordinating sustainability efforts, including new sustainability initiatives, benchmarking with peers and producing quarterly internal sustainability newsletter.

Scope: our operations

The performance data presented here covers the year January-December 2007 and performance at our 40 factories and approximately 65 warehouses around the world. This includes Galderma, our joint venture with Nestlé. It does not include our recent acquisition in Turkey (Canan), SANOFLORE (added to our system in 2008) or our distribution acquisitions (Beauty Alliance, Maly's West and Columbia Beauty Supply) in the United States. Generally, we integrate acquisitions within a two-year period so most of these sites will be integrated into our reporting next year. In a few cases, factories or warehouses were closed in 2007 and our reporting reflects performance up until actual closure.

THE BODY SHOP reports separately via its Values Report which can be found at:
www.thebodyshopinternational.com.

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—as well as some unique requirements—are being



2008 TARGETS

- Reduce energy use by 5% per finished product compared to 2007.
- Reduce total CO₂ emissions by 2% compared to 2007.
- Reduce factory water use by 3% per finished product compared to 2007.
- Reduce waste by 5% compared to 2007 (excluding returnable packaging).
- Achieve an "enlarged frequency rate" (our new and more comprehensive KPI) of lost time accidents and restricted work cases of 4 per million hours worked or less.
- All paper and board used in packaging to come from sustainably managed forests, ideally FSC-certified, by the end of 2008.

2%

reduction in total
CO₂ emissions by 2008



Waste recycling collection at our Piscataway factory (United States).

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 are reporting on some of these for the first time this year on H&S, and will continue to integrate them into our reporting in the future. We currently measure environmental performance at our administrative sites and research centres, but need one more year of experience to have confidence in the values.

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. All L'Oréal and Galderma factories are ISO 14000 accredited. In addition, 33 of 40 factories were either OHSAS 18001 or OSHA VPP at the end of the year 2007. We now have a goal to have all factories registered to this standard by the end of 2008.

SH&E risks

The cosmetics industry generally has a limited environmental risk profile. 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, and are considered a relatively low risk by our insurers,
- storage of fuels and other chemicals. 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.

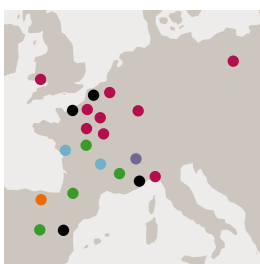
THE L'ORÉAL SAFETY, HEALTH & ENVIRONMENT (SH&E) POLICY

L'Oréal is committed to the development, production, distribution and sale 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.

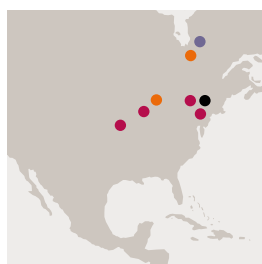
To achieve these goals, we undertake to:

- 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.

OUR FACTORIES BY GEOGRAPHY AND DIVISION



→ Europe
21 factories (including 13 in France)



→ North America
8 factories



→ Latin America
3 factories

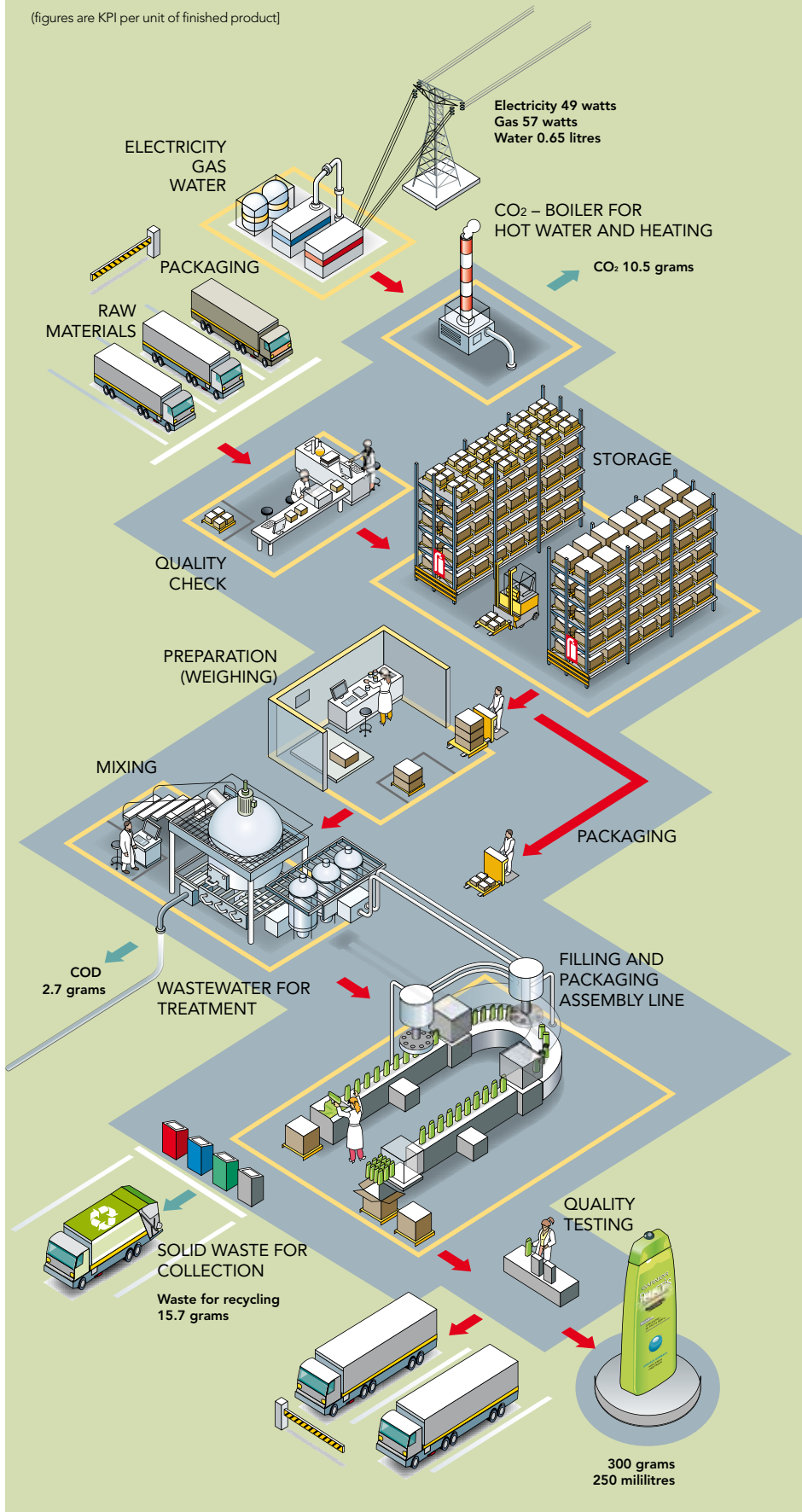


→ Asia - Africa - Orient - Pacific
8 factories

- Consumer Products: 23 factories
- Luxury Products: 6 factories
- Professional Products: 3 factories
- Active Cosmetics: 2 factories
- Dermatology: 2 factories
- Raw materials: 4 factories

INPUT, PROCESSES AND OUTPUTS (SIMPLIFIED) OF A TYPICAL L'ORÉAL SHAMPOO FACTORY

(figures are KPI per unit of finished product)



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.

Three sites (compared to 4 in 2006) 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. All sites undergo environmental due diligence before being bought or sold. 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 environment. 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 Buildings Policy is now effective.



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

New Sustainable Buildings Policy

In 2007 a new Sustainable Buildings Policy was developed and implemented. This policy applies to all owned or operated L'Oréal facilities worldwide. All new major construction and significant renovation projects will be required to meet Leadership in Energy and Environmental Design (LEED) standards or equivalent local certifications (for example, HQE in France). Where these certifications do not exist, construction and renovation projects must meet our internal equivalent standards (we have published an extensive guide), which cover site selection, energy reduction, use of green or renewable energy, conservation of water, use of renewable building materials, quality of the interior spaces (user comfort) and innovation.

We already have several LEED projects underway. Last year, our property department won the Building of the Year Award for our HQE-certified (French equivalent to LEEDS) research facility in Chevilly-la Rue, France.

SH&E training

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

- our RO (organisation for risks) 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 SH&E Department and our Training Department offer a number of technical training programmes. We expect our new senior management training course on "Leadership in SH&E" to be offered in 2008,
- training to raise awareness of SH&E issues: modules for raising employees' awareness of SH&E 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.

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,
- a number of ongoing taskforces comprising these members for the development of new standards, best practices, and technologies,
- "SH&E Strategic Retreats" where strategies and objectives can be formulated,
- a three-day worldwide SH&E conference every two years for our 100 industrial SH&E managers and teams. The 2007 meeting was held in Mannheim, Germany.

L'Oréal also participates in many external forums promoting learning, benchmarking and sharing of best practice. Many of these organisations are international in their scope, such as the Conference Board (Health & Safety, Environmental and Sustainability Councils), the International Occupational Hygiene Association, the 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.

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 advantage of our extensive data collection and reporting system is that every senior manager knows their exact progress monthly as well as their benchmark against the other reporting groups.

SH&E auditing

A comprehensive group auditing programme for industrial sites has been in place for more than ten years to regularly assess SH&E risk and progress. Factories are audited for an average of one week by teams of between four and seven experts. External consultants perform one-third of these audits. Around a quarter of the factories are audited each year, which means that each plant undergoes an in-depth inspection approximately every four years. In 2007, we conducted 14 audits.

In 2008, we will expand and completely outsource our regular auditing programme. This new programme will include routine auditing of warehouses as well as factories. We have programmed 67 audits (23 factories and 44 warehouses) for next year. We have also added the criteria that any site above our accident goal will be included in our audit programme regardless of the date of their last audit.

In addition to our comprehensive SH&E audits, inspections are also performed by our insurers (78 fire and environment audits in 2007), by ISO auditors (approximately 30 for ISO 14001 and OHSAS), government agencies and others.



Formula preparation, Pudong (China).



Solar water heating panels, Pune factory (India).

→ **Supplier audits**

Third party audits on labour standards (see page 09 and pages 58 to 65) 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 authorisation 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.

emissions and water use. In the last five years, the number of finished goods produced has increased by approximately 24%.

Energy

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

→ **Natural gas and fuel oils**

Our policy is to use natural gas in preference to oil/diesel when available since it produces less greenhouse gas emissions (GHGs). In the locations where natural gas is not available, we use the lowest sulphur containing fuel available. We use natural gas in 33 of our 40 factories and approximately 60 of 65 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 steam 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.

→ **Electricity**

We use electricity for the operation of machinery, lighting, ventilation, and safety devices. We

ENVIRONMENTAL PERFORMANCE

The context—growth in production

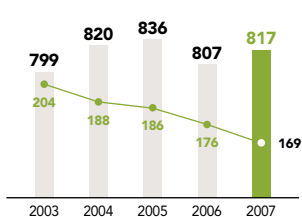
We produced 5.3% more finished goods in 2007 than 2006. Therefore we are particularly pleased to have achieved absolute reductions in CO₂

BREAKDOWN BY ENERGY SOURCE

(millions of kWh)

Sources	2003	2004	2005	2006	2007	
Electricity	355	373	378	374	381	47%
Gas	387	397	409	379	400	49%
Fuel	57	50	49	54	36	4%
TOTAL	799	820	836	807	817	100%

TOTAL ENERGY USE
(factories and warehouses)



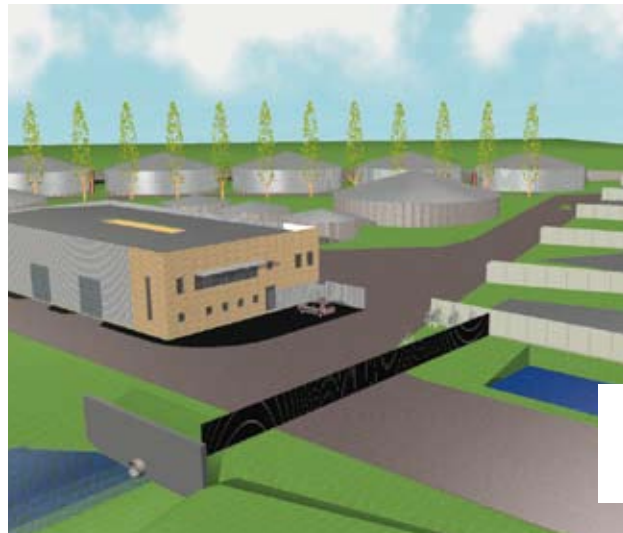
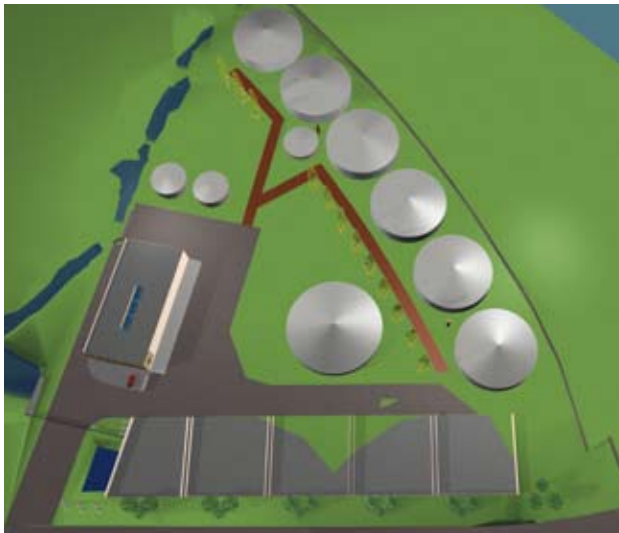
■ Millions of kWh
● kWh per 1,000 finished products
1kWh=0.0036GJ. Data for equivalent kWh/T of bulk are 1,145 for 2005, 1,065 for 2006 and 1,054 for 2007.



INDONESIA

Improving energy efficiency

Over the last year, whilst output has increased by 62% at our Indonesian factory, energy consumption only grew by 29%. This meant that energy used per 1,000 finished products improved from 120kWh to 95kWh. This was achieved by improving the boiler and steam network, reducing leakages, and tailoring the cleaning time required to the size of the vessel. ■



Biogas project at our Libramont factory (Belgium).

have an on-going ambitious worldwide programme to reduce electricity use and to promote renewable energy. Despite increased automation over the last five years, our eco-efficiency has significantly improved.

→ **Renewable energy**

L'Oréal is currently moving exploring many different sources of renewable energy. For example:

- we have a new bio-methane supplied cogeneration plant being built at our Libramont factory, so that 80% of its energy needs will be supplied by renewable crops rather than fossil fuels. We hope to shift from using corn and other crops to using agricultural waste by 2010,
- in India, our factory in Pune has had great success with its solar water heating system installed in 2006 and is adding further capacity to supply new facilities,
- our factory in Karlsruhe, Germany has installed both energy producing and water heating solar panels on its administrative building.

We continue to look at other alternatives in a number of locations such as the feasibility of geothermal energy in Spain and the use of bio-

methane generated from our wastewater treatment operations. We expect a number of renewable energy projects in 2008.

→ **Performance analysis**

Our energy use increased by 1.2% last year against a 5.3% increase in production. Over a five-year period, energy use increased by 2.2% against increased production of 24%. This means we increased our eco-efficiency over the last five years by 17.2%. This is rewarding from both a financial perspective as well as an environmental one. We are committed to reductions in energy use on both absolute terms and on finished product basis. Many of the energy saving measures such as use of high efficiency boilers, compressors, and lighting, recapturing of waste water heat, etc. have already been implemented at our sites. Nevertheless, we believe we can find other approaches to continue to save energy and meet our GHG emission goals.

→ **2008 TARGET**

5% reduction from 2007 in energy used per finished product (factories and distribution centres). ■

Water

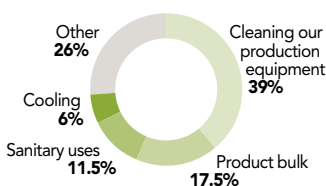
Water is used primarily in our manufacturing operations and to a lesser extent in our warehouses, research and administrative centres. Product content represents about 17.5% of all of our water consumption in manufacturing. The other main use of water is for cleaning production equipment and our packaging lines to maintain our strict hygiene standards. This represents approximately 39% of our water use in factories. Human sanitary use (e.g. cafeterias, drinking water, wash-rooms, etc.) represents another 11.5%. The remaining 32% is used for heating, cooling, and other uses (for example, landscaping). Water use is also related to the types of products manufactured (for example, a shampoo versus a powder) and number of products manufactured.

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

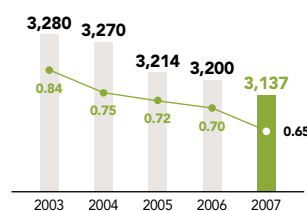
→ **Performance analysis**

We recognize the critical importance of water conservation and have a very aggressive programme to conserve this resource. We are pleased to

USE OF WATER
(factories and warehouses)



WATER CONSUMPTION
(factories and warehouses)



■ Water consumption x1,000m³
● Litre per finished product

Equivalent water use as cubic meters per tonne of bulk was 4.4 for 2005, 4.2 for 2006 and 4.1 for 2007.

3%
goal for reduction in water used per finished product by 2008



Our factory in Rambouillet (France) has installed a system to recover waste heat. This has resulted in a 23% reduction in natural gas use per year, with an 8% reduction in electricity use.

report continued progress with a reduction of 22.7% per unit of finished product over the last five years. We far exceeded our goal last year of a 2% reduction based on 2005 (we achieved 9.5%) and from 2006 to 2007 decreased our water use per finished product by 6.8%. In addition, we decreased our use in absolute terms by 4.4% over the last five years and by 2% from 2006 to 2007.

→ **Initiatives**

For many years now machine-cooling water has been recycled and re-used to reduce water consumption. Furthermore, several plants re-use the wastewater generated by the demineralisation process for the first rinse of our vessels after being used, rather than new 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.

→ **2008 TARGET**

3% reduction in water consumption per finished product compared with 2007 (factories). ■

Emissions to the atmosphere

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).

→ **Climate change strategy**

L'Oréal is committed to reducing our impact on climate change. This includes reducing our Scope 1 direct emissions, Scope 2 indirect emissions and our Scope 3 supply chain emissions. Our focus has been on reducing Scope 1 and 2 emissions over the last several years. We have also initiated work on raw materials, packaging, travel, transportation and product use and disposal. Some of those initiatives are reported in this chapter and in other sections of the report. A more complete report on this subject can be found on the Carbon Disclosure Project website (www.cdproject.net). We have participated in this initiative for several years and are one of the original members of the CDP's Supply Chain Leadership Collaboration project (see page 62).

Details of external assessments of L'Oréal's climate change strategy can be found on page 06.

→ **Greenhouse gases (GHGs)**

We generate GHG emissions mainly as CO₂ from the use of fossil fuels for the generation of steam and heating of the group's buildings. We do not emit other GHG of significance other than refrigerant losses from cooling units (these loss are negligible as they represent less than 0.1% of our emissions). In addition, CO₂ is generated indirectly through our electricity use, and by third party transportation of our products and in other aspects of our supply chain.

Over the last year L'Oréal has been working to analyse its carbon footprint at each stage of the manufacturing process. Work is ongoing in this area.

L'Oréal is exempt from the European regulations on CO₂ emission quotas due to the relatively small size of our energy requirements. However,



FRANCE

Reducing water use at Aulnay

Our Aulnay factory has one of the lowest rates of water consumption of all our factories. In 2007 we cut consumption by 15,000m³, a reduction per finished product from 0.47 litres in 2006 to 0.39 litres in 2007. This was thanks to highly motivated employees, who worked hard to optimise washing cycles, reduce water lost in cooling and reducing the water used by equipment including the ozone analyser. This reduction was particularly admirable as Aulnay was already one of the most efficient factories in terms of water consumption in 2006. ■



2008 Green Cup competition, Suzhou factory (China).

we are committed to reducing our emissions by the use of more efficient heating systems, reduced fuels and electricity use via new technologies, reducing our transportation requirements and other means. We were very successful in 2007 in reducing our direct CO₂ emissions (Scope 1) by 0.7% overall and by 5.5% in grams of CO₂ per finished product.

