

L'ORÉAL

2008 SUSTAINABLE
DEVELOPMENT REPORT





23

Global brands

Over 130 countries

4.6

Billion units manufactured annually

67,500

Employees

17,500

Million euros in consolidated sales

581

Million euros in R&D investments

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 2008.

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 Pricewaterhouse Coopers 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



Our factory in Pune (India) won the 2006 international environmental award for the use of solar heating to preheat wash water. This saves 93 tonnes of CO₂ per year, or 6% of total energy use. This factory also pioneered a new waste recovery system in the group: the wormeries at Pune convert waste sludge into useful manure, which can either be used on our gardens or sold to local garden centers. The proportion of waste recovered at this site increased from 96% to 99% as a result.

Cover: Inspection of our expansion of solar water heating panels in Pune, India. These are a very cost effective and environmentally friendly alternative to the use of diesel fuel, and perfect for this location.

For more detailed information, consult the group Internet site:

WWW.LOREAL.COM

2008 Key Data

ECONOMIC

- Total shareholder return over twenty years 13.28%

ENVIRONMENT, HEALTH & SAFETY

- Energy use cut by 3.6%
- Water use cut by 6.9%
- Green House Gas (GHG) emissions cut by 6.6%
- Sulphur dioxide emissions cut by 28.3%
- Volatile Organic Compound (VOC) emissions cut by 15.4%
- Waste cut by 4.9% (including returnable packaging)
- Almost half of our factories and warehouses send no waste to landfill
- 95% of our waste is recycled, re-used or used for energy generation
- All our factories are ISO 14001 and either OHSAS 18000 or VPP accredited (except 3, which are recent acquisitions or start ups)
- We cut our accident rate by 18% (enlarged frequency rate)

R & D

- 628 patents registered
- €581 million invested in R&D
- 2 new laboratories to research ecotoxicity and natural cosmetics
- All plant extracts added to the raw materials portfolio came from supply channels offering reliable guarantees of traceability and sustainability
- 98% of the perfumes we use analysed by our Sustainability Assessment Framework
- Raw materials assessment on persistence, bio-accumulation and toxicity is 99% complete

SOCIAL

- Nearly 5,000 managers have now attended the diversity training course set up in 2006
- Women now represent 37% of management committees
- Half of our 23 international brands are headed by women
- 150 taskforces were set up to identify and implement 350 improvements suggested by our 2007 PULSE employee opinion survey
- 492 apprentices employed at L'Oréal in France (4%+ of its workforce)
- 57.5% of all employees received training
- 86% of countries have integrated ethics into their induction programme for managers
- 44% of countries have carried out an evaluation of their ethical risks
- €174.3 million of profit was shared with employees

SUPPLIER RELATIONS

- 688 independent labour standards audits carried out at our suppliers, subcontractors and traders' production sites
- 32% of these audits concluded that the supplier's factory was satisfactory or needed only minor improvements
- Involved 30% of our supply base (by revenue) in the Carbon Disclosure Project's 'Supply Chain Leadership Collaboration' survey to encourage supplier disclosure on carbon emissions

CONSUMER RELATIONS

- 331 specialist Consumer Advisers in more than 50 countries
- 1.3 million post-sale consumer contacts handled
- 70% of contacts related to enquiries or advice, 28% to a complaint and 2% compliments
- 3% of the enquiries received were related to sustainability issues

CORPORATE PHILANTHROPY

- Over 40 of the laureates of the L'OREAL-UNESCO Awards For Women in Science signed the Charter of Commitment to promote science, support the cause of women and change the image of science
- Extension of the For Women in Science L'OREAL-UNESCO National Fellowship programme to 40 countries and of the Hairdressers against AIDS programme to 24 countries
- 7 Opération Sourire facial repair surgery missions supported, offering surgery to 266 individuals affected by war, illness and/or malnutrition, in conjunction with Médecins du Monde
- €18 million of charitable donations and philanthropic activity

L'ORÉAL
PROFESSIONNEL

KÉRASTASE
PARIS

REDKEN
5TH AVENUE NYC

MATRIX
BY L'ORÉAL PARIS

L'ORÉAL
PARIS

Take care.
GARNIER

MAYBELLINE
NEW YORK

SOFTSHEEN-CARSON™

LANCÔME
PARIS

GIORGIO ARMANI
PARFUMS

YVES SAINT LAURENT

RALPH LAUREN

BIOThERM

HR
HELENA RUBINSTEIN

shu uemura

Kiehl's
SINCE 1851

DIESEL

cacharel

VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

innéov

SKINCEUTICALS

THE
BODY
SHOP®

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CHAIRMAN & CEO MESSAGE

Environmental Performance 2003 – 2008

Reduction per finished product

-23%

Direct CO₂ emissions

-17%

Energy consumption

-25%

Water consumption

-26%

Waste reduction⁽¹⁾

(1) Excluding returnable packaging.
(2) European Centre for the Validation of Alternative Methods.

100 YEARS OF VALUES

For a whole century, L'Oréal has been committed to the adventure of beauty. The small, single brand company, started by a visionary chemist, Eugène Schueller, in Paris, France in 1909, has grown to become the world's leading beauty company, thanks to its rigorous scientific approach, its hunger for conquering international markets and its ongoing quest for innovation and quality.

Few companies reach this symbolic milestone. Such longevity cannot be put down to luck; it stems above all from the talents of men and women, from their commitment, their convictions and strong values which are continually being passed down from generation to generation. The deployment of a powerful and clear strategic vision has enabled the group to make beauty accessible to as many people as possible, the world over.

Values such as integrity, responsibility and respect for people and the environment have been a key part of L'Oréal's DNA since the early days. Our centenary is an opportunity to reaffirm our commitment to our vision and values: a robust scientific approach, a constant quest for innovation; a taste for real challenge; respect for diversity and the environment. And a deep rooted belief in the valuable role that beauty plays in society and for our consumers.

EMBEDDING SUSTAINABILITY INTO OUR LONG TERM TARGETS

These values are the bedrock of the company. As evidence of this, despite the current economic turbulence, L'Oréal is staying on course and further strengthening its sustainability strategy. This year we were very pleased to announce three significant long term environmental targets for 2005-2015 for our factories and warehouses, to:

- Cut in half our greenhouse gas emissions.

- Cut in half our water use per unit of finished product.
- Cut in half our waste generated per unit of finished product.

These ambitious targets follow already strong performance in these areas: between 2003 and 2008, we reduced energy consumption by 17%, direct carbon dioxide (CO₂) emissions by 23%, water consumption by 25% and waste generation by 26% per finished product. Furthermore, in 2008 we exceeded our annual targets on water and CO₂ emissions reduction. We achieved our aim of sourcing all pulp used in our cardboard packaging from sustainably managed forests, and hope to 'green' our packaging further as a result of our new two-day environmental training course for packaging designers.

Our Research and Development teams continued their work on sustainable innovation. We opened two new laboratories, one dedicated to research into eco-toxicity, the second into natural and organic cosmetics. We launched our first range of organic products, and incorporated fair trade ingredients into our mainstream brands. KIEHL'S launched its first entirely biodegradable cosmetic product with "Cradle to Cradle" certification. We have continued to work with suppliers to assess ingredients according to our Sustainability Assessment Framework.

2008 saw new applications for Episkin and SkinEthic, the alternatives we have developed to replace animal testing. We used Episkin reconstructed epidermis models and SkinEthic reconstructed corneas to assess the effectiveness and safety of raw materials. We also developed a collagen matrix which will become the most complete model of reconstructed human skin available. ECVAM⁽²⁾ scientifically validated a second model



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

for skin irritation, to complement the Episkin model approved in 2007. Finally, our new integrated strategy for safety assessment based on a combination of alternatives to animal testing has now been implemented.

In human resources, we took a further step to ensure that we have a clear and unified policy on hiring, induction, training, remuneration and career development across the world with the launch of the "L'Oréal & Me" programme, once again demonstrating our ambition to be a great place to work. We acted on what we learnt from listening to the 28,000 employees who participated in our PULSE opinion survey in 2007 by setting up 150 taskforces to identify and implement 350 suggested improvements in 2008.

Our work on diversity goes from strength to strength: nearly 5,000 managers have now attended the diversity training course set up in 2006, and half of our 23 international brands are headed by women. And by reducing the accident rate in our factories and warehouses by 18%, we came closer to our long term aim of zero accidents.

Our progress on ethics includes the introduction of the Ethical Risk Evaluation and Analysis Tool, enabling our country teams to evaluate their possible ethical risks and formulate a corrective action plan if necessary. We set up the L'Oréal Ethics Open Talk website so that employees can contact the Group Director of Ethics directly. And for the first time, this year we publish the results of our annual survey on the implementation of our ethics programme.

“Values such as integrity, responsibility and respect for people and the environment have been a key part of L'Oréal's DNA since the early days.”

Our efforts to ensure that our suppliers abide by strict social standards strengthened further this year, with 688 independent audits on labour standards at our suppliers', subcontractors' and traders' production sites. We worked with CSR Europe to launch the Responsible Supply Chain Portal, a web-based learning tool to disseminate best practice amongst suppliers and buyers. We also involved 30% of our supply base (by revenue) in the Carbon Disclosure Project's 'Supply Chain Leadership Collaboration' survey to encourage supplier disclosure on carbon emissions.

Finally, the L'Oréal Corporate Foundation developed its initiatives in its three priority areas—education, science and solidarity—in particular by organising the tenth anniversary of the "For Women in Science" programme in partnership with UNESCO, which has already granted 52 laureate awards and 619 fellowships to women from 85 countries and 5 continents. Overall, we invested more than €18 million in philanthropy around the world in 2008.

OUR VISION FOR THE FUTURE

Our business strategy is resolutely focused on the long term: we are confirming our investment in research, actively supporting the development of our brands, and continuing to expand our global reach. We accept the constraints of the present whilst prioritising our efforts on preparing for the future.

In 2009, we aim to continue our progress on sustainability, with a particular focus on further developing and sharing our vision on 'Corporate Consumer Responsibility'. In this centenary year for L'Oréal, we believe more than ever in L'Oréal's spirit of adventure, and in our mission: to offer consumers all over the world the highest possible quality in each product category, each distribution channel, and each price level, to meet beauty needs and aspirations in their infinite diversity. This is why we are committed to satisfying and empowering the consumer further. Through constant product innovation and improved efficacy, the highest standards of product safety and responsible advertising, we hope to make L'Oréal a leader in Corporate Consumer Responsibility.

Today, more than ever, our three-fold ambition is to achieve economic success, to harness the enthusiasm of employees in their diversity and to establish L'Oréal as a respected global citizen.

We are deeply committed to ensuring that L'Oréal is among the most exemplary corporations of the 21st century in the field of sustainable development.

Sir Lindsay Owen-Jones Chairman
Jean-Paul Agon Chief Executive Officer

“In 2009, we aim to continue our progress on sustainability, with a particular focus on further developing and sharing our vision on 'Corporate Consumer Responsibility'.”

GOVERNANCE & ETHICS

Respect, integrity and excellence: L'Oréal's values have shaped our culture and underpin our reputation. 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.

CORPORATE GOVERNANCE

L'Oréal's Board of Directors attaches great importance to the quality of corporate governance, closely monitors changes in best practices in this field, and strives to ensure constant progress.

RESPONSIBLE AND EXPERIENCED DIRECTORS

The Board of Directors of L'Oréal comprises 14 members: the Chairman and the Chief Executive Officer, six directors from the majority shareholders, three of whom represent Mrs Bettencourt's family group and three represent Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent directors.

ACTIVELY INVOLVED COMMITTEES

The Board's Committees act strictly within the framework of 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.

THE STRATEGY AND IMPLEMENTATION COMMITTEE

This Committee clarifies, through its analyses, the strategic orientations submitted to the Board and monitors the implementation and advancement of significant operations in progress. It ensures that the main financial balances are preserved. In this context, 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 may significantly change the balance sheet structure.

THE AUDIT COMMITTEE

The Audit Committee ensures that the General Management is provided with the means enabling it to identify and manage the economic, financial and legal risks facing the group inside and outside France in carrying out its routine and exceptional operations. Mr Charles-Henri Filippi, L'Oréal director and a financial expert, was appointed Chairman of the Committee in April 2008.

THE REMUNERATION COMMITTEE

The Remuneration Committee makes proposals to the Board with regard to all aspects of the remuneration of the Chairman and the Chief Executive Officer, particularly in light of recommendations made by the relevant organisations on the French market, with regard to the implementation of long-term incentive plans, such as those providing, for example, for distributions of stock options or for free grants of shares, and on the amount of attendance fees and the method of distribution of such fees.

THE APPOINTMENTS COMMITTEE

The Appointments Committee makes proposals to the Board for the choice of directors, issues an opinion on the Chairman's proposals for the appointment of the Chief Executive Officer and ensures the implementation of a procedure for the preparation of succession plans for the corporate officers in the event of an unforeseen vacancy. It supervises the method of evaluation of the Board and conducts the reflection process with regard to the Committees that are in charge of preparing the Board's work. It issues an opinion on whether directors can qualify as independent and verifies the assessment criteria.

SYSTEMATIC SELF-EVALUATION

Every year, the Board reviews its composition, organisation and modus operandi. It considers the avenues of possible progress and makes any improvement that it considers appropriate. The Board met six times in 2008, with an average attendance rate of 90%. The directors all attended the Annual General Meeting. For 2008, the Board particularly appreciated the presentations that were made to them, often in the presence of senior managers, and the discussions which followed on a large number of aspects of the group's strategy and prospects. Further progress has been noted in the functioning of the Board Committees, whose preparatory work assists the Board in making its decisions. In 2008, the Board was provided with regular and reliable information on the group's business activities. The directors expressed the wish that the progress thus made should continue to enhance their deliberations, and have suggested broadening the scope of the subjects to be discussed at their meetings.

More details on corporate governance can be found on pages 18-19 of the 2008 Annual Report.

BOARD OF DIRECTORS AS OF DECEMBER 31st, 2008

- **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
- **Nicolas Hieronimus**
Managing Director
Professional Products Division
- **Jean-Jacques Lebel**
President
Consumer Products Division
- **Brigitte Liberman**
Managing Director
Active Cosmetics Division
- **Marc Menesguen**
President
Luxury Products Division
- **Christian Mulliez**
Executive Vice-President
Administration and Finance
- **Geoff Skingsley**
Executive Vice-President
Human Resources
- **Jochen Zaumseil**
Managing Director Asia Zone

GOVERNANCE & ETHICS



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 2008 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 2008 we joined 140 other businesses in signing the *Poznan Communiqué* to world leaders, which called for a comprehensive, legally binding United Nations framework to tackle climate change, to provide business with the certainty and frameworks we need to scale up global investment in low-carbon technologies. www.poznancommuniqué.com

We also continued our work in the Carbon Disclosure Project's Supply Chain Leadership Collaboration programme to encourage supplier disclosure on carbon emissions (see page 63). www.cdproject.net

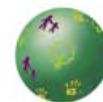
Communication with stakeholders on sustainability

To ensure that our sustainability policy and achievements reached the widest possible audience, L'Oréal also produced a summary "pocket" version of the full 2007 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 2009.

External Recognition

L'Oréal's sustainable development initiatives were widely recognised during 2008:

- L'Oréal was rated as one of the 100 most sustainable companies in the world by Innovest and Corporate Knights. This survey evaluates companies on how effectively they manage environmental, social and governance risks and opportunities, relative to their industry peers.
- L'Oréal was ranked second by the French magazine *Challenges*, which studied the sustainable development performance of companies listed on the French Cac 40 index, and received the highest score for environmental performance.
- Innovest ranked L'Oréal as the leader in its sector for managing environmental, social and governance risks.
- The Climate Counts Scorecard ranked L'Oréal as joint second in the Household Products sector in terms of our policy and action on climate change.
- L'Oréal is included in most sustainable development indices, including FTSE4Good, ASPI Eurozone, and Ethibel.
- Jean-Paul Agon received the *Stanley C. Pace Leadership in Ethics Award* from the Ethics Resource Centre in recognition of the company's exemplary ethical leadership.



FTSE4Good



▶ JEAN-PAUL AGON RECEIVED THE "STANLEY C. PACE LEADERSHIP IN ETHICS" AWARD

Jean-Paul Agon, CEO of L'Oréal, was awarded the prestigious *Stanley C. Pace Leadership in Ethics Award 2008* by the Ethics Resource Centre, at a ceremony held in New York on March 18th, 2009. Nominations for this award come from companies, NGOs, the academic world and the public sector.

Previous award winners include the five founders of Transparency International, Sir Mark Moody-Stuart, former CEO of the Royal Dutch/Shell Group, John E. Pepper, retired Chairman and CEO of Procter & Gamble and Norman R. Augustine, former Chairman of Lockheed Martin. ■

▶ Jean-Paul Agon with Patricia J. Harned, President of the Ethics Resources Centre, and Jacqueline Brevard, Chief Ethics Officer, Merck.

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.

Detail of how Safety, Health & Environmental performance is managed can be found on page 20.

A POLICY OF SUSTAINABLE PROGRESS

This report paints an accurate picture of the economic, social and environmental reality at L'Oréal in 2008 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.

ETHICS

L'ORÉAL'S CODE OF BUSINESS ETHICS

Our *Code of Business Ethics*, available in 43 languages, is the reference document for ethics within L'Oréal. To underline the importance of this document, our Chairman and our Chief Executive Officer have both signed the foreword, and the introduction is signed by the entire Management Committee.

The Code applies to all employees of the group and our subsidiaries worldwide. It also covers all Board members and members of the Executive and Management Committees. All employees receive their own personal copy.

In 2007, the *Code of Business Ethics* was updated with the help of employees from 22 countries via international working groups in Asia, Europe, North America and Latin America. The Code was then validated by each Country Manager, Human Resources Manager and local counsel to make sure it was applicable locally.

The current *Code of Business Ethics* was issued in 2007 and the previous version dates back to 2000.

The *Code of Business Ethics* is regularly reviewed in order to improve it, if necessary. Employees are encouraged to give their feedback on the Code.

THE GROUP DIRECTOR OF ETHICS

Ethics is the responsibility of everyone within L'Oréal. This being said, to reinforce this commitment, in 2007 our CEO appointed a Group Director of Ethics who reports directly to him.

The responsibilities of the Group Director of Ethics are as follows:

- promote and integrate ethical best practices across the group, including through training and advice,
- regularly measure and assess the group's results on ethical issues and provide periodic reports to the CEO and the Management Committee,
- ensure respect of L'Oréal's ethical standards,
- address any concerns and take any necessary corrective action, when required.

The Group Director of Ethics has access to all the information and documentation relating to L'Oréal's activities and can call upon all the company's resources to carry out his mission.

GOVERNANCE & ETHICS



PARTNERSHIP ON ETHICS

L'Oréal signed the United Nations Global Compact in June 2003, committing to supporting and implementing, within its sphere of influence, the ten fundamental principles relating to human rights, labour standards, the environment and the fight against corruption.

We work closely with the following major associations and institutes:

- Global Council on Business Conduct, The Conference Board,
- Ethics and Compliance Officers Association,
- International Business Ethics Institute,
- Institute of Business Ethics,
- Cercle d'Ethique des Affaires,
- Anti-Corruption Commission of the International Chamber of Commerce.

L'ORÉAL SPONSORS THE FIRST EUROPEAN MASTERS DEGREE IN "LAW AND BUSINESS ETHICS"

L'Oréal is keen to participate in the integration of ethics in all areas of business and thus contribute to the development of a European school of thought on ethics. From this perspective, L'Oréal has opted to support the first Class of the European Masters in "Law and Business Ethics" organised by the dynamic University of Cergy-Pontoise near Paris (France).

This diploma is organised in association with ESSEC (France), the Institute of Business Ethics (United Kingdom) and the Ethics & Compliance Officers Association (United States). Its aim is to show how companies should integrate ethics into their strategic planning and their day-to-day business practices. L'Oréal has also created a student bursary called "L'Oréal pour L'Ethique".

In parallel, L'Oréal is also providing financial support for the "Law and Business Ethics" Chair at the University of Cergy-Pontoise, the aim of which is to promote responsible attitudes in business.



“ The objective of the European Masters in “Law and Business Ethics” is to enable legal professionals to become familiar with effective and structured business ethics principles within a European cultural environment. To help us get this new programme off the ground, we sought the patronage of a company with significant involvement in ethics and which had taken ethics from words to actions. So it was quite natural for us to ask L'Oréal's Group Director of Ethics, Emmanuel Lulin, to take on the role of patron. We are very pleased that the first class of the Masters degree bears the L'Oréal name. ”

ANNE-SOPHIE BARTHEZ and ROXANA FAMILY,
*respectively Vice Chairman of the Board of Governors and
Dean of the Faculty of Law, University of Cergy-Pontoise.*

“ Every employee is an integral part of L'Oréal's ethics programme and much of my role is about motivating and engaging employees in this collective undertaking. Everything we have done and continue to do is voluntary and proactive. Ethics gives us a common vision and frame of reference. It is our view, quite simply, that tomorrow's global market leaders will be the companies that have integrated ethics into their strategic planning but also into their day-to-day business practices.”

EMMANUEL LULIN,
L'Oréal's Group Director of Ethics.



HUMAN RIGHTS

Within its sphere of influence, L'Oréal supports and implements the fundamental principles relating to human rights. In particular, L'Oréal wants to help end the exploitation of children in the workplace and the use of forced labour, ensure that workers' rights are respected and promote diversity.

Several chapters of our *Code of Business Ethics* are devoted to the practical implementation of human rights, in particular Health, Safety and Security, Diversity, Harassment and Bullying, Sexual Harassment, Privacy, Contribution to the Community, Environmental Stewardship and Supplier Selection and Fair Treatment of Suppliers.

The subject of human rights is addressed in our ethics training courses (see pages 10 and 11). Country Reporting Ethics, our annual ethics reporting system, also enables us to assess the group's performance with regards human rights.

Our CEO has entrusted the Group Director of Ethics with the responsibility of ensuring strict compliance with regards the respect of human rights.

CHILD LABOUR

L'Oréal has chosen to set the minimum age of 16 for all its employees, which is higher than the minimum age set by the Core Conventions of the International Labour Organization (ILO). All L'Oréal entities are required to check the age of employees upon hiring. Waivers may be granted by the Group Director of Ethics in countries where apprenticeship or after-school work programmes are the norm, but only if schooling is continued and an internal mentor is assigned. Employees aged 16 to 18 also benefit from special attention; they are not allowed to work nights or overtime, handle dangerous machinery or carry heavy loads. (The Body Shop has set its minimum age at 15 pursuant to its being a signatory of the Ethical Trading Initiative.)

SUPPLY CHAIN

L'Oréal seeks to ensure that human rights are respected throughout its supply chain. Since 2004, all L'Oréal suppliers and subcontractors are asked to comply with the *Group's General Terms of Purchase and Payment*, which include an undertaking to comply with the Core Conventions of the ILO and local legislation, for example in terms of minimum wage, working hours and health and safety. Regular audits are carried out in order to monitor compliance (see pages 64 to 67).

Our own factories and distribution centres regularly undergo the same social audits we impose on our suppliers and subcontractors using the same external auditors and exactly the same criteria.

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, conflicts of interests as well as gifts and entertainment. L'Oréal's *Purchasing Code* also addresses these issues. These subjects are addressed in our ethics training courses (see pages 10 and 11).

Various policies and internal procedures help to reduce the risk of corruption, such as the Fundamentals of Internal Control. The Company's Internal Audit teams are particularly vigilant on this subject.

At country level, our Ethical Risk Evaluation and Analysis Tool enables countries to evaluate and analyse their possible ethical risks, namely corruption, in order to formulate a corrective action plan, if necessary (see pages 10 and 11). Country Reporting Ethics, our annual ethics reporting system, also enables us to evaluate the group's ethical performance on this subject (see pages 10 and 11).

RESPONSIBLE RESTRUCTURING

L'Oréal's sustainable growth is the best guarantee for its employees. In order to achieve this objective, L'Oréal must continually adapt itself to its environment. This can give rise to restructuring, particularly given the current difficult economic climate.

Any decision likely to affect the job and working life of employees is taken only after careful consideration. Our values of respect and integrity guide us in such situations. We communicate in a clear and regular manner to make sure that our employees are fully informed and ensure an on-going dialogue with our employees and staff representatives. When redundancies prove unavoidable, we aim to maintain employment by supporting employees in their professional reorientation, in particular through internal redeployment or solutions adapted to each individual situations.

L'ORÉAL'S ETHICS PROGRAMME

BUILDING BLOCKS

OBJECTIVES

ACHIEVEMENTS TO DATE

POLICY AND GUIDANCE

Support employees to enable them to make ethics part of their everyday activity, by means of advice, tools and policies on various subjects.

▶ Integration of two ethical competences into the managers' appraisal system: "Lead with human sensitivity" and "Obtain results with integrity".

COMMUNICATION

Promote ethics to L'Oréal employees and stakeholders.

▶ A day dedicated to ethics (E-DAY) in 2007 to mark the launch of the new edition of the *Code of Business Ethics*.

▶ Dedicated website, accessible to all employees, including the visually impaired.

TRAINING

All employees to master the four ethical competences:

- "Understand why ethics is important",
- "Demonstrate a high level of personal integrity",
- "Develop ethical reasoning",
- "Implement the Code of Business Ethics in one's daily activity".

▶ The L'Oréal ethics training model is based on integrating ethics into our corporate management training, professional expertise training and local training sessions.

OPEN TALK PROCESS

Encourage employees to air their views, defend their opinions and signal unacceptable behaviours or demands.

▶ All employees have been informed about the Open Talk policy through the *Code of Business Ethics*. Employees are encouraged to express any concerns they may have to their line manager or Human Resources Director. The Country Manager may also be contacted since he/she is ultimately responsible for ensuring that the *Code of Business Ethics* is respected at local level. If an employee has raised an issue locally and is not satisfied with the response, or if it is inappropriate to raise the issue locally, the employee should contact the Group Director of Ethics.

MONITORING

Regularly assess the group's performance on ethics

▶ Our annual ethics reporting system, **Country Reporting Ethics**, has been in existence since 2005.

▶ Regular audits, carried out by external auditors, at our suppliers' and within our own plants and distribution centres, check that the Core Conventions of the International Labour Organisation and human rights are being respected.

2008 ACHIEVEMENTS

Introduction of the Ethical Risk Evaluation and Analysis Tool.

This is a practical tool enabling countries to evaluate their possible ethical risks and formulate a corrective action plan if necessary. Already used by all the Countries' Human Resources Directors for risks particularly associated with Human Resources, this tool is in the process of being rolled out to Country Managers and Plant Directors.

44%

of countries have carried out an evaluation of their ethical risks

70%

of countries have integrated the two ethical competences into their appraisal system

New ethics section on www.loreal.com

This section on the L'Oréal corporate website gives information on the *Code of Business Ethics*. Users can download the Code in 43 languages. There is also a summary of L'Oréal's ethics initiatives.

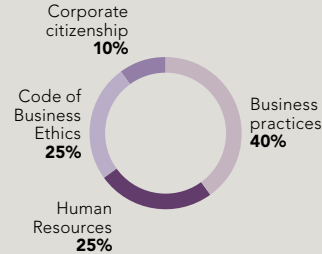
85%

of countries have communicated to employees on at least one ethics-related theme

37%

of countries have communicated to employees on more than five themes

COMMUNICATIONS: BREAKDOWN BY THEME



2009 PROJECTS

▶ Setting up a network of Ethics Correspondents.

▶ Formalising our human rights policy.

▶ Development of dialogue on ethics within the Country Management Committees.

▶ Hold another ethics day (E-DAY) in 2009.

Ethics has been built into the seven main corporate training courses and also into Purchasing, Operations, HR training. An ethics module has also been included in the "DISCOVERY" induction programme for all managers joining L'Oréal.

86%

of countries⁽¹⁾ have integrated ethics into their induction programme for managers

85%

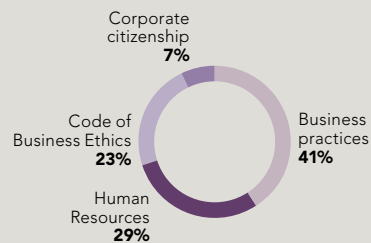
of countries⁽¹⁾ have organised local training courses dealing with at least one ethics-related theme

44%

of countries⁽¹⁾ have organised courses covering more than five ethics-related themes

(1) Excluding The Body SHOP.