Since 2005, we have also measured our Scope 2 indirect emissions from electricity. Electricity use represents approximately 61% of emissions and fuel use the other 39%. We estimate an additional 67 Kilotonnes of CO₂ from electricity use at administrative sites for a total estimated emission level for all sites (Scope 1 and 2) of approximately 285 Kilotonnes of CO₂. We are still integrating our administrative and research sites into our data collection system and expect to be able to establish goals for them in 2008 as part of our overall climate change strategy.

→ 2008 TARGET
Reduce CO₂ emissions by 2% from 2007 levels (factories and distribution centres). ■

→ Transport

Transport of our products to our distribution centres and to our customers is a major contributor of GHGs. L'Oréal does not have its own trucking fleet and relies on contracted services from a number of logistics and transport firms. We started reporting on this using an index of ktonne*km last year. We are not yet able to report on the equivalent GHG emissions as it is very dependent on the type of truck, train, ship and airplane used. Nevertheless, we hope to be able to report on this in the future.

One of the responsibilities of the new Supply Chain Organisation at L'Oréal is to optimise our logistics including the reduction of inefficient transport and consequently reduce Scope 3 emissions from transport.

There are very strong economic drivers for reducing the distances our products travel. Last year we reported on a new logistics interface to directly address this. These market supply logistics (MSL) centres now coordinate movements

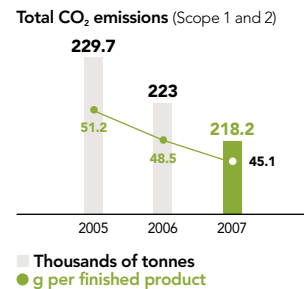
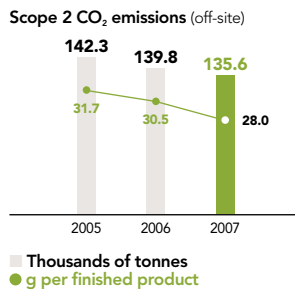
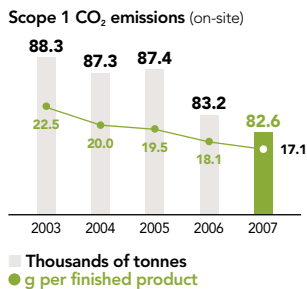
of goods from our production and warehouses to our customers. Their goal is to reduce the travel distances and otherwise improve the logistics of our supply.

We have enhanced our data collection system for transport as a result of our new Supply Chain Organisation. The new data collection system now includes transport from our industrial distribution centres to our commercial distribution sites and subsequently to our clients from these sites. Next year, we will report on the changes and categories of transport using this new system. For this year, we can report on a total figure of 2,163, 747 ktonnes*km (one thousand tonnes travelling one kilometre).

→ Employee travel

There have been a number of initiatives to reduce employee travel and encourage use of more environmentally friendly modes of travel. A goal has been established group-wide to reduce travel whenever possible through use of video conferencing, telephone conferencing, etc. State of the art video conferencing centres

CO₂ EMISSIONS FROM FACTORIES AND WAREHOUSES



ZERO LANDFILL

This year 54% of our sites sent zero waste to landfill, up from 44% in 2006. All material leaving L'Oréal sites other than in products is considered a waste, even if used again (e.g., pallets).

This includes construction debris, old equipment, products rejected for quality reasons, residues from manufacturing and other such wastes. Waste excludes effluent and atmospheric emissions that are reported separately.

We have had aggressive goals over the last five years for the reduction of solid wastes, especially cardboard and paper. This year we generated 2.3% less waste per finished product than in 2006, although we missed the target we set in 2005 to reduce waste (excluding returnable packaging) by 5% per finished product over this two-year period (we achieved 2.6%). We improved our eco-efficiency this year by using a variety of approaches, for example, using less packaging, and by encouraging the use of more returnable packaging (packaging that is re-used a number of times rather than discarded). Sludges are generated from wastewater treatment, and "regulated wastes" (part of special waste) are those classified by local regulations as hazardous (e.g., flammable products). In 2007, we reached our target to reduce regulated waste by 10% for the warehouses, but we just missed it for factories (8.2% reduction).

have been established in all of our major operations. Employees have been encouraged to use rail instead of air travel wherever available. Preference for low CO₂ emitting, high fuel efficiency vehicles has been established. For example, our French headquarters provides an economic incentive for fleet cars producing less than 160g/km. Many of our sites have provided preferential parking for ride share (car pool) vehicles and hybrids.

→ Volatile organic compounds (VOCs)

We reduced our VOC emissions by 1% in 2007. These 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 continually monitor our progress in this area. Our emissions sources by manufacturing activity are shown below. 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.

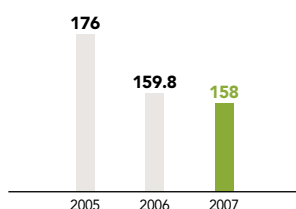
→ Sulphur dioxide (SO₂)

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 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 5%. Over the last year we have achieved both a total emission reduction of 21.5%, and 25% per finished product. Much of this improvement is due to our energy reduction efforts and the conversion of our factory in Sao Paulo from fuel oil to natural gas.

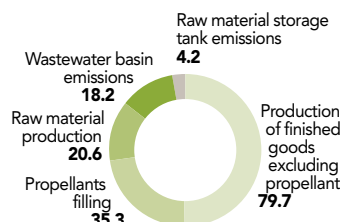
Waste

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. Our long-term goal is zero waste to landfill. In 2007, 57 of our 105 sites, or 54%, did not landfill any waste. This is up from 44% 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.

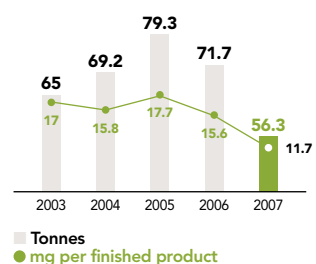
ESTIMATED VOC EMISSIONS
(tonnes)



ESTIMATED VOC EMISSIONS
BY SOURCE 2007
(tonnes)



SO₂ EMISSIONS





BRAZIL

Reaching zero landfill at the Rio factory

In 2007 our factory in Rio hit 100% waste recovery rate, by setting up the State of Rio's first composting facility in conjunction with our waste management partner, VENATIV. Around 38 tonnes of organic waste from our restaurant and garden have since been composted offsite by the new company, Vide Verde.

As the composting facility has a capacity of 330 tonnes per month, many other companies are now taking advantage of this opportunity. Vide Verde already employs six people. Moreover, L'Oréal benefits from free compost to use in our gardens! ■



CHINA

Increasing the re-use rate, Suzhou

In 2007 our Suzhou factory achieved a 100% recovery of waste by increasing re-use and recycling, up from 83% in 2006.

Key to this was 26 of our suppliers using the standard re-usable shipping cases, up from 10 in 2006.

In addition, training was held on waste classification and paper saving. ■



FRANCE

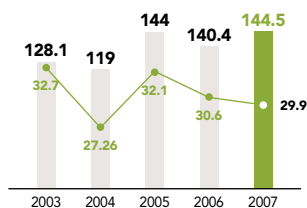
Reducing alcohol use in cleaning, Fapagau

Fapagau has significantly reduced the alcohol used to rinse equipment that manufactures perfumes, by re-engineering the cleaning process.

Despite production increasing by 26% over the year, we were able to reduce the alcohol disposed of from 331 tonnes in 2006 to 265 tonnes in 2007 — a cut of 20% (alcohol is classified as a regulated waste). ■

WASTE

(factories and warehouses)



■ Thousands of tonnes
● g per finished product

Equivalent grams of waste per tonne of bulk product (g/T of bulk product) were 0.20 for 2005, 0.19 for 2006 and 0.19 for 2007.

WASTE

(kTonnes)

Type of waste	2003	2004	2005	2006	2007	
Common solid waste	63	59	65	53	51	36%
Returnable packaging	15	18	33	36	41	28%
Sludges	10	10	10	9	11	8%
Other special wastes	30	22	26	42	41	28%
TOTAL	128	119	144	140	144	100%

A further 8 Ktonnes of extra waste arose mainly from building destruction.



Waste recycling,
Pune factory (India).

→ **Returnable packaging**

We significantly increased our use of returnable packaging in 2007. 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 95%, up from 91% last year, with only 5% of our waste being incinerated without energy recovery or sent to landfill. We believe we are a global leader in this regard.

Wastewater (effluent)

L'Oréal carries out pre-treatment appropriate for the type of effluent before discharging it into local wastewater treatment plants operated by municipalities. In 2007 all but four factories have equalisation tanks, which store waste to ensure a homogenous mix and prevent spikes of waste content. We have on-site treatment at approximately 60% of our sites using state of the art treatment plants with biological as well as phys-

ical and chemical processes. In the other locations, pre-treatment is not required. However, all wastewater is tested before being sent to municipal treatment plants or discharged. No significant wastewater is generated at our warehouses other than normal sanitary wastes.

The chemical oxygen demand, COD, is the single most commonly used indicator for wastewater treatment. Our overall generation of COD (in ktonnes) increased 5.3% in 2007, which is equivalent to our increase in production.

We have initiated two cooperative research projects with universities to study the potential for improving our management of liquid wastes. The University of Karlsruhe is currently looking at treatment alternatives while an EU research agreement with the University of Newcastle has been completed to study energy efficiencies in wastewater treatment. The goal in both approaches is to minimise overall energy use and solid waste production while maximizing residual treatment efficiency.

Spills and remediation

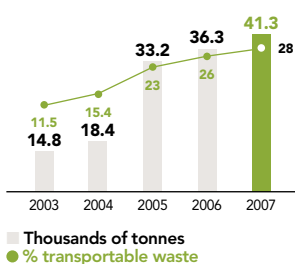
During 2007, a leak of an unknown quantity of ethanol was found from our underground alcohol storage at one of our New Jersey factories in the United States. Pure ethanol is not a major environmental hazard. However by regulation, the alcohol must be denatured with tertiary butyl alcohol. Monitoring has confirmed the spill is limited to a very small area on our property. A remediation project is currently underway in cooperation with the State of New Jersey Environmental Protection Agency.

Fines and prosecutions

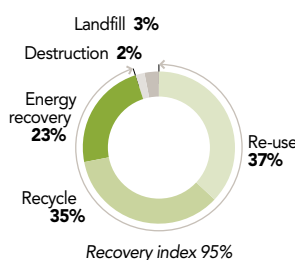
In 2007, we had one fine, five administrative notices and two neighbourhood complaints reported from our sites worldwide. The fine was imposed for foaming event outside the factory in the United States. We received five administrative notices but no monetary fines in France and United States. All were relatively minor administrative issues which have been resolved.

We received a complaint from a neighbour in Israel concerning lighting during the night and another due to odours present near our wastewater treatment plant in the United Kingdom.

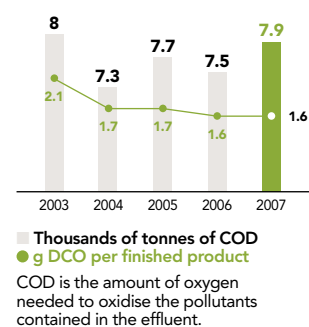
RETURNABLE PACKAGING



WASTE BY DISPOSAL METHOD



WASTEWATER QUALITY – COD





Training session of L'Oréal firemen, Rio factory (Brazil).

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 39.5% as well as our severity rate by more than 14%. However, we are disappointed to report that after more than 10 years of continuous improvement our performance has stalled over the last year. We failed to meet our improvement goal of a total frequency rate of 2 or less, with a figure of 2.55 in 2007.

→ 2008 TARGET

Enlarged frequency rate ≤ 4.0 per million hours (represents 11% reduction with a long-term target of zero accidents). ■

Performance

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

Our target for 2007 was for every factory to have a frequency rate of lost-time accidents of 2 or less and for warehouses to be at a lost time injury rate of 3 or less, which corresponds to the OSHA industry benchmark rate of 0.4 and 0.6 respectively, per 200,000 hours worked. While 18 of 40 factories and 41 of 65 distribution centres had no lost time injuries in 2007, we unfortunately missed the target, with 6 of 40 factories and 9 of 65 warehouses over this target rate. For some of our smaller warehouses, 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.

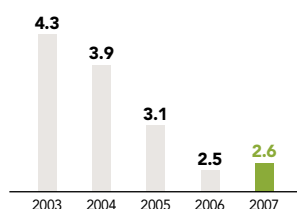
We have initiated a number of new approaches to re-energise our efforts to reduce our injuries and accidents. We have moved from reporting total frequency of lost time accidents to a new measure we call our "enlarged frequency rate". This rate includes lost time accidents for all workers (temporary and regular employees) and

all light duty cases (restricted work due to injuries). This frequency rate was 4.5 per million hours worked in 2007. For this index, 12 of 40 factories and 40 of 65 warehouses had a rate of zero. We will use this KPI in the future since it is more inclusive and more representative.

In addition, we have launched "safety culture" surveys at many of our sites and included safety culture programmes in our plans for 2008. We have also launched a more comprehensive training approach for all L'Oréal employees on the expectations and responsibilities for management and workers in safety. We believe these and other initiatives along with strong senior level management support will lead to a return to improvement in this area. Our ultimate goal is no accidents.

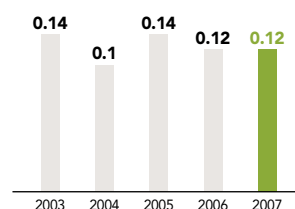
Last year our Florence, Kentucky factory achieved OSHA VPP status. All American factories are now VPP with a goal of all factories being either OSHA VPP or OHSAS 18000 accredited. Currently, 33 of our 40 factories have this status.

LOST TIME INJURY RATE
(factories and warehouses)



The actual values (without rounding) are 2.53 for 2006 and 2.55 for 2007.

INJURY SEVERITY RATE
(factories and warehouses)



39.5%

improvement in the lost time injury rate over the last five years

L'ORÉAL SH&E AWARDS

The SH&E Awards are in-house prizes designed to motivate employees and reward them for exceptional SH&E performance. This year the six prizes were won by the following sites:



→ Our Piscataway, New Jersey (United States) factory won the Excellence in SH&E Award after a year of exceptional performance. They have more than 4.5 million hours (three years) without a single lost time accident and exceptional environmental performance with reductions in all major indicators.



→ Our Deluxe Products distribution centre in Saint-Quentin (France) won the Excellence in SH&E Award for distribution centres. They have an impressive zero accident record as well as significant improvement in their environmental KPIs.



→ Our fragrances factory located in Gauchy (France) won the Award for the Best Safety Initiative for their innovative programme in safety culture called, "555, The Prevention Reflex".



→ Our factory in Rio de Janeiro (Brazil) won the award for the Best Initiative in Environment for their composting project (see page 27).



→ Our warehouse in Manchester (United Kingdom) won the award for the Best Initiative in SH&E for their employee programme in risk recognition and awareness called EHAP.



→ Our warehouse in Cranbury (New Jersey) won the award for the Best Community Relations Initiative with their programme on cancer awareness (see page 73).



Re-useable containers for our mascaras packaging components in Ormes factory (France).

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 remained unchanged last year. We had no life threatening injuries, loss of limbs or fatalities last year, including vehicle accidents.

→ **Safety at administrative sites**

We have been increasing our coverage of administrative sites in our monthly reporting schemes. We have approximately 100 major administrative sites ranging in size from a few hundred to several thousand people. We currently have 17 of our largest sites reporting on a monthly basis. These sites represent approximately 14,000 L'Oréal employees. Our lost time injury rate for this population is 4.4 with a severity rate of 0.9. This data is based on local reporting rules and includes some medical conditions (e.g., heart attacks) that are not actually accidents, as well as commuting accidents. Nevertheless, we will work to reduce this rate over the next few years. We are also collecting environmental data from these sites and should be prepared to report on this next year.

PACKAGING

Packaging—a necessary evil

A product's packaging is part and parcel of the product itself, fulfilling multiple functions:

- it enables safe transport of the product from the moment it leaves the factory, throughout its journey to the consumer and eventual disposal,
- it protects the product from external conditions: light, oxidation, steam, etc.,
- it presents the product such that it is easy to use,
- it provides the consumer with information about conditions of use and ingredients,
- it is a vehicle for the product's brand identity.

The right choice of packaging materials

L'Oréal uses a variety of different materials for its packaging: paper, board, plastic, glass, aluminium and iron. The choice of materials is no accident. Packaging is designed to provide the best formula/packaging combination and ensure the best possible future for the packaging after use. Disposal of the packaging at the end of the product's life is taken into account at the development stage to ensure that the packaging can be integrated as efficiently as possible into existing recycling systems. To aid recycling, L'Oréal keeps the number of different materials used to a minimum and provides information about the nature of the material.

Packaging policy

L'Oréal's Packaging & Environment policy is based on three principles: Respect, Reduce, Replace.

18

out of 40 factories with no lost time injuries in 2007

34

out of 40 factories met or exceeded our lost time injury rate target of 2

41

of 65 distribution centres with no lost time injuries in 2007



Packaging Research's team (France).

→ **Respect**

- For the consumer and the environment L'Oréal, going a step further than current legislation on heavy metal content, refrains from using materials and substances likely to pose even the slightest risk to the consumer or the environment. Through a far-reaching programme, L'Oréal has decided to eradicate a number of sensitive materials from its packaging. This programme is widely publicised among packaging suppliers and the different entities involved in the packaging chain.

- For biodiversity

L'Oréal took the first step towards responsible sourcing of the board used for its packaging by developing Trulor board in partnership with a European papermaker. Trulor stands up well to different luminants and is perfectly white, whilst being totally chlorine-free (TCF) since no chlorine is used in the manufacturing process. The weight of this board is lower than other boards used for the same applications; less material is

used for equivalent functionality. Finally, Trulor is FSC-certified (Forest Stewardship Council), guaranteeing that it is derived from a sustainable source, respecting woodland biodiversity.

In 2007, L'Oréal introduced a target for all paper and board used in packaging to come from sustainably managed forests, ideally FSC-certified, by the end of 2008.

→ **Reduce**

L'Oréal very early introduced a packaging reduction policy. Using less material is beneficial throughout the lifecycle of the packaging: fewer resources extracted, less energy used in processing the materials, less transport and ultimately less waste.

In the early 1990s, L'Oréal launched a global weight reduction programme for its bottles and jars. As packaging processing technologies progress, we continue to make our packaging lighter. Today L'Oréal can be proud of the results achieved: the group's leading products boast packaging among the lightest on the market.

The programme continues—we strive to reduce the weight of our bottles and jars more and more each year.

This initiative relates to product packaging and all packaging involved throughout the supply chain. Efforts are also being made with regard to outer packaging and the packaging of finished products.

→ **2008 TARGET**

L'Oréal introduced a target for all paper and board used in packaging to come from sustainably managed forests, ideally FSC-certified, by the end of 2008. ■

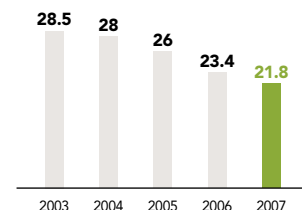
→ **Replace**

The reduction of packaging weight reaches its limit as soon as its primary function is threatened. So as not to be restricted by this, L'Oréal actively seeks alternative solutions.

REDUCING PLASTIC—WEIGHT OF FRUCTIS SHAMPOO BOTTLE



WEIGHT CHANGE OF FRUCTIS PACKAGING
(bottle + cap in grams)





KIEHL'S has launched a 100% post consumer recycled PET.

- Recycled materials

One solution identified is the use of recycled materials, where it is proven to reduce the overall environmental impact. Extensive testing has been carried out with recycled materials and is ongoing. A handful of the group's brands, THE BODY SHOP and KIEHL'S for example, are already using recycled PET. This year, THE BODY SHOP introduced a 250ml Grapefruit Shower Gel bottle made from 100% recycled content (see page 77). KIEHL'S also introduced Superbly Restorative Body Lotion and Superbly Restorative Dry Oil products in 100% post consumer recycled PET.

- Materials derived from renewable resources

Conscious of the advantages of materials such as bioplastics, L'Oréal has been monitoring technological progress in this area for many years. Extensive testing has shown that such materials do not yet offer the necessary characteristics to ensure the integrity and preservation of the product over time. This is why we are exploring other avenues of innovation that should enable us to reduce our consumption of materials derived from fossil-based resources in the shorter term.

Measuring the environmental footprint of packaging

Eco-design is a day-to-day concern for L'Oréal's packaging departments; the environmental impact of packaging is taken into account at every stage of its lifecycle. L'Oréal is now keen to step up its environmental work by integrating lifecycle analysis into the design of its packaging. Being aware of and quantifying the impact through this multi-criteria analysis method will

enable us to go even further in reducing the environmental footprint of packaging. Our initial studies have shown that manufacturing of the material is the stage that has the most impact, which supports L'Oréal's policy of reducing the amount of material used and replacing certain substances with less harmful alternatives.

Packaging—organisation and communication

To ensure that the environmental issues associated with packaging are adequately addressed, L'Oréal has organised itself in a manner that gives it maximum control over packaging design. Each major division or area has its own operational packaging department whose role is to design and develop product packaging in line with the directives and guidelines laid down by our Corporate Packaging team, in particular with respect to environmental-friendliness.

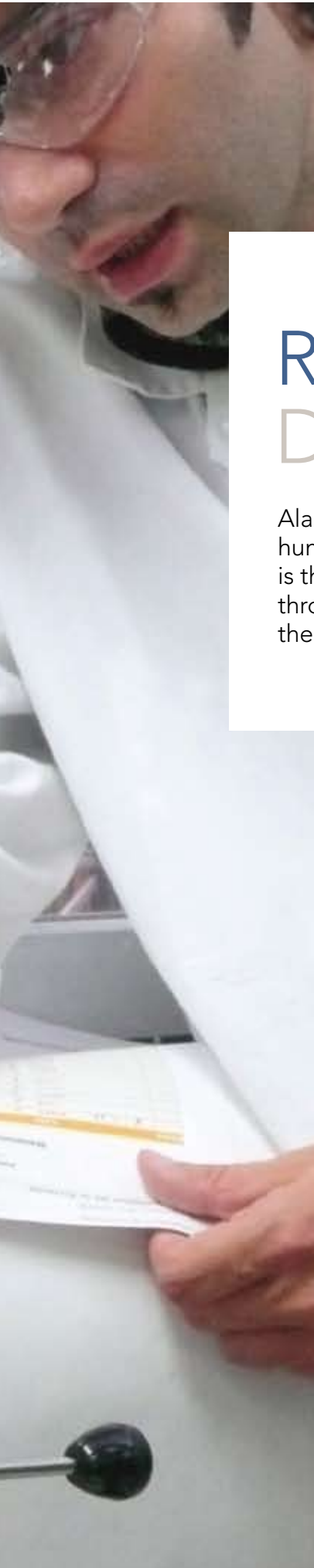
Because L'Oréal is present in more than 130 countries with a portfolio of over 20 brands, it is important for our environmental policy to be consistent and homogeneous across all our brands. A Packaging & Environment Manager (a position created in 2006) monitors the dissemination, understanding and implementation of a number of best practice guidelines covering subjects such as sensitive substances, PVC, packaging volume, recycling and biodegradability of plastic packaging.



L'ORÉAL'S COMMITMENT

TO PROMOTE SUSTAINABLE INNOVATION BY INTEGRATING THE PRINCIPLES OF SUSTAINABILITY INTO OUR R&D PROCESSES AND ACTIVITIES.

L'Oréal Research teams are responsible for the development of a product from the selection of raw materials to the manufacturing process.



RESEARCH & DEVELOPMENT

Alarm bells are ringing increasingly frequently, alerting us to the impacts of humans on climate, water, and biodiversity. Finding a path to sustainable innovation is therefore a priority. L'Oréal's organisation, at international level and throughout the production chain, from Advanced Research and raw materials to the finished product, demonstrates our conscious commitment to this goal.

OUR INCREASED COMMITMENT FOR SUSTAINABLE INNOVATION

In 2005, L'Oréal drew up fundamental commitments to sustainable development to guide our activity and growth for the future:

1. Raw materials assessment

- To guarantee the innocuity of ingredients both for humans and for the environment:

- to enable handling of raw materials in complete safety,
- to assess, from the outset of the design phase, the safety of raw materials and formulae.
- To increase the proportion of raw materials from renewable plant sources.
- To continue the development of alternative methods to animal testing.

2007 KEY ACHIEVEMENTS

ADVANCED RESEARCH AND TISSUE ENGINEERING

→ Setting up a complete reconstructed skin model (RealSkin), with living dermis and epidermis.

→ Use of reconstructed epidermis (Episkin) and cornea (SkinEthic) models to assess the efficacy and safety of raw materials.

→ Increased investment in Episkin and increased Episkin production capacity.

RAW MATERIALS

→ Significant development of green chemistry and Pro-Xylane™, an agent resulting from green chemistry.

→ Systematic assessment of the impact of raw materials on the environment and biodiversity.

→ Establishment of a Natural and Organic Centre of Excellence.

→ Integration of six raw materials resulting from fair trade in L'Oréal's portfolio.

ALTERNATIVE METHODS TO ANIMAL TESTING

→ Approval by the ECVAM⁽¹⁾ of the skin irritation test on the Episkin epidermis model.

→ Entry of the SkinEthic reconstructed cornea into a pre-validation phase for ocular irritation.

→ Participation in a European Working Group studying a genotoxicity test on the Realskin reconstructed skin model.

→ Participation in a wide-ranging scientific programme with the cosmetics industry and the European

Commission in the field of methods other than systemic toxicity tests.

→ Promotion of alternative methods and an alternative safety assessment with principal suppliers.

RESEARCH STUDIES AND JOINT PROGRAMMES

→ Development of company-university partnerships in social sciences.

→ Deployment of "geocosmetic" studies on everyday care and beauty practices worldwide.

→ Studies on cosmetics and quality of life.

→ Increased co-operation with the Hôpital Percy concerning grafting for severe burns.

(1) European Centre for the Validation of Alternative Methods.



Innovations in skincare go through a deep knowledge of cellular biology.

2. Relations with suppliers

- To help suppliers incorporate sustainable development principles.
- To qualify the provisioning and processing of raw materials.

3. Responsible procurement

- To protect biodiversity.
- To conduct ecobalance studies into the most commonly used raw materials.
- To structure some of these resources so as to support local and regional development.
- To affirm the rights and safeguard the interests of local populations:
 - to ensure their access to source raw materials,
 - to recognise their traditional areas of expertise,
 - to ensure that they enjoy a "fair return".

4. Opening up to the outside world

- To participate in dialogue with stakeholders.

L'ORÉAL RESEARCH

From the very beginning, L'Oréal based its development on cutting edge research. Today, as a leader in several scientific and technological sectors, L'Oréal considers that scientific

research is a driving force for developing knowledge and innovation. Taking into account the diversity of needs is a policy to which it devotes considerable efforts, in order to understand the characteristics of different skin types and hair; so as to offer products matched to the needs of populations across the world.

SAFETY OF INGREDIENTS, PRODUCT TOLERANCE

PROTECTION OF CONSUMERS AND PROFESSIONALS

Protection of consumers and professionals is an absolute priority for L'Oréal. Even before regulations demanded it, L'Oréal formed a safety assessment team for its products in order to guarantee their innocuity.

The assessments made by our International Safety Assessment Department mark all the steps of the product life cycle⁽¹⁾.

The six steps in assessing the safety of a product

1. Examination of the available safety data on the ingredients.
2. Safety of the ingredient in the end product.
3. Approval of ingredient concentrations.
4. Safety tests on the end product.

5. Safety validations for the end product.
6. Market launch and post-marketing monitoring (international cosmetics vigilance network).

As well as the very strict safety tests to which end products are subjected before they are placed on the market, L'Oréal applies national safety regulations in force in the 130 countries where they are sold.

L'Oréal has also supported the European REACH legislation governing chemicals since 2003.

TISSUE ENGINEERING: UNDERSTANDING BIOLOGICAL MECHANISMS

A major investment in tissue reconstruction

In order to study skin, L'Oréal has for a long time promoted research into cell biology and tissue engineering and has designed the reconstructed skin used in cutaneous biology.

Reconstructed skin applications:

- Increase knowledge of the skin without resorting to invasive clinical tests.
- Assess the tolerance and efficacy of raw materials.

(1) The entire process is described in detail on the website www.loreal.com, Research tab, Product Safety chapter.

2007 KEY FIGURES

€560M
invested in R&D in 2007

3.3%
of turnover (+5.1% compared with 2006)

More than
€4.2bn
invested in R&D in ten years



Make-up shades are developed locally in our regional research centres (here in China).

- Develop and set up skin models for toxicity tests in order to reduce or even eliminate use of animal experiments.
- Validate and standardise alternative new tests to assess safety and tolerance of raw materials.

Our research focuses on developing alternative methods to animal experiments, particularly via reconstructed human skin and cornea. L'Oréal routinely uses reconstructed epidermis to assess skin tolerance to all raw materials and end products: 5,000 were assessed in this way in 2007.

In 2007, L'Oréal Research made progress in manufacturing models approaching as closely as possible the physiology of skin, mainly with the development of a complete reconstructed skin, Realskin, in order to study, for example, skin ageing or the harmful effects of UV radiation. L'Oréal Research also created a new reconstructed skin model including the pigmentary function.

Aware of the strategic importance of tissue engineering, L'Oréal has invested regularly in this, in particular through the acquisition and development of biotechnology units specialising in the standardised production of reconstructed tissues, Episkin (epidermis and skin),

and SkinEthic (epithelia, including cornea, mucous membranes, etc.). They share their technology and their complementarity with the international scientific community for the knowledge and the safety assessment of chemical ingredients.

Episkin is a unit certified to ISO 9001. It is located at Lyons (Gerland). In 2008, it will expand its premises in order to increase its production capacity for standardised reconstructed systems.

CHOOSING INGREDIENTS

In the face of the questions that some stakeholders may have on the subject of certain substances and their effects on health and the environment, L'Oréal's position is as follows.

Phthalates

Phthalates are a large chemical family and are used as plastifiers, solvents or to denature alcohol. Only diethylphthalate (DEP) is used by L'Oréal, to denature alcohol and as a solvent in perfumes.

In 2005, the anxiety over phthalates held by some consumers led L'Oréal to make a commitment to reduce the use of DEP:

- the decision to replace DEP used to denature alcohol was taken by L'Oréal and applied in 2007 for all formulae. No new formula development contains it,
- a three-year plan to replace DEP as a solvent in perfumes was implemented at the start of 2007.

Parabens

Parabens are a family of substances used as preservatives in various products in everyday use. They are very effective for providing microbiological protection for some products, preserving their integrity and thus guaranteeing consumer safety.

At L'Oréal, preservatives have been subject to particular vigilance:

- a process to reduce parabens has been undertaken, both in formulations and by innovative packaging,
- L'Oréal gives priority to short chain parabens,
- a research programme to develop new preservatives is in progress,
- L'Oréal offers ranges of paraben-free cosmetics for consumers who ask for them.

1/4

of the R&D budget invested in Advanced Research

+7,000

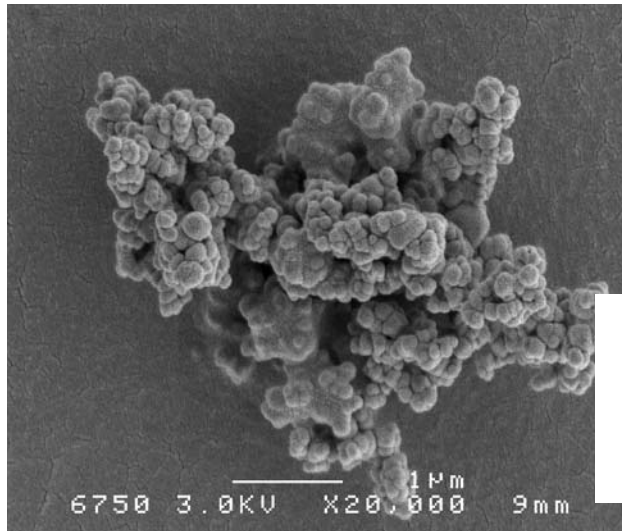
new formulae each year

+130

molecules resulting from Advanced Research over the past 40 years

576

patents filed in 2007



In sun protection lotions, titanium dioxide nano-pigments form very stable aggregates of 2 to 6 microns.

Formaldehyde

L'Oréal does not use formaldehyde in its products.

Heavy metals

In 2007, L'Oréal was assured, by a very detailed chemical analysis of its formulae, that any accidental traces of heavy metals detected were at least ten times lower than those accepted in the food processing industry. With immediate effect, L'Oréal will continue with random checks to ensure that these thresholds are observed.

Triclosan

In accordance with the commitment made in 2006 to cease using triclosan as a bactericidal agent, its replacement began in 2007:

- at the end of 2007, no sun protection lotion or make-up product contained it,
- the objective for 2008 is to achieve a 100% removal.

Nanotechnologies

L'Oréal is working actively on the conditions for using nanotechnologies in complete safety and on their impact on the environment, as a member of several groups, in particular:

- the International Council On Nanotechnology (ICON), of which L'Oréal is a founder member,
- The European NANOINTERACT programme.

L'Oréal has developed a recognised experimental ecotoxicity model which can assess the environmental impact of nanomaterials. The development of nanometrology can best ensure the traceability of nanomaterials used in end products.

L'Oréal currently uses two types of nano-materials, nano-emulsions and nano-pigments:

- Natural nano-emulsions: milk is one such example. In cosmetics, they enclose droplets of water or oil reduced to nanometric size to increase the content in nutritive oils, whilst preserving the transparency and lightness of the formulae. The agents contained in the droplets are released on application to the surface of the skin or hair. Nano-emulsions do not cross the skin barrier and international authorities have concluded that they are innocuous.
- Nano-pigments are minerals already found in our natural environment, such as clay for example. Titanium dioxide is the most familiar of these, known for its capacity to absorb UV rays and thus protect skin against the harmful effects of the sun. It is also an inert material which is a reference for non-toxicity. In sun protection lotions, titanium dioxide nano-pigments are used in clusters, which ensures effective skin coverage. *Inter alia*, studies conducted as part of the European NANODERM

and the American FDA research programme have shown that they do not cross the skin barrier, including cases where the surface of the skin is altered and, even if injected intravenously, they are non-toxic.

Sun filters

The sun protection system developed by L'Oréal, with two filters resulting from its research—Mexoryl SX and Mexoryl XL—offers protection balanced between UVA and UVB, the sun's harmful rays. Their safety record is based on 20 years of in-house and contracted work and has been approved by all the international health authorities, the latest to date being the FDA, in 2006.

Musk ketones

All musk ketones were eliminated from formulae before 2007.

GMOs

L'Oréal does not use genetically modified organisms.

2007 KEY FIGURES

16

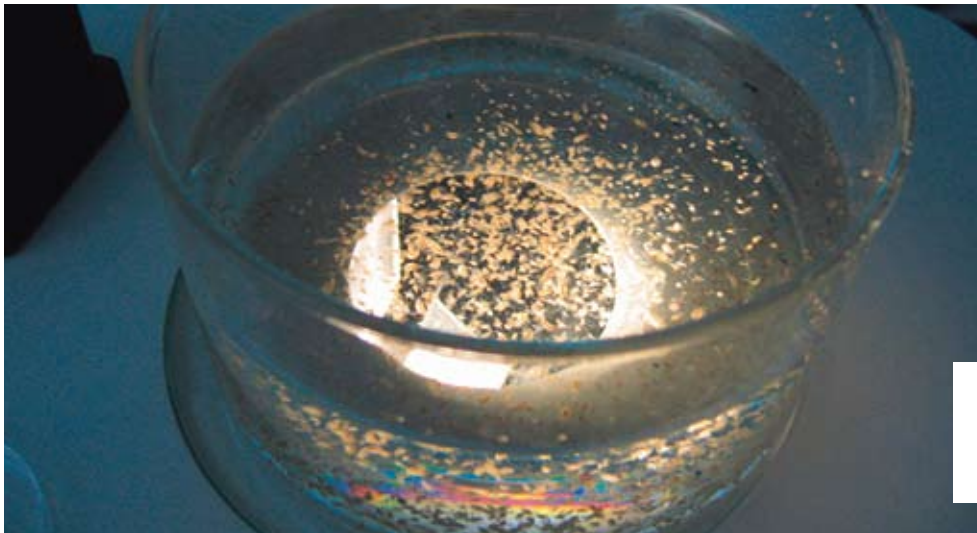
R&D centres:

13

cosmetics research centres (9 in France, 2 in the United States, 1 in Japan, 1 in China)

3

dermatology research centres (France, United States and Japan)



Daphnia are micro-crustaceans used for the ecotoxicity assessment of cosmetic products, together with unicellular algae and Mekada fish eggs (see pictures on page 40).

ENVIRONMENTAL PROTECTION AND BIODIVERSITY

L'Oréal is firmly committed to an *eco-responsible* approach focused on understanding the impacts of our business on biodiversity. This consideration weighs on all stages of the research process and all steps in the life of the raw materials, from dialogue with the suppliers to the end of the life of the finished products.

Management teams in the different sections of the Applied Research and Development departments (skincare, make-up, perfume, hair, etc.) are well aware of the CSR and sustainable development policies. In 2007, a "CSR Diagnosis" from the make-up section was set up and an action plan identifying tasks at all levels was drawn up.

REACH (Registration, Evaluation, Authorization of Chemicals)

The REACH regulation became effective in June 2007 and is intended to make the use of chemicals safe. REACH requires that chemicals are to be assessed, recorded and their use submitted for approval. These objectives bring together the principles of sustainable development which guide action by L'Oréal and our relationships with suppliers, professional organisations and stakeholders.

In accordance with the timetable laid down by REACH, the performance of L'Oréal's obligation as a manufacturer and importer is spread from 2008 to 2018. This period will allow the required files to be compiled, and to replace, when necessary, raw materials which are not recorded. A versatile team from all divisions has been set up to meet these legal obligations.

A POLICY OF RESPONSIBLE PROVISIONING OF RAW MATERIALS

This policy meets two objectives:

- to minimise the upstream impact, by making reasonable and sustainable use of plant species employed in the products, without disrupting their original ecosystems,
- to minimise the downstream impact, while preserving the ecological balance of the terrestrial and aquatic ecosystems.

This *eco-design* approach to raw materials and products (i.e. respecting the environment and biodiversity) is based on a four-step action plan applied to all ingredients used in products:

1. To understand the potential impact on the environment and biodiversity of raw materials used, via two key tools:

- The assessment of the environmental impact of the raw materials on the criteria of persistence, bio-accumulation and toxicity, started in

2004, was 95% complete at the end of 2007. The objective is:

- to measure the environmental impact of the raw materials used,
- to promote the use of raw materials with a favourable impact,
- to complete the assessment of raw materials having an unfavourable profile.

The assessment will be completed by mid-2008. All new raw materials are also submitted for this analysis.

- Plant assessments to identify the impact of natural ingredients on biodiversity. The use of ingredients of plant origin, sources of innovation for L'Oréal, has received particular attention, in view of the importance of the associated social and ecological issues:

- L'Oréal has undertaken to assess all the plants from which the raw materials in our portfolio are taken, in order to determine the potential impact of their use on biodiversity, fair return and the effects on society,
- the assessment and consideration of these impacts on biodiversity are the pillars of L'Oréal's policy towards raw materials,
- at the end of 2007, 90% of the plant species in question had been assessed.

2. To promote with development laboratories the use of raw materials with a favourable profile using these environment impact—PBT, vPvB, biodiversity, etc. indicators.

13

cosmetic assessment centres dispersed over the five continents

Approximately

80

scientific communications and publications each year

3,095

employees, bringing together 60 nationalities and 30 disciplines

More than

100

active scientific partnerships worldwide

“ L’Oréal is clearly a market segment leader in the application of the principles of green chemistry and sustainability to its products and processes. This is underscored by emphasis on the use of biodegradable raw materials of plant origin and the use of both chemo- and biocatalytic, low-waste technologies, preferably in water as a green solvent, affording processes with low E factors. Furthermore, emphasis is placed on eco-design of products with low eco-toxicity and good biodegradability.”



Professor R. A. Sheldon
A recognised authority on Green Chemistry and Catalysis and Professor Emeritus of Biocatalysis and Organic Chemistry at Delft University of Technology, Holland.

GREEN CHEMISTRY

At the end of the 1990s, the American chemist, Paul T. Anastas, Professor at Yale and Director of the Green Chemistry Institute, proposed 12 basic principles for developing chemistry techniques more respectful of the environment, christened “Green Chemistry”. One of the key Green Chemistry indicators, the **E factor**, defined by Professor R. A. Sheldon, is the ratio between the tonnage of waste and the tonnage of the desired molecule: the lower this ratio, the less polluting the production process.