ETHICS TRAINING: BREAKDOWN BY SUBJECT TYPE⁽¹⁾

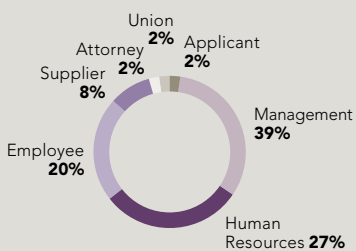


▶ Consolidation of existing training and integration of ethics into other professional expertise courses.

Launch of the L'Oréal Ethics Open Talk website.

Employees are now able to contact the Group Director of Ethics via the L'Oréal Ethics Open Talk website. This site provides a secure mechanism for raising a concern. It is currently available in French, English, Spanish, German, Russian, Mandarin, Japanese, Portuguese, Italian, Polish and Korean.

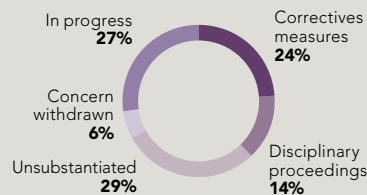
ORIGIN OF CONCERNS SUBMITTED TO THE DIRECTOR OF ETHICS



NATURE OF QUESTIONS TO THE DIRECTOR OF ETHICS



FOLLOW-UP OF CONCERNS SUBMITTED TO THE DIRECTOR OF ETHICS



▶ Further promote Open Talk policy.

Country Reporting Ethics reporting system extended to all sections of the Code of Business Ethics.

Country Reporting Ethics, in the past more oriented towards the HR themes of the *Code of Business Conduct*, now covers all the themes covered by the Code, ranging from product safety and quality, to corruption and human rights. The result is a more detailed and comprehensive analysis of the initiatives carried out at country level.

100%⁽¹⁾

response rate

(1) Excluding The Body SHOP.

▶ Launch of the second social audit campaign within the group's plants and distribution centres.



L'ORÉAL
ASSEMBLÉE GÉNÉRALE
16 avril 2009

L'ORÉAL
ASSEMBLÉE GÉNÉRALE

L'ORÉAL
ASSEMBLÉE GÉNÉRALE

L'ORÉAL

L'ORÉAL

Annual General Meeting of the L'Oréal shareholders.

► L'ORÉAL'S COMMITMENT

To create value by combining our energies with a strong business model.

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 2008, L'Oréal stood up well in a difficult environment and continued to grow in terms of sales, net earnings per share and market share. Annual sales grew by +3.1% like-for-like and by +6.6% at constant exchange rates, including the acquisition of Yves Saint Laurent Beauté, outperforming the growth of the cosmetics market. L'Oréal's worldwide market share continued to expand, reaching 15.8%⁽¹⁾.

On the whole the group has strengthened its positions in all divisions even though the situation varies from one channel to another due to the widely differing ways they have been affected by the economic crisis. In the Luxury Goods sector, the event of the year was the strategic acquisition of YVES SAINT LAURENT, the ideal complement to the division's brand portfolio. By making this acquisition, the division has now become the world leader in luxury cosmetics in its distribution channel.

In North America where the crisis has severely affected consumers and retailers, the group held its positions, maintained its advertising and promotional resources and continued to develop its brands. In Western Europe, L'Oréal, driven by the Anglo-Saxon and Northern countries, has held on well to its market share. Finally, strong growth continued in the Rest

of the World zone with some spectacular success, particularly in Eastern Europe and Asia, especially China.

L'Oréal's research and innovation teams have made a number of major technological advances.

The group has also continued to develop its global research network by creating a high technology department in Japan, a unit dedicated to biology and reconstructed skin in China and a hair research and development unit in Brazil. In France, the group has opened two new laboratories, specialising in ecotoxicity and high-throughput performance evaluation of new active ingredients.

A RESILIENT COSMETICS MARKET

Over the last 15 years, the cosmetics market has grown on average by +4.5% a year excluding currency fluctuations, with annual growth rates ranging from around +3% to +5.5%. It is a market which has demonstrated both its ability to achieve sustainable growth and its capacity for resilience in unfavourable economic conditions.

The growth of the market is driven by a number of underlying trends: in particular the ageing population and increased life expectancy (older people being the largest consumers of beauty products); progressive penetration of the men's market; increasing urbanisation giving rise to new hair and skincare requirements; and finally the continued globalisation of the beauty market.

(1) Excluding soap, toothpaste and razors. 2008 provisional estimates with YSL Beauté over a full year.
Source: L'Oréal estimates.

08

KEY FIGURES

(in € millions)

17,542

Consolidated sales

5,240

Cost of goods, materials and services purchased⁽²⁾

5,275

Advertising and promotion

3,429

Total payroll and benefits

174

Interest on debt

681

Total corporate income taxes

849

Distribution to shareholders

581

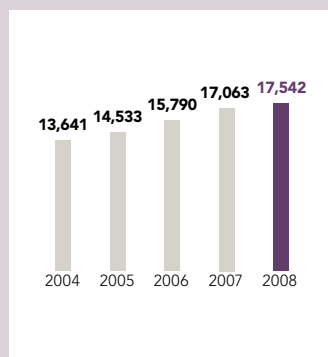
R&D investment⁽³⁾

(2) Including related personnel costs.

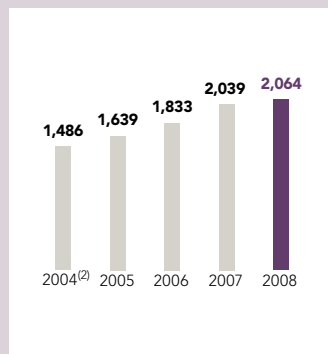
(3) Including 50% of GALDERMA research expenses.

ECONOMIC AFFAIRS

CONSOLIDATED SALES (€ millions)



NET PROFIT EXCLUDING NON-RECURRENT ITEMS AFTER MINORITY INTERESTS⁽¹⁾ (€ millions)



(1) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs.

See note 10 of the Notes to the Consolidated Financial Statements in Volume 2 of the 2008 Annual Report (pages 25 and 26).

(2) For comparison purpose, 2004 pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:

- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million,
- and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.

The new markets (such as Asia, Latin America and Eastern Europe) are together fast becoming the world's number one consumer area. In these markets, people's growing aspiration to have access to beauty and personal care products is driven by rising incomes, particularly among the middle classes.

This transformation of the cosmetics market 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

Virtually all L'Oréal's sales are in cosmetics (98% of consolidated sales in 2008). The group also owns 50% of Galderma, the world's leading dermatological company.

L'Oréal is active in all distribution channels and organised by divisions. The Professional Products Division offers L'ORÉAL PROFESSIONNEL, KÉRASTASE, REDKEN and MATRIX to hairdressers, for their own use and for resale. The Consumer Products Division sells the brands L'ORÉAL PARIS, GARNIER, MAYBELLINE NEW YORK and SOFTSHEEN-CARSON through mass market channels. The Luxury Products Division offers a selection of prestige brands—LANCÔME, YVES SAINT LAURENT, GIORGIO ARMANI and RALPH LAUREN in particular—available through department stores, perfumeries and airport outlets. The Active Cosmetics Division sells the brands VICHY and LA ROCHE-POSAY, primarily in pharmacies.

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

BREAKDOWN BY BRANCH⁽³⁾ IN 2008

Consolidated sales

	€ millions	Growth	
		Like-for-like	Published figures
Cosmetics	16,359	+2.7%	+2.8%
The Body Shop	756	+4.6%	-3.9%
Dermatology ⁽⁴⁾	427	+17.1%	+16.2%

Operating profit

	€ millions	Weight	Growth based on published sales	% of sales
Cosmetics	2,608	95.7%	-3.4%	15.9%
The Body Shop	36	1.3%	-43.2%	4.8%
Dermatology ⁽⁴⁾	80	3.0%	+29.0%	18.7%

(3) The group business is composed of the cosmetics and dermatology branches and of THE BODY SHOP.

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



“ L'Oréal is highly diversified, in terms of brands, channels and countries. We will make the most of this to seize all opportunities. ”

JEAN-PAUL AGON,
Chief Executive Officer.

selective acquisition policy. L'Oréal also 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 achieved

at the expense of a responsible attitude: by manufacturing locally as soon as it is practical to do so, we contribute to local economic development, applying the principles outlined in our *Code of Business Ethics*.

2008 CONSOLIDATED SALES OF THE COSMETICS BRANCH

By division

	€ millions	Growth	
		Like-for-like	Published figures
Professional Products	2,472	+1.3%	+3.3%
Consumer Products	8,355	+4.1%	+0.9%
Luxury Products	4,170	+0.7%	+6.2%
Active Cosmetics	1,289	+4.2%	+3.3%
TOTAL COSMETICS SALES⁽¹⁾	16,359	+2.7%	+2.8%

By business segment

	€ millions	Growth	
		Like-for-like	Published figures
Skincare	4,286	+5.5%	+3.2%
Haircare	3,790	+1.5%	+0.0%
Make-up	3,375	+4.3%	+4.2%
Hair colourants	2,451	+1.7%	-1.7%
Perfumes	1,848	-2.4%	+7.8%
Other ⁽²⁾	599	+2.3%	+17.8%
TOTAL COSMETICS SALES	16,359	+2.7%	+2.8%

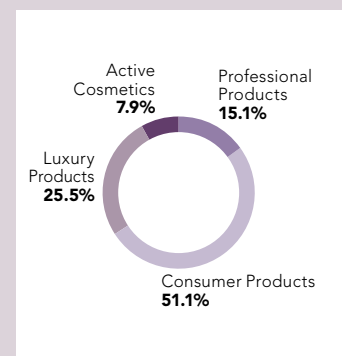
By geographic zone

	€ millions	Growth	
		Like-for-like	Published figures
Western Europe	7,392	-0.3%	+1.8%
North America	3,739	-4.8%	-6.6%
Rest of the World, of which:	5,238	+13.8%	+12.5%
Asia	1,844	+16.3%	+16.7%
Eastern Europe	1,380	+21.1%	+20.8%
Latin America	1,151	+6.7%	+2.4%
Africa, Orient, Pacific	862	+8.1%	+6.7%
TOTAL COSMETICS SALES	16,359	+2.7%	+2.8%

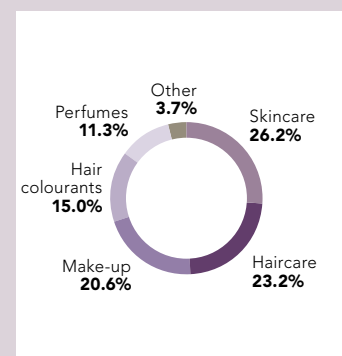
(1) The balance between the total of the cosmetics branch and the four divisions (€73 million, or 0.4% of cosmetics sales) is for the most part due to direct selling of cosmetic products.

(2) "Other" includes sales made by American distributors with brands outside of the group.

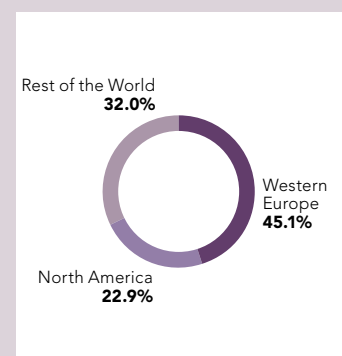
DIVISIONS WEIGHT⁽¹⁾



BUSINESS SEGMENTS WEIGHT



GEOGRAPHIC ZONES WEIGHT



ECONOMIC AFFAIRS

LOCALISED PRODUCTION

	Cosmetics output	Cosmetics sales
Western Europe	51%	45%
North America	22%	23%
Rest of the World	27%	32%
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

	2006	2007	2008
(Millions of units)			
Cosmetic plants output	4,484	4,720	4,620
(€ millions)			
Cosmetics investments (production and physical distribution commitments)	270	248	243
Index (base 100 in 2006)			
Comparable product purchasing price index	100	97.5	96.5

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 3 years

Initial capital multiplied by 1.05 in 3 years

Total shareholder return: 1.14%

During the same period, the Cac 40 fell by -9.07% per year⁽¹⁾

Purchase of 238 shares at €62.80⁽²⁾ on December 31st, 2005: €14,946.40

Valuation at December 31st, 2008, including reinvestment of dividends (251 shares at €62.30): €15,637.30

Over 10 years

Initial capital multiplied by 1.22 in 10 years

Total shareholder return: 1.04%

During the same period, the Cac 40 rose by +0.70% per year⁽¹⁾

Purchase of 24 shares at €615.89⁽²⁾ on December 31st, 1998: €14,781.36

Valuation at December 31st, 2008, including reinvestment of dividends (289 shares at €62.30): €18,004.70

Over 20 years

Initial capital multiplied by 13.52 in 20 years

Total shareholder return: 13.28%

During the same period, the Cac 40 rose by +6.63% per year⁽¹⁾

Purchase of 22 shares at €670.62⁽²⁾ on December 31st, 1988: €14,753.64

Valuation at December 31st, 2008, including reinvestment of dividends (3,202 shares at €62.30): €199,484.60

(1) Reinvested dividends; source: Datastream. (2) Non-adjusted share price.

08 KEY FIGURES

€17,542M

2008 consolidated sales

€2,064M

2008 net profit excluding non-recurrent items after minority interests

€1.44 per share

Dividend approved at the Annual General Meeting on April 16th, 2009

WORKFORCE

67,662

employees of 100 different nationalities at December 31st, 2008

INDUSTRIAL PRESENCE

The group has 42 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

3,268

employees engaged in cosmetics and dermatological research

628

patents registered in 2008

COMMITMENT TO SHAREHOLDERS

In 2008, L'Oréal had more contact with individual shareholders, with meetings in many cities, visits to factories and laboratories, and participation in the Actionaria fair. We met with more than 6,000 shareholders. At the same time, the content of the "Letter to Shareholders" and the "Shareholder Digest" has been supplemented, and their circulation has been considerably widened.

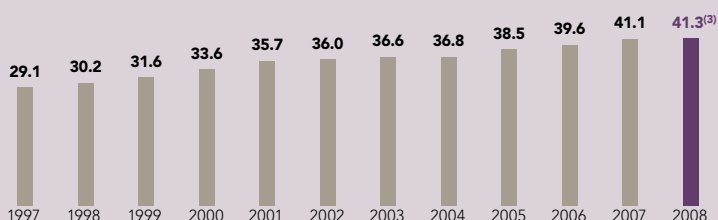
LOYALTY BONUS FOR REGISTERED SHAREHOLDERS

Fully aware of the importance of shareholder confidence and loyalty, the Board of Directors decided to propose to the Annual General Meeting of April 16th, 2009 a resolution enabling the payment of a preferential dividend. Shareholders having held registered shares—whether directly or managed—for at least two years will thus receive a preferential dividend of +10%⁽¹⁾.

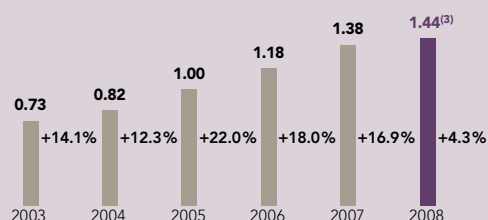


► For detailed information on L'Oréal's financials, see the group's 2008 Annual Report or www.loreal-finance.com

1997-2008 PAY-OUT RATIO
(As a % of profit⁽²⁾)



DIVIDEND PER SHARE
(in euro)



(1) Not exceeding 0.5% of the share capital per shareholder. From 2012.

(2) Taking into account Sanofi-Synthelabo at the dividend level.

(3) Based on the dividend approved at the Annual General Meeting of April 16th, 2009.



Local students helping with tree planting at our factory garden during Green Day in Suzhou (China).

► L'ORÉAL'S COMMITMENT

To strive to reduce our environmental impact and resource use *via* greater eco-efficiency, and to make absolute reductions where feasible as well as maintaining a safe and healthy workplace.

ENVIRONMENT, HEALTH & SAFETY

L'Oréal is committed to reducing our environmental impact and resource use through absolute reductions. Where this is not practicable, we aim for greater eco-efficiency and use of more environmentally friendly approaches. We are also committed to a healthy and safe workplace.

2005-2015 TARGETS

We are very pleased to publicly announce three significant long-term environmental targets for 2005-2015 for our factories and warehouses:

- Cut in half our greenhouse gas emissions.
- Cut in half our water use per unit of finished product.
- Cut in half our waste generated per unit of finished product.

The reductions will be calculated on a like-for-like basis. In addition to these long-term goals, we will continue to publish annual goals for other indicators, and report on our progress in meeting those goals annually. New information this year includes an analysis of our carbon footprint, additional information on our greenhouse gas emissions and reporting on energy, water and waste on a per tonne of product manufactured to allow for better comparison to our peers, and wider coverage of data on our administrative sites.

ENVIRONMENT

SUMMARY OF ACHIEVEMENTS AND TARGETS

We had a strong year of environmental performance in 2008 attaining most of our targets and achieving improvements in most of our key performance indicators (KPIs) overall. We achieved absolute reductions in energy use, water, greenhouse gases, sulphur dioxide,

volatile organic compounds, and in our index of wastewater quality. We are also pleased to have achieved our safety target. While we made substantial progress, we regret missing our targets for energy use per finished product and waste.

● Scope of our reporting

The performance data presented covers the year January-December 2008 and performance at our 42 factories and approximately 63 warehouses around the world. This includes Galderma, our joint venture with Nestlé. It does not include our recent acquisition of YSL Beauté, our Canan factory in Turkey, our distribution acquisitions in the United States (Beauty Alliance, Maly's West and Columbia Beauty Supply) or THE BODY SHOP. Full details of The Body Shop's performance can be found in its Values Report at www.thebodyshop.co.uk.

THE BODY SHOP's factory and two distribution centres, and the Canan factory have been added to our data collection system in 2009. We anticipate the addition of YSL Beauté in 2010 (a factory and two distribution centres). Our general policy is to add acquisitions to our EH&S data collection system within two years.

We continue our integration of the largest administrative sites and research centres into our EH&S reporting system. We presently have 37 sites reporting up from 29 last year. This now represents the majority of our largest sites worldwide and we will continue to integrate others into our reporting in the future.

08

KEY ACHIEVEMENTS

- Exceeding our goal of reducing water consumed in factories by 3% per unit of finished product, achieving 3.4%. We reduced total water use by 6.9%.
- Exceeding our goal of reducing our total CO₂ emissions by 2%, achieving a 6.6% reduction.
- Reducing our total energy use by 3.6%. However we missed our target of a 5% reduction per finished product.
- Reducing waste generated per unit of finished product by 0.5%. However, we missed our target of a 5% reduction overall (excluding returnable packaging).
- Reducing our total sulphur dioxide (SO₂) emissions by 28.3%.
- Reducing our total emissions of volatile organic compounds (VOCs) by 15.4%.
- Improving wastewater quality via a reduction in chemical oxygen demand (COD) for wastewater of 4%.
- Improving our accident rate by 18% (enlarged frequency rate).
- Achieving our target to source all pulp used in our cardboard from sustainably managed forests.
- Reducing the quantity of plastic used for our bottles by around 800 tonnes via lightweighting packaging.

ENVIRONMENT, HEALTH & SAFETY



► Solar panels with windmill stand-by generator, Pudong (China).

ORGANISATION OF EH&S AT L'ORÉAL ● ● ●

The Managing Director of the L'Oréal Supply Chain (Operations Department) is the senior company officer responsible for EH&S. 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 EH&S Department. While this department is administratively tied to the Operations Department, it has group level responsibilities across L'Oréal for this function. The EH&S Department is linked to each operational entity across the group through EH&S managers who coordinate the actions of local experts at each of their sites. Each division (e.g. Luxury Products) or zone (e.g. North America) has a dedicated person or persons responsible for the management of EH&S within their areas.

At the local level, EH&S managers have responsibility for their operations. A typical factory of 350 workers will have three to four full time staff in the EH&S 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 EH&S 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 EH&S 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 EH&S Department maintains a close partnership with the Director for Sustainable Development and the Sustainable Development Steering Committee (see page 06).

EH&S management systems

L'Oréal makes use of several different internationally-recognised EH&S 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 14001 and either OHSAS 18000 or VPP accredited except three. These are all recent acquisitions or start ups (SANOFLORE, Canan and Galderma Hortlandia). This includes our recent acquisition of the cosmetics of Beauty Research & Industries (YSL Beauté) which is both ISO 14001 and OHSAS 18000 accredited.

EH&S 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



► Inspection of our fire sprinkler system in our Rio de Janeiro (Brazil) factory.

2009 > TARGETS

- Reduce energy use by 5% per finished product.
- Reduce total CO₂ emissions by 2%.
- Reduce water use by 3% per finished product in factories.
- Reduce waste by 5% (excluding returnable packaging).
- Achieve an "enlarged frequency rate" (our new and more comprehensive KPI) of lost time accidents and restricted work cases of 3.2 per million hours worked or less.

(Base year 2008)

2015 > TARGETS

- Reduce CO₂ by 50%.
 - Reduce water use by 50% per finished product produced (factories).
 - Reduce waste by 50% per finished product produced.
- (Base year 2005)

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 (National Fire Protection Association standards), 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 normally stored underground in bunkers. 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 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.

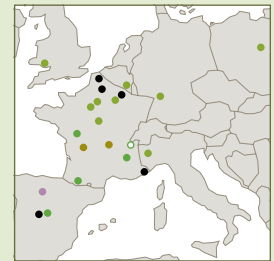
There are other environmental risks such as flooding and the loss of our waste treatment operations for some factories. In this regard, all sites have on-going continuity and contingency planning to reduce these risks and to be able to maintain our operations. All sites undergo environmental due diligence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

THE L'ORÉAL SAFETY, HEALTH & ENVIRONMENT (EH&S) POLICY ● ● ●

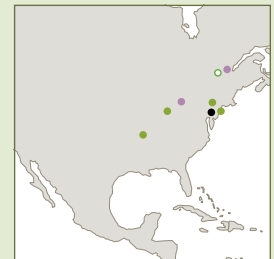
L'Oréal is committed to the development, production, distribution and sale of innovative products of the highest quality, to enhance beauty and improve well-being. We must fulfil this mission in an ethical manner, by minimising our impact on the environment and guaranteeing the safety and health of our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

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

OUR FACTORIES BY GEOGRAPHY AND DIVISION



EUROPE
22 factories (including 14 in France)



NORTH AMERICA
8 factories



LATIN AMERICA
3 factories



AFRICA – ORIENT – PACIFIC
4 factories

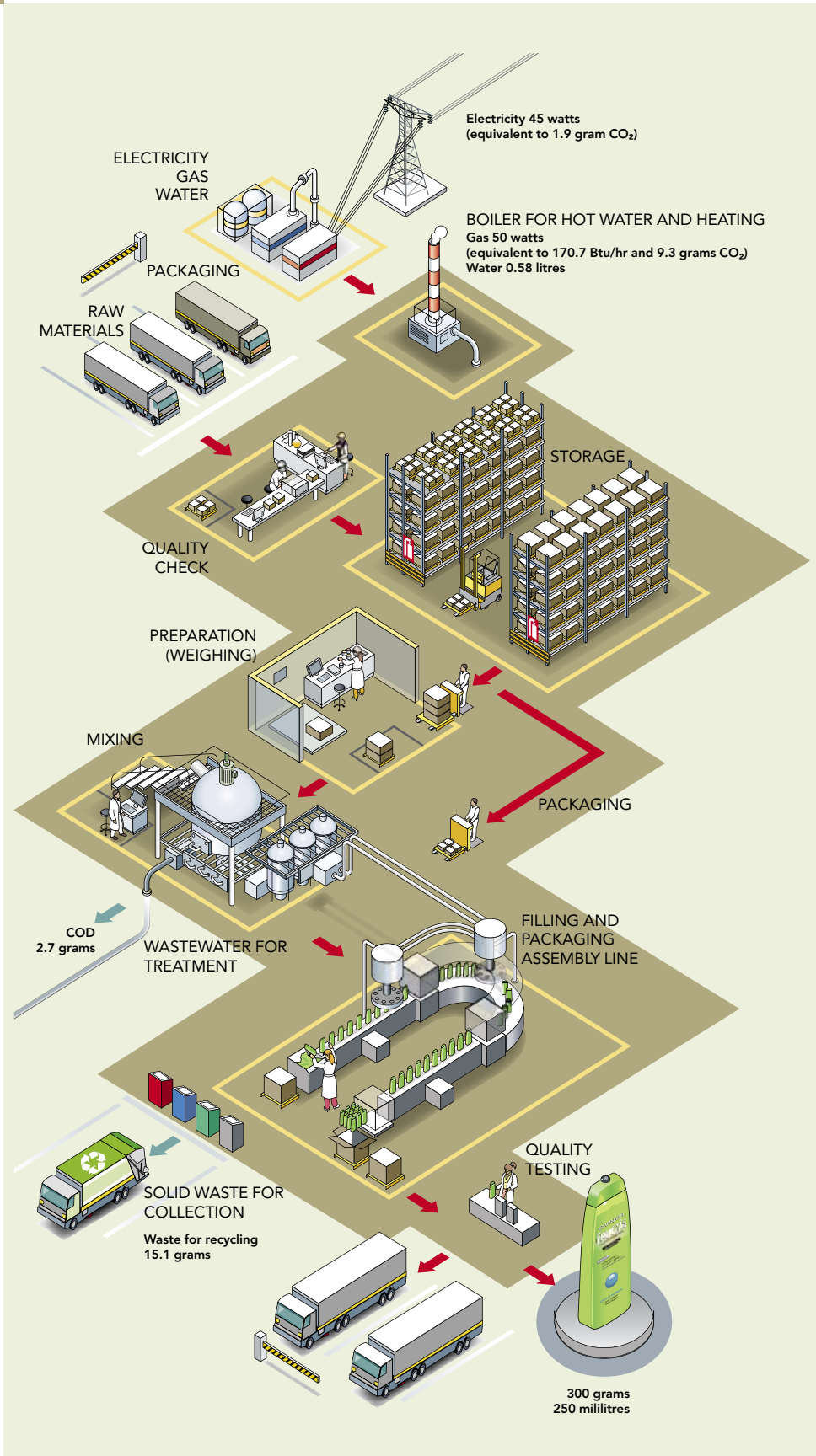


ASIA
5 factories

- Consumer Products: 24 factories
- Luxury Products: 7 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 AND CONDITIONER FACTORY

(based on the current KPIs of our Rambouillet factory (France), per unit of finished product)



New investments: EH&S 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 EH&S impacts and must comply with our Sustainable Buildings Policy (LEED or equivalent for all new construction).

Sustainable Buildings Policy

As reported last year, we have implemented a new Sustainable Buildings Policy. 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 covers 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. Since the construction of our award winning HQE-certified research facility in Chevilly-la Rue (France), we have several LEED projects underway. These include new offices in Berkeley Heights (New Jersey), the extension of our Franklin factory (also New Jersey), a Research Centre in Shanghai-Pudong (China), and a warehouse which will be the first LEED industrial certification in Mexico.



► The HQE certified distribution centre in Vichy (France).

In France, our Active Cosmetics Division's expansion of its VICHY distribution centre will be awarded with the "HQE Logistique durable" certification in spring 2009. We are also planning a new research facility in France which will be HQE certified.

We have also started a project to benchmark energy use in similar facilities, and will develop retrofitting and renovation standards to improve efficiency in our existing sites under this policy.

EH&S training

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

- our RO (organisation for risks) are in-house documents that set out our internal standards on EH&S. 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. We are currently reorganising and updating these standards and have already issued three new standards, including a new standard on wastewater treatment,
- 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 EH&S Department and our Training Department offer a number of technical training programmes. As part of this effort, our first senior management training course on "Leadership in EH&S" was piloted at the French business school, INSEAD, in 2008,

- training to raise awareness of EH&S issues: modules for raising employees' awareness of EH&S 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 EH&S Department organises many activities to share EH&S best practice internally. This includes:

- quarterly all day meetings of all regional EH&S managers worldwide,
- a number of ongoing taskforces comprising these members for the development of new standards, best practices, and technologies,
- "EH&S Strategic Retreats" where strategies and objectives can be formulated.

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),



► EH&S training at our Suzhou (China) factory.

ENVIRONMENT, HEALTH & SAFETY



► Energy efficiency studies at our Midrand (South Africa) factory boiler area.

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 EH&S performance data.

KPI data collection

EH&S Key Performance Indicators (KPIs) are collected monthly by all manufacturing, distribution sites and our largest administrative centres 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.

EH&S auditing

There is an extensive auditing programme for EH&S at L'Oréal. These audits are now all carried out by external experts. This system of audits to regularly assess EH&S risk and progress has been in place for more than a decade. Factories are audited for an average of one week by teams of between four and

seven external experts. Sites are audited at minimum once every four years, or annually if they are not meeting our goals.

In 2008, we expanded the audit scheme to include warehouses and other sites. Under this new approach, external audits were conducted at 19 factories, 43 warehouses and 2 laboratories. In addition to our comprehensive EH&S audits, inspections are also performed by our insurers (fire and environment audits), by ISO auditors (approximately 30 for ISO 14001 and OHSAS), government agencies and others. In addition, there is a separate annual audit conducted to assure the accuracy of our KPI data. The statement from this audit by ERM is shown on page 82 of this report.

● Supplier audits

Third party audits on labour standards (pages 64 to 67) 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 EH&S 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 EH&S personnel.

ENVIRONMENTAL PERFORMANCE

The context—growth in production over the last five years

Whilst the total number of goods produced did not increase in 2008, over the last five years the number of finished goods rose by 6.9% (2004-2008).

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 fuel oil/diesel when available since it produces less CO₂ per unit of energy. In the locations where natural gas is not available, we use the lowest sulphur fuel available. As you will see in the chart below, our use of fuel oil is minimal (4% of our total energy use). Natural gas and fuel oils are used for:

- building heat—about 40% of total use. 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—for personal hygiene, food services and to produce steam and hot water for process washing and sanitisation. We have made significant progress in techniques and technologies that allow for lesser volumes and lower temperature hot water for washing and sanitisation. This includes the increasing use of low pressure steam for sanitisation which takes less energy than the equivalent hot water.



► The newly constructed bio-methane cogeneration facility in Libramont (Belgium), which is scheduled for operation in September 2009.

● Electricity

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

● Renewable energy

We are currently exploring many different sources of renewable energy. For example:

- our new bio-methane supplied cogeneration plant at our Libramont, Belgium factory will be operational in July of 2009. It will supply 80% of the site's energy needs,
- our North Little Rock, Arkansas factory is completing arrangements to have its electricity supplied by a local hydrodam. This should halve its GHG emissions. This agreement will be completed in 2009,
- our warehouse in Mexico City (Mexico) has installed solar panels which now power the recharging of forklifts. This is one of the largest solar installations in Latin America and will reduce equivalent CO₂ emissions by 54,000 tonnes per year,
- our Beauty Tech factory in China has installed 2,000 solar tubes for the preheating of water used for both processes and domestic use. This project will reduce CO₂ emissions by more than 5.3 tonnes per year,
- our factory in Burgos (Spain) has made a public commitment to be carbon neutral by 2015. This will be achieved by using a number of green technologies, including solar arrays, biofuel, and geothermal energy.

● Performance analysis

Our total energy use decreased by 3.6% last year and 4.2% over the last five years. We have also increased our eco-efficiency by 6.9% since 2004 although we showed a flat trend in 2008, thereby missing our target. We have two main targets for the future: to continue to reduce the energy required for operations on both a total and eco-efficiency basis and to reduce the subsequent GHG emissions from that energy. Our primary emphasis is on energy efficiency; however, we will also pursue the purchase of "green energy" to meet our targets.

2009 TARGET

5% reduction from 2008 in energy used per finished product (factories and distribution centres).

Water

Water is well recognised as a critical natural resource. We have had a strong programme for water conservation in place since 2003 and believe we have made significant progress in water conservation, both in total water use and eco-efficiency since then.

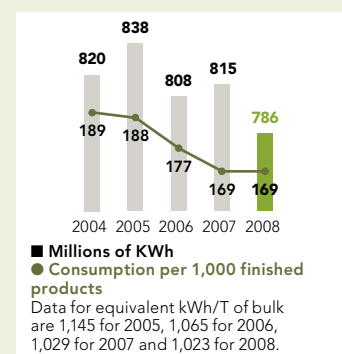
Water is used primarily in our manufacturing operations and to a lesser extent in our warehouses, research and administrative centres. Our water goal effectively focuses on factories since this is where the most water is used. Product content represents about 17% of all of our water consumption in manufacturing. The other main use of water is for cleaning production equipment and our packaging lines to maintain

BREAKDOWN BY ENERGY SOURCE

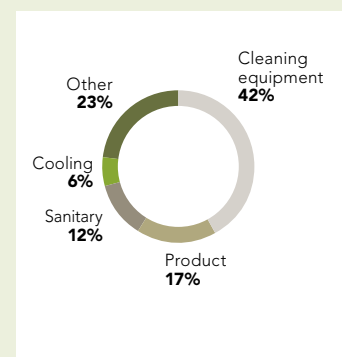
(millions of kWh)

SOURCES	2004	2005	2006	2007	2008	
Electricity	373	379	374	378	362	46%
Gas	397	409	380	400	393	50%
Fuel	50	49	54	36	30	4%
TOTAL	820	837	808	814	785	100%

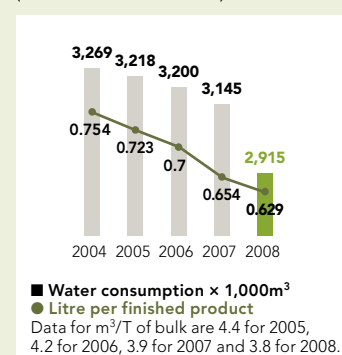
TOTAL ENERGY USED (factories and warehouses)



USE OF WATER (factories and warehouses)



WATER CONSUMPTION (factories and warehouses)



ENVIRONMENT, HEALTH & SAFETY



► Photovoltaic solar panels, Mexico distribution centre.

our strict hygiene standards. This represents approximately 42% of our water use in factories. Human sanitary use (e.g. cafeterias, drinking water, wash-rooms) represents another 12%. Cooling of our product in manufacturing takes another 6%. The remaining 23% is used for heating, backwashing of deionizers, fire protection and sprinkler systems and other uses (for example, landscaping). Water use is related to the types of products manufactured at the site (for example, a shampoo versus a powder) and the number of products manufactured.

● Performance analysis

We are pleased to report continued progress with a reduction of 3.4% per unit of finished product in factories since last year, which exceeded our target of 3%. We reduced the total quantity of water used by factories and warehouses by 7.3%. Over the last five years, we have reduced water use per finished product by 16.6%, and cut our use in absolute terms by 10.8%, despite an increase of +18% in production.

● Initiatives

We have continued our programme to recycle machine-cooling water and re-use the wastewater generated by the demineralisation process for the first rinse of our vessels after being used, rather than new demineralised water. We have further developed new cleaning technologies as well as the identification and reduction of water losses. This includes the increased use of low pressure steam for sanitisation instead of hot water, use of high efficiency "spray balls" for cleaning of vessels, use of "pigs" for cleaning lines and many other initiatives. Additionally, we have eliminated all open circuit cooling towers worldwide as part of our conservation efforts. We also have an aggressive programme for our administrative sites and warehouses to include rainwater irrigation, use of automated taps in restrooms, waterless or low water use toilets and other initiatives.

2009 TARGET

3% reduction in water consumption per finished product compared with 2008 in factories.

2015 TARGET

50% reduction in water consumption per finished product compared with 2005 (13% achieved to date).

Air emissions

Our principle atmospheric emissions consist of carbon dioxide from fossil fuel use (CO₂), sulphur dioxide from light fuel oils, volatile organic compounds (VOCs) and particles (from producing powders).

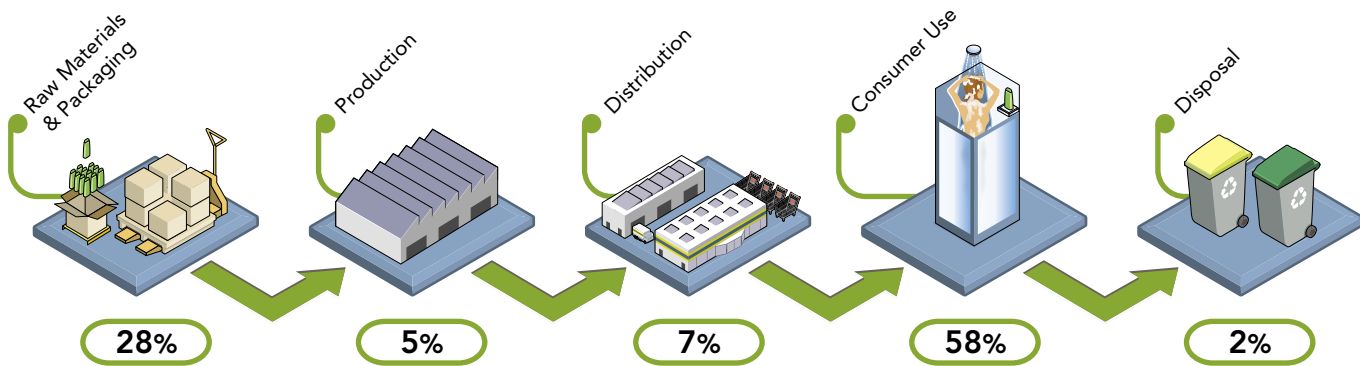
● Climate change strategy

We have expanded our section dealing with climate change. This year we are reporting on our carbon footprint and providing more details on our climate change strategy and actions.

► 2008 Green Cup competition, Suzhou factory (China).



CARBON FOOTPRINT OF A PRODUCT'S LIFECYCLE



2009 TARGET

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

2015 TARGET

Reduce CO₂ emission by 50% based (factories and distribution centres) from 2005 levels (we have achieved 11.5%).

L'Oréal is committed to reducing our impact on climate change. This involves reducing our direct (scope 1), indirect (scope 2) and supply chain (scope 3) emissions. Our focus has been on reducing direct and indirect emissions over the last few years.

In 2009 we made a significant new pledge to halve our emissions by 2015 (scope 1 and 2). We are also working on reducing our impact from raw materials, packaging, travel, transportation and product use and disposal. Some of these 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 many years and are one of the original members of the CDP's Supply Chain Leadership Collaboration project (see page 63).

● Carbon footprint

In 2008 we carried out two separate studies to estimate our wider carbon footprint. The first used a product lifecycle method (ISO 14040/14044), extrapolating our footprint from that of eight categories of products (a shampoo, a lipstick, a hairdye etc). The second study used the "Bilan Carbone" (Carbon Assessment) method of the French Environment and Energy Management Agency (www.ademe.fr).

Our total footprint in 2007 using the Bilan Carbone method was estimated to be 5.9 million tonnes of CO₂ equivalent.

The results using these two separate approaches were similar and have been merged into our estimate shown above. This estimate is similar in scope and results to the published analyses of other household products lifecycles and footprints.

Raw materials are estimated to account for about 12% of the carbon footprint for L'Oréal. This is based on a lifecycle approach which includes all phases of the raw materials life, including mining of a mineral, processing, packaging, shipment, use and end of life disposal. Our product development process, which is described on pages 45 to 49, includes an analysis of the "sustainability" of the raw material. We are currently doing "value analysis" of many of our raw materials and would expect to improve our performance in this area.

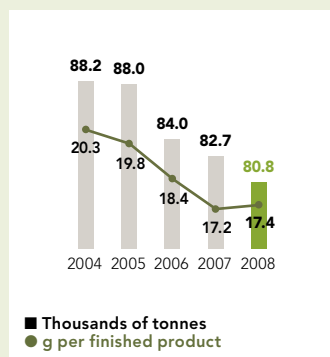
ENVIRONMENT, HEALTH & SAFETY



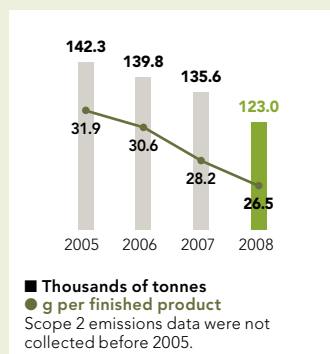
► Geothermal energy study (France).

CO₂ EMISSIONS FROM FACTORIES AND WAREHOUSES

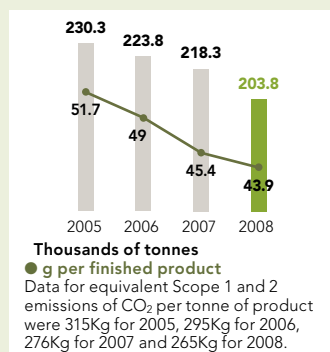
Scope 1 CO₂ emissions (on-site)



Scope 2 CO₂ emissions (off-site)



Total CO₂ emissions (scope 1 and 2)



Packaging is estimated to contribute about 14% to the total of our carbon footprint. Again, this includes the full lifecycle of the packaging. Reduction of packaging is one of the key aspects of our sustainability strategy (see pages 34 and 35). We are currently working on some KPIs in this area. The remaining 2% is from services related to this category which includes software, insurance, surveys and other services.

We have estimated that production represents about 5%, and distribution about 7% of our carbon footprint. There is considerable detail about our actions related to both production and distribution later in this chapter.

The single largest segment is the consumer use. At 58% of the total, it is heavily influenced by shampoos, conditioners, and other products used with hot water. Other products have a very small consumer use carbon impact. Therefore our footprint is significantly dependent on how much water is used and how it is heated.

End of life (disposal) is estimated at 2%, and we have many different projects which will impact this value. These include use of recycled packaging materials that can further be recycled, reduced packaging, and refillable packaging.

● Greenhouse gases (GHGs) in manufacturing

We generate direct 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 any other GHG of significance other than potential refrigerant losses from cooling units (these losses represent less than 0.1% of our emissions). We also report on indirect Scope 2 emissions generated through our electricity use or supplied steam. Emissions in our supply chain (Scope 3), are described above and later in this section. L'Oréal is exempt from the European regulations on CO₂ emission quotas due to our relatively small energy use. However, 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 transport and other means.

We were successful in 2008 in reducing our CO₂ emissions (Scope 1 and 2) by 6.6% overall and by 3.3% per finished product.

● Transport

Transport of L'Oréal products to our distribution centres and to our customers is a major contributor of GHGs. L'Oréal does not have its own transport fleet, instead relying on contracted services from a number of logistics and transport firms.

This year we can report on an estimated 2,049,610Ktonne×Kms (one thousand tonnes travelling one kilometre) which is a slight decrease from last year. This represents a 43% use of sea transport, 54% use of road transport, 1% use of rail and 2% use of air. We are not yet able to report on the related GHG emissions as it is very complex given our worldwide logistics and is highly dependent on the type of truck, train, ship and airplane used. Nevertheless, we expect to be able to better estimate this value next year as a new software will be piloted in March, 2009.

A key priority for the new Supply Chain Organisation at L'Oréal is to optimise our logistics, including the reduction of inefficient transport. This will lead to a reduction in Scope 3 emissions from transport. Needless to say, there are strong economic drivers for reducing the distances our products travel.

We have a number of new projects to reduce emissions from transport. As one example, transport between our sites in Mournex and Amiens (France) is now via road-rail (truck trailers on rail cars), saving an estimated 84% of emissions of CO₂ (545 tonnes) per year.

► **BELGIUM > VOC REDUCTION IN LIBRAMONT** 

Our factory in Libramont reduced VOC emissions by 43% in 2008 by reducing processing time (which reduces evaporation) and by capturing alcohol emissions through a regeneration process. This not only saves 15.8 tonnes of fugitive emissions, but saves money since the alcohols can be recovered. ■



► Our new "piggyback" rail-truck transportation system in southern France.

● **Employee travel**

Our third party travel agents make all travel arrangements for L'Oréal employees in 21 of the largest countries where we operate (representing an estimated 50% of all travel). Their 2008 data shows a reduction of 8% in total miles flown, and an increase in rail mileage of 22% from 2007. Using the GHG Protocol, this results in an overall reduction of 7% in CO₂ emissions for air and rail travel. Total travel distance in 2008 by employees in these 21 countries was 148.8 million miles, with 15,646 Ktonnes of consequent carbon emissions.

In addition to travel restrictions, preference of rail over air travel and other initiatives to reduce our carbon footprint from travel, we are installing state of the art video conferencing in all of our major operations, as well as encouraging various forms of local IT solutions for conferencing. Preference for high fuel efficiency vehicles has also been instituted. For example, our French headquarters provides an economic incentive for fleet cars producing less than 160g/km. Many of our sites have preferential parking for car pool vehicles and hybrids. The Body Shop now requires all its fleet cars to be hybrids.

● **Other atmospheric emissions**

● **Volatile organic compounds (VOCs)**

We have made great progress in 2008 in reducing our VOC emissions by 15.4%. Our emissions sources by manufacturing activity are shown in the figure on the right. VOCs are emitted when filling aerosol products, from raw materials, and evaporation from mixing products, from the wastewater treatment process, and from the inkjet inks used in the printing process. We have a number of active projects in place to control and reduce our emissions.

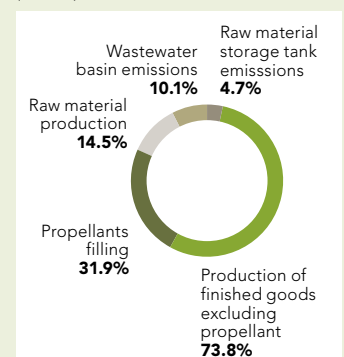
● **Sulphur dioxide (SO₂)**

SO₂ emissions are solely due to the use of fuel oil for heating. We try to obtain the lowest level sulphur content of fuel possible, where natural gas is not available. We have not set a specific goal for SO₂, but have reported important decreases for the last several years as a result of our efforts to reduce energy use. In 2008 we achieved both a total emission reduction of 28% and 26% per finished product. We continue to convert our sites from fuel oil to natural gas wherever possible.

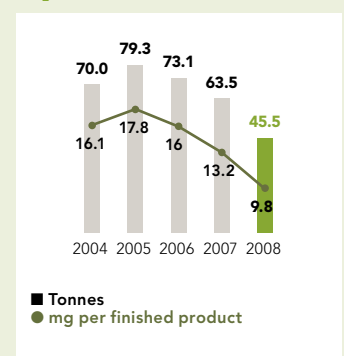
ESTIMATED VOC EMISSIONS
(tonnes)



ESTIMATED VOC EMISSIONS BY SOURCES
(tonnes)

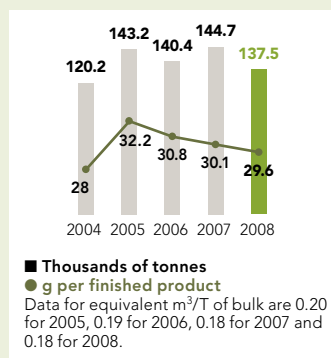


SO₂ EMISSIONS

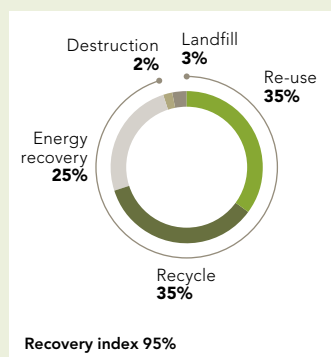


ENVIRONMENT, HEALTH & SAFETY

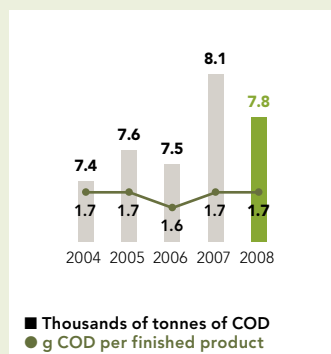
WASTE (factories and warehouses)



WASTE BY DISPOSAL METHOD



COD (after internal treatment)



Waste

Reducing waste is a priority for L'Oréal. Our long-term goal is zero waste to landfill. In some countries, there is insufficient infrastructure or markets to allow for alternatives—for example, in many countries outside Europe, it is not possible to recover energy via incineration. This year 49.5% of our sites (52 of 105 sites) sent zero waste to landfill, down from 54% in 2007. (Two sites had less than 12kg to landfill.) Some wastes must be landfilled (e.g. wastes subject to customs duty). 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.

We have had aggressive goals over the last five years for the reduction of solid wastes, especially cardboard and paper. This year we generated 0.5% less waste per finished product than in 2007 which did not meet our goal of a 5% reduction. While we have achieved an almost 10% reduction over the last five years, we recognise we need to do more. We will maintain our goal for a 5% reduction in 2009.

● 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% which was maintained from last year. We believe we are a global leader in this regard.

WASTE (KTonnes)

TYPE OF WASTE	2004	2005	2006	2007	2008
Common solid waste	80	55	53	51	49
Returnable packaging	18	37	36	41	38
Sludges	9	10	9	11	11
Other special wastes	13	41	42	42	39
Total	120	143	140	145	137



► An oxygen meter reading at our Burgos (Spain) wastewater treatment site.

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. We have on-site treatment at approximately 60% of our sites using state of the art treatment plants with biological as well as physical and chemical processes. In some 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 or offices other than normal sanitary wastes.

Chemical oxygen demand (COD) is the single most commonly used indicator for the need for wastewater treatment. Our overall generation of COD (in ktonnes) decreased by 4% in 2008.

We continue our two research projects with universities to study the potential for improving our management of liquid wastes. The University of Karlsruhe study is focused on treatment alternatives while the EU research agreement with the University of Newcastle is devoted to energy efficiencies in wastewater treatment. The goal in both approaches is to minimise overall energy use and solid waste production while maximising residual treatment efficiency.

Environmental performance of administrative sites

This year was the first full year of environmental reporting for 37 of our largest administrative sites and research centres (they have been reporting safety data for two years). We now monitor energy and water use, waste, recovery of waste and GHG emissions. The majority of these sites are not owned or totally occupied by L'Oréal. This makes reporting difficult on some of our key performance indicators for Environment.

Emissions of CO₂ are estimated at 5,682 tonnes for the 37 sites. To enable comparison among our sites, we have created an index for water, energy and waste. We are using a ratio per 100 hours worked:

- Water use was 1,577 litres.
- Energy was 393kWh.
- Waste was 18.5kg.
- Waste recovery rate was 74.6%.

We will report on the progress achieved next year as these indicators continue to evolve.

Spills and remediation

We had no significant spills in 2008. Our clean up project started in 2007 for a small leak from an underground storage tank (of ethanol) in New Jersey has been completed. Continued monitoring will take place to meet the requirements of the State of New Jersey Environmental Protection Agency.

Fines and prosecutions

In 2008, we had five complaints from neighbours, four administrative notices and one fine at our sites worldwide. The neighborhood complaints were primarily concerning noise and have been resolved. The administrative notices concern fire protection and wastewater. All have been resolved. The single fine was €200 for a truck loading violation. There were no prosecutions or other actions of this nature.



► Our new make up R&D building outside Paris has been certified HQE (French equivalent to LEED).

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 Mexico City (Mexico) factory won the Excellence in SH&E award for 2009 after several years of exceptional performance. They did not have a single injury accident last year and reduced their use of energy, water and waste. They also reduced their Greenhouse Gase emissions by a very significant 17.2%.



► Parabel (our duty free warehouse) in Miami, Florida (United States), won the Excellence in SH&E award for warehouses for 2009. This warehouse has dramatically improved their total SH&E performance from their former site. They did not have a single injury accident last year and also reduced their use of energy, water and waste. As an example, they reduced their energy use by 4.6% and waste by more than 21%.



► Our Consumer Products factory in North Little Rock, Arkansas (United States), won the Award for the Best Safety or Hygiene Initiative for their innovative incident collection and analysis system called SHEIS.



► Our Spanish headquarters in Madrid (Spain) won the award for the Best Initiative in SH&E for administration sites for its programme to recycle waste in advance of a move to new offices. Amazingly, they managed to recycle, re-use or recover energy from more than 94% of the 210 tonnes of what would otherwise have been landfilled waste generated by the office clean up and the move.



► Our factory in Pune (India) won the award for the Best Initiative in Environment for its composting project which uses natural processes and earth worms to produce fertiliser from sewage sludge. This saves around seven tonnes of sewage sludge from incineration each year.



► Our Wuku warehouse in Taipei (Taiwan) won the Best Community Relations Initiative with its programme to help the disabled. Since the programme started in 1997, more than 150 physically and mentally disabled students have been given training and work on product labelling in the warehouse, and a number of their families given financial support.



► No lost time accident in 4 years in Piscataway (United States).

SAFETY AND INDUSTRIAL HYGIENE

We are very pleased to report good progress on our ultimate goal of zero accidents at L'Oréal. Our target for 2008 was an enlarged frequency rate (lost time accidents and injury-related restricted work cases for permanent and temporary employees) of ≤ 4.0 per million hours worked. We achieved a rate of 3.7. This represents an approximate 18% reduction from 2007.

2009 TARGET

Enlarged frequency rate ≤ 3.2 per million hours (a 13.5% reduction from 2008).

Performance

Last year our statistics did not show any significant improvement after more than five years of a very dramatic reduction in accidents. However, 2008 saw better progress. We improved the lost time injury rate by 9.8% as shown in the figure on the right (achieving a 41% improvement over five years). We started measuring the enlarged frequency rate in 2004, and since then we have seen a 28.8% improvement. Our severity rate also improved by 16.7%, but this achievement reflects where we were in 2004. Nevertheless, this is still significant since we have cut the number of accidents significantly yet the severity rate remains low. We had no life threatening injuries, no loss of limbs or fatalities to included work related automobile accidents in 2008. This includes all permanent and temporary employees and contractors on any of our owned or operated sites. In 2008, 26 of 42 factories (62%) and 46 of 64 warehouses (72%) did not have any lost time accidents. 20 factories (48%) and 38 warehouses (59%) had no lost time accidents or restricted workday cases. Several of our sites have impressive records of having reached millions of worked hours and more than three years without a single lost time accident. This includes our factories in Belgium, Germany, China, India and the United States so it is not simply the

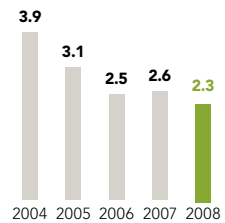
geography or local culture responsible for this impressive record. We have a similar record in our warehouses.

We reported last year on a number of new programmes to improve our safety performance. Two of the key safety initiatives in 2008 were the completion of our pilot safety management programme for senior managers held in conjunction with the renowned INSEAD graduate school for business in France. The second was the global launch of our behavioural safety programme "MESUR"—Managing Effective Safety Using Recognition & Realignment. We also hired a new Global Safety Director. We believe that our work at building our safety culture over the last two years will lead to further improvements over the next several years. All American factories are part of the OSHA VPP programme and all factories in other countries OHSAS 18000 accredited except two recently added sites (SANOFLORE and a small Galderma joint venture factory in Brazil).

● Safety at administrative sites

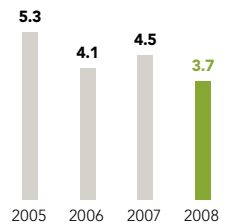
We are continuing to make progress in including our large administrative sites (including research centres) in our monthly reporting scheme. We have approximately 100 major administrative sites ranging in size from a few hundred to several thousand people. In 2007, we reported on results from 29 of our larger sites worldwide. In 2008, we increased that number to 37. This is estimated to represent approximately 17,000 of our administrative personnel worldwide (14,000 last year). Our lost time injury rate for this population is 3.4 (per million hours worked) with an enlarged frequency rate which is the same. The severity rate was 0.06. This compares to the 2007 lost time injury rate of 4.1, an enlarged frequency rate of 4.2 and a severity rate of 0.08. These data are based on local reporting rules and includes some medical conditions (e.g., heart attacks) that are not actually accidents, as well as commuting accidents. We are continuing to expand this reporting as well as implementing programmes to further improve our safety performance at these sites.

LOST TIME INJURY RATE (factories and warehouses)



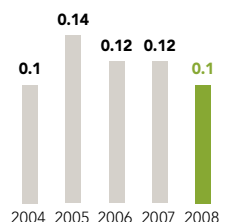
Lost time injury rate: the number of L'Oréal personnel involved in an accident and absent from work on the day after the accident per million hours worked. The 2008 rate of 2.3 equates to an OSHA industry benchmark rate of 0.46 (rate per 200,000 hours worked).

ENLARGED FREQUENCY RATE (factories and warehouses)



Enlarged frequency rate: the number of lost work day and restricted work cases per million hours worked for L'Oréal and temporary employees.

ACCIDENT SEVERITY RATE



Severity rate: the number of work days lost due to accidents per 1,000 hours of work.

ENVIRONMENT, HEALTH & SAFETY



► GARNIER hair colourant packaging is 100% FSC.

PACKAGING

Packaging: a necessary evil

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

- it protects the product from the moment it leaves the factory, throughout its journey along the distribution chain to the consumer,
- it protects the product from external conditions: light, oxidation, steam, etc.,
- it makes the product easier to dispense and 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

To ensure optimum product performance, L'Oréal uses a variety of different materials for its packaging, including 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 optimum disposal conditions 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 it 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 bases its Packaging & Environment policy on three key principles: Respect, Reduce, Replace.