3. To obtain in-depth understanding of raw materials using the following tools:

- The Sustainability Assessment Framework for raw materials is the overall tool for assessing raw materials and methods for obtaining them (Life Cycle Analysis). It combines all the raw material impact indicators (environment, biodiversity, social impacts) in a matrix drawn up with suppliers in order that they can assess the impacts of their raw materials themselves. In 2007, 10% of raw materials had already been assessed. The objective for 2008 is to continue deployment of the Sustainability Assessment Framework with suppliers.
- Life cycle analyses (LCAs) of raw materials have made it possible to assess their impact until the end of the life of the finished product. Partnerships have been set up with certain suppliers to carry out LCAs on their raw materials. The objective for 2008 is to agree new partnerships with more suppliers.
- L’Oréal is following a complementary environmental test strategy, set up by experts according to the results of analyses of environmental impact, biodiversity, fairness or social impact.

• Third party studies of supply networks for plant raw materials have been agreed. The network of argan oil suppliers in Morocco is the subject of a tripartite agreement between L’Oréal, our supplier and a NGO.

4. To replace raw materials whose unfavourable impact has been confirmed.

GREEN CHEMISTRY

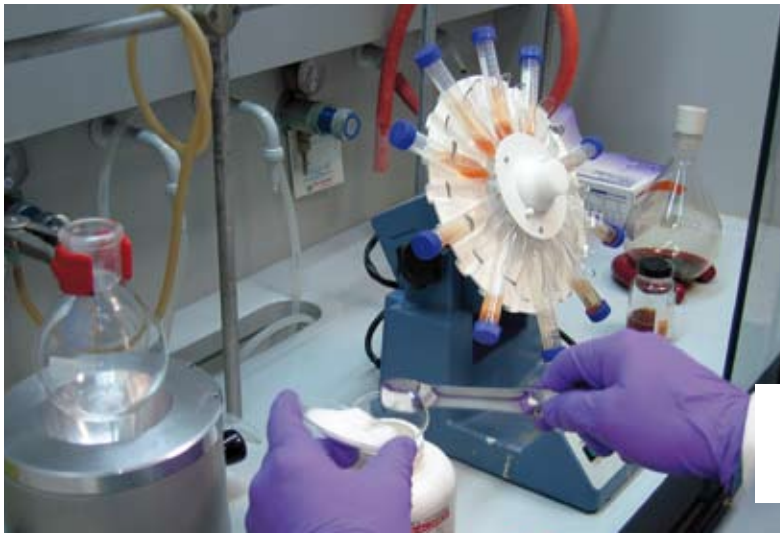
Green Chemistry principles enable the preparation of molecules with little environmental impact, intended for the manufacture of new products, using less polluting methods, consuming less energy and producing less waste.

A number of green process indicators have been introduced into laboratories at L’Oréal. This method led to reduced waste, reduced solvent quantities and to optimised synthesis yields.



Assessment of the ecotoxicity of raw materials

An ecotoxicology team has anticipated the assessment of the raw materials portfolio by preparing tests on the new ecotoxicology sectors (bio-accumulation, endocrine disrupters, etc.). The tests are carried out on unicellular algae and fish roe. ■



Pro-Xylane™ benefited from recent developments in sugar chemistry.

In 2007, the Skincare Applied Research, in particular embodied these methods from the outset in designing its formulae. The E factor is now used at all stages of raw material development. The products are chosen initially from renewable compounds which are non-persistent, non-bioaccumulable and not presenting any toxicity risk.

In 2007, L'Oréal presented our green chemistry approach to two of the largest international conferences on Green Chemistry in Beijing in March 2007 and in Delft in July 2007.

NATURALNESS

The eco-design approach adopted by L'Oréal gives priority to raw materials of plant origin which have undergone little conversion. Faced with the lack of a clear definition of "natural" in cosmetics, in 2007 L'Oréal participated, alongside Ecocert and Cosmébio, in European and American working groups to define a common definition of "natural".

In house, L'Oréal Research created a "Naturalness Index" which analyses the source of raw materials and their degree of conversion, and allows us to identify those which are the most "sustainable natural". This represents an in-house tool for raising awareness and helping with the selection of ingredients.

Natural and organic products

In 2007, L'Oréal created a new Natural and Organic Centre of Excellence, one of whose fundamental missions is to integrate more natural raw materials. Products developed in this way complement the "traditional" products from L'Oréal and are enshrined, via organic agriculture in particular, in a global plan for protection of the planet.

Since 2007, L'Oréal has been developing formulae under the Ecocert and Cosmébio labels. The objective for 2008 is to continue these developments.

PRO-XYLANE™

Pro-Xylane™ is an anti-ageing agent derived from xylose from beech trees, developed by L'Oréal, which conforms to green chemistry criteria. In solution, its E factor is 13, a very good factor on a scale of 5 to 50. The waste produced by Pro-Xylane™ is 60% less, i.e. 500 tonnes, than a process not using green chemistry. In 2007, its production in tonnes increased by 70%.

The Sustainability Assessment Framework for raw materials

It represents an effective tool for assessing suppliers' understanding of the social and environmental impacts of their ingredients. The matrix consists of 25 criteria based on international sustainable development standards, such as the Global Reporting Initiative (GRI). Its deployment phase in 2007 has meant the creation of a website developed with suppliers who participated in the pilot phase, to organise the exchange of raw material data. The objective for 2008 is to develop the website further. ■





SANOFLORE has its own cultivation fields, distillery and a research laboratory specialised in organic products formulation.

Sanoflore

SANOFLORE, acquired by L'Oréal in October 2006, manufactures and distributes ranges of Ecocert certified organic cosmetics carrying the "bio" label. It uses renewable plant species intended for the manufacture of cosmetics and essential oils. Combining agronomic research, agricultural co-operation and application of its research, it illustrates how an integrated responsible network can operate, where all eco- and socio-design principles are applied and checked at each step of preparing the product.

TRADING FAIRLY

RAW MATERIALS BASED ON FAIR RETURN AND FAIR TRADE

In 2007, two raw materials, Centella Asiatica and Madecassosid, were identified and developed based on fairness in exchanges.

L'Oréal's laboratories have also introduced six raw materials sourced from fair trade projects to launch products in 2008, two of which are immi-

nent: cane sugar and sesame oil. Five of these raw materials are a direct result of THE BODY SHOP expertise and the sixth, argan oil, comes from a network based on fair return, in which L'Oréal works with our supplier.

BIOLOGICAL RESOURCES AND PATENTS

Biological resources are used with respect for the principles of fairness and a just return. L'Oréal has tools (see "plant assessments") and indicators which embody their industrial and society impacts.

The protection by L'Oréal patents of plants and plant extracts is established with respect for traditional expertise and free access by populations to their resources. In order to guarantee this, L'Oréal checked our entire patent portfolio. This examination was completed in 2006 and any new patent application always undergoes this check.

L'Oréal is also concerned that our suppliers' patents should follow these principles. Since 2006, L'Oréal has been working with our argan oil supplier in Morocco to ensure that environmental and industrial standards are respected throughout the supply chain. The principal criteria are a fair return to local populations, local acceptability of patents covering the properties of argan and the impact of taking argan fruits and leaves on biodiversity.

DIALOGUE AND COLLABORATIONS WITH STAKEHOLDERS

Communication with stakeholders is essential to develop a mutual understanding. Some major sustainable development issues, such as fair trade, a just return, access to resources, respect for traditional expertise, risks for health and the environment, call for a particular dialogue with suppliers, associations, NGOs and communities living near areas from where raw materials are taken.

In 2007, a number of partnerships with participants were set up or continued on these subjects. The objective for 2008 is to reinforce these links and develop new relationships with stakeholders.



Sanoflore: an integrated fair trade supply chain

SANOFLORE sets up renewable 5-year contracts with farmers from the Vercors region of France. SANOFLORE buys their crop at a fair price and offers them a set of services (technical advice on farming, preferential rates for plantations and certifications, help with compiling cases for regional subsidies, etc.) in order to promote local agricultural production. ■



Reconstructed skin is a tool of choice for cutaneous biology research.

ETHICS

ALTERNATIVE METHODS TO ANIMAL TESTING

To reduce or replace animal testing

The European REACH regulation, voted in 2007 by the European Parliament, aims to make the use of chemicals safe and mandates their assessment and registration in order to improve their safety in use.

The 7th amendment to the European Cosmetic Directive mandates:

- a ban on testing ingredients on animals as from 2009,
- a ban on selling cosmetics containing raw materials tested on animals as from 2009 for most tests, and from 2013 for the most complex tests (systemic and long term effects).

Industrial Research therefore has to face a major challenge in the future: to develop and have validated by the competent regulatory authorities new alternative methods for assessing chemical ingredients in toxicology fields where these methods do not yet exist.

At the start of 1989, L'Oréal ended all animal testing for assessing its finished products before putting them on the market, and has invested massively, since the 1990s, in developing tissue engineering and methods other than animal testing, in particular on reconstructed skin and tissues (see pages 36 and 37).

Over 100 scientists are working on these areas within Advanced Research, half of whom are engaged in the processes of developing, producing and standardising these reconstructed systems. In 2007, 20% of the Advanced Research budget was invested in tissue engineering.

Currently, there are three toxicity sectors for which alternative methods have been approved by law, and thus have now replaced animal testing: skin corrosion by chemicals, phototoxicity and percutaneous absorption.

L'Oréal has developed reconstructed skin and tissue models as alternative test media to animal experiments. Episkin (epidermis and skin) and SkinEthic (epithelia, including the human cornea, mucous membrane, etc.) produce and place at the service of the scientific community reconstructed tissue kits. Some models are undergoing validation and others, approved by the ECVAM (Episkin), are awaiting legal approval by the various responsible authorities.

Since 2006, skin irritation and eye irritation by all L'Oréal's raw materials have always been assessed on Episkin and SkinEthic reconstructed systems.

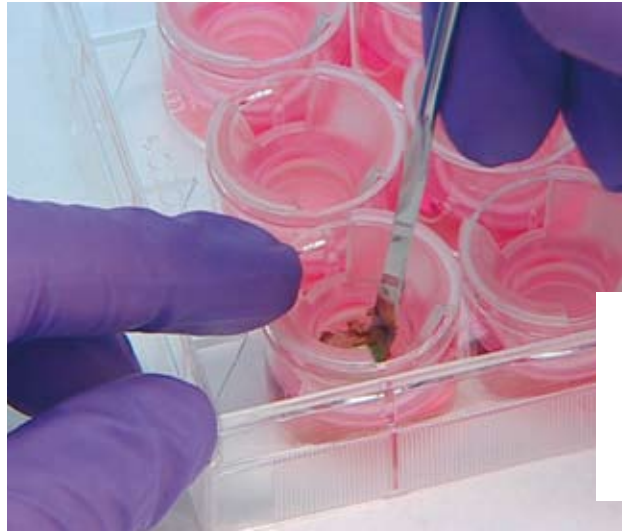
Skin irritation

In 2007, ECVAM announced scientific validation for an alternative test to animal testing, performed on L'Oréal's Episkin model, for predicting the skin irritation potential of chemical substances. This approval was an important result



Networks based on fair return

- Argan oil from Morocco with the Targanine Cooperative.
- Sesame oil from Nicaragua with the ECJFPS Cooperative.
- Cane sugar from Paraguay with the Montillo Cooperative.
- Olive oil from Italy with the Nuovo Cilento Cooperative.
- Cocoa butter from Ghana with the Kuapa Kokoo Cooperative.
- Soya oil from Brazil with the Capanema Farmers Cooperative.



Before being used in safety assessment tests, reconstructed epidermis are submitted to a very strict quality control (under microscope).

because, once approved in law by the OECD, it could replace animal testing for the regulatory skin irritation assessment.

Within L'Oréal, Episkin is used routinely to assess the skin tolerance of raw materials.

Eye irritation

L'Oréal has made huge efforts in the ocular irritation test field:

- SkinEthic, acquired by L'Oréal in 2006, notably produces reconstructed corneas, used to carry out alternative assessments to animal testing for irritation and eye tolerance,
- an eye irritation model on SkinEthic reconstructed cornea, the "HCE" model, is in the pre-approval phase,
- L'Oréal systematically tests all its raw materials and plans to test those of its suppliers in this "HCE" protocol.

Genotoxicity

A sustained effort has been made by L'Oréal on genotoxicity tests in the COLIPA⁽¹⁾ Working Group, in particular using the Realskin model manufactured by Episkin.

Oral acute toxicity

L'Oréal has expanded our work and our partnerships concerning tests of acute toxicity when ingested by mouth. Important American and European partnerships, the fruit of a partnership task on a global scale, have brought encouraging results and will be continued in 2008.

Other alternative methods to animal experiments

L'Oréal is developing, through various partnerships, other alternative methods by using advances in cellular and molecular biology, as well as mathematical approaches *in silico* for predicting toxicity phenomena—QSAR (Quantitative Structure Activity Relationship).

Over the years, all animal tests have contributed to the compiling of a reference toxicological database concerning ingredients, on which is

based the development of an alternative safety assessment. Now, as soon as the analysis of this ingredient data allows, L'Oréal will favour approaches other than animal experiments.

Training our principal suppliers in alternative methods

As part of the development and validation of alternative methods, L'Oréal has set up several partnerships with suppliers of raw materials and perfumes to make them aware and, for some of them, to train them in the use of alternative methods in the same Episkin premises (Lyons/Gerland). L'Oréal also wants to exchange data with them in order to enrich and refine correlations between *in vitro* and *in vivo*.

Co-operation in the alternative methods field

L'Oréal participates in European and international meetings and programmes on the devel-

(1) The European Cosmetic Toiletry and Perfumery Association.



ECVAM

For ECVAM, the test on Episkin "predicts the potential skin irritation of chemical substances with great reliability and accuracy and could therefore replace tests on animals". ■



Using an instrumental methodology patented by L'Oréal, research scientists have measured the skin colour of nearly 3,500 women throughout the world. They have thus defined 63 distinct shades.

development and validation of alternative methods to animal testing:

- our researchers participated in the World Conference for the Development of Alternative Methods (Tokyo, August 2007),
- L'Oréal is one of the founder members of the EPAA (European Partnership for Alternative Approaches to Animal Testing), an unprecedented cooperation between seven companies from different sectors of industry and the European Commission, in order to obtain significant advances in the replacement, reduction or refinement (the "3Rs") of the use of animals in the safety testing field,
- we co-operated in a wide-ranging scientific programme in partnership with other players in the cosmetics industry and the European Commission in the field of methods other than systemic toxicity tests.

SOCIAL SCIENCES

In order to best consider the psychosocial issues attached to appearance and to ageing, L'Oréal has for the past two years undertaken a three-year

interdisciplinary programme in social sciences (theses, post-doctoral, university partnerships), the results of which will be released in 2008.

Social sciences help us to gain a better understanding of how the universal desire to change one's appearance is related to perceptions of social relations and self-esteem.

- The work is focussing on ageing, motivation or the risk perceived in altering one's appearance, through a multi-cultural approach with populations throughout the world.
- It relies on a multi-discipline and international scientific network.
- In 2007, we held an in-house international symposium in social sciences on the relationship between perception of risks and decision-taking, bringing together L'Oréal's social science researchers and international scientific experts.
- The objective for 2008 is to continue this type of international scientific meetings, to support

current research, and to launch further three-year research programmes when current research comes to an end.

PARTNERSHIPS ON COSMETICS AND QUALITY OF LIFE

L'Oréal has carried out research to improve quality of life for the sick and the well-being of the elderly.

- In 2007, a study on the role of beauty treatment as a care medium in oncology (Institut Gustave Roussy), and another on the impact of cosmetics for the elderly female were completed and published.
- Two more research programmes are underway to consider the impact of cosmetic care, on one hand in the case of anorexia in the adult female, and on the other in the case of reversible disability.
- L'Oréal is also continuing our partnership with the Hôpital Percy at Clamart, France. The partnership is based on a transfer of technologies and expertise in tissue engineering and must be continued with a focus on research.

SKIN AND HAIR DIVERSITY

For a number of years, L'Oréal has been developing products tailored to the needs of our consumers.

13 Cosmetic Assessment Centres throughout the world are tasked with understanding the diversity of cosmetic needs and the daily health and beauty practices specific to a population or to a geographic area. The global diversity is then analysed through qualitative studies which report directly on local cultures. ■



The universal classification of hair shape contains eight categories.

L'ORÉAL'S COMMITMENT

TO PROMOTE
THE SELF-FULFILMENT OF
ITS EMPLOYEES WITHIN
A MULTICULTURAL, STIMULATING
COMMUNITY, RICH IN DIVERSITY
AND TALENT, TO WHICH
ALL INDIVIDUALS CONTRIBUTE
THEIR CREATIVITY AND
ENTHUSIASM.



—
Developing products and
sharing know-how at
a L'Oréal product meeting,
in Paris (France).



SOCIAL AFFAIRS

L'Oréal believes that employee development is a fundamental driver of economic performance. Opportunities generated by the group's growth allow L'Oréal to support the development of all of our employees, to effectively manage changes in organisation, and to attract the most talented individuals to ensure future success.

L'ORÉAL'S HUMAN RESOURCES POLICY

L'Oréal's HR policy aims to establish a lasting and productive relationship with employees based on trust and mutual respect by:

- an active recruitment policy aiming to expand the group's culture, diversity and skills, developed through partnerships with universities worldwide and innovative and international business games,
- offering optimum working conditions through a successful integration process and improvement plans drawn up following internal opinion surveys, a new global management tool,
- developing diversity as a fundamental driver behind the group's success worldwide,
- continuous personal and professional development based on a training system adapted to

different individual needs, different geographical regions and specific and international career paths,

- motivating individuals and teams based on a global assessment and development system called *Talent Development*, and on a dynamic policy of remuneration, profit-sharing and social protection systems,
- promoting active and productive dialogue with employees and their representatives at European level and in other countries around the world.

☑ Social data reviewed by PriceWaterhouseCoopers Audit (see pages 82-83)

2007 KEY ACHIEVEMENTS

→ The Pulse employee opinion survey was conducted in 14 countries covering more than 28,000² employees.

→ Women now represent 35%² of management committees.

→ 1,409² managers have now attended the diversity training course set up in 2006.

→ CSR Europe singled out L'Oréal's Observatories of Diversity and Social Cohesion as good practice.

→ L'Oréal was ranked as Europe's third most popular employer for business students by the Universum Institute.

→ 73%² of managers and 58%² of all employees took part in a formal training course⁽¹⁾.

→ 2007 was Apprenticeship Year at L'Oréal in France with 479² apprentices employed (4%² of its workforce).

→ €203 million of profit was shared globally, up 11.8% from 2006.

→ 54% of our South Africa staff underwent voluntary HIV testing.

(1) Percentages based on 2007 training programmes vs headcount at 12.31.2007.

“A full opinion survey provided both qualitative and quantitative information, and allowed us to establish a “baseline” against which to measure improvements in subsequent years.”



Richard Humphrey
British Human Resources Director.

UNDERSTANDING EMPLOYEE OPINION—THE UNITED KINGDOM

The London office conducted a comprehensive employee opinion survey in May 2006. This revealed strong positive feedback about the dynamic buzz and fast pace of the business. Staff were very complimentary about being able to work with great people, and the excellent training and development opportunities identified by an effective talent development system. Management style, previously rated as needing improvement, had moved onto the positive side more recently. However, employees were less happy about meetings management, IT systems and frequent requests for last minute information.

As a result of the survey, an action plan was set up by local British management, supported by the Paris HQ. A “meetings charter” was initiated to improve the efficiency and organisation of meetings. Several IT improvements were set up, with project teams created on forecasting tools, business modelling as well as greater availability of hardware, and Internet access speed was improved by a factor of 30. In addition, a marketing intranet portal was established, eliminating the need for last minute requests for information from the corporate HQ. A wide ranging review of employee benefits was conducted, following employee suggestions. A summer work pattern was also introduced, new services to make life easier (massage, manicures, dry cleaning at the office), the introduction of a Family Day, and a new maternity policy to name but a few.

Workforce profile

The total number of L’Oréal’s employees in 2007 was 63,358², including 1,362² staff at the Galderma joint venture and 8,112² employees of The Body Shop. Believing that differences are a source of enrichment, the group considers it critical to attract a diverse range of employees. There are 113² different nationalities among managerial staff. Worldwide, 74%² of managers are non-French.