● 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 involve even the slightest risk to the consumer or the environment. Through a far-reaching programme, L'Oréal has decided to eliminate a number of sensitive materials from its packaging, for example PVC. This programme is widely publicised among packaging suppliers and the various entities involved in the packaging chain.

► For biodiversity

L'Oréal took the first step towards responsible sourcing of the board used for its packaging five years ago with Trulor board. Developed by L'Oréal Packaging Research in partnership with a European papermaker, Trulor offers both technical and environmental advantages. It stands up well to different luminants and is perfectly white. Since no chlorine is used in the manufacturing process, Trulor is TCF (Totally Chlorine Free). 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 2008 we developed Recycled Trulor, which is made from 50% recycled cardboard (FSC-certified).

In 2008 we achieved our target to source all pulp used in our cardboard from sustainably managed forests. L'Oréal has challenged our board suppliers and printers to follow the example of Trulor and obtain FSC certification.

● Reduce

L'Oréal introduced a packaging reduction policy early on. Using less material is beneficial throughout the lifecycle of the packaging: fewer resources extracted means 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.



► USING PACKAGING TO IMPROVE CONSUMER AWARENESS ON ENVIRONMENTAL ISSUES

Through the labels on Fructis shampoo bottles, GARNIER in collaboration with the French public/private partnership Eco-Emballages, is encouraging consumers to recycle packaging and save water. In October 2008, GARNIER also pledged to reduce the weight of its plastic packaging by 15% by 2012 at the latest. ■

As packaging technology progresses, we continue to make our packaging lighter. Today L'Oréal can be proud of the results achieved since the group's leading products boast some of the lightest bottles on the market. And the programme continues... Our bottles are made lighter every year, helping to reduce the environmental footprint of the products they contain.

In 2008, the efforts of our divisions worldwide have reduced the quantity of plastic used for our bottles by some 800 tonnes.

This initiative, far from being limited to plastic bottles, concerns all packaging throughout the supply chain. Efforts are also being made with regard to outer packaging and the packaging of finished products.

Weight is not the only issue however: in 2008 an internal procedure was developed to measure packaging volume. A series of ratios have been set up as a guide for our marketing teams, relating the volume of the product to its primary and secondary packaging. This should help ensure that products do not come in excessively large packaging.

● Replace

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

► Recycled materials

Extensive testing has been carried out with recycled materials. Many of the group's brands have incorporated recycled materials in their packaging. In particular, KIEHL'S and THE BODY SHOP have introduced bottles made from 100% post-consumer recycled PET. A number of products due for launch in 2009 will have recycled PET, PE or aluminium incorporated in their packaging.

► Materials derived from renewable resources
Conscious of the advantage 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. To promote research in this area, L'Oréal and four other manufacturers are co-funding the Bioplastics Chair at the Ecole des Mines in Paris (France) for the next five years.

● 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 keen to step up its environmental progress by integrating lifecycle analysis into the design of its packaging. Quantifying the impact through this multi-criteria analysis method will enable us to go even further in reducing the environmental footprint of packaging. Studies carried out internally have shown that it is the manufacturing of the material that is the stage that has the greatest impact, which supports the group's policy of reducing the quantity of material used and replacing certain substances with less harmful alternatives.

Our short-term objective is to be in a position to carry out environmental analysis of our packaging to enable us to make the right design choices that have the least impact on the environment.

● Communication

L'Oréal is present in more than 130 countries with a portfolio of over 20 brands and it is important for our environmental initiative to be consistent and homogeneous across all our brands. This is why it is essential to share and disseminate our policy as widely as possible. Our Development departments have tools at their disposal to spread best practice. A Packaging & Environment Manager ensures the dissemination, understanding and implementation of these tools.

Employees have access to a number of documents outlining best practice, covering subjects such as sensitive substances, PVC, packaging volume, recycling, biodegradability of plastic packaging, environmental auditing, environmental claims, etc.

A two-day course on the subject of Packaging and the Environment started in early 2009, to raise our staff's awareness of environmental issues, shows them how the impact can be reduced and disseminate best practice.



► These bottles are made of 100% recycled plastic. Using recycled materials helps preserve natural resources and reduces CO₂ emissions.



Expert know-how in cellular biology is a prerequisite for innovating in skincare.

► L'ORÉAL'S COMMITMENT

To promote sustainable innovation by integrating the Sustainability principles in our R&D processes and activities.

RESEARCH & DEVELOPMENT

Finding a path to sustainable innovation is our priority. L'Oréal's organisation, at international level and throughout the production chain, from Advanced Research and raw materials to the finished products, demonstrates our conscious commitment to this goal.

AN ONGOING COMMITMENT TO SUSTAINABLE INNOVATION

The Research Department is strongly committed to sustainable development through the establishment of a global approach to the eco-design of products. L'Oréal's innovation strategy is, thus, undergoing a deep transformation, yet all the while observing three key values:

- Openness, by producing pioneering and shared know-how, fed by a constant dialogue with our stakeholders and partners.
- Ethics, through the design of products which perform well, contribute to people's well-being and show awareness for the socio-economic environment, eco-systems and future generations.
- Responsibility, by taking into account and preventing our products having any environmental or health-related effects throughout their entire life-cycle.

This approach was adopted when, back in 2005, the company established the fundamental undertakings which have since guided all its Research:

The assessment of raw materials

- To guarantee that our ingredients are harmless both to man and the environment:
 - to ensure that all raw materials can be safely handled,
 - to assess the safety of raw materials and formulae from the first moment of design.

- To increase the percentage of raw materials of renewable vegetable origin.
- To try to develop alternative methods to animal testing.

Relationships with suppliers

- To help our suppliers integrate sustainable development issues.
- To describe how the raw materials are to be supplied and treated.

Responsible supply chains

- To protect biodiversity.
- To conduct ecological assessments of the most frequently used raw materials.
- To structure certain resources to sustain local and regional development.
- To respect the rights and safeguard the interests of local populations:
 - to guarantee their access to raw material sources,
 - to acknowledge their traditional know-how,
 - to ensure that they benefit from "fair trading" practices.

Transparency with stakeholders

- To participate in the dialogue with stakeholders.

08

KEY ACHIEVEMENTS

● ADVANCED RESEARCH AND TISSUE ENGINEERING

- Preparation of a collagen matrix which will become the most complete model of reconstructed human skin available.
- Joint-development with the Saint-Louis Hospital (France) and Laval University (Canada), of a platform of knowledge about the proteins which make up the epidermis and how they change with age.
- Use of Episkin reconstructed epidermis models and SkinEthic reconstructed corneas to assess the effectiveness and safety of raw materials.
- Increase in the levels of production of Episkin and construction of a new building.

● ALTERNATIVE METHODS TO ANIMAL TESTING

- Scientific validation by the ECVAM⁽¹⁾ of a second model based on SkinEthic RHE (reconstructed human epidermis) for skin irritation, to complement the Episkin model approved in 2007.
- The start of the European Colipa⁽²⁾ approval process for the SkinEthic reconstructed HCE cornea model for eye irritation.
- Consolidation of a new integrated strategy for safety assessment based on a combination of alternatives to animal testing.

● RAW MATERIALS

- Opening of a new laboratory dedicated to ecotoxicity on the site in Aulnay-sous-Bois (France).
- Creation of a laboratory dedicated to research into natural and biocosmetics on the site in Gigors-et-Lozeron (France).
- Adaptation of the protocols for assessing the effectiveness of raw materials in essential oils.
- Launch of a range of bio products for conventional brands.
- Launch of the first entirely biodegradable KIEHL'S cosmetic product with "Cradle to Cradle" certification.
- Consolidation of channels based on fair trading.
- Ensuring that most perfume suppliers are sensitive to Corporate Social Responsibility issues.

● STUDIES AND JOINT RESEARCH

- Development of company-university cooperation and international social science conferences.
- Performance of Cosmetics and Quality of Life studies.
- Dozens of projects with university laboratories, hospitals, start-up in various sectors: proteomics, alternative methods, stem-cells, microscopy.

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

(2) Colipa is the European Cosmetics Association.

“Omic methods (transcriptomics, proteomics) will provide the answer to several questions: What happens as the skin ages? Is there less regeneration in older skin? In future, we will be discussing cosmetology based on irrefutable omic testing.”

AXEL KAHN,
Geneticist, President of the Paris Descartes University and
a former member of the French National Advisory Ethics Committee.

581

(in € millions)
invested in R&D
in 2008

3.1%

of turnover

1/4

of the R&D budget
invested in
Advanced Research

More than
7,000

new formulae
each year

RESEARCH AT THE SERVICE OF KNOWLEDGE AND INNOVATION

L'Oréal, now one of the market leaders in several scientific and technological sectors, believes that there is no such thing as innovation without a corresponding increase in knowledge.

As a result, its development is deeply rooted in state-of-the-art research, the vehicle for inventing future beauty care.

There are two sides to L'Oréal's Research:

- Advanced excellence Research to discover new active substances with high added-value, and the fundamental study and comprehension of skin and hair biology,
- Applied Research, dedicated to coming up with an end-product and organised to deal with beauty-related issues.

HUGE DEVELOPMENTS IN HAIR AND SKIN STUDIES

Understanding skin and hair physiology, with the help of state-of-the-art scientific tools

For a long time now, the Advanced Research Department has been investing in discovering

highly-advanced technologies to help increase our knowledge about hair and skin.

Over the last few years, it has entered a new era, bringing together cellular and molecular biology, including gene map sciences, with non-invasive technologies (optics, physics, imaging, reconstructed tissue). Researchers are now studying hair and skin as living organs whose functions change with age and stress, and environmental factors. They now have the benefit of new knowledge about ageing and hair loss, repair or regeneration and can develop active substances which both perform better and are better-targeted.

A programme begun eight years ago to study the proteins in the epidermis concluded with important results in 2008. Conducted with the help of new tools in reconstructed tissue systems, these studies have identified around 700 proteins, a large number of which were previously unknown. This platform of knowledge on skin biology came particularly as a result of the company's partnership with the Saint-Louis Hospital (France) and Laval University (Canada).



➤ Robotized testing increases the capacity to screen new molecules.

► FRANCE > COOPERATION WITH PERCY HOSPITAL

Last year L'Oréal entered into a scientific partnership with the Percy Hospital in Clamart which resulted in the creation of a common scientific committee. The idea is to trade technologies and expert knowledge in tissue engineering and to discover synergies for research. One of the main things that the work hinges around is the study of mesenchymatose stem cells, which might be used in regenerative medicine (e.g. in the case of radiation burns). ■

Understanding the mechanisms of aging

This programme led L'Oréal's researchers to discover that young and old skins have specific protein signatures which evolve with age and under the effect of stress. To gain a better understanding of the effect that genes have on beauty, 4,400 genes and 1,300 proteins were examined. Researchers now have a methodological tool for selecting active substances which can enhance the expression of youthfulness in the skin by acting on proteins, produced by genes, on the surface of the epidermis. These molecules will be used to produce a new generation of anti-ageing products in 2009.

To gain a better understanding of the mechanisms of ageing, L'Oréal has also been conducting a programme to study stem cells in the adult epidermis for several years. Researchers have been able to work *in vitro* to enrich or remove stem cells on the epidermis to study the adverse effects of the sun or time.

The Advanced Research Department is working on this in partnership with international benchmark centres (CEA, Genome Institute in Singapore).

Designing products for all types of skin and hair

L'Oréal makes an enormous effort to understand the characteristics and behaviours of different types of skin and hair to be able to offer diversity-adapted products, suited to the tastes and requirements of people all around the world. L'Oréal is the only cosmetics company to have created eighteen research centres to study diversity.

The Pudong centre, built in 2005 near Shanghai, includes a development laboratory which specialises in the study and assessment of adapted products, and a centre for assessing ingredients inspired by or used in Chinese medicine.

2008 also saw the creation of a "high-tech" department in the Applied Research and Development Centre in Kawasaki (Japan), and a research and development unit dedicated mainly to hair products in Rio de Janeiro (Brazil).

TISSUE ENGINEERING

Understanding the biological mechanisms of the skin to find new active ingredients

L'Oréal Research Department has, for a long time now, been conducting research into cellular biology and tissue engineering to reconstruct several models of human skin. These reconstructed skins are a medium favoured by the Advanced Research Department. There are four main applications for them:

- Developing knowledge about the skin without having to perform invasive clinical trials.
- Developing and assessing the effectiveness of new active substances.
- Helping to assess the safety of raw materials and end products.
- Creating, validating and standardising new, alternative tests for assessing product safety and effectiveness.

Producing reconstructed tissue kits

Two of L'Oréal's subsidiaries, Episkin and Skin Ethic, are engaged in the industrial-scale production of standardised reconstructed tissue kits, available to the international scientific community. They also supply L'Oréal's Advanced Research Department with the models that it needs for its studies and tests.

In 2008, work began to double the size of the Episkin buildings in Lyon (France): 2,100sq.m. are currently being built. The centre's production capacity is also increasing at the same rate.

L'Oréal also decided to bring the manufacture of collagen-culture media in-house through the purchase of Episkin Biomatériaux. With this, it hopes to achieve the most complete model of reconstructed human skin available today.

More than

130

patents for molecules discovered by Advanced Research over a 40-year period

628

filings for patents in 2008

3,268

employees of 60 nationalities and 30 disciplines

18

Research & Development centres

RESEARCH & DEVELOPMENT

Assessing the effectiveness of molecules and formulae

With its *in vitro* skin reconstruction mastering and after 20 years of research, in 2008 L'Oréal entered a new age: the systematic use of reconstructed tissue to assess the effectiveness of its active substances and formulae.

The use of state-of-the-art science and techniques, such as genome and proteomic science, makes gaining an understanding of the effectiveness of the formulae even more accurate. Targeting them also becomes more accurate and provides irrefutable tests for cosmetic manufacturers.

The files on the effectiveness of the main molecules produced by L'Oréal, such as its Mexoryl SX and XL sun filters, are based mainly on the data obtained from assessing *in vitro* protocols which, as far as possible, imitate the conditions under which the products are applied.

The size of the data pool is increasing on a daily basis and will be used to support future assessments.

Reconstructed tissues are also used as a medium for developing new molecules, e.g. substances for self-tanning products.

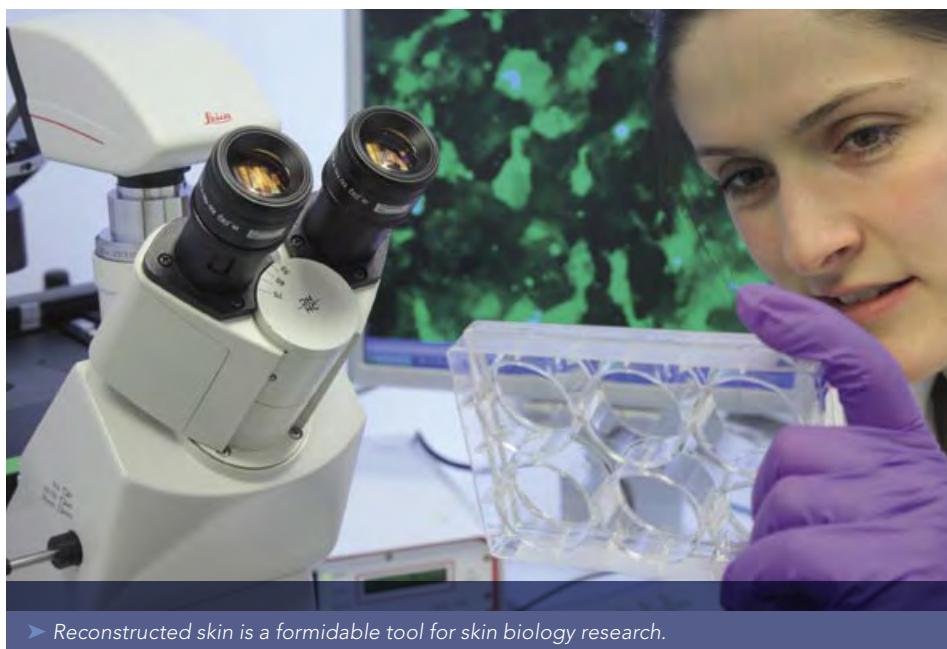
THE CONTRIBUTION THAT RESEARCH MAKES TO SOCIAL SCIENCES

Created in 2005, the Research Department's outsourced social sciences hub is designed to consider the psychosocial processes at play in cosmetic practices (preferences, expectations, rejection) and their consequences. It also allows the department to measure the importance of the cultural dimensions of bodily hygiene practices and how they relate to appearance, intimately linked to the fundamental notions of social links and self-esteem.

A programme of interdisciplinary research (psychology, sociology and anthropology) began in 2005 and is expected to last for several years, within an international and intercultural context. It is organised in the form of theses, post-doctorate degrees and cooperation with universities. Some of the results are due in late 2009.

The objective is to study people's motivation to take an interest in their appearance and risk perception in relation to ageing. They cover different populations in several continents so as to take cultural differences into account and are based on a growing international scientific network.

An internal, international symposium entitled "Assessments, perceptions, representations of risks in relation to cosmetics and bodily hygiene" was held in 2008.



► Reconstructed skin is a formidable tool for skin biology research.



► Reconstructed skin.

INGREDIENT AND PRODUCT SAFETY ASSESSMENT

A NEW APPROACH TO SAFETY ASSESSMENT

Objective of the approach to safety assessment

L'Oréal has turned its know-how to developing new, integrated strategies for assessing the safety of its ingredients. By employing predictive behavioural methods, the objective is to be able to perform the first application on humans without recourse to animal testing.

This new predictive safety assessment approach is based on the valuation of the stock of safety data on ingredients that L'Oréal has set up, mostly thanks to its partnerships with suppliers and its subsequent investments (€600 million in 20 years). This stock is constantly growing with the addition of information from predictive safety assessment tools, Post Marketing Surveillance Network and the results of tolerance studies performed on humans.

In 2008, L'Oréal became convinced of the value

of this approach and—for a certain number of ingredients exclusively for cosmetic use—simulated the transition to the first application on humans using a combination of predictive and *in vitro* tools.

Establishing this stock of data will eventually allow the company to reconcile ingredient safety and innovation without having to experiment on animals. It also gives L'Oréal the means to comply with its obligations for 2009 as established under the 7th Amendment to the EU's Cosmetic Directive.

The EU's REACh directive will also encourage the development of such new methods, insofar as it allows for a large amount of safety data to be shared between industries.

Moreover, an internal working group, "Raw Materials 2009", has been instructed to rethink the design and way in which the raw materials of chemical origin are assessed right from the preliminary stages (a wide variety of molecules is currently being studied) in order to ensure the success of the programmes in which they are used and ensure that they comply with regulations.

As a result R&D's main tasks are currently undergoing a huge sea-change. Chemists and toxicologists will, from now on, conduct very early studies on the stock of safety data for all new potential ingredients. This new approach to safety assessment sets the groundwork for tomorrow's innovation: it consists of exploiting the full cosmetic performance potential of selected ingredients, based on the enormous amount of available safety data.

The development of alternatives to animal experiments on reconstructed tissue, three of which have so far been approved by the ECVAM, is an important part of this strategy, but not the only one.

Alternative methods

To deploy this new method of assessing the safety of raw materials in a reliable and efficient manner, L'Oréal has developed a combination of alternative tests, both in-house and with its outside partners.

Two main types of safety assessment tools are already being used:

- Reconstructed tissues.
- Predictive methods based on mathematical tools.

At present, there are three areas of toxicity for which alternative methods have been approved by the regulatory bodies and from now on these will replace animal testing: skin corrosion caused by chemical products, phototoxicity and absorption through the skin and skin irritation. L'Oréal is working actively to develop new assessment tools for the issues at stake for 2013.

● Reconstructed tissues

- Two additional models to obtain European approval

In 2008, L'Oréal was given scientific approval for its SkinEthic RHE system, the second alternative method, to study skin irritation. It supplements the Episkin model, regulatory approval for which is underway. L'Oréal now has the capacity to offer a choice of several models to others outside the company.

CURRENT LEGISLATION ON SAFETY ASSESSMENTS ● ● ●

1. REACh European regulations, enacted in June 2007, seek to make the use of chemical products safe. They order companies to assess them, register them and make their use subject to authorisation. L'Oréal has been supporting this legislation since 2003. L'Oréal completed pre-registration of these substances on November 30th, 2008, as required by the REACh schedule. At present, L'Oréal is involved in preparing the dossiers for registering the substances and disclosing information about them. This transversal approach affects every sector of the company, which has dedicated an entire team to it.

2. The 7th Amendment to the European Cosmetic Directive stipulates:

- the prohibition to test ingredients for cosmetic use on animals in Europe from 2009,
- the prohibition to market cosmetic products containing raw materials tested on animals for cosmetic use from 2009 for most tests and 2013 for more complex tests (systemic and long-term use tests).

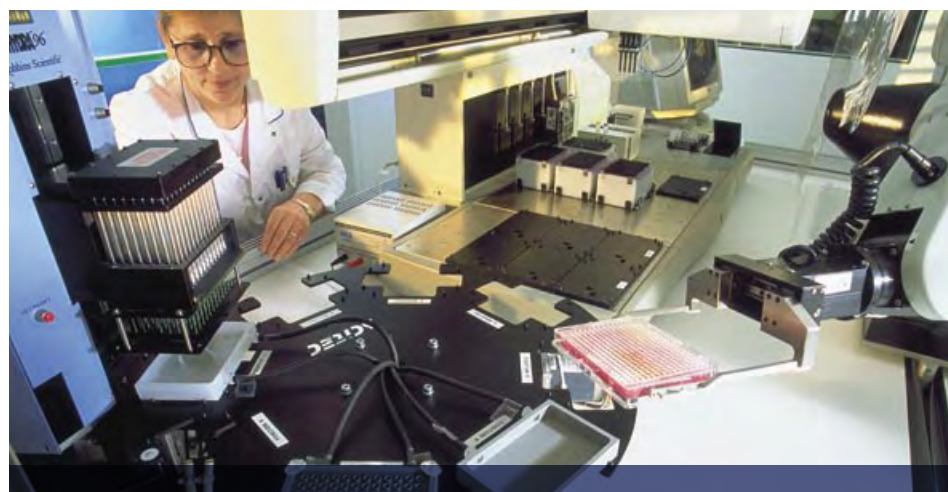
L'Oréal has developed predictive safety assessment methods which will make it compliant by the end of 2009.

▶ FORMULAE TESTED ON RECONSTRUCTED EPIDERMIS

The numbers assessed in 2008 were as follows:

- 931 formulae for skin irritation,
- 1,242 ingredients for skin irritation,
- 1,147 ingredients for eye irritation.

Since 2006, more than 11,500 ingredients and formulae have been assessed on reconstructed tissues. ■



▶ High throughput screening of raw materials.

Moreover, in December 2008 the SkinEthic HCE model, to study eye irritation, was submitted for European approval through Colipa, after it had assessed several hundred ingredients. It should be fully approved between now and 2010.

▶ The assessment of ingredients and formulae on reconstructed tissues

The assessment of ingredients on reconstructed tissues, systematically used since 2006 to test skin and eye irritation, is done for two reasons:

- to get results which will help to get approval for reconstructed tissue models,
- to master the knowledge and behaviour of ingredients on reconstructed tissue and add it to the stock of safety data.

The ability of formulae to cause skin irritation is also systematically tested on reconstructed epidermis before being applied on humans.

In 2008, L'Oréal's researchers worked on preparing new, specific assessment protocols for cosmetology and conducted tests on THE BODY SHOP ingredients. This will continue in 2009.

● Safety prediction methods

L'Oréal is developing other, alternative methods in cooperation with various partners, using recent

advances in cellular and molecular biology, and is adopting *in silico* mathematical approaches to predicting toxicity phenomena—QSAR (Quantitative Structure Activity Relationship). L'Oréal is also currently working in cooperation with another company to develop systems for predicting skin irritation prior to *in vitro* testing.

These methods can be used for molecules with a chemical structure close to that of an ingredient which is already being used. In cosmetics the QSAR tool allows some safety parameters to be predicted with a 98% degree of certainty by establishing a link between the chemical structure, chemical activity and chemical reactivity of a molecule. Thanks to this reliable way of predicting behaviour, the cosmetic ingredients can be applied straight on to humans without needing to be tested on animals.

L'Oréal has also helped improve the QSAR Toolbox system, developed under the aegis of the OECD, by providing experimental data and its own expertise in metabolism.

● Other, alternative methods for measuring

▶ Genotoxicity

In 2008 the company made every effort in this area to refine existing *in vitro* methodologies, particularly through its contributions within Colipa.

▶ Acute toxicity

In the United States, L'Oréal signed two partnership agreements with top-ranking teams of cosmetic scientists to improve our knowledge of how acute toxicity works and to develop predictive approaches.

In 2008, L'Oréal's researchers working on cosmetic models validated the appropriateness of the technology proposed by its partners, which can be added to help develop predictive methods.

L'Oréal is also the only European company involved in the Tox Cast programme, under the auspices of the American EPA, which aims to establish 21st century toxicology.

▶ Allergy

L'Oréal is a stakeholder in the Colipa research programme and the European Sens-it-iv Project on allergy. The results obtained this year are promising. Colipa is preparing to submit three methods in 2009 for European approval, with L'Oréal as one of the driving forces behind it.

L'Oréal is also open to cooperation with the other industries involved, particularly within the framework of the EPAA⁽¹⁾ to work on developing alternative solutions for safety assessment.

Training suppliers in this approach

In 2008 L'Oréal continued to train its suppliers in alternative methods, particularly in the use of reconstructed tissues. The idea is for them to add these tools to their own methods of assessing the safety of their ingredients so that animal testing can become progressively obsolete for certain toxicological parameters.

L'Oréal is also working in partnership with its suppliers to enhance *in vivo* / *in vitro* correlations: the ingredients offered are tested on systems reconstructed by L'Oréal. This allows the company to add to the safety profile of these ingredients and to share the information with its suppliers.

(1) European Partnership for Alternative Approaches to Animal Testing.

► THE SIX STAGES OF SAFETY ASSESSMENT

1. Studying available safety data on the ingredients.
2. Safety of the ingredient in the end product.
3. Approval of the concentrations of ingredients.
4. Safety tests on the end product.
5. Validating the safety of the end product.
6. Marketing and later monitoring (International Post Marketing Surveillance Network). ■



Openness on safety

As part of the work performed by the American think-tank ILSI, L'Oréal has, for the last three years, been taking part in working groups to discuss anticipating safety issues, in relation to the problems of nanotechnologies, allergies and genotoxicity.

Taking new safety issues into account

For several years, people have been expressing concerns about potential new toxicological risks.

L'Oréal's Research Department addresses such concerns and the company has been considering how to learn more about the effects on healthcare and the environment of the global, long-term exposure of humans and the environment to certain substances.

Special strategies in this respect have been implemented to deal with endocrine disrupters and how chemical substances pollute water.

Replacing animal testing

L'Oréal has not tested its end products on animals since 1989.

L'Oréal has adopted an approach to replace animal testing in the safety assessment of cosmetic ingredients. It hinges around three key poles:

- the development and use of alternative methods based on tissue engineering,
- using the stock of safety data obtained from predictive safety assessment methods,
- the increasing and generalised sharing of such data with other industries, encouraged by REACH, which is now an important criterion for selecting and developing new ingredients.

However, within the context of the EU's 7th Amendment, safety tests on animals are absolutely necessary and compulsory for some ingredients, bearing in mind the lack of approved alternative methods, to ensure that the products which are marketed are safe, effective and innovative.

The long-term objective is still to select ingredients whose innocuousness has been verified well in advance, thanks to this combination of predictive tools, without any scientific need for animal testing.

PROTECTING CONSUMERS, EMPLOYEES AND THE ENVIRONMENT

Consumer protection

Consumer protection is one of L'Oréal's absolute priorities. Long before it became compulsory, L'Oréal set up a team to assess the safety of its products at every stage of their life-cycle, to make sure that they were absolutely harmless.

The stringent safety tests to which its end products are subjected prior to marketing mean that L'Oréal can comply with all current safety regulations contained in the national legislations of all 130 countries in which it markets its products.

An international Post Marketing Surveillance Network also uses stringent and recognised methods to analyse adverse effects arising from product use. For L'Oréal, this is a very effective early detection system for signs of intolerance, however mild, to a product so that it can take immediate corrective action as necessary.

Employee protection

L'Oréal takes enormous care to protect any employees regularly exposed to substances for a prolonged period of time.