EMPLOYEE OPINION SURVEY

L’Oréal has always placed particular importance on listening to our employees. This is an essential component of our culture and economic success. Since 2003, employees from 47² countries have participated in opinion surveys. In October 2006, with a view to achieving uniformity of approach, L’Oréal selected a single service provider of worldwide repute—Towers Perrin ISR—, and the PULSE survey was introduced.

PULSE is used to measure both the commitment and well-being of employees and the image of L’Oréal as an employer.

In 2007, more than 28,000² employees in 14² countries took part in PULSE, five of which conducted this survey for the first time.

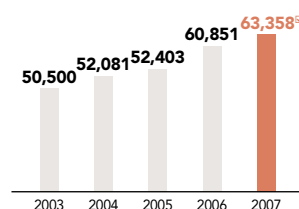
Results

The PULSE 2007 results confirmed that employees are strongly committed to the company and that they support L’Oréal’s image, values and strategic policy. However, there is room for improvement regarding career development issues and the circulation of information within departments.

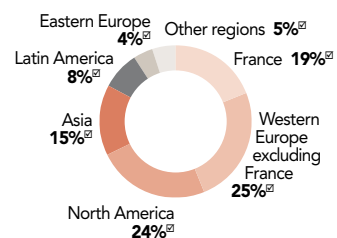
Once the 2007 results were published and disclosed to all employees, work groups comprising representative employees were set up in each country. These groups propose concrete solutions and monitor the effective implementation of action plans.

PULSE will be carried out at regular intervals in different countries to measure the progress of indicators and to ensure that L’Oréal is a great company to work in. This project lies at the heart of the group’s strategy of proactively managing employee opinion.

WORKFORCE
(including The Body Shop and Galderma)



GEOGRAPHIC DISTRIBUTION OF WORKFORCE IN 2007



THE FAMILY DAY: EVERYWHERE IN THE WORLD,
FOR A GREAT PLACE TO WORK!



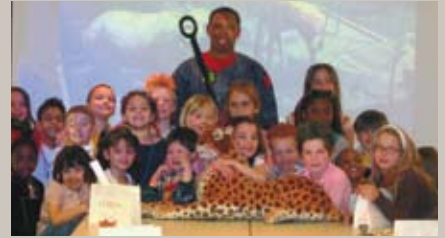
→ Hong Kong—July 2007



→ Belgium—November 2007



→ Netherlands—November 2007



→ United States—April 2007



→ Singapore—November 2007



→ Czech Republic—November 2007



→ Poland—June 2007



→ Italy—December 2007

DIVERSITY: A BASIC L'ORÉAL VALUE

Respecting and developing differences

At L'Oréal, we strongly believe that diversity is a source of creativity, growth and performance. By promoting the respect and value of difference through human resources development, the group establishes itself as a global corporate citizen and a preferred employer.

Developing a global policy

The Global Diversity Management team set up in 2006 now includes a network of local Diversity Coordinators and Specialists who are responsible for promoting and adapting the group's policy locally.

Our aim is to reflect the diversity both of our consumers and our catchment areas, in our teams and at all levels, particularly in terms of nationality, ethnic and social origins, disability, gender and age.

113[☑]

different nationalities
amongst management staff

61%[☑]

of management committee members
are non-French and 27%[☑] work outside
their native countries



Training in diversity, Spain.

CRÈCHE IN PARIS

As part of our work to encourage a balance between private and professional life, in addition to the crèche established last year in Levallois, L'Oréal staff at our head offices in Clichy are now able to use the crèche and emergency child care facilities at the nearby Babilou centre, shared with other local companies. The difference in fees between this private centre and public crèche facilities is subsidised by L'Oréal.

→ 2009 TARGET

All 8,000 European managers to attend our 2-day diversity training course by the end of 2009. ■

Diversity training

A 2-day diversity training course has been in place since the end of 2006. By the end of 2007, 1,409²³ managers had attended the course. The aim is for all of our 8,000 European managers to have attended the course by the end of 2009.

The purpose of this training is to clarify the concept of diversity and to explain its importance for L'Oréal, to help managers identify personal and operational barriers to diversity, and to learn to promote diversity on a daily basis.

During October 2007, in partnership with Air France-KLM and Deloitte, a "Diversity and Performance" Chair was created at the ESSEC (*Grande Ecole for Management and Business Students in Paris*): the first such Chair at a top management school in France. The objective of this research and teaching programme is to develop a centre of expertise in diversity and to train future managers in this key social issue.

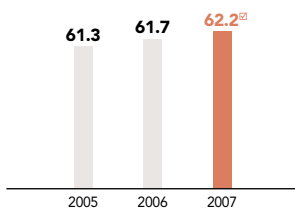
Ensuring future diversity

L'Oréal continues its commitment to work with deserving young students from disadvantaged or minority backgrounds, helping them to pursue their studies in partnership with schools and universities on all continents: for example Lycée Henri IV and Institut d'Études Politiques in France, Mara University in Malaysia, the Federal University of Rio de Janeiro in Brazil, Wits University and the University of Cape Town in South Africa, Tel Aviv University in Israel, and Louvain-La-Neuve University in Belgium.

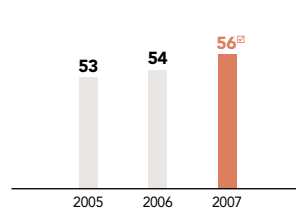
Recruitment focusing on diversity

In order to diversify its recruitment sources, the group supports a number of forums aimed at minorities (young graduates from disadvantaged backgrounds, difficult neighbourhoods, of foreign origin, or persons suffering a disability) and forms partnerships with associations that fight discrimination. In 2006, L'Oréal decided to go one step further by organising its own recruitment forums aimed at young graduates from minorities—the Employment and Diversity Forum in France and the Summix Forum in the United Kingdom.

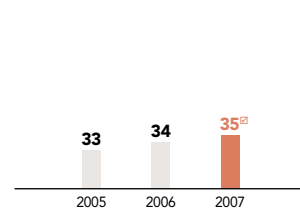
% WOMEN



% FEMALE MANAGERIAL STAFF



% FEMALE MANAGEMENT COMMITTEE MEMBERS





Guide on gender equal opportunities developed with Sodalitas, an association promoting the inclusion of disadvantaged people in a multicultural society (Italy).



Guide against discrimination developed with Association to Promote Professional Inclusion (AFIP), (France).

Equal opportunities

To promote the role of women in the company, L'Oréal has contributed to the success of the "Women in Leadership" forums organised by QS (Quacquarely Symonds, global career and education network) since 2005, with the participation of our senior managers and sponsorship of the event.

L'Oréal, active partner of the "European Year of Equal Opportunities for All"

L'Oréal contributed to various European initiatives to celebrate the "Year of Equal Opportunities for All". These included:

→ Belgium: signing of diversity charters

L'Oréal Belgium signed Diversity Charters in the Wallonia and Brussels regions, showing its strong commitment both internally and externally.

→ Italy: "Practice gender equal opportunities in career management"

In partnership with the Sodalitas Association, L'Oréal Italy actively took part in an exchange laboratory, uniting a dozen companies and sponsored by the Ministry for Equal Opportunities, to

promote equality within companies. Results were consolidated in a good practice guide distributed to a number of companies and institutes.

→ France: Practical Guide against Discrimination

In partnership with the Association to Promote Professional Inclusion (AFIP), L'Oréal co-organised a day of workshops to bring together different companies and young job seekers from minorities. The aim was to brainstorm the best ways to fight discrimination in recruitment. The workshops were followed up with a conference focusing on English and American perspectives. Issues raised at the workshops and conference were compiled in a good practice guide and distributed to a wide audience (companies, institutions, young graduates).

→ Portugal: close of the "European Year of Equal Opportunities for All"

The group supported the European Committee in organising the closing ceremony and took part in a workshop where links were created with several associations fighting against discrimination.

Helping people in disadvantaged situations find jobs

Since 1995, L'Oréal has been committed to supporting people in difficulty and helping them integrate the employment market. This commitment takes the form of specific steps carried out locally within a large number of subsidiaries worldwide, focusing on three main areas:

- encouraging the inclusion of people with disabilities,
- contributing to the professional and social reintegration of the long-term unemployed or people who have suffered discrimination by enabling them to build social links, discover a trade, and reintegrate the employment market,
- developing socio-aesthetic care by using L'Oréal's expertise in cosmetics for the victims of physical and mental suffering.

L'Oréal USA Diversity Programme

L'Oréal USA bases all of its efforts in diversity on three pillars: respect, inclusion and engagement. They are anchored by our belief and commitment to the L'Oréal *Code of Ethics* which is based on respect, one of L'Oréal's core values. In the United States we are able to benchmark our success



EUROPE

Diversity Laboratory—CSR Europe

In 2007, L'Oréal initiated and has since managed the European "Mainstreaming Diversity" Laboratory in partnership with CSR Europe and the French association "IMS-Entreprendre pour la Cité".

The laboratory involves 15 international companies and a dozen associations fighting discrimination, including ENAR, Sodalitas, the International Lesbian and Gay Association, and the European Disability Forum. One of the objectives is to identify innovative steps to promote diversity within European companies. The Laboratory works alongside the European Commission. ■

“ I believe that diversity is aligning our business activity with the market we serve. The broadness of this topic makes it important to focus by defining these activities and then measuring the results. South Africa remains thus in a unique position, as we can measure performance *via* the *Codes of Good Practice* scorecard. Our compliance—an independent measure—allows L’Oréal South Africa to celebrate the victories, no matter the size. ”



Dudu Hadebe
General Manager in charge of Diversity, South Africa.

SUSTAINABLE DIVERSITY IN SOUTH AFRICA

L’Oréal South Africa has taken many steps to promote sustainable diversity. In 2007, 67% of management⁽¹⁾ recruits and 91% of the graduates hired were black⁽²⁾. Today, 42% of the management⁽¹⁾ is black. An Employment Equity Plan was approved in 2006 and internal mobility is a key policy. Three scholarships were offered in 2007 (5 in 2008) to PDI⁽³⁾ students in engineering and marketing. In addition an apprenticeship programme was initiated in partnership with the IST (Institut Supérieur de Technologie) of Douala (Cameroon) and the ICAM (Institut Catholique d’Arts et Métiers).

(1) As defined by the Employment Equity Act of 1998 from top management to junior management.
(2) Black: Africans, Coloured, Indians.
(3) Previously Disadvantage Individuals.

against best in class companies. We use our well defined diversity metrics to track our progress across five categories including representation, supplier diversity, and community relations.

→ Highlights in 2007

- 21% of our managers are from minorities, up from 14% in 2001.
- 34% of the total workforce are from minorities, mirroring the population of the United States.
- 32% of new managers recruited in 2007 were from minorities, up from 24% in 2006.
- Our supplier diversity council and our purchasing agent worked hard to increase our spend with women and minority owned firms. We have seen significant increases in both these areas.
- Over 3,000 employees have completed diversity training.

→ Partnership with the Arc

During 2007 L’Oréal USA began a partnership with Arc of Union County, a group that employs and assists people with developmental disabilities to realise their potential and integrate into

the community. Through the Arc of Union County, their employees undertook admin roles at L’Oréal USA—for example, the L’Oréal Code of Ethics mailing to over 8,000 employees was completed by the Arc.

RECRUITING INTERNATIONAL AND MULTICULTURAL MANAGERS

L’Oréal continues its history of implementing innovative programmes to identify international and multicultural managers who will fuel its business growth.

Strong on-campus partnerships

L’Oréal has set up strong partnerships with 205th universities and schools around the world, including Argentina, Venezuela, the Czech Republic, France, the United Kingdom and China. The type of partnership varies depending on the institution. Examples include the supply of L’Oréal case studies and expertise. The wide offer of internships is also a key feature of L’Oréal’s partnerships with higher education establishments. Internships give students a chance to experience the real business world



The Observatories of Diversity and Social Cohesion

22th Observatories of Diversity and Social Cohesion were set up within the group in 2006, made up of management, staff representatives and volunteer employees. By 2007, there were 24th such Observatories and the project was extended to other European countries including Spainth and Belgiumth. Diversity is considered from every angle including gender, age, disability, social disadvantage, ethnic origin, and academic background. In 2007, CSR Europe singled out L’Oréal’s Observatories of Diversity and Social Cohesion as a good practice and invited the group to share our experience at the Market Place held in Brussels in November. ■



Brandstorm and e-Strat Challenge, two milestones of L'Oréal Business games.

MOST POPULAR EMPLOYERS⁽¹⁾

1. McKinsey & Company
2. The Boston Consulting Group
3. L'Oréal
4. Google
5. Goldman Sachs

(1) Survey by the Universum Institute.

and take their first steps towards a possible career within the group. In 2007, 2,711th internships were offered in 52nd countries.

Business games— unique experience for students

L'Oréal has always shown great commitment to attracting the most entrepreneurial and talented students. The group has developed a set of world-renowned business games providing students with a "real taste" of the range of jobs within L'Oréal. In 2007, 4,400 students from 35 countries took part in L'Oréal's Brandstorm, 44,000 students from 128 countries signed up for the L'Oréal e-Strat Challenge, and 400 students from seven countries participated in L'Oréal Ingenius. At the same time, the group launched a new game for young talents specialising in research and development, called L'Oréal Innovation Lab, which attracted 300 students from 10 universities in France. All the business games are accessible to disabled partici-

pants and in 2007 particular attention was paid to incorporating sustainable development dimensions.

The Universum Institute carries out an employer image study each year among European students. In 2007, L'Oréal achieved great success and was evaluated as most desired employer in countries such as Poland, France, United Kingdom, Spain. In the overall European ranking L'Oréal was ranked third most popular employer for business students.

www.universumglobal.com

CAREER DEVELOPMENT

L'Oréal aims to offer each of its employees career opportunities geared to each personal situation throughout their professional life. The group is attentive to the expectations and career plans of its employees.

A personal approach

The group runs a manager appraisal system called *Talent Development* that involves two annual interviews, designed to identify and dis-

cuss areas for personal development and remuneration aspects. This appraisal system is transparent and implemented worldwide based on standards shared by all.

Mobility

Geographical and professional mobility is a key issue for our employees and in the strengthening of diversity at L'Oréal. At the end of 2007, 582nd expatriates of 51st different nationalities occupied mainly managerial positions in 54th countries; 27%th of them were women. A total of 135th people were newly transferred abroad in 2007.

To promote internal mobility of non-managerial staff in our two largest countries, France and the United States, L'Oréal set up COOL (*Careers and Opportunities On Line*), an intranet-based job posting system. It offers a transparent means of finding out about all the vacancies in a given country. Of the 379 job vacancies in France posted online in 2007, 142 were filled through COOL.

53,980

interviews held

712,400

applications received worldwide in 2007, of which 67% via Internet

Disability in France

Employing disabled people is a key part of L'Oréal's diversity policy. In 2004, L'Oréal made this commitment official by signing the *Diversity Charter*. In 2007 L'Oréal employed 239 disabled employees in France, representing 2% of its workforce, and subcontracted work worth €2.7 million to specialist establishments for disabled workers. The group has set itself ambitious targets over the next few years. Our first goal is for disabled people to represent at least 6% of our workforce, directly or indirectly, in France by 2010. We have therefore decided to increase the hiring rate for disabled people by one point per entity and per year, regardless of the level of employment in 2007. To ensure optimum conditions for disabled employees, the group in France aims to be five years ahead of legal obligations concerning accessibility to premises and information distributed. Finally, L'Oréal is launching Disability Initiative Trophies in 2008 in France and in five European subsidiaries. ■



“Métiers essentiels” training course, India December 2007.

THINK GLOBAL, ACT LOCAL: “MÉTIERES ESSENTIALS” IN INDIA

The “Métiers Essentiels” training seminar was successfully launched in India in December, 2007, to develop “métier” sensitivity and marketing expertise among the new marketing recruits. This was a specific response to the local requirements: long distance from the European and Asiatic training centres, need to develop local talents and to improve expertise, integration of the new recruits into the group’s culture. This seminar is a cross-category, multi-divisional one. For the first time, the content of all the modules developed in Paris, was customised to suit the cultural specificities of a single country. In 2008 this programme will be adapted to Australia, South Africa, and other countries.

SKILLS DEVELOPMENT

The Learning for Development department supports the development of individuals, teams and organisations. The department comprises of four Management Development Centres (MDCs) based in New York, Paris, Rio de Janeiro and Shanghai.

In 2007, a regional coordination system was set up in the Asia-Pacific zone to help countries in the region to develop local training, notably in India, with the construction of a comprehensive training programme to meet the needs of local teams and to provide support for HR projects.

In 2007, 73%⁽¹⁾ of managers and 58%⁽¹⁾ of all group employees were sent on a formal training course. Training accounted for 2.6% of the total gross salary cost, excluding costs relating to informal apprenticeship activities.

Emphasis on quality of training

With the overwhelming majority of training provided internally, L’Oréal’s experts are actively involved in skill sharing. In 2007, more than 500 employees shared their knowledge and skills with seminar trainees. A significant proportion of our permanent training staff have previous business experience within the group. L’Oréal also looks to bring external skills into the group by partnering with leading universities worldwide including CEDEP (INSEAD campus, France), Cranfield University (United Kingdom), CEIBS (Shanghai), ITAM (Mexico) and Institut Français de la Mode (France).

Our role: to share and maintain expertise in our business

In 2007, we implemented “MUST HAVE” training courses to be attended by all managers taking up new posts to enable them to acquire the skills needed to fulfil their role. Specific professional training is essential for preparing our teams to deal with a constantly evolving market. Examples include:

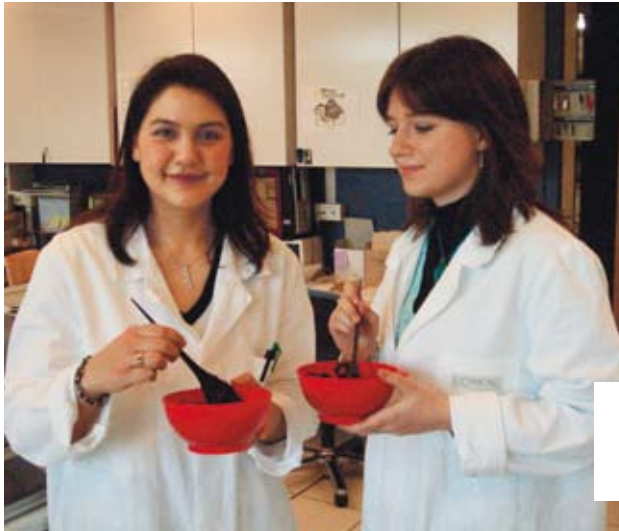
(1) Percentages based on 2007 training programmes vs headcount at 12.31.2007.



COLOMBIA

“Belleza por un futuro”

“Belleza por un futuro” (Beauty for a Future) is an initiative which provides technical and managerial training in the hairdressing business to young women in difficult financial situations (for example pregnant women and single mothers), in conjunction with a local NGO, Los Pisingos. L’Oréal not only helps them improve their self-esteem through leadership training, hairdressing and make-up sessions, but also offers them a six-month follow-up with the option to develop a hairdressing business. L’Oréal also provides these women with a Starter Kit as their first capital asset. 11 women graduated from the programme in October 2007. “It was very rewarding to create an academic program and transmit it to people who need it”, said Carlos Ortiz, one of L’Oréal’s employees involved in the programme. ■



Apprenticeships activities, a resource for the inclusion of young people.

→ **Marketing**

The "Osmose" seminar was organised in 2007 to increase scientific awareness to create innovative products. It is aimed at project leaders joining an international development team who need to expand their understanding of product formulation. 17 project leaders attended this programme in 2007.

→ **Manufacturing**

In 2007, manufacturing and logistics managers were able to choose from 29 different training courses covering all areas of expertise: production, quality, Health, Safety and Environment, development, packaging, purchasing, supply chain and finance. 1,123 employees (nearly 50% of managers concerned) attended one of the 68 training sessions organised worldwide. In addition, 60% (791) of European manufacturing managers received diversity training. This training will be continued in 2008 to heighten the awareness of operational management.

A MOTIVATING REMUNERATION AND BENEFITS POLICY

L'Oréal's global remuneration policy reflects its recognition of employees' involvement in the company's development, and aims to attract and retain 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 fulfilled, almost all subsidiaries participate in compensation benchmarking surveys each year. Remuneration is linked to the job, but also to the individual performance and potential.