It has established means of improving the traceability of any contact with such substances and reducing them through the use of automatic formulators. Regular check-ups and an adapted training programme help increase the effectiveness of safety procedures.

L'Oréal believes in improving employee knowledge of the ingredients and conducts studies on environmental issues, using state-of-the-art analytical research.

L'Oréal's position on substances which have been called into question

● Phthalates

L'Oréal has only ever used diethyl phthalate (DEP) and continues to replace it in its formulations. 98% of the formulae which contained this substance as an alcohol denaturing agent and

90% of all perfumes in which it was used as a solvent no longer contain any, and neither do newly-developed products. The schedule for replacing it in L'Oréal's brands should conclude in 2010. All product ranges sold as a result of group acquisitions will be systematically included in this programme.

● Parabens

In early 2007, L'Oréal deployed an action programme to stop using long-chain parabens in its end products. The programme consisted of:

- developing new formulations and choosing raw materials containing only short-chain parabens,
- developing new, integrated approaches for preserving its formulae, including innovations in packaging.

Also, several brands from L'Oréal offer an increasing number of products without parabens for consumers wishing to buy them.

● Triclosan

L'Oréal achieved 99% of its objective to stop using triclosan in 2008 in its brands. However, it still needs to apply the same requirement systematically to the ranges of products sold following the group's new acquisitions.

● Heavy metals

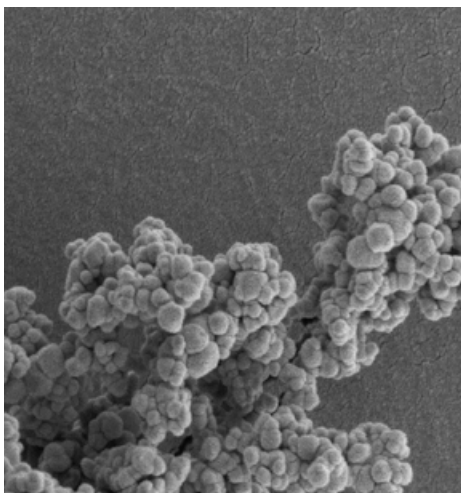
L'Oréal does not use heavy metals as ingredients. However, trace heavy metals are present in certain raw materials of natural origin; they cannot be totally eliminated with current technologies. With regard to the inevitable presence of heavy metals, L'Oréal complies strictly with current legislation and the official recommendations of the World Health Organisation.

L'Oréal makes every attempt to reduce the presence of these inevitable traces in its end products by applying internal regulations which define the trace thresholds for each raw material.

● Nanotechnologies

L'Oréal takes part in various groups which are working to ensure that the use of nanotechnologies and their environmental impact are

RESEARCH & DEVELOPMENT



► In sunscreen products TiO_2 nanoparticles are present in the form of stable aggregates of size 2 to 6 microns.

completely safe. Two of these groups are:

- the International Council On Nanotechnology (ICON), of which L'Oréal is a founder member,

- the European NanoInteract programme. L'Oréal has developed and distributed an experimental ecotoxicity model, officially recognised by the OECD. This allows nanomaterials to be tested in conditions very similar to those of natural ecosystems. A number of research studies on the physical characterisation of nanomaterials have been started with the aim of gaining a better understanding of how they behave in a living medium.

In 2008, L'Oréal directed more than seventy missions to inform the public authorities, both in France and abroad, about the application of nanotechnologies in cosmetics.

L'Oréal is also a committed partner, alongside ISO and AFNOR, dedicated to drafting international norms and standards for establishing specific lists of products which might be defined as "nano-products" in different industrial sectors.

Some sunscreens prepared by L'Oréal contain

titanium dioxide nanoparticles. Titanium dioxide is an inert, non-toxic material, chosen for its capacity to reflect UV rays effectively. These products protect the skin against the harmful effects of the sun which increase the risk of skin cancer. Moreover, the European NANODERM research programme has proved that nanoparticles do not penetrate the skin barrier, even when there are superficial skin changes.

These nanoparticles are now a very effective complement in helping to provide high protection factors.

The European NanoInteract programme has confirmed that titanium dioxide nanoparticles are not applied as nanoparticles, but as much larger aggregates, often several microns in size.

● Sun filters

L'Oréal is offering the first filtering system to strike a balance between UVA and UVB rays, thanks to its two filters: Mexoryl SX and Mexoryl XL. Both are authorised in Europe, Asia, Latin America and Canada. In the United States, Mexoryl SX was approved by the FDA in 2006 and Mexoryl XL is about to be approved.

They are added to certain sun care products and other daily skincare products. Being environmentally-friendly, they do not affect aquatic ecosystems.

● Nitratated musk

L'Oréal no longer uses nitratated musk in its perfumes.

● Hair dyes

L'Oréal has been working for several years now on developing less sensitising colourants, in particular by exploring new families of chemicals. The first concrete result of this research effort is the Rubilane® colourant, for which development concluded in 2008.

The development laboratories are also re-working colourant formulations to troubleshoot the allergies that some hair colour products cause. In this sense, one large study underway is

designed to reduce progressively the number of colourants linked to sensitising reactions. This has already resulted in a decrease of the concentration of Paraphenylenediamine and Paratoluenediamine to which users are exposed to a mere 1% (the thresholds established by the authorities are 2 and 4% respectively). The aim is to continue optimising levels over the next few years without reducing the performance of our hair colourants.

● Silicones

The generic term "silicone" covers a large number of raw material families with very diverse characteristics. Concerns have been voiced over the last few years regarding the potential impact of a specific type of silicone on the environment: siloxanes.

Anticipating this, about ten years ago L'Oréal implemented a plan to replace siloxane D4 and it has not used any since 2002.

The group is also active in the study programmes on other siloxanes so as to gain a better understanding of their potential impact.

● Endocrine disrupters

Scientific publications are querying the potential that some molecules have of disrupting the hormonal balance of living beings.

When scientifically convergent *in vivo* assessments showed that certain ingredients used in cosmetics are at risk of causing endocrine disruption, L'Oréal decided not to use them any more in its formulae and implemented a strategy to replace them (triclosan and long-chain parabens).

L'Oréal has implemented a programme to identify well in advance any potential interferences in our ingredients with certain mechanisms involved in endocrine disruption. It is a matter of identifying any alerts in this area as soon as possible, so as to conduct any in-depth studies that may be required.

Different *in vitro* (in particular reconstructed tissue) and *in silico* methodologies are used for this assessment, which should cover all L'Oréal's raw materials. The Research Department is

also working on developing predictive *in silico* models of these phenomena and ways to assess the risk of endocrine disruption in water systems.

● Nitrosamines

Our mascara formulations are all designed to block the formation of nitrosamines. Since 2008 there has been a steady increase in the number of products launched without secondary amines.

● GM products

L'Oréal does not use genetically modified ingredients.

Considering the impact of our products on aquatic ecosystems

Water is L'Oréal's number one raw material: it is everywhere in our products, from design to the end use.

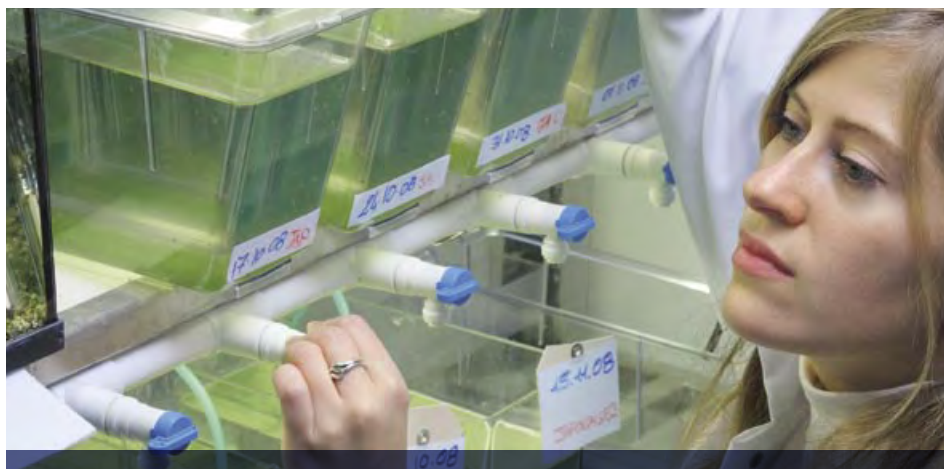
That is why, 15 years ago, L'Oréal started research into ecotoxicology, based on predictive methods of impact on aquatic ecosystems. The aim is to find out in advance whether certain ingredients pose a risk to the environment and to design environmentally-friendly formulae.

In 2008 this research developed into the creation of a laboratory dedicated 100% to studying these problems. Last year, the Research Department became heavily involved in finding alternatives to standard tests on fish and amphibians.

ECO-DESIGN OF PRODUCTS AND INGREDIENTS

L'Oréal embraces eco-design as part of its innovation-based approach so as not to undermine the wellbeing of future generations and minimise the impact of its products on the planet. Eco-design is conducted together with raw materials suppliers and has two main objectives:

- to minimise impact during the very early stages by making considered and sustainable use of valued vegetable species in its products without disrupting the original ecosystems,



▶ The team of ecotoxicologists apprehends the behaviour of raw materials in the environment.

- to minimise downstream impacts by maintaining the ecological balance of ecosystems on land and in the water. A framework for the eco-design of products throughout their entire life-cycle will be concluded in 2009.

A RESPONSIBLE RAW MATERIAL SUPPLY AND SELECTION POLICY

A "greener" portfolio

L'Oréal is dedicated to developing raw materials which do not affect the environment or health through four actions:

- Establishing a portfolio of natural ingredients, labelled "organic" or "fair-trade": around thirty substances complying with these criteria were included in 2008.
- Adding ingredients of vegetable origin: raw materials of renewable vegetable origin (more than 1,200 ingredients), representing 40% of the total number of ingredients used in L'Oréal's cosmetic products.
- Increasing the production of ingredients prepared using Green Chemistry.
- Replacing ingredients of fossil origin with raw materials of vegetable origin. A new solvent of vegetable origin was introduced in

2008 to replace an equivalent of fossil origin. Other projects are underway and will lead to formulations in 2009.

The eco-design of products

We use an integrated approach, from the choice of ingredients, raw material traceability indicators, what happens to them in ecosystems or their impact on biodiversity. The process is as follows.

● Characterising the potential impact on the environment and biodiversity that the raw materials we use will have with the help of specific tools

▶ Assessing the environmental impact of raw materials

Since the environmental impact of our products is linked to that of their raw materials, in 2004 L'Oréal launched an assessment of its entire raw material portfolio based on PBT and vPvB criteria⁽¹⁾. 99% of them were evaluated in 2008. L'Oréal has also implemented an indicator to assess the overall ecotoxicity of a formula through the individual contribution of each raw material.

(1) PBT is persistent, bioaccumulative and toxic, vPvB is very persistent and very bioaccumulative.

RESEARCH & DEVELOPMENT

PROTECTING AQUATIC ECOSYSTEMS ● ● ●

L'Oréal is working hard to reduce the impact of its products on aquatic ecosystems by:

- ▶ developing innovative ways of achieving early environmental assessment of raw materials in its ecotoxicology laboratory (e.g.: automation of the safety test on micro-algae),
- ▶ assessing raw materials in accordance with PBT/vPvB criteria,
- ▶ using the Sustainability Assessment Framework for raw materials, certain criteria of which relate directly to the issue of the impact that ingredients or industrial activity have on fresh water,
- ▶ using Green Chemistry,
- ▶ developing a strategy to protect biodiversity.

Since eliminating exogenous substances depends to a great extent on the quality of the water-treatment systems, L'Oréal's expansion in countries where such systems are not yet sufficiently developed makes the need for product eco-design even greater.

In 2008, 20% of the raw materials used, corresponding to 80% of the volume of L'Oréal's purchases, were evaluated. The objective is to test all the raw materials used by 2012. A predictive assessment of the ecotoxicity of a formula as a whole can then be conducted and used to develop formulae which minimise impact.

▶ Assessing the impact of raw materials of vegetable origin on biodiversity
Reconciling the increasing use of vegetable resources and the protection of biodiversity is a huge challenge if L'Oréal wishes to engage in sustainable development. The group is committed to developing the use of such raw materials while, at the same time, complying with the principles for preserving and appreciating biodiversity.

A range of operational tools are used to consider and manage the role that biodiversity plays in the raw materials policy: knowledge and impact indicators ("plant data sheets"), a matrix for assessing ingredients for suppliers, use of external guarantee schemes and expert third parties for specific actions.

In 2008, all plant extracts added to the raw materials portfolio came from supply channels offering reliable guarantees of traceability and sustainability.

In 2009, L'Oréal will extend its attempt to identify the implications for biodiversity to its portfolios of raw materials of natural origin from the group's recent acquisitions. These involve a large number of new species of vegetable for L'Oréal.

L'Oréal's responsible supply policy rests on our working closely with our network of suppliers. We share our commitment to ongoing progress on biodiversity with our suppliers.

● Our tools to understand raw materials

▶ The Sustainability Assessment Framework for raw materials

This tool allows companies to assess the impact of raw materials on five main issues:

- consumer and employee health,
- environmental protection,
- protecting biodiversity,

- fair trade,
- respect for human rights.

It is based on operating in close collaboration with suppliers to achieve ongoing progress and covers the entire life-cycle of substances, including environmental assessment. It contains 25 assessment criteria, based on the main international standards for sustainable development.

This tool is now used with 120 substances and enables us to define action plans with our suppliers for minimising the impact of the raw materials on all the major issues.

In 2008, an Extranet system was implemented to speed up deployment and to turn it into a reference tool for product eco-design.

Also, since 2007 L'Oréal has been raising its perfume suppliers' awareness of this tool for assessing and selecting sustainable raw materials, so as to involve them in this approach.

In 2008 the tool was deployed with all its suppliers, covering 98% of the perfumes used.

▶ Life-Cycle Analysis (LCA)

As part of its processes for assessing raw materials, formulae and end products, L'Oréal—working with the ADEME and PriceWaterhouseCoopers—has prepared a simplified method for performing an LCA on complex cosmetic formulae. It has been tested on five formulae from different areas: dyes, perfumes, shampoos, lipstick and skincare creams.

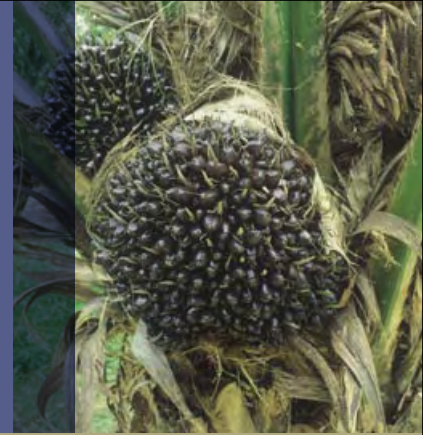
▶ Complementary environmental testing
L'Oréal uses complementary environmental tests, performed by experts, based on the results of the environmental impact, biodiversity, fair-trading or social responsibility analyses.

► PALM OIL

Since 2006, L'Oréal has been taking part in the Round Table on Sustainable Palm Oil (RSPO). Created at the behest of the non-governmental organisation WWF, it works to protect tropical rainforests and to improve the living and working conditions of populations in areas where palm oil is exploited.

In January 2008, L'Oréal promised to source all its palm oil purchases from RSPO member suppliers between then and the end of 2010. The group now gets its supplies from an RSPO-approved Asian source and an organic certified Colombian source.

L'Oréal also supports the moratorium on illegal deforestation in Indonesia and Malaysia set up by Greenpeace and has agreed to improve the traceability of its palm oil and derivatives. ■



► Ecotoxicity testing has been automated.

The Research Department develops tests designed to measure the effects of endocrine disruption caused by certain substances in aquatic environments.

ECO-DESIGNING INGREDIENTS: GREEN CHEMISTRY

Several years ago, the company launched a Green Chemistry development programme. It is based on:

- the use of raw materials of renewable origin,
- the development of "green" processes which reduce the production of effluents and amount of energy needed for production,
- the generation of environmentally-friendly ingredients.

This allowed the company to launch Pro-Xylane™ in 2006, the first anti-ageing active ingredient designed according to these principles.

All the raw materials being developed are systematically analysed with Green Chemistry criteria. This approach, which the company shares with its suppliers, is a key objective of L'Oréal's innovation processes. This has led to the company introducing ingredients made from raw materials of renewable vegetable origin and production processes with a much

lower environmental impact. Among them, esters obtained through biotechnology have helped reduce the amount of energy the company uses by 20%.

In 2008, the partnership set up with the INRA-Toulouse and the company Protéus (specialising in the development of innovative bioprocesses) as the Agrice consortium, led to the discovery of environmentally-friendly new processes obtained through biocatalysis. These provide access to original ingredients while at the same time complying with the principles of Green Chemistry (use of renewable raw materials obtained from sugars, a single transformation stage, a high degree of naturalness, 100% renewable carbon, aqueous reagent medium).

NATURALNESS

Towards a definition of naturalness for cosmetics

L'Oréal's natural approach to products means that it places a high emphasis on raw materials of natural origins which have not suffered much of a transformation.

To respond to the lack of a clear definition of

what "natural" means in the cosmetic industry, L'Oréal takes part in several international working groups, particularly within the Colipa, to establish specifications for "bio" and "natural" products, applicable across Europe and taking the opinions of all parties involved into account.

The Research Department is also working on preparing an in-house technical charter which takes the international benchmarks under construction into account. The idea is to be able to define what makes products "natural" and "organic" and classify the raw materials which can be used according to how far they are "organic", "natural" or "of natural origin".

The Natural and Organic Centre of Excellence

Created by L'Oréal in 2007, the Natural and Organic Centre of Excellence aims to:

- learn more about the substances and processes of natural and organic cosmetics,
- develop organic and natural products to ensure that their cosmetic properties are as good as those of "conventional" products,
- define L'Oréal's position, particularly towards certification labels and the development of

APPRECIATING BIODIVERSITY ● ● ●

In 2005, L'Oréal promised to put a high premium on biodiversity as part of its commitment to the objectives of the Convention on Biological Diversity:

- to attempt to reduce the use of non-renewable resources for the supply of raw materials,
 - to identify all the biodiversity issues at play in the supply areas and define appropriate action plans, particularly in richer areas or ones which are environmentally most sensitive,
 - to participate in the creation of tools to understand, manage and monitor biodiversity as far as necessary,
 - to promote the use of renewable raw materials which are most considerate of biodiversity,
 - to extend this approach to all the group's brands (including recent purchases),
 - to launch action plans for the species assessed by L'Oréal whose environmental status may be endangered in order to minimise negative impact or create a positive impact.
- In 2008, L'Oréal gave priority to the selection of a plant extract (Orchis Masculina) cultivated *in vitro* to ensure that all this new activity would not affect this endangered plant.



L'Oréal and Cognis entrusted us with the methodology (the Sustainability Assessment Framework), acknowledging the necessity of a follow-up and supportive approach with their suppliers, on top of the commercial and quality activity. This commitment was in our opinion solid enough to enable us to also involve local producers, in order to assess their working and living conditions. Together we have managed to focus on the responses necessary for providing structure to the entire channel from a CSR perspective, with the assurance that local players are also involved and that their opinion and interests are taken into account.



GILLES MERLIER,

Project director for the French NGO Yamana.

GREEN INDICATORS USED BY L'ORÉAL

Green indicators designed by L'Oréal allow the company to choose renewable components and much more environmentally-friendly processes during the preliminary processing stage to generate ingredients which have a less-negative effect on the environment. Some of these indicators are:

- atom savings (measurement of the rate of addition of the raw materials used),
- the "E Factor" (assessment of the amount of rejection per kg of isolated product),
- naturalness index (bearing in mind both the origin of the raw materials and the degree of denaturing caused by the transformation process),
- the rate of renewable carbon contained in the new ingredient and the assessment of environmental criteria (environmental profile).

This method of eco-design is modified as new ingredients are developed to industrial stage, meaning that they are highly sustainable. They will then be assessed with a much larger and more overall analysis within the context of the life-cycle assessment.

Exploitation of local resources is carried out on the basis of fairness and a fair return. L'Oréal has tools ("plant specifications") and indicators which include the social and financial impact of exploiting plants and raw materials.

Protection of plants and vegetable extracts through patents is also addressed following the principle of fair trade, taking into account the origin of the raw material to guarantee traceability and a lack of impact on biodiversity and ecosystems.

To ensure that this principle is being observed, in 2006 L'Oréal checked its entire portfolio of patents and now conducts a systematic, preliminary study of information regarding the use of raw materials linked to all new patent applications.

In 2008, the group decided not to apply for five patents which failed to comply with company-implemented criteria.

L'Oréal requires our suppliers' patents to observe the same principles.

New fair trade ingredients

In 2008, the fair trade approach resulted in the company pursuing the development of two supply channels: Centella Asiatica and Madecassoside (Madagascar) and Argan Oil (Morocco). They have been added to those managed by THE BODY SHOP as part of its Community Trade programme.

● Centella Asiatica and Madecassoside

L'Oréal and Bayer/Serdex—our supplier of Centella Asiatica and Madecassoside—are joint financiers of a fair trade project in Madagascar. By increasing the price at which we purchase these two raw materials, L'Oréal is helping to supply the main buildings of the community producing them with electricity.

The group is also financing a socio-economic study being conducted by Antananarivo University to measure the real contribution of the activity to local development.

● Argan oil

L'Oréal is working to create a fair trade supply channel for argan oil, together with one of its

regulations in the areas of natural and organic products, fair trade and environmental protection.

We continued to work towards setting up a portfolio of "organic", "natural" and "fair trade" raw materials throughout 2008. Around 30 substances complying with these criteria were included.

L'Oréal also piloted the creation of product development laboratories for THE BODY SHOP, SANOFLORE and Bioexigence.

We also helped conventional brands to adopt more natural raw materials and processes in their formulations.

The result of all this work is an increased offer of all group brands. Ushuaia launched its first range of "organic" labelled shower gels this year. L'Oréal also worked on developing Ecocert and Cosmebio labelled formulae in 2008.

The protocols for assessing the effectiveness of raw materials have also been adapted to include essential oils, to gain a better understanding of their added value for the cosmetic industry.

Sanoflore and The Body Shop

In 2008, L'Oréal created a research laboratory for organic and natural substances in its SANOFLORE facilities. The idea is for this laboratory to work on:

- optimising and assessing natural resources,
- demonstrating the effectiveness of organic products and the strength of essential oils,
- ingredient biodiversity and traceability issues.

The formulae designed by SANOFLORE also now include L'Oréal's know-how on formulation, making them more effective and galenic.

L'Oréal has also developed some products for THE BODY SHOP. They are due to be launched in 2009 (the organic range). L'Oréal and THE BODY SHOP teams also worked on harmonising their respective charters and formulation practices, particularly with regard to substances which can no longer be used for new developments (eg: long-chain parabens, triclosan, DEP).

TRADING FAIRLY

Definition and major principles

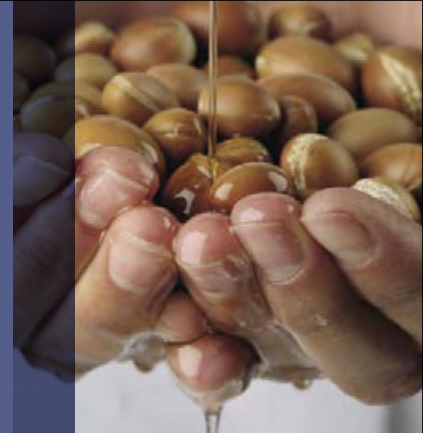
L'Oréal is working on structuring a global approach to fair trading. This takes the form of a code of conduct including observing a fair return, the consolidation of a strict traceability system over all procedures, and protecting biodiversity and encouraging local community autonomy.

This code of conduct is applied by everyone involved in-house and is submitted to our suppliers.

➤ RAW MATERIALS FROM THE COMMUNITY TRADE PROGRAMME

In 2008, L'Oréal laboratories have added five raw materials from The Body Shop's Community Trade programme to a number of new products offered by our "conventional" brands:

- Sesame oil from Nicaragua with the ECJFPS Cooperative,
- Cane sugar from Paraguay with the Montillo Cooperative,
- Olive oil from Italy with the Nuevo Cilento Cooperative,
- Cocoa butter from Ghana with the Kuapa Kokoo Cooperative,
- Soya oil from Brazil with the Capanema Farmers Cooperative. ■



suppliers, Les Laboratoires Sérobiologiques (Cognis France) and the French NGO Yamana, which has set up privileged links with local players.

A supply programme was launched in June 2008. Drafted after consulting the various parties involved, it contains several measures designed in particular to determine the level of fair return to the local population, to increase product traceability, to guarantee that no bio piracy is involved and to allow local cooperatives to become more and more economically autonomous.

A POLICY OF RESPONSIBLE FORMULATION FOR LABORATORIES

L'Oréal's product development laboratories are also committed to eco-design.

The objective is to get formulae on the market offering the same performance but which are more environmentally-friendly.

This approach forces them to re-assess formulation habits and to include the possible impact over the entire life-cycle of the product, through:

- the selection of ingredients: formulators now

have the first indicators which will allow them, over time, to estimate and compare the environmental profiles of all the raw materials and also to assess the profiles of the formulae,

- the choice of formulation and manufacturing processes: by adopting processes using less water and energy (cold manufacturing), but using micro-formulation techniques to reduce up to 10 times the amount of raw materials used for testing,
- considering how to develop more sustainable packaging.

COSMETICS AND QUALITY OF LIFE

Studies on the impact that cosmetics have on the mood and gait of older women, on the life of breast-cancer patients or anorexic adults are conducted together with clinicians (cancer and old-age specialists, psychiatrists). In 2007 the results were announced during the International IFSCC congress in Barcelona.

In 2008, a new study began in cooperation with the Garches Foundation. It covers patients with Guillain Barré syndrome.

A BIODEGRADABLE AND "CRADLE TO CRADLE" CERTIFIED PRODUCT IN THE KIEHL'S RANGE

In 2008, Kiehl's launched the first "Cradle to Cradle" certified cosmetic product. This "Aloe Vera" body cleanser is formulated using only biodegradable ingredients. Even the packaging is 100% recycled. This certification is used to distinguish products whose entire life-cycle is designed to be environmentally-friendly, particularly through the use of non-toxic and recyclable materials and a rational use of water and energy.

The profits from the sale of this product will go to the JPF Eco Systems Foundation, of which KIEHL'S is joint-founder. This Foundation supports initiatives to reduce the environmental impact of products.



➤ Demonstrating the efficacy of the ingredients used in organic/natural cosmetics is key.



*Employee training (France).
Our priority is to develop individuals,
teams and organisations that contribute
to building L'Oréal's competitive edge.*

► 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.

SOCIAL AFFAIRS

L'Oréal believes that employee fulfilment is a fundamental driver of economic performance. Opportunities generated by the group's long term solidity and growth allow L'Oréal to support the development of employees everywhere, to effectively manage changes in organisation, and to attract and keep 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 continuous improvement plans drawn up following internal opinion surveys, which are a global management tool,
- developing diversity as a fundamental driver behind the group's success worldwide,
- ensuring regular 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, 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,

- a shared belief in the importance of the beauty industry, the legitimacy of the company's innovation based strategy, and a shared passion for growing our products and brands.

A major development in L'Oréal's Human Resources policy took place in 2008 with the launch of "L'Oréal & Me", a programme that embodies the mutual commitment between the group and its employees.

08

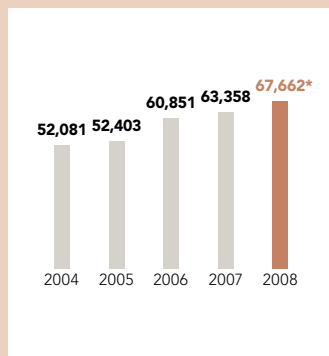
KEY ACHIEVEMENTS

- Launching the "L'Oréal & Me" programme to make our HR policies more integrated and accessible globally.
- Nearly 5,000 managers have now attended the diversity training course set up in 2006.
- Women now represent 36%* of the management committees around the world.
- Helping set up the Diversity Laboratory with CSR EUROPE, and launching "Diversity Management Tools for HR Managers".
- Following the PULSE opinion survey of 2006 and 2007 (28,000* employees), 150 taskforces were set up in 2008 to identify and implement 350 suggested improvements, drawing from suggestions across the whole company.
- Employing 492* apprentices at L'Oréal in France (4.39%* of its workforce).
- Organising for the first time the "Disability initiatives" trophies.
- 76.5%* of managers and 57.5%* of all employees received training.
- €187.5* million of profit was shared globally with employees.