APPRENTICESHIPS

L'Oréal has a long tradition of training young people. Apprenticeships have now become a real resource for the inclusion of young people, combining theoretical training at an apprenticeship centre with initial work experience. Volunteer mentors are specially trained to pass on their knowledge and skills to apprentices and to ensure that the apprentice is monitored and assessed regularly.

2007 was Apprenticeship Year at L'Oréal in France and we celebrated the commitment of all parties involved. 479^① apprentices^① worked for the group, making up 4%^② of its workforce. This figure far exceeds the required legal minimum.

APPRENTICESHIP IN GERMANY

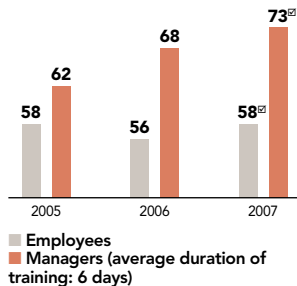
In 2007 we had 28 apprentices working at all sites: headquarters, factory and distribution centres. One of these apprentices was managed in partnership with "pfiv"^②. The aim is to welcome two more in 2008-2009.

(1) In this context apprentices applies to the French *contrats d'apprentissage* and *contrat de professionnalisation*.

(2) "pfiv" is a charitable association with the goal of helping young disadvantaged people find an apprenticeship.



PERCENTAGE RECEIVING TRAINING



6,377 ^①

managers attended at least one of the management and personal development seminars in 2007

2,566 ^①

managers recruited (i.e., 10%^② more than in 2006), of 82^② different nationalities

10%

of the candidates recruited in 2007 are not citizens of the country in which they work

“ The management of benefits programmes is an area that reflects well on the company’s culture of thinking long-term. We aim to build viable and lasting retirement programmes in partnership with all our employees worldwide. ”



Marc Raymond
Head of Compensation & Benefits.

THE PENSION SYSTEM IN POLAND

The national pension system was reformed in 1999.

It is now based on four pillars:

- the first two are mandatory, with a contribution for the retirement coverage of 12% to the first pillar and 7% on earnings up to 78,480 Polish zloty to the second,
- the voluntary system (pillars III and IV) include some forms of savings organised by companies to provide additional benefit after retirement.
- According to external surveys, approximately 30% of large firms in Poland have established a voluntary system. L’Oréal decided to implement a voluntary programme to help employees save for their retirement, with a company contribution of 2% in addition to the mandatory programmes.

In the vast majority of countries, the minimum salary paid is well above the legal minimum salary (national, regional or linked to collective agreement). For example, in China, the minimum salary applied at L’Oréal is 18%² higher than the national minimum salary, in India this percentage is 49%², in Mexico 32%², in Brazil 71%², and in Italy 10%².

Profit sharing

L’Oréal offers a collective annual bonus to all employees to reward the economic performance of each country.

In France, an employee profit-sharing system has been in place since 1988. Since 2001, a *Worldwide Profit Sharing Plan* scheme has been in operation in the other countries. It has been set up to reward the performance of each subsidiary while strengthening employees’ sense of belonging and increasing their motivation at a global level.

The total profit sharing amount paid for 2007 was €203 million, up 11.8% from 2006.

Benefit programmes to protect employees and their families

L’Oréal offers employee benefit programmes to protect employees and their families², designed according to local practices and 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, disability and medical expenses. They represent a significant investment for the long-term security of the employees.

In 2007, the total cost of the retirement programmes was €395 million², up from €366 million² in 2006.

The group has established an International Benefits Steering committee to ensure proper coverage is offered to all its employees. It has drafted a charter for a safe and long-lasting investment of the assets allocated to retirement programmes, which must be applied by all subsidiaries.

L’Oréal aims to provide reasonable retirement benefits whenever proper local regulations

In China, the minimum salary applied at L’Oréal is

18% ²

higher than the national minimum salary



CHINA

Social dialogue

L’Oréal has three employee representative structures, one for each legal entity: L’Oréal China, BeautyCos and BeautyLux. L’Oréal China set up a new Trade Union Committee in November 2007, consisting of eight members elected by the employees. ■



The Worldwide Profit Sharing programme (WPS) is in place in all the 59 subsidiaries.

exist. In 2007, the group continued to review its retirement programmes around the world with new programmes implemented in countries including Poland², Canada², the United States² and Japan². Programmes for China and the Philippines were approved and will be implemented in 2008.

A PERMANENT AND PRODUCTIVE SOCIAL DIALOGUE

At L'Oréal social dialogue is based on an open and participative approach, following our principles of trust and respect. These principles are applied through a direct dialogue with our employees including in those countries where formal employee representatives are not in place.

In France, there are 102² bodies with 614 employee representatives. They cover 1,192² representative mandates including works councils and committees, workers' representatives, union representatives, Health and Safety councils, the group committee (France, The Body Shop

included) and RIEDS (informal meetings of social dialogue). In France, in 2007, L'Oréal signed 31² internal agreements⁽¹⁾.

In the rest of the world, there are 366² employee representatives in 24² countries, where L'Oréal signed 48² internal agreements in 2007⁽¹⁾.

The issues addressed were mainly compensation and working conditions.

Social dialogue at European level

In 1996, an agreement was reached with the relevant French and European trade unions (FECCIA, EMCEF), relating to the creation of L'Oréal's European Works Council: *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. IEDS comprises 30² members receiving regular training in economic and labour related matters. Two

preparatory meetings and one plenary meeting are planned every year. In 2007, we had an additional meeting specifically held to present and explain the new *Code of Ethics*.

Following the enlargement of the European Union in 2007, the IEDS now covers 23² countries and represents 24,670² employees.

THE HEALTH OF EMPLOYEES

The health of our employees is a key priority for L'Oréal, as explained in the Health, Safety and Environment chapter. Health is discussed by our employees and their representatives. Since 2001, occupational ill-health has been monitored annually at our IEDS (European Works Council) plenary meeting.

(1) If in a country the same agreement was signed several times in the different juridical entities or sites, it is considered as a single agreement.



→ SOUTH AFRICA HIV/AIDS programme

L'Oréal South Africa launched its HIV/AIDS programme for its staff and their families at the end of 2005. Today 32 people are registered in the programme providing free medicine through Discovery Medical Aid. We set up a peer-to-peer educators' network of 12 fully trained L'Oréal South Africa employees, and hold quarterly information sessions, which have contributed to programme awareness and better education about HIV/AIDS and STIs (Sexual Transmitted Infections).

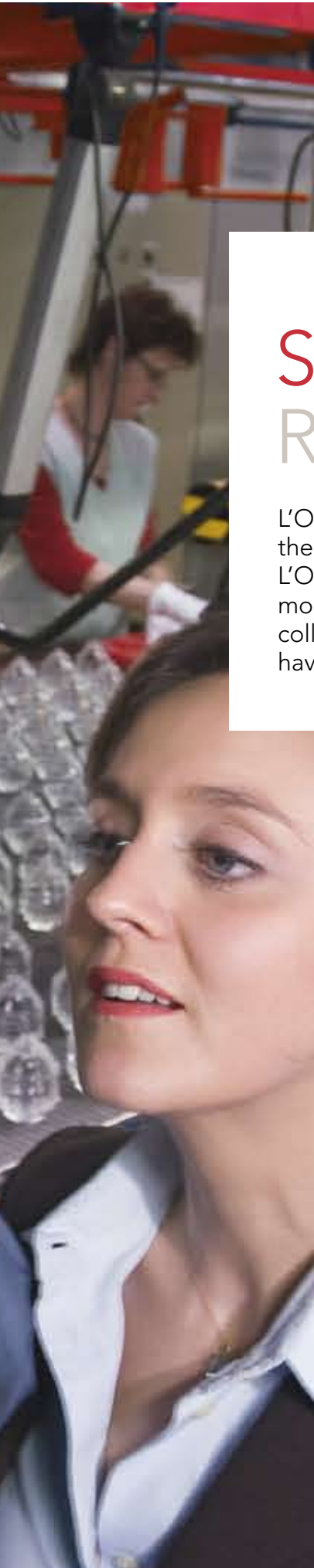
During 2007, 54% of staff underwent voluntary testing for HIV. Another Wellness Day with free testing and counselling will be organised in July 2008. ■

A man in a blue suit and white gloves is inspecting a glass bottle in a factory setting. He is looking closely at the bottle, which is being held by a robotic arm. The background shows a factory floor with various equipment and a window.

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.

L'Oréal buyer with our supplier Pochet (France) who provides us with glass bottles for our fragrances.



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 65 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, subcontracting and promotional item suppliers. Those are the six main categories managed by our teams.

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 called "Welcome on Board" 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

2007 KEY ACHIEVEMENTS

→ Carrying out 585 independent audits on labour standards at our suppliers, subcontractors and traders' production sites. Encouraging suppliers to identify the root causes of non-compliance with our labour standards policy, and working with them to identify solutions.

→ Sending 600 feedback forms to our audited suppliers to improve the audit process.

→ Working with stakeholders to develop a simplified *Code of Conduct* and labour standards

toolbox to ensure that first and second tier suppliers understand and comply with our labour standards requirements.

→ Holding capacity building workshops on remediation in China on EHS and labour standards.

→ Holding our annual supplier forum on the subject of diversity. Over 100 suppliers took part in the day long L'Oréal "Together for Diversity" convention, together with several institutions and NGOs specialising in diversity.

→ Holding several internal and external meetings to raise awareness and train staff and suppliers on our labour standards requirements, environmental impact, health and safety and supplier diversity.

→ Joining the Carbon Disclosure Project's programme to encourage supplier disclosure on carbon emissions.

→ The L'Oréal purchasing team won two awards for talent development and Corporate Responsibility at ProcureCon Europe.

OUR L'ORÉAL BUY & CARE PROGRAMME

2007 HIGHLIGHTS

2008 OBJECTIVES

ENGAGING WITH SUPPLIERS

Building long term relationships with suppliers

This year again 400 Business Reviews were organised with 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, to identify strategic business opportunities, draw up improvement and development plans, and initiate opportunities for innovation.

We will conduct our Business Reviews and focus with more emphasis on innovation and environmental footprint.
We plan to issue all our buyers with an update of our L'Oréal Purchasing Code of Ethics in October 2008.

Sharing our values with our suppliers

L'Oréal is committed to holding forums for suppliers. In November 2007, L'Oréal organised its supplier annual convention on diversity "Together for Diversity". 100 main suppliers took part in the day long meeting. Several NGOs and institutions specialising in diversity, including La Halde, IMS Entreprendre Pour La Cité, and AGEFIPH held sessions on best practice, including on recruitment and supporting SMEs. There were also workshops sessions on raising awareness of discrimination and on disability (Manage Vrai).

We will add a supplier section to the loreal.com website in June 2008.
We plan to hold two Supplier Conventions in 2008, one for Industrial Equipment suppliers—"Together for line performance", and one on environmental issues—"Together for the Environment".

Support for our suppliers is based on five assessment pillars



Social responsibility



Innovation



Quality



Logistics



Competitiveness

Suppliers Key Performance Indicators → Business awarded

UPHOLDING LABOUR & ENVIRONMENTAL STANDARDS AMONG OUR SUPPLIERS

Implementing our social responsibility programme with our suppliers

→ Roll out of the audit, corrective action plan, capacity building sessions. Conducted 10 stakeholder workshops to develop a new simplified Code of Conduct to encourage the companies supplying our primary suppliers to monitor and improve their labour standards.
 → Sent 600 audit feedback forms to our audited suppliers to help improve our audit process.

→ Continue work to develop a L'Oréal Supplier Code of Conduct for release in 2009.
→ Continue our work and hold more capacity building workshops on EHS & labour standards.
→ Continue our work on the root causes of non-compliance.
→ Work with CSR Europe to create a European Portal on Responsible Supply Chain Management, to give suppliers access to a map of key international standards and principles, training materials and background information on important supply chain related issues.

Implementing our environmental programme with our suppliers

→ Partnership with the Carbon Disclosure Project Supply Chain Leadership Collaboration initiative with some of our main suppliers on disclosure of carbon emissions.
 → L'Oréal encourages our suppliers to develop programmes of FSC-certification, reduction of packaging weight, eco friendly initiatives.
 → We integrated energy consumption as a criterion in our request for quotation form for industrial equipment.

→ Rollout the Carbon Disclosure Project Supply Chain Leadership Collaboration—CDP SCLC to more suppliers.
→ Support suppliers in achieving FSC certification, packaging and energy reduction.
→ Encourage and co-develop environmental innovation by suppliers.
→ Work with other companies on supply chain initiatives.



L'Oréal Supplier Convention on Diversity.
L'Oréal Managing Director of Operations launches the event with the Human Resources Diversity Worldwide Manager.

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.

ENGAGING WITH SUPPLIERS

L'Oréal's purchasing approach is centred on our Buy and Care programme—a commitment to long-lasting relations with our suppliers and subcontractors involving joint efforts to promote growth, business opportunities abroad, innovation, encouraging high-quality and frequent exchanges of information. Where difficulties are faced, workshops are organised with our experts to share best practice.

Our commitments and expectations are implemented via:

- our General Terms of Purchase—a contract sent to all suppliers before any order,
- documents that are specific to each field (e.g., quality, logistics), including guidelines, specifications, and charters. Some of these documents

are currently available on the Internet, and we are working to make all these documents publicly available by July 2008,

- business visits made by our teams, audits performed by third party specialist companies, and shared improvement plans.

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 shares our expertise to overcome challenges (regular business reviews, quality, logistics, development, packaging, innovation meetings, etc.).

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. In 2008, an updated version will be disseminated to our buyers.

L'ORÉAL SUPPLY CHAIN

PURCHASING - SUPPLY

Suppliers

- Raw materials
- Packaging
- Industrial equipment
- Indirect purchasing (overheads)
- Promotional items

MANUFACTURING

L'Oréal factories (40)

- 94% of the finished goods

Subcontractors

- 6% of the finished goods

DISTRIBUTION

L'Oréal warehouses (65)

SALES

Stores

- Supermarkets
- Perfume shops
- Department stores
- Etc.

■ L'Oréal external ■ L'Oréal internal



Capacity building workshop on Health & Safety and new labour regulations, run by L'Oréal SH&E Chinese expert for our suppliers in China.

PARTNERSHIP WITH THE CARBON DISCLOSURE PROJECT (CDP) TO ENCOURAGE DISCLOSURE ON CARBON EMISSIONS BY SUPPLIERS

In October 2007 L'Oréal joined the Carbon Disclosure Project Supply Chain Leadership Collaboration project to encourage suppliers to measure and manage their carbon emissions. The SCLC sent the CDP questionnaire to a pilot group of suppliers, with an additional section focusing specifically on the supply chain. This questionnaire elicits information on carbon emissions, climate strategy and associated risks and opportunities. The results of the pilot survey will refine the process in preparation for a wider roll out, and will help customers and suppliers to work together to develop strategies to reduce their carbon footprint.

UPHOLDING LABOUR STANDARDS AMONG OUR SUPPLIERS

L'Oréal does its utmost to ensure that its suppliers respect labour standards, notably the International Labour Organisation's (ILO) conventions, and has strengthened this commitment through a methodology aimed at monitoring our community of suppliers and subcontractors (see pages 64-65). 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.

In 2007 we sent 600 audit feedback forms to audited suppliers to help improve the audit process. 30% of suppliers responded, 90% of whom were happy with our audit process. The 10% who were dissatisfied were mostly European who questioned the need for audits.

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 has been translated into 11 languages. In this policy, L'Oréal requires conformity with the ILO labour standards, 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, and a further 3,000 in 2007, who signed it, thus committing themselves to respecting our standards and accepting the principle of independent audits.



OBJECTIVES FOR 2008

- Continue work to develop a L'Oréal Supplier Code of Conduct, for release in 2009 and issue an update version of L'Oréal Purchasing Code of Ethics.
- Work with other companies on supply chain initiatives.
- Further capacity building workshops for suppliers on labour standards and EHS.
- Continue work researching the root causes of supplier non-compliance with our labour standards.
- Encourage environmental innovations by suppliers.



SPAIN

Aspanias collaboration on disability

L'Oréal Spanish plant uses the services of Aspanias, a company set up in 1996 to help the mentally and physically disabled be re-integrated into community life, schooling and the work place. ■

“ We are addressing this issue with conviction, openness and humility. We are glad to be able to work with L’Oréal on specific, shared projects in order to benefit from all the experience built up since their commitment began.”



François Luscan
President,
Alcan Packaging Beauty.

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 prearranged 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 Intertek and SGS. Results of the 585 audits carried out this year can be found on page 65.

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 fac-

tory managers at the closing meeting. Our buyers monitor the implementation of the corrective action plans. More details of our response to non-conformities can be found on page 64. Our emphasis is as much on compliance with our standards as it is ability and willingness of the supplier to implement corrective action.

Scope

The labour standards audit programme applies to our own sites as well as to suppliers, trader’s production sites and subcontractors, using the same process and the same method of evaluation.

Internal communication

In 2007, 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.

COLLABORATION ON A L’ORÉAL SUPPLIER CODE OF CONDUCT AND TOOLBOX

As a leading cosmetics company, L’Oréal believes we should help our suppliers and their own supply chain by providing tools to easily implement our labour standards and environmental requirements. In 2007, we held 10 meetings and workshops with NGOs, other key stakeholders and L’Oréal departments to build a new type of *Code of Conduct*, which sets out our main requirements in simple terms, but also provides tools for self-training and case studies of best practice and failures. We believe in this way that best practice in labour standards will cascade to second tier suppliers and smaller companies. The final release is scheduled for October 2009.



MEXICO

Alcan Packaging Beauty

“From now on, we at Alcan Packaging Beauty are putting sustainable development at the core of our growth strategy. Our approach is based on four priorities:

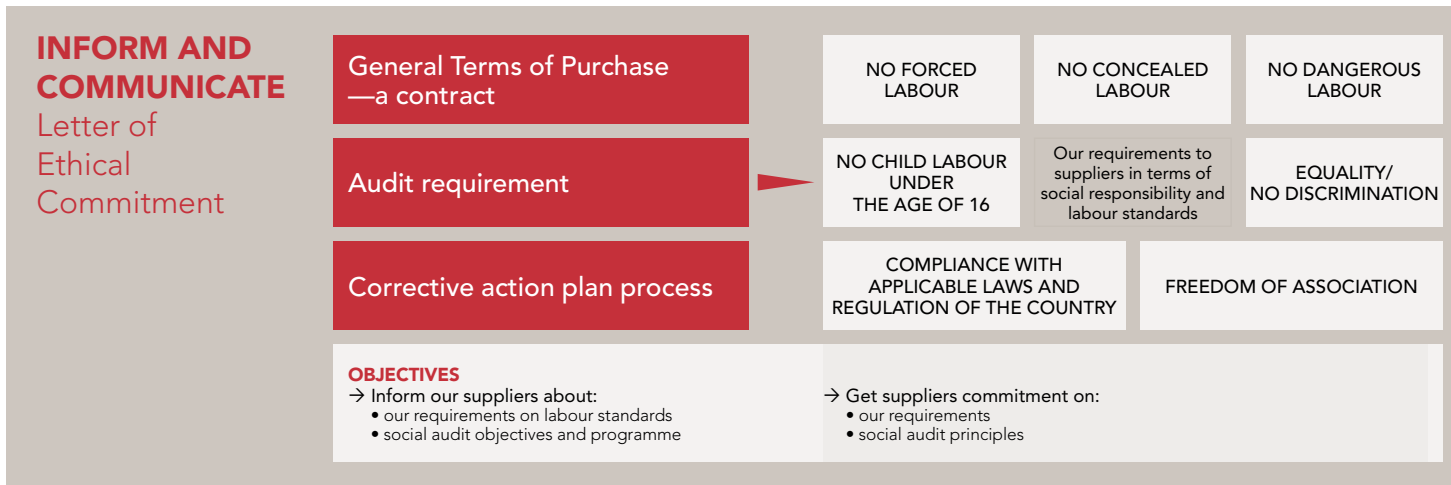
- Social Responsibility: provide production sites that meet our customers’ requirements;
- Eco-Packaging: develop packaging that is more environment-friendly, whether by reduction at source, eco-design or the use of new materials;
- Protecting the Environment: reduce the impact of our industrial activities and our products on the environment and the communities in which we operate.

Because the sustainable development goal concerns the entire value chain, we want to forge partnerships with our most committed customers. This is what we are doing with L’Oréal.”

François Luscan, Alcan Packaging Beauty. ■

IMPLEMENTING OUR SOCIAL RESPONSIBILITY

☑ THE PLATFORM WE HAVE BUILT



PROGRAMME WITH OUR SUPPLIERS

PROGRESS IN 2007

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) worldwide (whether in countries considered at-risk or not), and to 2,600 promotional items suppliers. The CEO of each supplier was asked to sign and return this letter of commitment.

→ In China, we trained more than 100 main suppliers on our labour standards requirements in capacity building workshops.

→ Our Promotional Items Buying Team launched an initiative this year to address the challenge of L'Oréal's direct suppliers of promotional items being traders or agents who don't have their own factories. The risks of non-compliance are therefore high: however, in 2007 audits results showed that they were under control. In order to continue reducing the risks and better control our supply chain, we plan to reduce the number of these suppliers and to set up long term partnerships with a smaller number. Some suppliers support our approach to the extent that they have set up their own third-party social audits.

AMBITIONS FOR 2008

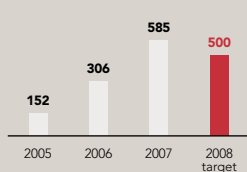
We would like to continue to strengthen our social audit programme and assist our suppliers. To do this, we have identified these areas for improvement in 2008:

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

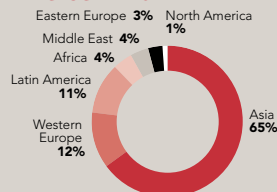
→ Reinforcing our communication to suppliers and improving our training tools through local information, guidelines and sharing of best practice.

In 2007, we comfortably exceeded our aim of carrying out 200 audits: 585 audits were carried out globally:

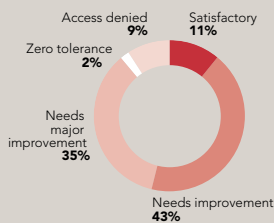
NUMBER OF AUDITS CARRIED OUT



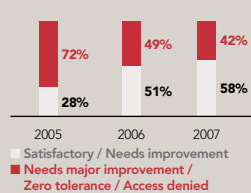
DISTRIBUTION OF AUDITS BY GEOGRAPHICAL AREA



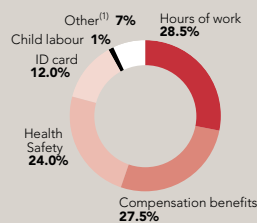
AUDITS RESULT 2007



AUDITS RESULTS BY CATEGORY



MAIN NON-CONFORMITIES



Auditing will continue in 2008 with the aim of carrying out 500 supplier audits globally. Our aim is to have audited the vast majority of our suppliers by the end of 2008.

Experienced gained from the 1,041 audits carried out since 2002 (including 115 follow-up audits) has led us to strengthen post-audit action in order to improve efficiency and relevance and to focus on root cause analysis. 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" has been increased from 60 to 90 days, in order to allow the implementation of the required corrective action. Corrective action and the efficiency of this is checked during the follow-up audit.

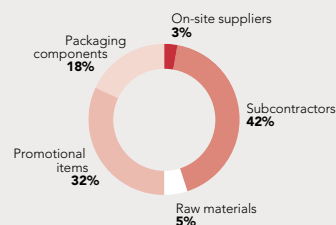
→ For suppliers evaluated as "zero-tolerance", our trading relationship comes to an end. However, we have decided that if immediate remedial action is taken (with our help) and an audit shows the results to be positive, we will resume commercial relations with the supplier.

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 2007 we continued the roll out of 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.
- Suppliers of promotional items.

DISTRIBUTION OF AUDITS CARRIED OUT BY THE PURCHASING TEAM



Raw materials



Packaging



Production



Finished product



Point of sale

(1) Other including: forced compulsory labour (2.7%), disciplinary practices (1.7%), harassment and abus (0.9%), non-discrimination (0.9%), job subcontracting (0.8%).

A woman with long dark hair, wearing a grey headset with a microphone, is smiling and looking to her right. She is holding a bright green tube of product in her left hand. She is sitting at a desk with a black keyboard in front of her. In the background, there are shelves with various products and a red digital display on the wall.

L'ORÉAL'S COMMITMENT

TO PROVIDE EXCELLENT
SERVICE AND ADVICE
TO OUR CONSUMERS, AND
TO MARKET OUR PRODUCTS
RESPONSIBLY.

—
Consumer Advisory
Department,
Saint-Ouen (France).



CONSUMER RELATIONS

L'Oréal has always been known as a technologically driven company, but today we are also committed to excellence as a service industry. We realise the value of offering a pre- and after-sales service to our consumers and the importance of getting closer to the people who buy our products. It is also necessary to feed consumer comments back into our business in order to understand their demands and improve our products accordingly.

CONSUMER ADVISORY DEPARTMENTS

Therefore we aim to have a corporate Consumer Advisory Department in each country or zone, staffed by highly trained individuals who have an expertise in haircare, skincare, make-up and communication. To date, we have nearly 300 specialist Consumer Advisers in more than 50 countries where we have a subsidiary. These Departments also serve all the other countries where our products are sold. Our Consumer Advisory Departments advise and receive feedback which we then use to build value into our products. Our teams aim to do this by:

- helping consumers to address issues they can have using our products,
- providing feedback to the rest of the company about consumer experiences with our products in order to improve our products and learn more about our consumers,

- providing a positive experience for each consumer who contacts us,
- encouraging brand loyalty.

We have clear policies, procedures and guidelines in place for the advice that we give and we follow the L'Oréal *Code of Business Ethics* (see pages 07 and 08) in terms of how we deal with our consumers and our colleagues. Transparency and honesty are core values when dealing with our consumers. We are working to improve the in-house and external training undertaken by our managers and advisers to ensure that we give the best possible service.

2007 KEY DATA

→ We handled worldwide in excess of 1 million consumer contacts.

→ 82% of our total contacts are by telephone, 15% by email and 3% by letter.

→ North America and Canada combined account for half of our total contacts.

→ Around 70% of all contacts relate to enquiries or advice, and 30% to a complaint.

→ Contacts covered a wide range of subjects such as: where to buy a favourite product, what sun protection factor is suitable, not achieving a particular result from a product, products suitable for children, products containing animal extract, biodegradable products and animal testing.



Consumer Advisory Departments.
Left: Johannesburg (South Africa).
Right: Rio de Janeiro (Brazil).

In addition to consumers, the media, government authorities and consumer associations are increasingly vocal, and we are ready to answer them as well as our consumers. We are working on being more robust in managing information at a central level and in our reporting systems at the country level.

As a new step in fulfilling our commitment to our consumers, L'Oréal has recently appointed a Director of International Consumer Affairs. This position will help us to achieve our aim of providing the best advice, support and education to our consumers.

In 2007 we carried out a survey of what environment/sustainability related issues were raised by consumers in 2007. Analysis showed that, in the 33 countries that participated in the survey, the large majority of questions were on ingredients (85%). Enquiries about our animal testing policy represented 11% of the total, with environmental and ethical enquiries at only 2% each.

RESPONSIBLE MARKETING AND ADVERTISING

Policies

L'Oréal is committed to ensuring that our marketing and advertising is responsible, and based on our products' intrinsic characteristics and performance. This principle is essential to winning and keeping the loyalty of our consumers. We follow three policies which outline our standards in these areas:

1. Our *Code of Business Ethics* contains a specific section on advertising and marketing, with the following commitments:

- "Ensure that all advertising and promotional material is based on proven performance and scientific data;
- Give a fair and truthful description and visual representation of our products and their effects;
- Endeavour to ensure that the purpose and correct usage of our products is readily understandable by consumers;
- Be sensitive to the possible reaction of religious, ethnic, cultural or social groups to our advertising;
- Ensure that we do not undertake product placement with any outlets (TV or radio programmes, magazines or digital media) whose strategy for attracting an audience relies on exploiting extreme violence, pornography or encouraging offensive behaviour or hatred toward others. Such strategies would be contrary to L'Oréal principles;
- Take great care to ensure our actions are consistent with the L'Oréal spirit if we are envisaging advertising to children and young people."

Examples of issues are then given, such as using overly thin models or making exaggerated claims for product performance. These and more details can be found in the Code at www.loreal.com in the *Values* section of the *Company Overview* page.

2. Our *Internal Control policy* states that "communication related to product performances, on any medium, must be truthful, accurate, justified and justifiable, and comply with the laws and legislation as well as self-regulation rules in force". This Internal Control policy is a management and training tool which summarises all measures implemented in order to provide reasonable assurance of control over operations. Guidelines cover issues such as media relations and crisis management, sales and customer relations, purchasing and supplier relations, legal, human resources, safety and security, and product and service quality.

3. In 2007 we signed up to the French Union of Advertisers' (UDA) *Charter on Responsible Communication*. Signatories including Beiersdorf, Kraft Foods, Michelin, Nestlé, SFR and Unilever will promote the positive impact of responsible corporate communication on society through its five commitments (see box on page 69).

Implementation

The International Marketing Departments of brands are responsible for ensuring that advertising claims are validated by the R&D Division and by the Product Communication Evaluation Department.

We have a high standard—the scientific approach to evaluating product performance is rigorous and based on sophisticated techniques of measurement. If necessary, the tests protocols are adapted to local authorities' demand. Thus, after two complaints of the British authorities, L'Oréal changed certain evaluation methods.

“Serving the consumer is more than a mission, it’s a passion and a responsibility we take very seriously at L’Oréal.”

Maria Jones

Director of International Consumer Affairs.

PRODUCT SAFETY

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. More detail on this can be found in the R&D chapter, page 36.

The safety of products marketed is monitored on an ongoing basis, notably thanks to an international “Post-Marketing Surveillance” 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 to one of the products, allowing the company to immediately take the required corrective measures.

L’Oréal has taken steps to phase out use of certain chemicals that are of concern to consumers, in many cases where all scientific evidence demonstrates their innocuity. For more detail on our policy on phthalates, parabens, formaldehyde, triclosan, musk ketones and genetically modified organisms, see pages 37 and 38.

THE FIVE COMMITMENTS OF THE UDA CHARTER ON RESPONSIBLE COMMUNICATION

1. ENSURE ALL EXTERNAL COMMUNICATIONS OF THE COMPANY CONFORM TO INTERNAL CODES OF RESPONSIBLE COMMUNICATION

Examples of good practice:

- Ensure that information contained in advertising is truthful.
- Disseminate and implement a responsible marketing and communication charter within the company (principles for responsible communication, such as the content of the ads, impact on target etc.). Contents of ads should follow codes, recommendations or operational norms (BVP, CCI, Afnor...).
- Brief communication/marketing contractors on the charter & principles.
- Provide customers with appropriate indicators regarding the impact of their products/services (by sector: environment, health...).
- Provide customers with sufficient information on responsible use of their products, so as to limit the potential risks associated with inappropriate use, over-consumption or abuse of their products/services e.g. obesity, addictions.

2. PROMOTE RESPONSIBLE BEHAVIOUR TO CONSUMERS

For example:

- Emphasise responsible behaviour through advertising: e.g. encouraging sport or outdoor activities, encouraging good environmental behaviour, etc.
- Implement or participate in prevention campaigns on issues linked to the company’s field of activity (road safety, addiction...).
- Keep stakeholders up to date with the company’s possible support for campaigns of common interest.

3. ACROSS ALL MARKETING INITIATIVES, PERSONAL DATA OF CONSUMERS SHOULD BE USED WITH CARE

Examples:

- Pre-empt best practice in relation to the development of new technologies in fields of communication and marketing, in order to make commercial strategy and respect of privacy compatible.

- Spread the privacy policy and related information within the company.
- Inform customers of the use of data kept by the company, especially when launching of a new product or service.

4. ESTABLISH AN INTERNAL PROCESS TO VALIDATE COMMUNICATIONS PRIOR TO PUBLIC DISCLOSURE

Examples:

- Create a frame of reference within the company:
 - Listing all processes and criteria coherent with national and international standards.
 - Validate these processes and criteria with stakeholders, such as trade organisations, BVP, ADEME, consumers’ associations, NGOs, etc.
- Train marketing teams to using this code of conduct.
- Report annually on the implementation of this process, identifying relevant indicators (e.g. ads approved or rejected, and why).

5. INTEGRATE ENVIRONMENTAL IMPACT IN THE CRITERIA FOR SELECTION OF COMMUNICATION METHODS

Examples:

- Use existing guides on communication (e.g. Ademe).
- Assess the environmental impact of communication plans/tools throughout their development.
- Reduce environmental impacts upstream (billboard locations, events, direct marketing), and downstream (recycling waste materials etc.).
- Implement and promote processes of dematerialisation for promotional materials for clients.



L'ORÉAL'S COMMITMENT

TO BE A GOOD CORPORATE CITIZEN, PROMOTING WOMEN IN SCIENCE, COMMUNITY SOLIDARITY AND EDUCATIONAL OPPORTUNITY.



L'Oréal supports and participates in the "Look Good... Feel Better" programme, which helps women deal with appearance-related changes from cancer treatment.



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.

CREATION OF THE L'ORÉAL FOUNDATION

The launch of the L'Oréal Corporate Foundation on October 8th, 2007 highlights the shared ambition of Sir Lindsay Owen-Jones and Jean-Paul Agon to make L'Oréal a global corporate citizen. *"The Foundation marks a new milestone in the history of our group. It is an additional step in our determination to look beyond our economic success towards a broader notion of social responsibility,"* said Sir Lindsay Owen-Jones, Chairman of L'Oréal and President of the Foundation.

L'Oréal has been developing programmes such as "For Women in Science" and "Hairdressers Against AIDS" for more than 10 years. *"The creation of the L'Oréal Corporate Foundation gives new impetus and an overall coherence to*

these actions, enabling them to be developed in the long term," explains Béatrice Dautresme, Executive Vice-President Corporate Communications and External Affairs at L'Oréal and Chief Executive Officer of the Foundation.

The Foundation is committed to encouraging education, promoting scientific research and helping vulnerable people. The Foundation also aims to start new projects, notably in the areas of education and solidarity. The Foundation focuses in particular on women, supporting projects that emphasise their diversity and helping to promote them.

To fulfil its mission, the Foundation has a budget of €40 million over five years. As proof of its transparency and good practice, a third of the members of the Foundation's Board of Directors come from outside L'Oréal.

2007 KEY ACHIEVEMENTS

- Creation of the L'Oréal Corporate Foundation.
- Extension of the UNESCO-L'Oréal "For Women in Science" national fellowship programme to 35 countries (from 20 in 2006), notably in France with the award of the first 10 fellowships.
- Extending the "Hairdressers against AIDS" programme to a further 12 countries.
- Strategic backing of the Women's Forum in Deauville and co-initiation of the "Sci Tech Girl" movement to heighten the awareness among young girls of scientific and technical careers.
- Sponsorship of the *Femmes du Monde (Women of the World)* exhibition by Titouan Lamazou at the Musée de l'Homme, Paris.
- Overall, we invested over €17 million in philanthropy in 2007.

“ My L’Oréal fellowship will enable me to finance my final thesis year, to conduct in depth analyses to understand the absorption of cadmium and other toxic metals by plants, and to further develop my work by attending international conferences. ”



Angélique Besson-Bard

25-year old Angélique is studying for a Phd in biochemistry and cellular and molecular biology at the Université de Bourgogne in Dijon, Burgundy.

PROMOTING SCIENTIFIC RESEARCH

L’Oréal owes its success to science and research. Believing science to be essential to the progress of humanity, the Foundation focused primarily on this discipline.

For Women in Science

The Corporate Foundation has therefore decided to extend its “For Women in Science” programme. Launched in partnership with UNESCO in 1998, this programme promotes the role of women in scientific research, promoting the excellence of outstanding women scientists and encouraging the talent of young women scientists through fellowships, with an underlying ambition to open the door to a career in science for young women.

The L’Oréal-UNESCO Awards

Each year, L’Oréal-UNESCO gives awards of \$100,000 to 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. At the end of 2007, 47 scientists from 24 different countries had received Awards.

The UNESCO-L’Oréal International Fellowships

The UNESCO-L’Oréal International Fellowships support young women scientists involved in promising projects to pursue their research in internationally-recognised laboratories outside their country of origin. Worth up to \$40,000 over two years, these fellowships aim to increase the role of women working in scientific disciplines. At the end of 2007, 105 fellowships had been awarded to young women scientists from 62 different countries.

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 encourage young women scientists to pursue

their research locally and have so far helped more than 215 students from 35 different countries. In 2007, we started National Fellowship programmes in a further 15 countries, with a goal of 50 countries by the end of 2008.

First French fellowships: 10 fellowships worth €10,000

The L’Oréal Corporate Foundation, the French National Commission for UNESCO, the Science Academy and L’Oréal France launched a new National Fellowship programme on October 8th, 2007, giving ten doctor fellowships in France. Young researchers received €10,000 each to pursue their research. The ten 2007 Fellows were chosen from among 375 candidates by a jury chaired by Professor Jules Hoffmann, President of the Academy of Sciences.

PROMOTING LEARNING THROUGH EDUCATION

The Foundation is also focusing on education with regards to science, health and the environment, with an aim to combat ignorance and to provide as many people with access to knowledge as possible.



Sir Lindsay Owen-Jones and Béatrice Dautresme surrounded by the 36 “For Women in Science” Laureates who came to Paris to celebrate the 10th anniversary of the L’Oréal-UNESCO Awards.

“For Women in Science” is one the most active scientific communities in the world. These exceptional women from the four corners of the world represent models for generations of women and research scientists. For this great anniversary, L’Oréal and Unesco signed the *Charter of Commitment For Women in Science* that affirms their longterm dedication to promote women in science. ■



Rudi Werner, owner of Rio de Janeiro's largest chain of hairdressing salons, and one of the ambassadors of our Brazilian "Hairdressers Against AIDS" programme.

Hairdressers Against AIDS

In 2007, the Foundation decided to boost the work of the L'Oréal "Hairdressers Against AIDS" programme, launched in partnership with UNESCO in 2005. This preventative education programme promotes awareness of the HIV virus through the regular training we provide to our global network of 2.5 million hairdressers at training academies, salons or professional events. These hairdressers can then pass on their knowledge of AIDS-related risks and means of protection to customers at their salons, which are centres for the exchange of ideas and dialogue all over the world.

Initiated in South Africa by the SOFTSHEEN-CARSON brand, which offers its employees and their families a comprehensive HIV education and prevention service, including an anonymous HIV test and anti-retroviral therapy, the "Hairdressers Against AIDS" programme has since been extended to more than 200,000 hairdressers in 24 African countries. In May 2006, L'Oréal received the Professional Excellence Award from the Global Business Coalition on HIV/AIDS

(GBC) for directing its key training expertise towards the fight against AIDS through this project.

In 2007, L'Oréal extended the programme to 12 new countries including India, Germany, Argentina, Canada, Mexico and Russia. More than 2,500 French hairdressers participated in the programme, 550 salons in Germany promoted AIDS prevention and more than 400 hairdressers in Beijing took part in the Great AIDS Walk in China as part of World AIDS Day on December 1st.

www.hairdressersagainstaids.com

Mentorship programme

In 2007, the L'Oréal Foundation backed an initiative to provide learning mentors from the top Paris area universities at the Cité des sciences et de l'industrie mediatheque; 1,500 mentor partnerships were formed in 2007.

"The L'Oréal Corporate Foundation has enabled us to put young students attending junior and secondary schools in disadvantaged areas in touch with top-rated university (Grandes Écoles) students who become their mentors, helping them with their science studies as part of the Cité des sciences et de l'industrie mediatheque programme. This programme demonstrates how important it is for companies, Grandes Écoles and public organisations to combine forces to help young people to successfully enter the world of work in the future," says François d'Aubert, President of the Cité des sciences et de l'industrie.

"I often need to read over my lessons a few times to take them in. I come from a large family and it is difficult to find peace and quiet. Private lessons are too expensive. The mediatheque is a vital resource for me, a place where I can ask for help from a student who doesn't judge me without having to look for help elsewhere," explains Taoufik, 18 years old, Porte de La Villette, 18th arrondissement of Paris.



UNITED STATES

"Because Your Dog is Worth It Too", Cranbury distribution centre

Since 2004, employees at our Cranbury distribution centre have focused on raising money for breast cancer research, after losing two long-term employees to the disease. A "Because Your Dog is Worth It Too" gala charity event has been held for the last three years in support of the Susan G. Komen Breast Cancer Foundation.