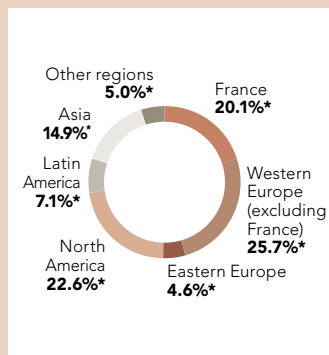
* Social data reviewed by PriceWaterhouseCoopers Audit (see page 83)

SOCIAL AFFAIRS

WORKFORCE



GEOGRAPHIC BREAKDOWN OF THE WORKFORCE IN 2008



62%*

of management committee members are non-French and 29%* work outside their native countries

WORKFORCE TRENDS AND BREAKDOWN

In 2008, L'Oréal had a workforce of 67,662* employees, including the 1,470* employees of the Galderma joint venture, the 8,435* employees of The Body Shop, and the 3,378* employees of the recently-acquired Yves Saint-Laurent Beauté. We firmly believe that difference is a source of enrichment and therefore place great emphasis on increasing the diversity of our workforce: our management teams are staffed by 108* different nationalities and 75%* of our managerial employees are of a nationality other than French.

DIVERSITY: A BASIC L'ORÉAL VALUE

Diversity is a fundamental value and a key to success at L'Oréal. We believe that having teams of a diverse international make-up at every level of the organisation and in every field leads to greater creativity and a better understanding of consumers. Diversity drives innovation and performance, enabling L'Oréal to develop products that meet consumer expectations.

Our aim is for our workforce to reflect the diversity of our consumers and job markets, notably in terms of nationality, ethnic and social origins, disabilities, gender and age. This approach is designed to make L'Oréal a company where innovation is supported by the diversity of our teams and where each individual feels valued, respected and integrated.

By encouraging respect for difference and recognising the value of diversity in our Human Resources policies, the group aims to be a good corporate citizen and a preferred employer.

In 2008, half of our 23 international brands were headed by women and three of our ten largest subsidiaries were directed by women.

A WORLDWIDE DIVERSITY NETWORK

The Global Diversity Management team set up in 2006 mobilises specialists and coordinators throughout L'Oréal. Members of the network share the goal of promoting our diversity policies and adapting them to local contexts.

DIVERSITY TRAINING

Training devoted specifically to diversity is being deployed on a fast-track schedule for our 8,000 managers in 32 European countries. By the end of 2008, nearly 5,000 managers had undergone the training which is designed to help managers recognise and overcome their personal barriers on diversity.

Meanwhile, over the past several years, many managers have received training in diversity and intercultural awareness through specific modules incorporated into more broadly-based international management seminars.

"L'ORÉAL & ME"

"L'Oréal & Me" is a new programme based on mutual commitment between the group and our workforce. Through it, the group's full range of Human Resources policies and practices—covering career development, assessment, compensation and training—is being reinforced and made more accessible to all employees around the world.

The programme supports managers in developing their teams, enhancing their loyalty and rewarding their input. It draws on the group's inherent strengths and core values, and is a positive response to expectations expressed by employees through internal opinion surveys (see page 56).

"L'Oréal & Me" was implemented in several countries in 2008, and the programme will be deployed throughout the group by 2010.

➤ **FRANCE > COMMITMENTS TO PROMOTING GENDER EQUALITY IN THE WORKPLACE**



For many years L'Oréal has pursued social policies geared to promoting gender equality and to making it easier for employees to reconcile career and family life.

In 2008, L'Oréal's management decided to formalise its commitments to gender equality in the form of a corporate agreement signed on December 4th, 2008 with all of the trade unions in France.

The agreement defines the principles of gender equality in the workplace that L'Oréal pledges to uphold. It also gives a contractual framework to the benefits and measures already in place at L'Oréal, and spells out new commitments aimed at allowing employees to better reconcile their careers with their family and personal lives, and to advance the principles of professional equality. ■

THE DIVERSITY LABORATORY, CSR EUROPE

As the first laboratory on diversity set up at the European level in 2007, this taskforce brings together multinationals and associations with the goal of formulating a European approach to diversity issues. Co-directed by L'Oréal, CSR Europe and the French association IMS-Entreprendre pour la Cité, the taskforce addresses issues such as diversity training, balancing career and private life, recruitment and internal mobility. In 2008 this taskforce yielded tangible results in the form of "Diversity Management Tools for HR Managers," which were presented in Brussels on December 4th, 2008.

The tools can be viewed at: www.csreurope.org

Such training activities have been instrumental in encouraging concrete initiatives. In Belgium, for example, employee participation led to:

- a new recruitment site for people with disabilities,
- investment in the community to help young people under the age of 25 join or return to the workforce, and
- development of self-esteem training workshops at a paediatric medical centre.

LAYING THE FOUNDATIONS FOR FUTURE DIVERSITY

L'Oréal has been active for many years in the education and professional training of young people, particularly those from disadvantaged backgrounds or neighbourhoods. The scope of activity ranges from partnerships with learning institutions and teacher-training to sponsorship of students and an apprenticeship scheme.

Partnerships with learning institutions

Partnership initiatives with schools and universities take place on every continent, including Mara University (Malaysia), the Federal University of Rio de Janeiro (Brazil), Wits University and the University of Cape Town (South Africa), the University of Tel Aviv (Israel), the Lycée Henri IV and the Institut d'études politiques (France), and the University of Louvain-La-Neuve (Belgium).

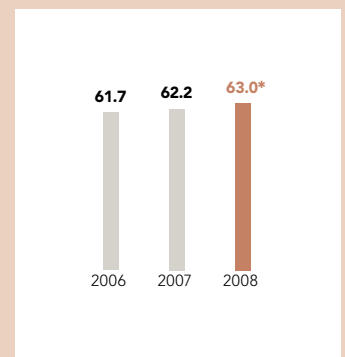
In 2008, L'Oréal helped to develop the first master's degree in equal opportunity and diversity policies at a leading French university, the Institut d'études politiques in Lille (France).

Apprenticeships

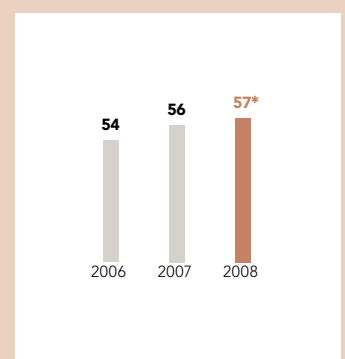
2008 marked the fifteenth year of L'Oréal's commitment to apprenticeships. Since 1993, 2,795 young people enrolled in work-study or "sandwich" training programmes have been sponsored by L'Oréal and supervised by more than 2,000 mentors.



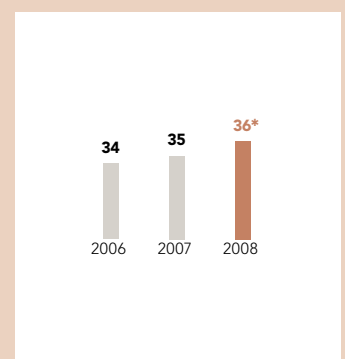
% WOMEN



% FEMALE MANAGERS



% FEMALE MANAGEMENT COMMITTEES MEMBERS



SOCIAL AFFAIRS

DISABILITY AND DIVERSITY INITIATIVES



► L'Oréal Taiwan

Since 1997, L'Oréal Taiwan Wu Ku Distribution Centre has been working in close cooperation with the Chung-Hwa Foundation, an association helping minority groups, in particular those with learning disabilities. The aim of this co-operation is to enable the students, through training and development programmes, to grow in self-confidence, enrich their lives and improve their capacity to secure gainful employment. Currently, there are 28 disabled students training and working in the distribution centre and another 70 disabled students are being trained to work in factories.



► Beijing Paralympic Games

For the first time, L'ORÉAL PARIS was a sponsor of the French team who took part in the Paralympic Games held in Beijing (China) in 2008. Through this partnership, L'ORÉAL PARIS, with the support of L'Oréal China, the Asia zone and the Consumer Products Division, pledged to finance the athletes' preparation for the Games and their participation in the events in Beijing.

NEW

EXPLORE THE FORMULA
ON PLANET L'ORÉAL



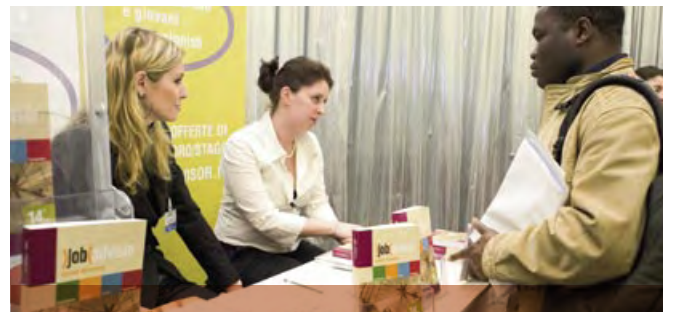
L'ORÉAL USA
DIVERSITY +
INCLUSION

► United States—Diversity + Inclusion = Innovation & Success™

In September 2008, a Diversity & Inclusion minisite was unveiled on Planet L'Oréal, the internal L'Oréal USA website.

This communicates L'Oréal USA's philosophy, vision and approach to diversity management. With a single click, employees can browse through multiple diversity initiatives.

The site enables employees to share ideas and new initiatives such as supplier diversity, commitments in diverse communities and best practices. Ultimately, the site demonstrates the L'Oréal USA commitment to innovation through the diversity of thought and inclusion of different perspectives.



► Diversity programme of L'Oréal Italy

In 2008, L'Oréal Italy engaged in positive diversity actions both externally and internally.

1. The first "Diversity Career" fair ("Diversità al lavoro"), organised by L'Oréal Italy, Sodalitas, UNAR (Government Anti-Racial Discrimination Office) and the national economic newspaper Il Sole 24 ore, took place at the newspaper's headquarters in Milan. Eighteen companies and 350 candidates, foreigners and disabled people, participated in the event. As a result, 20 people have been or are in the process of being hired by L'Oréal. The next "Diversità al lavoro" fair takes place in April 2009 at L'Oréal's office in Milan.

2. L'Oréal Italy took part in the "Laboratory on multiculturalism", set up by Sodalitas, UNAR, and other companies. The objective is to compile a guide of best practices and policies on diversity. The guide is due to be released in June 2009.

3. 264 managers were trained in diversity and L'Oréal Italy launched its internal Diversity programme focusing on specific issues relevant to the subsidiary and to the country. In 2009, each division will focus on one of these issues with a specific action plan.



“Every time we employ someone with a disability, we create an opportunity to share our common values—those on which L’Oréal is built: being an active member of the community, attentive to needs, and appreciative of differences.”

GEOFF SKINGSLEY,
Executive Vice-President Human Resources.



L’ORÉAL GERMANY ● ● ●

The Partnership Prize awarded to L’Oréal Germany as part of the L’Oréal Disability Initiatives was made in recognition of the strength of its partnership since 1999 with two specialist companies operating in the local job market. By entrusting the HWKa and BZKa companies with operations such as management of customer returns, order-picking and invoicing, L’Oréal Germany has provided stable employment and career development opportunities for 31 people with disabilities.

In 2008, 492* apprentices worked for units of our group in France, representing 4.3%* of the workforce—well above the legally-mandated quotas.

Partnerships with associations

L’Oréal has also set up numerous partnerships with organisations that combat discrimination to extend our reach to candidates who feel excluded from applying for jobs with major corporations:

- in the United States, L’Oréal participates in job fairs dedicated to minority groups, such as the annual Conference and Career Expo held by the National Society of Hispanic MBAs (NSHMBA) and the Annual National Black MBA Conference and Exposition;
- since 2004 in France, L’Oréal has taken part in recruitment forums reserved for disadvantaged candidates to give them an opportunity to secure an initial job interview.

2008: THE YEAR OF DISABILITY INITIATIVES

L’Oréal is committed to the employment and professional development of people with disabilities. To drive progress in this area, we designated 2008 as “the year of Disability Initiatives” at L’Oréal, making it a top corporate priority.

“Disability Initiatives” trophies

The first awards ceremony for L’Oréal’s “Disability Initiatives” was held in October 2008, attended by several partner organisations in France (AGEFIPH, ARPEJH, L’Officiel du Handicap etc.) Four sites / divisions received trophies in recognition of their initiatives in key areas: recruitment and retention in the job, partnerships with government-sponsored organisations for employment of the disabled, disability-awareness initiatives, and accessibility of premises and information.

Selected by a jury of independent officials and L’Oréal employees, the winners were the Active Cosmetics production plant (France), the Sicôs plant (France), the Luxury Products International Division and L’Oréal Germany.

FRANCE > PULSE AT THE RESEARCH & DEVELOPMENT DIVISION ● ● ●

After the PULSE results were published in France, the R&D Division formed five taskforces dedicated to themes highlighted by the survey, such as career development, training, and the circulation of information. The mission of these taskforces was to develop proposals to drive tangible, effective initiatives. In all, some 400 employees were involved in the process, generating a work programme revolving around 20 specific actions including:

- projects aimed at creating a panorama of professions in the Research organisation,
- a “Mobility Passport”,
- a “Guide of good practices for staff integration”,
- a feasibility study on a knowledge management tool,
- the development of cross-disciplinary working and organisational methods, and
- the upgrading of tools for information sharing.

A dedicated intranet site, “PULSE on the move,” was created to keep employees informed and involved in the various projects underway. In addition, monthly theme breakfasts are now held at Research locations in and around Paris to discuss topics raised in the PULSE survey.



“ It was truly a pleasure to serve as the leader of one of the PULSE groups, thanks to the quality of dialogue and the mutual respect shown by employees throughout this participatory and modern process. ”

IVAN RODRIGUEZ,
Director, Make-up Chemicals Department in
Advanced Research for Materials Sciences.

MEETING EMPLOYEE EXPECTATIONS



During 2006 and 2007 PULSE, our internal opinion survey, polled 28,000* employees in 28* countries on employee commitment and well-being as well as L'Oréal's image as an employer.

The results led to the creation of 150 taskforces headed by the 60 PULSE coordinators of subsidiaries around the world. These taskforces came up with numerous ideas, 350 of which were selected and implemented. These concerned three main aspects of the company: organisation, methods, and people development.

In France, 32 PULSE managers were named to head 90 taskforces. 228 actions were validated by management to meet employee expectations. To improve time management, formal procedures were written for running meetings effectively and training was given on the proper use of e-mail. A car-sharing system known as CARBOX was put in place at the Saint-Ouen location, based on the bike-sharing concept now gaining popularity in cities in France and elsewhere.

The two-year integration programme for all employees known as FIT (Fast Integration Track) was reinforced for those individuals taking on new responsibilities.

At the international level, 100 good practices were identified and shared in the 28 countries that conducted a PULSE survey. Asia, which pioneered the use of internal employee satisfaction surveys, also inspired some innovative initiatives, such as an individual "Training Passport" and corporate concierge services. Latin America kept the spotlight on the people aspect, for example with measures to recognise the value of the experience of older people. In the United States, the indicators delivered by PULSE were built into the corporate vision communicated by the CEO.

The PULSE survey will be repeated in 2011 in a large number of countries.



► L'Oréal ESTRAT business game: third prize (MBA category) winning teams, Moreal from INSEAD, Fontainebleau (France) and AstaLaVista from Institut Teknologi, Bandung (Indonesia).

Ready to engineer a sustainable future?



www.ingenius.loreal.com

► INGENIUS

Ingenius is our international competition for students of engineering and logistics. The latest version put the spotlight on sustainable development: students worked on the energy efficiency of a L'Oréal plant in their country. More than 600 students from four continents and 11 countries registered for the contest. They spent three days in a local plant to carry out a detailed assessment. The winner was a team from the University of Sherbrooke (Canada), who won the contest with an innovative, multi-faceted and responsible industrial project. ■

RECRUITING THE MANAGERS OF TOMORROW

In the midst of the current worldwide economic turmoil, L'Oréal continues to identify, attract and develop employees to fulfil our mission: creating tomorrow's beauty.

GROWING FROM WITHIN

Graduate recruitment is one of the most important strategic priorities for L'Oréal, which is why the group maintains strong ties with universities around the world. L'Oréal is widely known for our ability to produce managers from within and develop them, offering recent graduates positions of considerable responsibility early in their careers.

The group challenges them so that they never lose the desire to give the best of themselves in new markets and new areas.

GENERATION Y

Over the past two years, a new generation of so-called Gen Yers or Millennials has emerged in the workplace. These young people have been brought up in the Internet age and have broad horizons—many having spent part of their university careers in several different countries. They have a natural affinity with an international company such as L'Oréal and are completely at ease working with colleagues of 108 different nationalities with many different talents, backgrounds and interests.

L'Oréal nurtures such talent, offering individuals exciting and rewarding career paths. High-flying employees have personalised integration and training programmes that quickly familiarise them with the beauty industry, expose them to the L'Oréal culture, enable them to acquire professional expertise, and teach them to become managers.

DEVELOPING CAREERS

L'Oréal is committed to offering all employees professional opportunities appropriate to their personal circumstances throughout their careers.

L'Oréal's Talent Development tool for appraising and developing managerial staff is fair and equitable and implemented globally according to a set of standard principles and criteria. It is based on two annual reviews which identify areas for personal development as well as assessing performance and pay.

Geographic and career mobility are very important at L'Oréal, and are key to reinforcing our diversity policy. At the end of 2008, 649* employees from 46* countries were expatriates holding positions in 56* different countries. 28%* of them were women and 10%* were under the age of 30. In addition, we put in place an International Mobility policy ("Explorer") in October 2008, specially designed for young managers, to facilitate the development of their international careers.

In 2008, L'Oréal launched a project in France concerning manufacturing and logistics job classification, to facilitate the professional development of our employees in factories and distribution centres.

To promote internal mobility among non-managerial staff in the two countries where the group has the largest presence—France and the United States—L'Oréal uses COOL (Careers and Opportunities On Line), an internal website offering a data base of job offerings. In a fully transparent manner, this tool allows employees to find out about job opportunities in their own countries. In France, of the 346 vacant positions posted online in 2008, 129 were filled via COOL.

LEARNING FOR DEVELOPMENT

In 2008, 76.5%* of managers and 57.5%* of all employees received training. Training represented the equivalent of 2.6%* of our gross payroll costs, excluding costs related to informal learning activities.

Our priority is to develop individuals, teams and organisations that contribute to building L'Oréal's competitive edge. The role of the Learning For Development (LFD) Department is to develop staff from the day they begin working at L'Oréal and at each stage of their careers.

The LFD Department revolves around five Management Development Centres in New York, Paris, Rio de Janeiro, Shanghai and most recently in Dubai, where the new centre opened in 2008.

MANAGEMENT AND PERSONAL DEVELOPMENT

Training programmes are available to managers at each stage in their career. Our "Transition To" programmes support managers each time they take on new responsibilities and have become the backbone of managerial development. In 2008, 786 people participated in the "Transition to Team Management" programme; 182 managers took the "Transition to Advanced Management" course and 46 attended "Transition to General Management" training. In 2008, 13 managers took part in another programme, "Transition to Country Management".

L'Oréal's "Senior Executive Programme" is a response to the needs of the group's 200 top managers around the world. It consists of leadership training activities, coaching, development of senior management teams, and innovative seminar and training formats. The Global Learning Alliance, a long-term partnership, brought senior managers of L'Oréal together with those of four other multinationals for a two-week programme conducted in the United States.

SOCIAL AFFAIRS

649*

employees from 46* countries were expatriates holding positions in 56* different countries

7,976*

managers took part in at least one seminar on management and personal development in 2008

STIMULATING INNOVATION AND CREATIVITY

Innovation and creativity are vital to our business. That is why L'Oréal has developed a complete training path for people in the Research and Marketing Department:

Osmose

The Osmose training programme was designed to heighten the scientific awareness of marketing development teams (osmosis) as well as the market and consumer focus of R&D teams (reverse osmosis) with the aim of "flu-idifying" the innovation process.

"360° Launch Excellence"

This "learning in action" seminar is where training meets business. Its aim is to stimulate the creativity of the operational marketing mix. This worldwide programme mobilises an entire

local marketing team to generate new ideas for innovative launch strategies. After Brazil and Europe in 2007, China and the United States introduced this seminar in 2008, to be followed by India and other countries in 2009.

Building expertise in LFD

2008 marked the launch of the LFD PRO project, aimed at developing expertise in all units of the group and ensuring that all LFD teams share a common vision. The LFD PRO intranet site provides our entire training community with the tools they need to carry out their activities. In 2008, a new tool was created to evaluate training activities in each country. There are currently more than 140 training specialists working at L'Oréal.



➤ 360° Launch Excellence, India.

► L'ORÉAL OPENS LEARNING FOR DEVELOPMENT AFRICA ORIENT PACIFIC

To keep up with the group's steady growth in global markets, Learning For Development has established its fifth zone training structure in Dubai. The new LFD Asia Orient Pacific structure will oversee coordination and development of a region specific training offer.

The aim of the new structure is to help the countries in this zone develop their own high-calibre training tailored to the specific needs of these potentially high-growth markets. This new structure will promote the sharing of experiences and ideas among managers from different countries within the zone. ■

A MOTIVATING COMPENSATION AND BENEFITS POLICY

At L'Oréal, remuneration policy reflects employee contributions to the company's development and is geared toward attracting and retaining talented individuals. While broadly applied to all group employees, it does vary according to the job and level of responsibility. All units have a remuneration policy based on a standard assessment system applied worldwide which recognizes individual performance. The career advancement and salary of each employee is managed on an individual basis.

The compensation package is determined by the position, the performance and the potential of each individual. Almost all subsidiaries take part in an annual survey of compensation. In most countries, L'Oréal's minimum salary levels are significantly higher than legal minimum wage requirements (at the national or regional level or as determined by collective bargaining agreements). In Mexico, for example, the minimum salary paid by L'Oréal is 27%* higher than the national minimum wage. In Japan, the difference is 36%*, in Lebanon 30%* and in Poland 42%*.

PROFIT SHARING

It is L'Oréal's policy to give all employees a stake in the results they have helped to achieve. A collective annual bonus is in place in each country to reward the performance of each subsidiary, strengthen employees' sense of belonging and boost their motivation.

An employee profit-sharing plan has been in place in France since 1988. A Worldwide Profit Sharing (WPS) programme was implemented in the rest of the world in 2001. Profit-sharing paid out in 2008 amounted to €187.5* million.

BENEFIT PROGRAMMES TO PROTECT EMPLOYEES AND THEIR FAMILIES

L'Oréal offers employee benefits to protect employees and their families*, defined according to local practices and local regulations. They aim to supplement local social security and mandatory programmes where necessary, and 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 2008, the total cost of pension programmes was €395* million.

L'Oréal has an International Benefits Steering committee to ensure coverage is offered consistently to all our employees. It has drafted a charter for a safe and long-lasting investment of the assets allocated to pension programmes, which must be applied by all subsidiaries.

In 2008, we continued to review our pension programmes around the world with new programmes implemented in countries including the Philippines and Norway*.

Pensions above basic social security requirements have now been implemented by 77%* of L'Oréal entities around the world. Company pensions have not been implemented in countries having reasonable benefits provided by the local social security system or in those lacking a regulatory framework or adequate long-term investment vehicles. We continue to monitor local developments to implement supplemental retirement arrangements when the environment becomes suitable.

FOSTERING LABOUR RELATIONS AND SOCIAL DIALOGUE

Labour relations at L'Oréal are based on mutual trust and respect. They are underpinned by open, participatory and ongoing dialogue between employees, their representatives and management.

In France, there are 105* bodies in place with 629* employee representatives. They cover 1,236* representative mandates, including works councils and committees, workers' representatives, union representatives, occupational health and safety committees, the group committee (France, including The Body Shop) and informal meetings for social dialogue known by the French acronym, RIEDS. In France, L'Oréal has signed 34* internal agreements⁽¹⁾.

In the rest of the world, the group has 408* employee representatives in 27* countries, where L'Oréal signed 44* internal agreements in 2008⁽¹⁾.

Compensation and working conditions were the main topics discussed.

SOCIAL DIALOGUE AT THE EUROPEAN LEVEL

In 1996, L'Oréal's Management and the French and European trade unions (FECCIA and EMCEF) signed an agreement leading to the establishment of the group's European Works Council: Instance européenne de dialogue social (IEDS).

The agreement has been systematically renewed since its inception. The purpose of IEDS is to inform and discuss the group's current situation and its future prospects with staff representatives. IEDS has 30* members from various European countries who receive regular training on economic and labour-related issues.

In 2008, IEDS covered 23* countries and more than 24,600* employees.

(1) If the same agreement is signed by several different sites or legal entities in a given country, it is considered as a single agreement.



L'Oréal buyer with our supplier Tupack (Austria) who has supplied us worldwide with high quality plastic tubes for the last 21 years.

► 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.

SUPPLIER RELATIONS

OUR L'ORÉAL BUY & CARE PROGRAMME

L'Oréal is proud of our close, long-term relationships with suppliers, based on a fundamental respect for their business and their culture; 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.

This year, after a large consultation exercise we redesigned the structure of our purchasing organisation to enhance its depth, coherence and expertise globally. We consolidated our seven purchasing teams into four expert teams, covering Europe, South America, Asia and North America, with one global governance system for long-term vision and commitment. Our buyers have worked to improve relationships with suppliers by reducing boundaries, working towards common goals, sharing growth, and integrating the concepts of innovation and sustainability at every stage. In 2008 we created two specific teams for partnerships and sustainable innovation and developed new communication channels.

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 42 factories and 63 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.

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, EH&S (Environment, Health & Safety), 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.

2009 TARGETS

- *Conduct our business reviews with more emphasis on innovation and environmental footprint to provide competitiveness to our brands.*
- *Issue all our buyers with an update of our L'Oréal Purchasing Code of Ethics: "The Way We Buy" in September 2009.*

08

KEY ACHIEVEMENTS


- Introducing a supplier section on the www.loreal.com website to share values, requirements, commitments and developing new on line tools to share more information and facilitate data collection.
- Creating two dedicated purchasing teams for monitoring partnerships and sustainable innovation.
- Continuous work of consistency and improvements reported through two annual business reviews by key suppliers (CSR key performance indicators and reduction of environmental footprint actions).
- Carrying out 688 independent audits on labour standards at our suppliers, subcontractors and traders' production sites.
- Involving 29.5% of our supply base (by revenue) in the Carbon Disclosure Project's Supply Chain Leadership Collaboration survey to encourage supplier disclosure on carbon emissions.
- Supporting CSR Europe's new Responsible Supply Chain Portal, a web-based learning tool to disseminate best practice amongst suppliers and buyers.
- Contributing to public guidance documents by Traidcraft and IMS- Entreprendre pour la Cité on labour standards and supplier diversity.
- Holding capacity building meetings on remediation with traders.
- 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.

“ We are a leading company in the luxury folding boxes and stickers industry. There is no doubt that, since the very beginning in 1964, our relationship with L’Oréal has allowed us to join forces and build a relationship upon strong values, especially the respect for the environment as part of our shared vision. Our main objectives are to follow the evolution and to control the quantities of generated waste, to commit to continuous improvement and pollution prevention, to prevent incidents and reduce environmental impacts (raw materials, air emissions) and to reduce our consumption of water and energy...”


GÉRARD AUTAJON,
CEO of Autajon group.

Together for:


RISK MANAGEMENT



Social responsibility

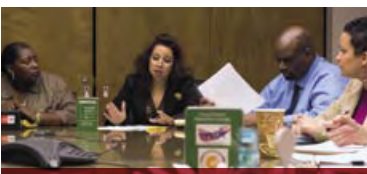


Environmental footprint




Fair trade and Community Trade

VALUE CREATION



Community diversity



Environmental innovation

SHARING OUR VALUES WITH OUR SUPPLIERS

94% of our finished products are manufactured by our own factories; nevertheless our suppliers are part of our ecosystem and we ask them to share and cascade our values down their own supply chain.

During the L’Oréal annual business reviews, suppliers shared their progress in monitoring risk and creating value via sustainability.

L’Oréal is committed to holding forums for suppliers. In April 2008, L’Oréal organised two meetings on sustainable performance: one in Europe “Together for Line Performance”, and one in the United States “Together for Speed to Market”. Around 70 key suppliers took part in day-long meeting and exchanged best practice.

In June 2008, L’Oréal introduced a dedicated section to our website for existing and prospective suppliers, detailing our values and policies. The area was created to help build an understanding of what L’Oréal looks for and expects from its suppliers. It also explains the different roles of the L’Oréal departments and how they interact with each other. This informs potential suppliers about who they need to contact and what will be required of them. We explain our requirements for business integrity, innovation and sustainable development, and our commitment to responsible sourcing and how that manifests itself in practice. This section was designed after formal consultation of 200 key suppliers.

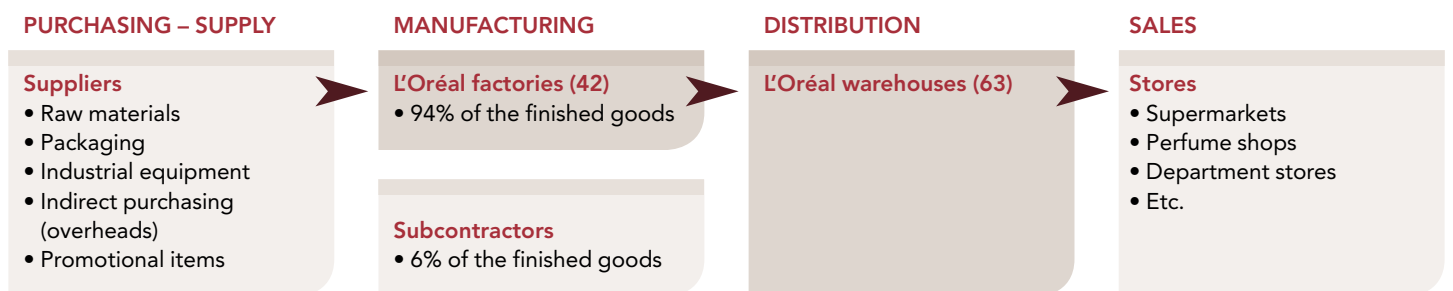
2009 TARGETS

- Encourage best practice sharing, introduce a collaborative platform for our key suppliers via the www.loreal.com site. Key suppliers will be able to access our latest news, key performance indicators and will be able to share information.
- Plan to hold a series of workshops with each of our top 10 suppliers focused on sustainable development and innovation. We hope that specific sustainability projects will result from these workshops, including local community projects where we operate in the same locality. We held the first of these series with Alcan in early 2009, and are working together on reducing packaging, sharing labour standard audit results and a community project in China.

BUSINESS INTEGRITY

L’Oréal’s “Purchasing Code of Ethics”
The Purchasing Department integrates L’Oréal’s fundamental values into 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 was written and will be disseminated to our buyers in 2009.

L’ORÉAL SUPPLY CHAIN



■ L’Oréal external ■ L’Oréal internal

► HIGHLIGHTS OF AUTAJON GROUP ENVIRONMENTAL COMMITMENT

Important operational projects are arising from our group policy: recycling, reducing our energy consumption, using green electricity and reducing the use of volatile solvents. The 2009 carbon survey will quantitatively testify to the progress made in sustainable development: responsible purchases by reducing the risky chemical components and by eliminating toxic products; eco-conception by the FSC certification and integration of vegetable materials or biodegradable. ISO 14001, FSC certification or social audits are among the milestones that structured and strengthened our relationship over our common development, today our environmental policy is the driving force behind innovation, and it is definitely a strong point shared with L'Oréal. ■

We assess our suppliers against five criteria:



Social responsibility



Innovation



Quality



Logistics



Competitiveness

UPHOLDING ENVIRONMENTAL STANDARDS AMONG OUR SUPPLIERS

IMPLEMENTING OUR ENVIRONMENTAL PROGRAMME WITH OUR SUPPLIERS

The partnership with the Carbon Disclosure Project (CDP) encourages disclosure on carbon emissions by suppliers.

In October 2007 L'Oréal joined the CDP's Supply Chain Leadership Collaboration project to encourage suppliers to measure and manage their carbon emissions. The SCLC sent the CDP questionnaire to our 40 main suppliers, with an additional section focusing specifically on the supply chain.

Suppliers representing 29.5% of our spend responded, and the results can be seen opposite.

Other achievements in 2008 included:

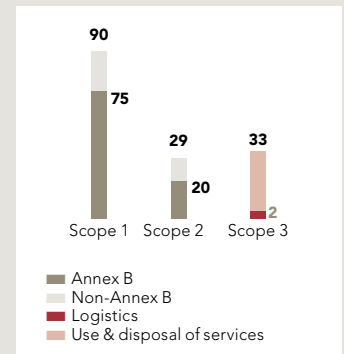
- we integrated energy consumption as a criterion in our request for quotation form for industrial equipment;
- we supported suppliers in achieving FSC certification, packaging and energy reduction;
- we encouraged and co-developed environmental innovation by suppliers.

2009 TARGETS

- Follow up with our largest 40 direct suppliers and invite key suppliers from Asia and South America to participate in the Carbon Disclosure Project's Supply Chain Leadership Collaboration initiative.
- Support suppliers in achieving FSC certification, packaging and energy reduction.
- Encourage and co-develop environmental innovation by suppliers.

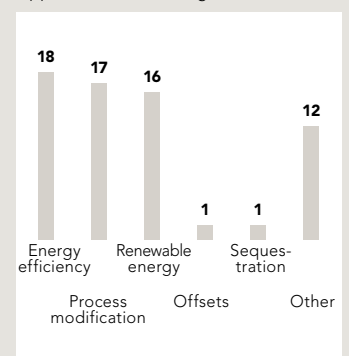
REPORTED EMISSIONS⁽¹⁾

(emissions by scope Mt/CO₂, in %)



EMISSIONS REDUCTION TARGETS AND PLANS⁽¹⁾

(approaches to reducing GHG emissions)



62%

of L'Oréal's respondents have developed emissions reduction targets

77%

of L'Oréal's respondents have a GHG emissions reduction plan in place

(1) Results of our 2008 CDP Survey of suppliers on their carbon emissions.



The Portal for Responsible Supply Chain Management is an important outcome of the work of the European Alliance for Corporate Social Responsibility. By integrating social and environmental issues into their buyer requirements, enterprises can better manage risks, create stronger relationships with suppliers, and encourage innovative solutions to sustainability challenges. Responsible supply chain management also plays an important role in the worldwide promotion of decent work and improved labour standards.



GÜNTER VERHEUGEN,
Vice-President of the European Commission responsible for Enterprise and Industry, and
VLADIMIR SPIDLA,
European Commissioner for Employment, Social Affairs & Equal Opportunities.



► L'Oréal Supplier Convention with our equipment suppliers for sustainable business.

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 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. All high-risk suppliers undergo third party audits on labour standards before we start working with them.

THE CHALLENGE WE FACE

The new four sourcing centres will help us to monitor in difficult time, our buyers listen to suppliers needs and provide support across more various demands; our buyers manage swing and increases of the cost drivers and promote various CSR implementations. We modernise our way to exchange with our suppliers to ensure the one voice L'Oréal with a very important project HAPY:

- Harmonize: work on business,
- Accelerate: being close to our purchasers,
- Purchasing: one project for the global purchasing community,
- efficienCY: build solutions to enhance purchasing efficiency, guarantee integrity, and collaborative work with our suppliers.

WORKING 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, and 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 since 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.).

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 66 and 67). 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.



► THE RESPONSIBLE SUPPLY CHAIN PORTAL

The Responsible Supply Chain Portal is the result of the Laboratory for Responsible Supply Chain Management, led by HP, Titan, Volkswagen and L'Oréal, with facilitation from CSR Europe, the Business Social Compliance Initiative and the Hellenic Network for CSR. The Laboratory aims to raise awareness and build capabilities of suppliers, buyers and other practitioners to enhance their ownership and capabilities in the area of sustainability, both within their company and among their suppliers. ■



► L'Oréal Aulnay-sous-Bois campus director drives the site's sourcing from SMEs for catering, cleaning and security. L'Oréal France uses the service of le Clos du Nid, a company set in 1967 to help the mentally and physically disabled to be reintegrated into professional life. 290 disabled staff are working with us in cooking or cleaning services.

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 over 7,000 suppliers, who signed it, thus committing themselves to respecting our standards and accepting the principle of independent audits.

2. Third party audits

Audits are based on the principles set out by the SA 8000 standard, and carried out by a specialised third-party in the local language. Audits cover mainly labour standards, but also basic environmental standards. The initial audit

is paid for by L'Oréal, and the resulting report is sent to the supplier in the same format and at the same time. Audits are carried out unannounced during a pre-arranged period of 30 days, and include a visit to the factory, workshops, offices, places of residence and gathering, a documentary journal, and individual interviews with employees. All subcontractors are audited wherever they operate, as well as all suppliers of packaging and raw materials in countries we have identified as "at risk": a list we have drawn up with the help of Intertek and SGS. Results of the 688 audits carried out this year can be found on page 67.

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

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

pages 66 and 67. 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.

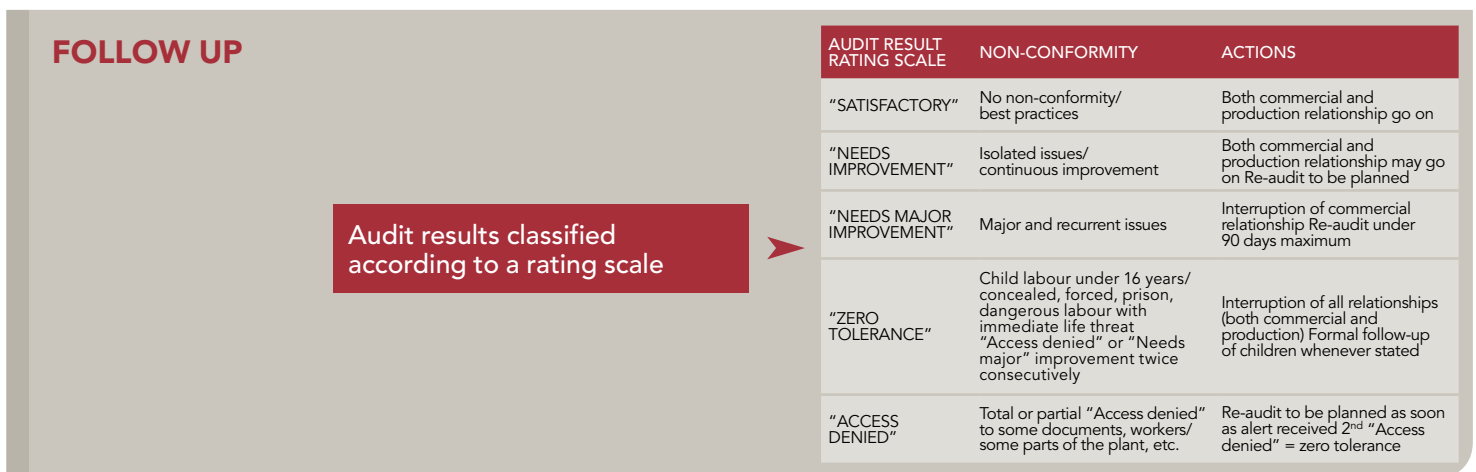
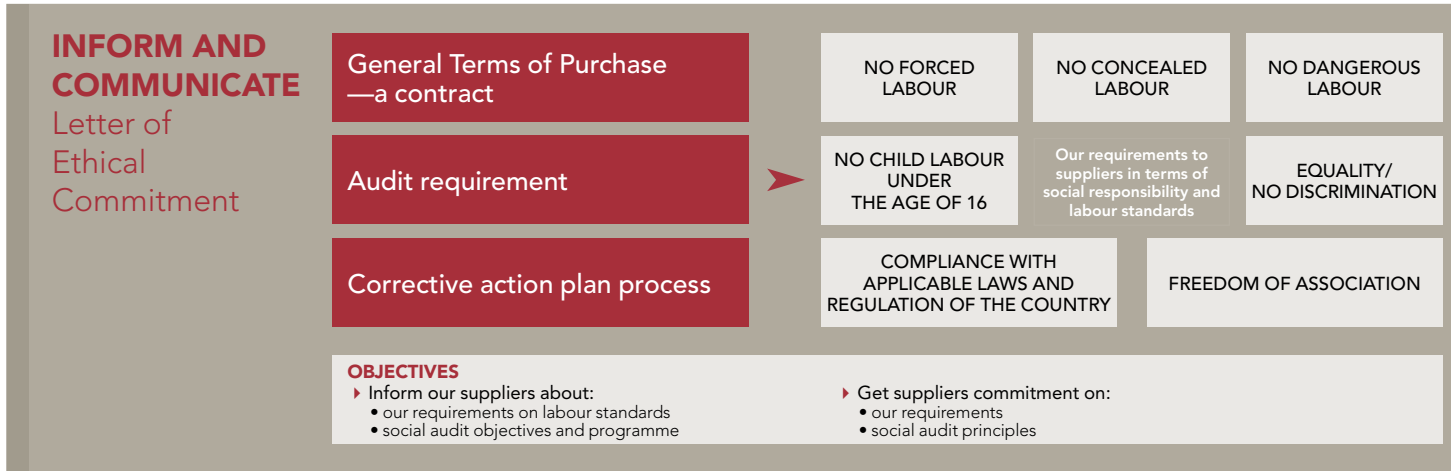
VIEWPOINT: FIONA GOOCH, TRAIDCRAFT ● ● ●

"Traidcraft, as a part of the Responsible Purchasing Initiative appreciates L'Oréal's efforts to integrate social and environmental considerations into purchasing team. Traidcraft has not visited any of L'Oréal's suppliers but based on our experience of meeting with suppliers and workers groups we are able to make the following comments about L'Oréal's methodology. It is essential that the approach to improving working conditions at suppliers' sites of production is done in such a way that suppliers, as the employers of workers, take ownership for making improvements at their sites and that their actions are recognised by the purchasing team within L'Oréal. Improving conditions is a joint responsibility so it is good to see that the owner of each supplier is asked to sign a letter committing to good working conditions, and that L'Oréal pays for the first audit, in recognition of their interest in better conditions. As a leading company we look forward to hearing about how L'Oréal's purchasers will be encouraged to buy from sites with good conditions."

FIONA GOOCH,
Private Sector Policy Adviser.

IMPLEMENTING OUR LABOUR STANDARDS

THE PLATFORM WE HAVE BUILT



PROGRAMME WITH OUR SUPPLIERS

PROGRESS IN 2008

Implementing our social responsibility programme with our suppliers.

- ▶ Continuing our audits, corrective action plans, and capacity building meetings. 688 independent audits were carried out.
- ▶ Due to the profusion of Code of Conducts on labour standards available on the market, we decided to stop working on a new one. Instead we plan to increase awareness of existing initiatives so each stakeholder can develop its ownership. We will focus our efforts on educational and training programmes.
- ▶ 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.
- ▶ We worked with CSR Europe and BSCI to create a European Portal on Responsible Supply Chain Management, to give suppliers access to key international standards and principles, training materials and background information.

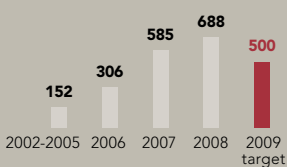
AMBITIONS FOR 2009

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 2009:

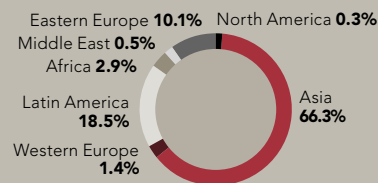
- ▶ Continue to develop the L'Oréal Buy and Care programme.
- ▶ Release "The Way We Buy", the new *Code of Purchasing Ethics*.
- ▶ Hold further capacity building meetings on EH&S & labour standards.
- ▶ Carry out 500 supplier audits globally. Our aim is to have audited the vast majority of our suppliers by the end of 2009.
- ▶ Continue our work on supplier diversity with Equity Lab, IMS Entreprendre Pour la Cité and other companies.

In 2008, we comfortably exceeded our aim of carrying out 500 audits: 688 audits were carried out globally:

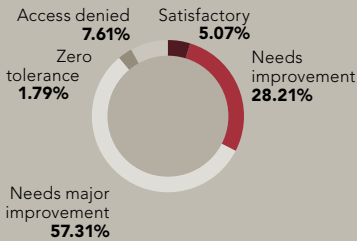
NUMBER OF AUDITS CARRIED OUT



DISTRIBUTION OF AUDITS BY GEOGRAPHICAL AREA



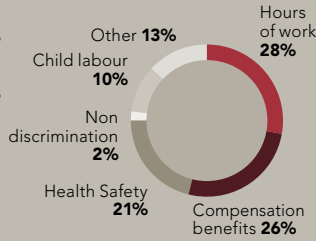
2008 AUDITS RESULT



AUDITS RESULTS BY CATEGORY



MAIN NON-CONFORMITIES



Auditing will continue in 2009 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 2009.

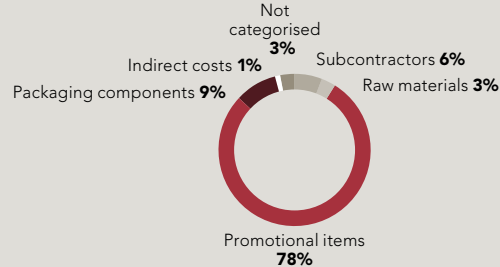
- ▶ Continue work with stakeholders such as Traidcraft and fellow companies on best practice in supply chain initiatives.
- ▶ Experienced gained from the 1 731 audits carried out since 2002 lead us to continue our work to ask for root causes analysis of non-compliance and for improvements specifically on the one shot business.
- ▶ 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 2008 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



*Consumer Advisory Department,
Sandton (South Africa).*

► L'ORÉAL'S COMMITMENT

To provide innovative products, excellent benefits, service and advice to our consumers, and to market our products responsibly.

CONSUMER RELATIONS

Consumers are L'Oréal's ultimate stakeholder. It is consumers' need and desire for L'Oréal cosmetics, fragrances and hair care products that makes for a successful company. Treating consumers with respect and responsibility is deeply ingrained in the way L'Oréal does business.

L'Oréal sells more than 4.6 billion individual products each year—each and every purchase is the result of a free choice by a consumer or by a professional using our products (beauty salons). This is certainly a source of pride but even more a call for responsibility. We have to do our best in order to deserve the consumers' confidence. This is why we are committed to satisfying and empowering the consumer further.

During 2008 we formalised our long-standing and strong consumer policies and commitments into a comprehensive *Corporate Consumer Responsibility vision*. This vision outlines our commitments to consumers in the following seven key areas:

INNOVATIVE PRODUCTS AND CONTINUOUS IMPROVEMENTS IN PRODUCT EFFICACY

L'Oréal has always based its development on cutting edge research. Today we consider innovation to be a primary driver of customer satisfaction.

L'Oréal is determined to make sure that consumers are completely satisfied with our products. This means first and foremost that products must fulfil their purpose. Consumers do not continue to buy products that let them down or fail to meet their needs. We assess the efficacy of every product, and we are committed to launch those that bring a real result that is perceptible by the consumer.

The extensive L'Oréal Marketing and R&D Departments are designed not only to develop new and better products, but to improve every product on a continuing basis. Thorough testing before launch is complemented by continued monitoring against a background of evolving marketing and scientific understanding.

PRODUCT SAFETY

L'Oréal's priority is to ensure that the use of our products pose no threat to human health. To this end we:

- evaluate the safety of our products before their launch, according to the strictest regulations applicable and on the same universal basis, no matter in which country the product is sold,
 - during safety evaluations, take into account the most recent scientific studies available,
 - continuously monitor the safety of products on the market through our outstanding "Post-Marketing Surveillance" network,
 - actively engage with trade bodies, governments and NGOs, share scientific research and continually improve the information available to consumers,
 - where the weight of scientific evidence casts doubt on the safety of an ingredient, exercise the precautionary principle and phase out the ingredient in question (see pages 43 to 45).
- Our Post-Marketing Surveillance network monitors the undesirable effects consumers might experience with the use of a product. This tool represents a very effective way of rapidly detecting even slight signs of intolerance to

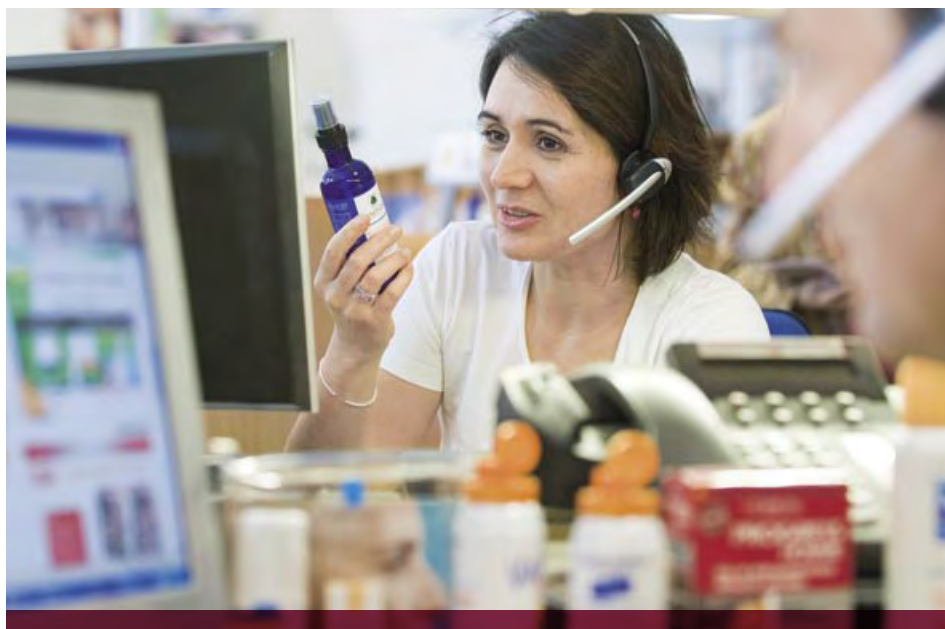
08

KEY ACHIEVEMENTS

- We formalised our Corporate Consumer Responsibility vision.
- We handled worldwide in excess of 1.3 million post-sale consumer contacts.
- 71% of these contacts were by telephone, 23% by email and 5% by letter, 1% by online chat, SMS or personal visit.
- North America, United States and Canada combined, account for 46% of our total contacts.
- Around 70% of all contacts relate to enquiries or advice, 28% to a complaint and 2% to compliments.
- Around 3% of the enquiries we received in 2008 were related to sustainability issues such as ingredients and animal testing.
- The GARNIER and L'ORÉAL PROFESSIONAL brands pioneered a move towards using eco-friendly constituents such as FSC and recycled content in their point of sales and marketing materials.

“ In today’s difficult economic climate, it is important that we listen and respond to our consumers in order that we deliver the service and advice they have come to expect from L’Oréal. My mission is to ensure that the consumer is at the heart of everything we do and that we continue to provide transparent and accurate advice.”

MARIA JONES,
Director of International Consumer Affairs.



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

RESPONSIBLE ADVERTISING

L’Oréal is committed to advertising responsibly. Our *Code of Business Ethics* commits us to the following:

- 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 are 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 violence, pornography or encouraging offensive behaviour or hatred toward others. Such strategies are contrary to L’Oréal’s 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.

Further guidance is given to employees in the Code using examples of potential issues, such as using overly thin models or making exaggerated claims for product performance. The *Code of Business Ethics* is available at www.loreal.com.

our products, allowing us to immediately take the required corrective measures whenever necessary.

SUSTAINABLE MARKETING

There is an increasing demand among mainstream consumers for their regular brands to come with environmental and social responsibility “built in”. As a result, L’Oréal strives to integrate sustainable values into the DNA of its brands. This process is already happening within our R&D and Packaging Departments (see pages 34 and 35, and 45 to 49), and it will progressively become a more important element in the way that our marketing teams work.

To this end, we are committed to:

- carry out regular and detailed research into what aspects of sustainability consumers most want integrated into their products, and share the results with our marketing teams,
- encourage marketing teams to take environmental and social factors into account in product development, packaging design,

marketing, and advertising,

- use appropriate channels to help consumers understand environmental and social issues, and give them information on issues such as product disposal and recycling, sustainable consumption, and the impacts of products on the environment,
- work with industry to build a standard carbon labelling system that meets the requirements of consumers.

EVALUATION METHODS OF L’ORÉAL PRODUCT PERFORMANCE: COMPLIANCE WITH LOCAL REQUIREMENTS

In terms of making claims for product performance, we have a high standard: the scientific approach to evaluating product performance is rigorous and based on sophisticated techniques of measurement. Given that protocols can vary between countries, L’Oréal faces the constant challenge of ensuring that local particularities are fully taken into consideration.

“ We are engaged with major advertisers’ organisations and NGOs in a strategic dialogue process whose objective is to confirm self regulation as the most efficient shared and transparent tool to guarantee efficient communication and responsible advertising. ”

LOIC ARMAND,
Senior Vice-President of External Affairs L’Oréal,
President of Union des Annonceurs,
Member of the Executive Committee of
the World Federation of Advertisers.



We recognise the International Chamber of Commerce’s *International Code of Advertising Practice*⁽¹⁾ as the principle global guidance on responsible advertising, and fully support its principles and implementation. Moreover, in 2007, we signed up to the French Union of Advertisers’ (UDA) *Charter on Responsible Communication*. Our progress against the five commitments of the Charter can be found in the table on pages 72 and 73.

In April 2008 we also signed up to the French Government’s *Charter for Voluntary Engagement on Body Image (Charte d’engagement volontaire sur l’image du corps)*, and fully support its position on the use of diverse body images.

We will uphold the principles in these codes on a global basis in all our advertising. We would like to go further, making sure that our advertising is a tool to increase the perceived value of diversity and to fight against stereotypes.

TRANSPARENCY AND CARE

L’Oréal is committed to the integration of the principles of accessibility and transparency into all our dealings with consumers. Consumers should always have easy access to the advice and information they need, as well as effective mediation mechanisms when this proves necessary.

We aim to have a corporate Consumer Advisory Department (internal or outsourced) 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 331 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

TOPICS OF THE 2008 ENQUIRIES

Around 3% of the enquiries we received in 2008 were related to sustainability issues. Analysis of these enquiries in 26 countries showed that the large majority of questions were on ingredients (50%). Enquiries about our animal testing policy represented 7% of the total, with environmental at 2% and ethical enquiries under 1%.

- may 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.

L’Oréal appointed a Director of International Consumer Affairs in 2007. This position helps us to achieve our aim of providing the best advice, support and education to 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.

AVAILABILITY OF OUR PRODUCTS

L’Oréal products are distributed through many different channels according to products type and nature: non-selective distribution channels (the mass market), selective and exclusive distribution channels, franchise networks, direct sales and lastly mail order and e-commerce.

As a pioneering manufacturer, L’Oréal believes that internet sales are a complementary channel to reach consumers, still in a relatively early stage of development. We also believe that the existence of selective distribution network is indispensable to the existence of our industry and the preservation of the image and economic value of high-end branded products. From an

economic point of view, the importance of investment in brand image and in highly sophisticated capital and labour intensive distribution networks is only viable if its intangible value is protected from free-riding.

SHARING BEST PRACTICE WITH INDUSTRY AND STAKEHOLDERS

We believe that Corporate Consumer Responsibility (CCR) could be approached in the same way as Corporate Social Responsibility (CSR): via a process of sharing best practice and dialogue with stakeholders to work together towards improvement.

We will participate pro-actively in relevant industry groups to share best practice, and ensure that where changes need to be industry wide, we are leading by example and encouraging our peers to make sure that these are effectively implemented.

We will also pro-actively engage with consumer organisations. We will listen to their concerns, explain our position, and take action, whenever needed.