In 2007, over 5,000 humans and 2,600 dogs participated in events such as a costume contest, a dog wash, "the world's only puppy limbo contest" and dog diving (into a 30,000 gallon pool). These efforts raised more than \$65,000 for the charity (with total donations over the last four years of more than \$225,000), and increased community awareness of breast cancer. The creative team spirit of our employees at Cranbury led to it being a worthy winner of the L'Oréal Award for Best Community Relations Initiative. ■

XAVIER EMMANUELLI,
FOUNDING PRESIDENT
OF THE SAMUSOCIAL
SHELTER

What is the "Maison des Femmes"?
"We welcome women who feel lost, helping them to rebuild physical, symbolic and social links in an initial step towards re-inclusion. It is a safe, purpose-designed living space to help women move on from the critical social situation in which they find themselves. We are going to set up socio-aesthetic workshops to help women to reappropriate their self-image."

What led you to create this concept?
"All of our medical observations show that the desocialisation and exclusion process results in a subconscious negligence of our appearance. In life, we feel good if people look at us. If people stop looking, those who don't feel they belong stop looking at themselves. Looking and feeling good boosts confidence. It is all about feeling good in our own skin which makes us more confident in communicating with others. This is what we are trying to achieve with the Samusocial's unprecedented "Maison des Femmes" project set up with the vital help of the L'Oréal Corporate Foundation".

How has the L'Oréal Foundation helped to set up this shelter?
"L'Oréal has helped us since 2002 by financing emergency medical appointments. The confidence and conviction of the L'Oréal Foundation have turned this innovative project into a reality".



Over 100 female college and high school students attended the awareness day on scientific careers organised as part of the Women's Forum.

**SOLIDARITY:
HELPING VULNERABLE PEOPLE**

Supporting the Samusocial shelter in Paris

In 2007, the L'Oréal Corporate Foundation supported actions to help people who are vulnerable due to exclusion, illness or the loss of their job. In 2007, the Foundation helped to set up the Samusocial "Maison des Femmes" shelter in Montrouge.
www.samu-social-international.com

"Restaurants du Cœur"

To continue the support given since 1998 by L'Oréal, the L'Oréal Foundation donated 50,000 kits to the "Restaurants du Cœur" in 2007 containing essential hygiene and beauty products. 20,000 of these were given to the "Restos Bébés du Cœur". These kits were put together by young disabled workers in Clichy from ESAT, a programme which helps the disabled enter the mainstream labour market.
www.restoduceur.org

"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 19 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 skincare and make-up lesson. L'Oréal is one of the drivers behind this worthy venture with many of the group's brands participating in every country where the programme exists, notably in France where the programme is called "La Vie de plus belle".
www.lookgoodfeelbetter.org



WALES

Staff fundraising for Ty Hafan hospice, Llantrisant factory

While the L'Oréal Llantrisant factory has undertaken many different activities to help the local community, our pride of place goes to our work with Ty Hafan, the only children's hospice in Wales. All our employees have the opportunity to become involved in activities of a real and practical nature that help children who are severely handicapped by disease. Over 150 staff have been directly involved, led by a group of totally committed volunteers from the factory who give innumerable hours of their personal time to organise these activities. L'Oréal supports our staff by donating around €14,000 worth of product samples for sale each year to raise money. Ty Hafan's main annual fundraising event is to organise the Welsh 3 Peaks Challenge. Approximately 80 teams take part, and L'Oréal has, on a number of occasions, had the largest



To observe, to marvel at... these are the first steps towards respect. Environmental education aims to change our behaviour —this is the mission of the Nicolas Hulot foundation.

**Women and society:
promoting the diversity of women**

In 2007, the Foundation was the main sponsor of the *Femmes du Monde (Women of the World)* exhibition, opened on October 11th, 2007, at the Musée de l'homme, in Paris. This exhibition celebrated the cultural diversity of women.

The Foundation also became strategic partner of the Women's Forum for the Economy and Society, an exchange forum concerning the place of women in the world. The Foundation organised the "Sci Tech Girl" day during which a hundred young girls were given information about scientific and technical careers by women who are very successful in their field.

OTHER INITIATIVES

**SUPPORTING THE
NICOLAS HULOT FOUNDATION**

In 1995 L'Oréal became a founding member of the Nicolas Hulot Foundation for Nature and Mankind, and has supported it ever since. In 2007 L'Oréal participated to the "Défi pour la Terre" (Challenge for the Earth) programme, launched by the Nicolas Hulot Foundation in partnership with the French Environment Agency (ADEME), to raise the awareness amongst our 11,000 employees in France of environmental and climate change issues. The purpose of this programme, which will be rolled out in 2008 and beyond, is to encourage our employees to reduce the environmental impact of their day-to-day activities by implementing simple solutions to minimise CO₂ emissions, such as recycling, choosing the right mode of transport (train rather than car), using low energy appliances and light bulbs, eating seasonal produce, switching off electric devices after use, printing on both sides of paper sheets, etc.

www.fondation-nicolas-hulot.org

**STAFF VOLUNTEERS
FOR PLANÈTE URGENCE**

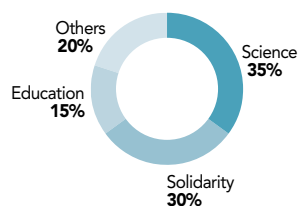
In 2005 we set up a partnership with Planète Urgence, a French organisation which sends volunteers overseas to participate in various humanitarian missions to help local populations in their development efforts or to work on environmental protection programmes. During the last three years 29 members of our staff volunteered to work on various missions in several African and South American countries. We plan to send 45 staff volunteers in 2008.

www.planete-urgence.org

representation of any participating company. Our total contribution to Ty Hafan since 1997 is now in excess of €150,000. "At Ty Hafan we spend a lot of time making presentations to companies and organisations to encourage them to become involved in our fundraising activities. We always use L'Oréal as a shining example of what can be achieved by the efforts of the staff of a major local employer," Dominic Jenkins, Chief Executive – Ty Hafan. ■

EVALUATION AND MEASUREMENT

**2007 INVESTMENT IN
PHILANTHROPY**



L'Oréal's investment in philanthropy in 2007 totalled over €17 million. This has been calculated according to the guidelines set by the London Benchmarking Group, and includes donations of money, staff time and products.



L'ORÉAL'S COMMITMENT

TO PRESERVE AND UPHOLD
THE BODY SHOP VALUES;
TO COMBINE OUR EXPERTISE
TO ENHANCE THE GROWTH
OF THE BODY SHOP.

Anna, a member of the Eudafano Women's Cooperative in Namibia, which supplies The Body Shop with marula nuts, used in make-up products.



THE BODY SHOP

L'Oréal greatly values the exceptional emphasis The Body Shop places on being a sustainable and ethical business. We hope that close co-operation between our businesses will result in shared best practice and the identification of opportunities for improving our sustainability performance. Over the last year for example, we have been working together to identify Community Trade ingredients that L'Oréal can incorporate into its products.

SUSTAINABILITY PROGRESS IN 2007

Full details of progress in achieving The Body Shop Values can be found in our Values Report on our website www.thebodyshopinternational.com. Environmental and social data from The Body Shop is reported separately from L'Oréal's, via this Values Report. Highlights include the following (under each of our five Values areas):

1. PROTECT OUR PLANET
2. SUPPORT COMMUNITY TRADE
3. DEFEND HUMAN RIGHTS
4. ACTIVATE SELF-ESTEEM
5. AGAINST ANIMAL TESTING

1. PROTECT OUR PLANET

Packaging

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

Chemicals

The Body Shop operates a precautionary approach to the use of chemicals and has for a number of years been working with its external



80%

recycled content in our packaging by 2010



Community Trade aloe vera farmer from Guatemala.

stakeholders to identify and discontinue the use of certain chemicals of concern. Although some phthalates are legal and considered safe for use in our industry and by its regulators, we committed to removing them from our formulations, and now have just one product containing phthalates. By the end of 2008 our full range will be 100% phthalate free. We also adopted a precautionary approach with regards to polycyclic musks and are committed to discontinuing their use in our formulations by 2010.

Palm oil

In June 2007 we became the first cosmetics company to source traceable, sustainable palm oil for use in our soaps and we are moving all our soaps to this sustainable palm oil during 2008.

Climate change

The Body Shop is committed to becoming a carbon neutral company by 2010. We will achieve this via a “reduce, replace, offset” approach—first by becoming more energy efficient, secondly by shifting to renewable electricity sources wherever possible, and thirdly by sustainably offsetting any remaining CO₂ emissions.

→ **Reduce**

The Body Shop has set stretching energy reduction targets for our stores and offices across our four global regions. In-store energy efficiency remains a priority, and we are focussing on areas such as illuminated fascias; retrofitting LED into perimeter backlighting; display lighting control units in back of house areas; and fitting automatic meter reading units. In-store energy efficiency training has been delivered to all the regional businesses, and all store staff will be trained in 2008. This training is backed up with three new *Green Guides*, for Stores, Offices and Purchasing. The Europe Middle East and Africa (EMEA) region launched a green pledge scheme to encourage energy saving habits. The American office formed a green champions group with representatives from each function to identify new areas for energy saving and to exchange best practice.

The Body Shop International plc and L’Oréal UK have worked together on a partnership with the Carbon Trust to secure energy efficiency funding and identify opportunities for mutual benefit, for example sharing advice on distribution centre operations and office lighting.

→ **Replace (Renewables)**

In the United Kingdom and EMEA sourcing of renewable energy is progressing well. In the United Kingdom 66% of stores now buy renewable energy, up from 60% last year. In 2008 we will ensure that new stores purchase renewable electricity, and we will work with shopping centre owners to encourage sourcing of renewable energy.

The EMEA region has also achieved a strong increase in the use of renewable energy, with a 12% growth in stores supplied by renewable energy, achieving a total of 41% overall.

Stores in the Americas and Asia Pacific have been investigating renewable energy options and have discovered limited supply availability. Despite this we are continually investigating alternatives to power our stores with green energy in the longer term.

MADE WITH PASSION™

AGAINST ANIMAL TESTING

SUPPORT COMMUNITY TRADE

ACTIVATE SELF ESTEEM

DEFEND HUMAN RIGHTS

PROTECT OUR PLANET



The Body Shop store, Warsaw (Poland).



Community Trade cocoa butter preparation in Ghana.

→ Offset

An offset guidance policy has been developed for departments and regions when they need to offset their emissions. This guidance recommends that offsetting should be achieved through:

- protection of forestry earmarked for destruction, particularly areas of high environmental or social value,
- renewable power sources to replace more carbon dioxide intensive methods,
- the application of energy efficient technology so that absolute emissions are reduced.

These three mechanisms are recommended because they prevent emissions from being released, as opposed to other options that sequester emissions that have already occurred.

We will continue to offset our air travel for 2007, as we have done for the last two years.

2. SUPPORT COMMUNITY TRADE

In 2007 we celebrated 20 years of Community Trade, our unique fair trade programme. In keeping with the Community Trade Strategy that was agreed in 2006, The Body Shop has increased its commitment to fair trade in many ways. The Community Trade team itself has grown—allowing greater and more detailed expert interaction with the Community Trade communities. The scope of the programme itself grew, too, with new ingredients and new suppliers—including the supply of organic virgin coconut oil from a community in the most westerly island of Samoa. The number of farmers, producers and workers who derive a fair, respectful and predictable income directly from Community Trade now stands at over 25,000. The total number of indirect beneficiaries who benefit from the community work facilitated by our trade income is simply too high to calculate!

We have also been working with L'Oréal to explore the potential for Community Trade ingredients to be incorporated into L'Oréal products. More details can be found on page 42.

3. DEFENDING HUMAN RIGHTS

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

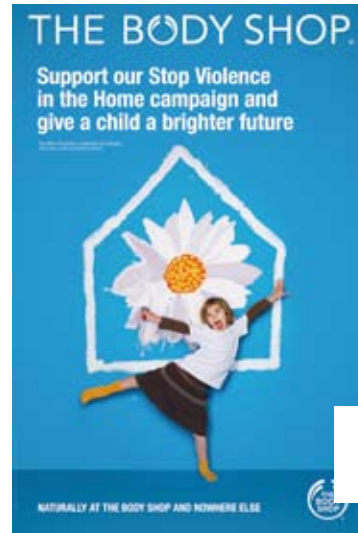
Throughout 2007, The Body Shop has run an extensive training programme equipping all its buyers with the skills and knowledge they need to assess suppliers' ethical performance. It is the suppliers' responsibility to ensure ethical standards are maintained. Nevertheless, this training programme is viewed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



NAMIBIA

Community Trade—Marula oil

Marula oil is a key Community Trade component in many of our products, most notably in our make-up range. Selma Ekandjo lives in the Onathing area in northern Namibia and is the leader of the Kuupenda Kuliwa association, one of the 14 women's associations which together form the Eudafano Women's Cooperative. Roughly translated, Kuupenda Kuliwa means "working together for a better future". Selma says that the trade in marula has made a real difference to the lives of the women in the community: "We can now help support our families, it has helped our kids with schooling, while healthcare is possible because of the payment. We have gone from nothing to an international business in such a short time, something which we're very proud of." ■



Posters from our global campaigns.

4. ACTIVATE SELF-ESTEEM

Global campaign highlights

→ Stop Violence in the Home

By 2007 the Stop Violence in the Home campaign had reached 52 markets across the world, raising over £1.6 million for organisations working to stop domestic violence. The fundraising achievements of the campaign through sales of Hi-Shine Lip Treatment and a Daisy Soap illustrate just half the story. The other achievements are those of employees and customers in raising awareness, helping change attitudes and instigating groundbreaking law changes to protect those affected. The Body Shop team in Singapore and Hong Kong won high-profile awards in recognition for their contribution to raising awareness and helping those affected by domestic violence.

→ Spray to Change

As part of our ongoing commitment to HIV/AIDS awareness, we teamed up with MTV to launch the Stop HIV: Spray to Change Attitudes campaign in 2007. Together we are working to raise awareness amongst young people of HIV/AIDS, and raise funds for MTV's Staying Alive Foundation, which supports grass-roots charities around the world to help raise awareness and educating young people. We now have 15 new Staying Alive Award grantees in 11 countries who will use their new funding to campaign at a grassroots level. They are an incredible group of young people who are keeping their friends, families and communities safe from the devastation caused by HIV/AIDS.

→ The Body Shop Foundation

Set up by Anita and Gordon Roddick in 1989, in 2007 the Foundation made 110 grants totalling over £940,000. Grantees included the British Union for the Abolition of Vivisection (BUAV), The Tropical Forest Trust, ECPAT UK (End Child Prostitution and Trafficking), the

Microloan Foundation, and Candlelight, a Somali NGO. More information can be found at www.thebodyshopfoundation.org.

5. AGAINST ANIMAL TESTING

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

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

£1.6M

raised by the Stop Violence in the Home campaign



→ INDONESIA

Stop Violence in the Home

Suzy Santoso, Head Franchisee in Indonesia was honoured with the UN Millennium Development Goals Award (MDGs) for achievement in Women's Empowerment, as well as being personally voted one of the "35 Incredible Women of 2007" by a prominent national women's magazine. The awards highlighted her successful campaigning to support the push for the Domestic Violence Act through to the House of Representatives, resulting in better protection for domestic violence victims. ■



A TRIBUTE TO DAME ANITA RODDICK

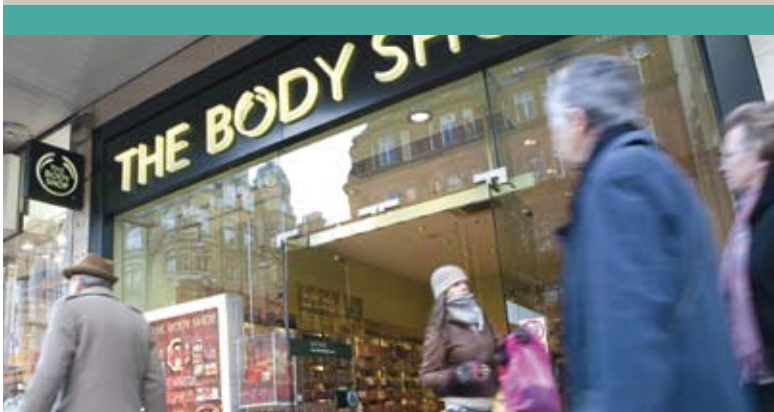
2007 was a time of change for The Body Shop as it mourned the death of its founder and celebrated her inspirational life.

Adrian Bellamy, Chairman of The Body Shop at the time of Anita's sad death, paid tribute to her:

"All of us in The Body Shop family were deeply shocked and saddened to hear the news of Anita's passing away. Anita was not only our founder but she was also the heart and passion of The Body Shop and with her we achieved so much, whether on animal rights, human rights, Community Trade, or through the founding of organisations like Children on the Edge. It is no exaggeration to say that she changed the world of business with her campaigns for social and environmental responsibility. But for everyone who knew Anita, it was about much more than that: you couldn't help but be inspired by her love of life, her vision of the world and her passion for changing it. Anita leaves us with an enduring legacy which will long guide the affairs of The Body Shop."

From all round the world messages were collected from friends and colleagues in and out of the company who acknowledged her unique achievements in creating a business that was a force to deliver social good alongside good products and good business.

United Kingdom's Prime Minister Gordon Brown paid tribute to Dame Anita, calling her "one of the country's true pioneers" and an "inspiration" to businesswomen. He said: *"She campaigned for green issues for many years before it became fashionable to do so and inspired millions to the cause by bringing sustainable products to a mass market"*.



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.

Since 2005, the SHE data have been recorded, communicated and consolidated monthly through an IT information system accessible on all the manufacturing and distribution sites within the group. The reliability and performance of this system having already been proven, our goal this year was to verify the validity of SHE data recorded from the sites in 2007. To do so, we have performed audit at a statistical sample of six manufacturing sites and three distribution centres located in France, the United States and Belgium.

The approach consisted in verifying the information sources and interviewing managers on the visited sites.

SHE data presented in this report for 2007 covers a scope limited to manufacturing sites and distributions centres, and does not include research centres and administrative buildings.

FINDINGS

The review indicated that, for the sample covered, the data collection and management systems provided accurate information.

Minor inaccuracies or inconsistencies were identified at each of the sites visited, but were found not to be material in the context of the overall consolidated group results:

- some visited sites showed minor discrepancies in the reporting of working hours used to calculate the frequency and severity rates;

- one manufacturing plant did not report properly its breakdown of water consumption. Nonetheless, the overall consumption was accurately reported;
- one manufacturing plant overestimated its VOC emissions.

The selection of disclosed indicators was similar to former issues of this report and was found to be relevant.

OPINION

We believe that the SHE data presented in this report and set out in the text, tables and graphs, relating to the year 2007, provide a fair, transparent and reasonable representation of the SHE performance of L'Oréal manufacturing sites and distribution centres.

Overall improvement in SHE performance appears to be the result of true progress on the sites and also reflects consistency in the reporting reliability level for the L'Oréal group.

Paris, February 2008

Vincent Sauvaire
Managing Director ERM-France



REVIEW REPORT BY ONE OF THE STATUTORY AUDITORS ON THE PROCEDURES USED TO COMPILE CERTAIN SOCIAL DATA PUBLISHED IN THE L'ORÉAL SUSTAINABLE DEVELOPMENT REPORT

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 in the L'Oréal group Sustainable Development Report and identified by the sign (☑).

These procedures, together with the data published in the group Sustainable Development Report, 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: Labour Relations Department, International Human Resources (HR)

Department, HR Information Systems Department, International Recruitment Department, Corporate HR Support Services, Training and Development 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 (Chile, France, Indonesia, Italy, and Poland) and in respect of the following sample indicators:

number of employees by gender, indicators from the management database of executives' profiles and careers (nationalities and positions of executives for instance), number of executives recruited, number of internships, number of apprenticeships (France only), number of partnerships with schools and universities, number of employees and executive staff trained, amount allocated to

WPS programme (France not included), L'Oréal minimum wage compared with national minimum wage, number of employees' representatives (France not included), number of trade-unions, number of internal agreements signed, number of working days lost due to strike, launch of an internal opinion survey, number of bodies and representative mandates (France only).

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

Based on our work, no material misstatement came to our attention that would cause us to believe that the social data selected and published in the group Sustainable Development Report has not been prepared in accordance with the group's internal reporting procedures.

Neuilly-sur-Seine, May 7th, 2008



Statutory Auditor
Etienne Boris


Sustainable Development Practice Partner
Sylvain Lambert

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