(1) www.iccwbo.org/policy/marketing/id8532/index.html

OUR PROGRESS AGAINST THE FIVE COMMITMENTS OF

COMMITMENT 1. ENSURE ALL EXTERNAL COMMUNICATION COMPLIES WITH ITS CODE OF RESPONSIBLE COMMUNICATION

ACTIONS	OBJECTIVES AND ACHIEVEMENTS	TYPE OF COMMUNICATION INVOLVED	PLANS FOR 2009
1. "The Way we Work"	Our <i>Code of Business Ethics</i> describes our values and requires that all employees align group practices to these values. A chapter is dedicated to advertising and marketing.	Internal and stakeholder communication	Ensure marketing managers are aware of the need to respect the principles of responsible advertising and marketing when writing advertising briefs for their agencies.
2. Consumer relation services	In the 50 countries where L'Oréal has a subsidiary, 300 specialists answer consumers' questions about product use, provide advice and log their comments, enabling us to respond better to their expectations. More than 1.3 million contacts with consumers were logged in 2008.	Free phone numbers, post, Internet	Reassess contact systems with consumers to improve accessibility.
3. Ensure consumers are aware of the dangers of overexposure to the sun and explain the new pictograms on sun care products	GARNIER has developed, in partnership with the Association of European Cancer Leagues (ECL) in eight European countries, awareness actions for consumers about the dangers of overexposure to the sun, reaching more than 10 million people. The brand has undertaken to promote the new pictograms recommended by the European Union to raise consumer awareness about responsible behaviour in the sun.	Press, print and films, website	Carry forward during 2009.
4. Approval of technical arguments in communication by external organisations and explanation of the logos used	Ushuaïa Bio brand: all communication is approved by Ecocert; information is systematically provided to consumers about the logos on the packaging, in TV films, press, and POS equity.	Advertising, communication, point of sale and packaging	

COMMITMENT 2. PROMOTE RESPONSIBLE BEHAVIOUR TO CONSUMERS

ACTIONS	OBJECTIVES AND ACHIEVEMENTS	TYPE OF COMMUNICATION INVOLVED	PLANS FOR 2009
1. Ensure hairdressers and their clients are aware of AIDS prevention	Our "Hairdressers against AIDS" programme in partnership with UNESCO.	Hairdressers against AIDS website, educational kit, press campaign	Carry the operation forward, boosting both its scope and visibility.
2. Generate public awareness of the lack of women in science	Our "For Women in Science" initiative in partnership with UNESCO.	Events, press, non-advertising films, consumers	Continue annually.
3. Generate consumer awareness of the need to sort waste packaging	GARNIER set up a partnership with Eco-Emballages to prompt consumers to recycle packaging as per labels on Fructis bottles, with each new launch. In October 2008, GARNIER pledged to reduce the weight of its plastic packaging by 15% by 2012 in agreement with the French Ministry for Ecology.	Packaging, website (www.garnier.com)	Extend this selective sorting awareness action to include Ultra Doux shampoo and bodycare products.
4. Generate public awareness of the need to protect natural heritage	The Ushuaïa brand has partnered with the French Forestry Bureau (ONF) to establish a large biological reserve in the Estérel Forest (France).	Press, website	Continue the partnership.
5. Generate public awareness of the need to protect biodiversity	L'ORÉAL PARIS has entered into partnerships in Europe to protect bees, save plant biodiversity and sponsor the "Bees: environmental sentry" programme introduced by the French Union of Beekeepers.	Press, events	Continue these initiatives. In 2009, support the Apimondia conference of the world's leading beekeeping stakeholders and raise awareness on the issue.

THE UDA CHARTER ON RESPONSIBLE COMMUNICATION

COMMITMENT 3. PERSONAL DATA OF CONSUMERS SHOULD BE USED WITH CARE

ACTIONS	OBJECTIVES AND ACHIEVEMENTS	TYPE OF COMMUNICATION INVOLVED	PLANS FOR 2009
Include a CNIL correspondent in the group	A correspondent from the French National Commission for Information and Civil Liberties (CNIL) alerts marketing, communication and sales teams about CNIL rules, the need to safeguard private data and only to retrieve that data which is absolutely necessary.	Meetings, email	Establish and disseminate an internal Charter governing the use of personal data. Develop a project that will lead us to manage anonymous data only.

COMMITMENT 4. INSTITUTE AN INTERNAL PROCESS TO VALIDATE COMMUNICATIONS PRIOR TO THEIR EXTERNAL DISTRIBUTION

ACTIONS	OBJECTIVES AND ACHIEVEMENTS	TYPE OF COMMUNICATION INVOLVED	PLANS FOR 2009
Existence of an internal process for approving communications	An internal procedure for the creation and systematic checking of claims has been instituted involving the various teams at the global level: marketing, R&D, businesses, International Product Communication Evaluation Division (DIECP), and legal department. More than 3,000 approval requests were submitted in 2008.	Media and non-media	Continue and formalise the procedure and its implementation at the international level in written form.

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

ACTIONS	OBJECTIVES AND ACHIEVEMENTS	TYPE OF COMMUNICATION INVOLVED	PLANS FOR 2009
1. Membership of eco-organisations	L'Oréal was a founder of the household packaging waste body Eco-Emballages in 1992, and in 2007 of the printed paper organisation Ecofolio, and sits on the board of both.	Printed packaging and paper	Continue membership.
2. Reduce the environmental impact of printed material	100% of internal and external communication media produced by GARNIER uses paper with a minimum 70% recycled content, using inks manufactured from vegetable oils and using green electricity. GARNIER's documentation is carbon neutral: all actual greenhouse gas emissions are offset through the printer partnership Sustainable Printing with Carbon Action. An environmental analysis is made for each document printed.	Consumer brochures and press files	Continue these efforts.
3. Reduce the environmental impact of POS communication material	The launch of the L'ORÉAL PROFESSIONAL Nature Series products involved a carbon analysis of all the furniture; the presentation cases and furniture are all made of 100% recyclable oak sourced from FSC forests, painted using organic dyes (FSC); the decoration stickers and desk book comply with FSC standards, and bags are 100% biodegradable and printed using vegetable inks.	Points of sale	Extend the carbon balance to all Professional Products Division brands for all points of sale material: furniture, sales material, booklets, small gifts, etc.
	100% of press files and sales material for the Ushuaïa brand's new bio range are printed on 100% recycled paper, using vegetable inks, FSC certified. POS equity, furniture and presentation cases are all made of recyclable Kraft board.	Points of sale, consumer brochures and press files	Continue this initiative.



The L'Oréal Foundation is the exclusive partner of "Opération Sourire", a reconstructive surgery programme from Médecins du Monde. A young girl before her operation, in the arms of her mother (Nigeria).

► L'ORÉAL'S COMMITMENT

To be an exemplary corporate citizen, promoting science, helping vulnerable individuals and encouraging access to education.

CORPORATE PHILANTHROPY

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 science, helping vulnerable individuals and encouraging access to education.

L'Oréal has long been involved around the world in issues of general interest. In October 2007, the company reached a major milestone when Sir Lindsay Owen-Jones and Jean-Paul Agon created the L'Oréal Corporate Foundation to strengthen and maintain the company's commitment to social responsibility over the long term. With a multi-year budget of €40 million, the Foundation reflects the company's values, based on scientific research, the transmission of knowledge, diversity and respect for others.

The Foundation has defined three missions: to promote science, help vulnerable individuals and encourage access to education. Since its first year, the Foundation has become involved in new projects that are consistent with L'Oréal's values, working with partners who are well-known in their fields and active in many countries. It has also strengthened the company's major corporate philanthropy programmes, such as "For Women in Science" and "Hairdressers against AIDS". L'Oréal's annual corporate giving amounts almost €18 million. This includes the activities of the Foundation and several hundred philanthropic initiatives sponsored by the group's subsidiaries around the world in the Foundation's areas of interest.

08

KEY ACHIEVEMENTS

- Signature of the *Charter of Commitment For Women in Science*, on March 6th, 2008, on the occasion of the 10th anniversary of the L'ORÉAL-UNESCO Awards For Women in Science, by over 40 of the programme's Award Laureates, to promote science, support the cause of women and change the image of science.
- Extension of the UNESCO-L'ORÉAL "For Women in Science" national fellowship programme to 40 countries and of the "Hairdressers against AIDS" programme to 24 countries.
- Launch of partnership with the Médecins du Monde project "Opération Sourire", a facial repair surgery programme whose goal is to restore the appearance of people who suffer from facial malformations caused by war, illness or malnutrition in a number of African and Asian countries.
- Commitment of the L'Oréal Foundation and several brands of the group to EuroGiki, the "Gifts in Kind Charity" whose goal is to fight exclusion and poverty by providing donations of new, unsold, non food products to the needy.
- Overall, we invested almost **€18 million in philanthropy** around the world in 2008.

CORPORATE PHILANTHROPY

“ This fellowship allowed me to pursue my research on an international level, and thus to work with the best minds in science. This has had a major impact on my career and me, personally. ”

DR. VICTORIA YAVELSKY.



► Nancy Kim, Laureate 2008 for Asia-Pacific, signing the Charter of Commitment For Women in Science.

THE 10-POINT CHARTER MARKS 10 YEARS OF THE AWARD ● ● ●

As members of the “For Women in Science” community, the Award Laureates commit to:

1. Act as a role model to inspire future generations.
2. Transmit passion for scientific research.
3. Encourage women scientists to act as agents of change.
4. Strengthen and support scientific research on all continents.
5. Foster creativity and innovation.
6. Advocate for gender equity and diversity.
7. Build sustainable networks for women scientists.
8. Participate as women scientists in public policy decision making.
9. Shape attitudes to change the face of science.
10. Promote science as a source of progress.

PROMOTING SCIENCE

10 YEARS OF ACTION FOR WOMEN AND SCIENCE

In 1998, L'Oréal and UNESCO combined forces to promote the role of women in scientific research when they created the programme, “For Women in Science.”

Over the 10-year partnership, 52 women have received the L'ORÉAL-UNESCO Award in recognition of scientific excellence.

Since 2000, 15 international fellowships have been awarded annually to young women scientists at the doctoral or post-doctoral level, providing important support at what may be a critical point in their scientific career.

In addition, the national fellowship programme, allowing almost 500 young women scientists to receive funding for their research, is already underway in more than 40 countries. In 2007, the Foundation launched a national fellowship programme for 10 women doctoral candidates in France, working in collaboration with the French National Commission for UNESCO, the French Academy of Sciences and the L'Oréal subsidiary in France.

These talented women now constitute a remarkable community, representing all continents and cultures. Year after year, this community allows them to build bridges across generations and meet and support each other in new ways.

A Charter of Commitment For Women in Science

The partners L'Oréal and UNESCO decided to mark the 10th anniversary of the L'ORÉAL-UNESCO Awards For Women in Science by the creation of a *Charter of Commitment For Women in Science*, to promote science, support the cause of women and change the image of science. Signed on March 6th, 2008 by over 40 of the programme's Award Laureates, the Charter was presented to Koïchiro Matsuura, Director-General of UNESCO, and to Sir Lindsay Owen-Jones, Chairman of L'Oréal and Chairman of the Foundation, who reaffirmed their long-term commitment to supporting women in science.

Examples of the Laureates' individual commitment include construction of a university residence in Nigeria for young women pursuing

Victoria was a medical student in the former Soviet Union, where she was affected by radiation while treating Chernobyl victims. After moving to Israel to pursue a career in cancer research, she won a UNESCO-L'ORÉAL International Fellowship that permitted her to work on developing early-detection cancer diagnostic tests with leading oncologists at the Saarland University Medical School in Homburg (Germany). Today she is continuing her research in early cancer detection at the Ben Gurion University of the Negev (Beersheba, Israel). ■

degrees in science, founding summer science camps for girls in Spain, and chairing the ETAN Report on women in science by the European Technology Assessment Network. The Foundation is working to expand the L'ORÉAL-UNESCO partnership "For Women in Science" by launching regional pan-African and pan-Arab science fellowships for young women in, respectively, Cameroon, Ghana, Nigeria and Kenya, and the United Arab Emirates, Egypt, Tunisia, Kuwait and Saudi Arabia.

Women's Forum for the Economy and Society— Sci Tech Girls Day: an awareness project for the long term

Since 2007, the Foundation has partnered with the Women's Forum for the Economy and Society, which is held each autumn in Deauville (France). The Forum works to promote the role of women in society by addressing economic and social issues. The theme of the 4th annual meeting was *Progress to share, future to dare*. Working with the Women's Forum and Orange, the Foundation also organised a second year of Sci Tech Girls Day. The project encourages young women to pursue scientific and engineering studies by introducing them to the broad range of scientific and technical careers and to some 20 women who have followed exceptional



► Dr P. Mutowo and Dr A. Urrutia, fellows UNESCO-L'ORÉAL, surrounded by students invited to the Sci Tech Girls day.

career paths in these fields. The session hosted more than 100 young women who are completing their secondary school studies. With recruitment assistance from the Cité des sciences et de l'industrie, the Foundation invited young women from the Lycée Denis-Diderot (in Paris' 19th arrondissement), where they are a minority by virtue of their interest in science careers. The foundation also invited two recipients of the UNESCO-L'ORÉAL For Women and Science International Fellowships, Dr. Araxia Urrutia (United Kingdom) and Dr. Prudence Mutowo (Zimbabwe), as speakers.

www.womens-forum.com



► Viviane Reding, Claudie Haigneré, Barbara Dalibard, Béatrice Dautresme, Frances O'Sullivan, Nadine Leclair and Maria Livanos Cattai, during the round-table about "What specific contribution do women bring in science and technology?" for the Women's Forum in Deauville.



“The entire profession must organise around this issue. “Hairdressers against AIDS” is not relevant just on December 1st—it’s also critical the other 364 days of the year.”

FRANCK PROVOST,
Chairman of the Provalliance Group.

PROMOTING ACCESS TO EDUCATION

By involving its vast network of hairdressers throughout the world, the Foundation supports a programme of prevention education against AIDS pandemic: “Hairdressers against AIDS”. The Foundation also seeks to promote socio-economic and cultural diversity by encouraging fellowship support for worthy students from low-income backgrounds and international students studying in French universities or the *Grandes Ecoles* (the most prestigious French institutions of higher education). In addition, it supports mentoring programmes for secondary school students in disadvantaged neighbourhoods.

HAIRDRESSERS AGAINST AIDS

In partnership with UNESCO, L’Oréal launched this international AIDS education and prevention programme in 2005. The “Hairdressers against AIDS” programme is presented at all L’Oréal training centres, at hairdressing schools and through the company’s network of 2.5 million hairdressers. The purpose of the programme is to give hairdressing professionals the means of alerting the public to the risks of the disease and to the means of protection.

New countries have been incorporated into the programme, for a total of 24 in 2008, and UNESCO’s AIDS awareness and prevention messages regarding the risks of the disease reach a vast and increasing audience.
www.hairdressersagainstaids.com

NICOLAS HULOT FOUNDATION

In 1995, L’Oréal became a founding partner of the Nicolas Hulot Foundation for Nature and Mankind. This non-profit organisation, dedicated to public education activities on global environmental issues, works to reduce the environmental impact of human behaviour through its educational, scientific and cultural commitment to mankind’s natural legacy. In 2007, L’Oréal decided to work to build awareness of environmental and climate change issues among its 11,000 employees in France, based on the “Défi pour la Terre” (Challenge for the Earth) programme, which was launched by the Nicolas Hulot Foundation and the French Environment Agency, ADEME. More than 21% of L’Oréal employees are involved. The Foundation is maintaining the group’s commitment to the Nicolas Hulot Foundation so that the non-profit can continue its activities in the areas of public awareness, mobilisation and social responsibility.
www.fondation-nicolas-hulot.org

MENTORS FOR SECONDARY SCHOOL STUDENTS AT THE MULTIMEDIA LIBRARY OF THE CITÉ DES SCIENCES ET DE L’INDUSTRIE

In 2008, the Cité des sciences et de l’industrie resumed the learning mentorship programme at its multimedia library, in partnership with the Conférence des Grandes Ecoles (association of *Grandes Ecoles*), the Association de prévention du site de La Villette (ASPV, a local community development group) and the Villette Entreprises Foundation, with support from the L’Oréal Corporate Foundation. This programme helps young people from disadvantaged backgrounds to succeed in school



► Prevention kit distributed in Brazil by an ambassador of the “Hairdressers against AIDS”.

► FRANCE > "LA MAISON DE SOLENN", "MAISON DES ADOLESCENTS"

The "Maison des Adolescents" is an innovative, comprehensive treatment programme for young people, ages 12-19, under the direction of child psychiatrist Marie-Rose Moro. Since 2008, the Foundation has sponsored a socio-aestheticsian who leads a weekly half-day workshop there. Nearly 100 adolescent volunteers have participated as part of the treatment programme. The Foundation also financed publication of the catalogue for the October 2008 "Minnie by 80 creators" sale held at Christie's, to benefit the "Maison de Solenn". ■
www.mda.aphp.fr

by providing the support required to pursue science studies. The Conférence des Grandes Ecoles issued a call for volunteers, which produced a seven-member learning mentor team. The APSV organised a training and classroom monitoring process to prepare the volunteers to meet the students' specific needs, using the multimedia library's resources and services. This educational support is available, without appointment, in an area of the multimedia library used by secondary school students. The team is there from 2 to 6 pm on Saturdays and Sundays and every day during short school holidays. The programme ran from January-June 2008 and again from October-December 2008, resulting in more than 1,500 student-mentor partnerships.

HELPING VULNERABLE INDIVIDUALS

A COMMITMENT BASED ON THE GROUP'S HISTORY

The Foundation actively participates in solidarity initiatives by developing programmes and activities that assist those made vulnerable by life, support them in re-establishing

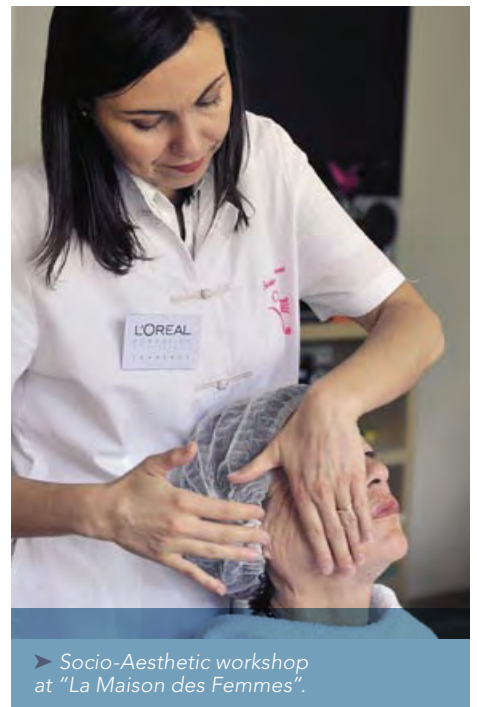
their positive self-image, and help them to feel better by caring for their appearance. These activities may include sponsoring self-esteem, skincare and make-up workshops, contributing beauty and hygiene products, and supporting and developing international facial repair surgery programme.

SUPPORTING THOSE ENTERING THE WORKFORCE

Clichy Integration: an image and self-esteem programme at the heart of the job-search process

Several municipal employment development agencies in Clichy (France) are involved in the Maison du développement économique et de l'emploi, a job search agency near L'Oréal's headquarters. In 2007, the "Prendre soin de soi" ("Take care of yourself") self-esteem and image workshop, developed and funded by the Foundation, was still a pilot project. In 2008, it became a full-fledged part of the job search process. Sixteen sessions of four half-days each were offered, drawing more than 90 job seekers.

www.ville-clichy.fr



► Socio-Aesthetic workshop at "La Maison des Femmes".

SUPPORTING THOSE AFFECTED BY ILLNESS

"Look Good... Feel Better"

In 2001, the major French cosmetic companies founded "La Vie de Plus Belle", sponsored by the anti-cancer group, Ligue contre le cancer. The organisation is a member of the international "Look Good... Feel Better" network, which is active in 19 countries. The programme organises free skincare and make-up workshops in hospitals for women cancer patients. The goal is to help the women cope with the side effects of treatment and to recover their self-esteem. The workshops are held in 17 hospitals in Paris and the larger metropolitan area and in Lille and Nice (France). In 2008, the group held 188 workshops, reaching 1,487 women. The Foundation supports this programme, together with 9 of the L'Oréal brands.

www.lookgoodfeelbetter.org

THE "SCIENCES PO ACCESSIBLE" PROGRAMME ● ● ●

The prestigious French university, Sciences Po, and L'Oréal share the belief that diversity is a tremendous asset, and that institutions of higher education and companies should recruit from a broad base to promote equal opportunity and identify a growing pool of talented future employees.

The "Sciences Po Accessible" programme, created in partnership with ARPEJEH (*Accompagner la réalisation des projets d'études de jeunes élèves et étudiants handicapés*), offers disabled people the tools to succeed in their studies. From the moment of applying to the school, Sciences Po can adapt conditions to permit the handicapped student to work to their best advantage. Three years ago, a support service was initiated to follow the individual for the length of the degree programme. This personalised support reflects a policy of promoting the student's autonomy: which requires reorganisation of space, purchase of material specific to different handicaps, including assuring accessibility of computers and other digital equipment. Funding by the Foundation will support 20 handicapped students in the first year, with the goal of doubling the number in 2009-2010.

www.sciences-po.fr



► Dr François Foussadier, founder of the "Opération Sourire", with a team of surgeons during a surgery mission in Cambodia.

"Opération Sourire" with Médecins du Monde

"Opération Sourire" ("Give me a smile") is a facial repair surgery programme launched in 1989 by Dr. François Foussadier, a founding member of the international humanitarian organisation, Médecins du Monde. The programme's goal is to restore the appearance of people who suffer from facial malformations caused by war, illness and or malnutrition. This surgery helps those who experience social exclusion because of malformations to return to a normal life in society. This programme essentially targets children in a dozen African and Asian countries. In 2008, the Foundation decided to support seven such missions, in Cambodia, Madagascar, Mongolia and Niger, offering surgery to 266 individuals. The Foundation hopes to expand its support for this international solidarity programme in coming years.

"Opération Sourire"'s activities involve surgery and training for local staff. Treating illness and its effects through facial repair surgery promotes patients' physical rehabilitation in daily life. These disabilities affect most patients whose physical and emotional suffering has resulted in harsh and irreparable social exclusion. According to Médecins du Monde, priority is given to neglected populations in countries in the midst of rebuilding, after a conflict for instance, to help reconstructing health systems. By operating on people with disfigurements, the volunteer surgeons offer the possibility of a new life. The volunteer teams work closely with Médecins du Monde's local partners to identify patients and illnesses pathologies and to plan and monitor operations.
www.medicinsdumonde.org



► A child operated in Madagascar by Médecins du Monde surgery team as part of "Opération Sourire".

SUPPORTING THE MOST DISADVANTAGED

"La Maison des Femmes" in Montrouge


In 2007, the Foundation provided funding to the Samusocial of Paris to establish "La Maison des Femmes": a secure residential space designed to help break the constant back-and-forth from street to emergency services. The objective is to provide a place where women in need can live and find support in their search for stability and renewal, including socio-aesthetic workshops. In 2008, the Foundation provided operating support for the centre, where 14 residents could participate in weekly self-esteem and image workshops.

www.samu-social-international.com

"When you are on the street for a long time and have lost the mechanisms that help to maintain relationships with others, you have lost the public sense of the body. When no one looks at you, you lose the ability to mirror others. When you no longer attract another person's gaze, you no longer look at yourself. This basic code, which is lost when people are excluded or marginalised, must be restored. A well-groomed and pleasant appearance can help a person recover her resources and restore the opportunities for human connection. These are among the defence mechanisms that allow a person to look ahead to and plan for the future. Socio-aesthetic workshops are therapeutic tools that can bring the core of the self back to life, a core that the individual has buried beneath nearly impenetrable layers after suffering aggression and humiliation. They will help her work towards building a renewed appreciation of exchanges with others."

DR. XAVIER EMMANUELLI,
Founding Director of the Samusocial of Paris.



Our work is based on two incontrovertible observations. First, companies must destroy billions of euros worth of unsold inventories because shorter product life-cycles have changed inventory management and increased inventory obsolescence. Second, a significant portion of the French population suffers from social exclusion. More than 7.5 million people live below the poverty line and lack essential non-food items. The Gifts in Kind Agency-EuroGiki is based on a new concept that allows the private sector to play a key role in addressing that exclusion. It responds to social welfare needs by providing dignified access to goods to those without resources; to environmental needs, by offering an alternative to recycling or destroying manufactured goods, thus giving these products new life; and, last, to societal needs, by offering companies an opportunity to meet society's expectations and participate in sustainable development. 

JACQUES-ÉTIENNE DE T'SERCLAES,
president of EuroGiki, the Gifts in Kind Agency.

EuroGiki, the Gifts in Kind Charity: a win-win approach to helping those in need

The Foundation has supported EuroGiki since March 2008. The goal is to establish a programme in France and, ultimately, throughout the euro zone modelled on the American organisation, Gifts in Kind. (Gifts in Kind is the 7th largest non-profit organisation in the United States and partners with more than half of America's 100 largest companies.) EuroGiki's mission is to develop philanthropy through product donations, enabling needy communities to obtain non-perishable items that they cannot afford to purchase. The project involves creating a logistical platform to receive and redistribute the products. The Foundation will provide funding over a three-year period and will deliver unsold products from the group's brands. www.adnfrance.org



AGENCE DU DON EN NATURE
La solidarité en action

OTHER INITIATIVE: SUPPORT FOR TITOUAN LAMAZOU'S EXHIBIT, "WOMEN OF THE WORLD"

The L'Oréal Corporate Foundation supported the *Women of the World* exhibition, which was held from October 8th, 2007 through June 16th, 2008, at the Musée de l'Homme in Paris. More than 200,000 people visited the exhibition. Titouan Lamazou celebrates women worldwide in this mosaic of 200 portraits, which includes drawings, videos, paintings, photographs and interviews.

"Restaurants du Cœur"

L'Oréal has supported the "Restaurants du Cœur" since 1998. In 2007 and 2008, the Foundation donated 50,000 kits containing essential hygiene and beauty products. Of that total, 20,000 were given to the "Restos Bébés du Cœur". The kits were packaged by young disabled workers from ESAT Les Bouleaux, a programme in Clichy (France) that helps disabled people enter the labour market. Two 15-person teams handled this logistical aspect of the project, which took four weeks. www.restosducoeur.org



➤ Distribution of body hygiene products kits at the Vernon's "Restos du Cœur."

VERIFICATION STATEMENT

SCOPE AND METHODOLOGY

Environmental Resources Management (ERM) was solicited by L'Oréal to verify the data relative to Health, Safety and Environment, which is to be published in this Sustainable Development Report.

Since 2005, the SHE data have been recorded, communicated and consolidated monthly through an IT system accessible at all group manufacturing sites and distribution centres. The reliability and performance of this system has already been tested. Our mission this year was to verify the validity of the SHE data supplied by the sites. In order to do this, a statistically representative sample of six manufacturing sites and three distribution centres located in France, Spain, Italy, Germany, Indonesia, the United Kingdom and Japan has been audited.

The approach consisted in finding the sources of the information and interviewing the Heads of the Departments concerned on the audited sites.

It should be noted that the SHE data presented in this report for 2008 covers a range of factories and distribution centres only, and does not take into account the research and administration activities.

FINDINGS

Our review has shown that, for the sample examined, the data collection and processing have provided us with information which is precise and reliable.

It should be noted that two sites audited this year had photovoltaic sources of energy which have been taken into account.

Some minor inaccuracies or omissions were noted for each of the sites visited, with no significant impact on the scale of consolidated data for the group:

- four of the nine sites visited presented minor differences on the counting of the hours

worked, and the data taken into account for the calculation of the rates of severity and frequency;

- reporting of near misses is not yet done systematically and homogeneously on all sites. However reporting of accidents with loss of work is adequate;
- small quantities of waste were not taken into account on two sites;
- limited traceability concerning exceptional waste (eg.: building site waste).

The indicators published are similar to previous versions of the report and their choice is relevant.

OPINION

We believe that the SHE data published in this report and presented in the text, the schedules and the graphics for 2008 give an honest, transparent and reasonable image of the L'Oréal SHE manufacturing sites and distribution centres performances.

The noted improvements in SHE performance appear to be representative of the actual progress made by the sites and show a great regularity in the level of reporting reliability of the L'Oréal group.

Paris, February 2009.

Vincent Sauvaire
General Manager ERM-France



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

This is a free translation into English of the Statutory Auditor's review report issued in French 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 enable us to express 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 standards. These standards are available on the Group's website. Our responsibility is to express a conclusion on the procedures for compiling the selected social data, based on our review.

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. Moreover, our review is not intended to express, and we do not express, a conclusion on the accuracy of the figures published.

We performed the following work:

At headquarters level

For each of the areas reviewed, we met with various representatives from the departments listed below responsible for organizing the reporting procedures as well as for the consolidation of social data at Group level: the Labor 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 as to 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 (China, France, Germany, South Africa, and Uruguay) and in respect of the following sample indicators:

number of employees per gender, data taken from the management database of executives' profiles and careers (nationalities, positions of executives and number of executives recruited for instance), 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 the WPS program, L'Oréal minimum wage compared with national minimum wage, number of employees' representatives, number of trade unions, number of internal agreements signed, 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

During our work, we noted for two of the indicators selected at the subsidiary level (L'Oréal minimum wage and the data taken from the management database of executives' profiles and careers), and in the majority of the countries reviewed, insufficient formalization of the procedures for the definition, collection and consolidation of these indicators.

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

Neuilly-sur-Seine, May 25th, 2009



Statutory Auditor
Étienne Boris


Sustainable Development Practice
Sylvain Lambert

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