



Targeting excellence in Operations to achieve sustainable performance

“The restructuring of Operations, which began in 2007, is continuing in order to increase efficiency and creativity while lowering costs. The same organisational model has been applied in four geographic poles (Europe, Asia, Latin America and North America), and the setting up of mutualising processes has continued. Furthermore, the ongoing move to specialise plants by technology is modernising the industrial facilities and optimising the supply chain. Lastly, concrete initiatives are being taken to develop a sustainable partnership with our suppliers.”

Jean-Philippe Blanpain
Managing Director Operations

CONTINUOUS STREAMLINING OF PRODUCTION

L’Oréal has launched a multi-year programme to significantly improve the efficiency of its industrial facilities. For example, unproductive time in packaging was reduced by -6.4% in 2008. By optimising industrial processes, it has been possible to raise processing equipment capacity by around +22%. The group is continuing to roll out its Enterprise Resource Planning (ERP) system, which now covers 44% of global production. In Europe, the specialisation of plants according to technology has led to the streamlining of production facilities. Lastly, the acquisition of the Yves Saint Laurent Beauté industrial site has brought the group new expertise in the fields of make-up powder and lipstick.

ROLLING OUT THE NEW SUPPLY CHAIN

By continuing with the integration and centralisation of the supply chain, which began in 2007, the group has gained greater control over its logistical processes, enabling it to react quickly and effectively to market fluctuations. This fundamental change in organisational and human terms has led to improved service rates and better inventory control. Logistic-related costs and inventories have been kept under control in an

adverse environment thanks to a policy of concentrating logistical centres and hubs in Europe, and redesigning transport plans in North and Latin America.

CENTRALISED PURCHASING

In an extremely challenging economic context, centralising all L’Oréal purchasing under a single authority in four purchasing centres across the globe helps offset the rise in raw materials prices, boosts efficiency and speeds up innovation projects. The group

is continuing to build sustainable partnerships with its suppliers, who can now take advantage of a special section on the corporate website www.loreal.com. In China, 200 suppliers and subcontractors were invited to a convention aimed at improving their performance in Safety, Health, the Environment and Human Resources, following audits of our suppliers on labour standards arranged by the group.

	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

	Cosmetics output	Cosmetics sales
Western Europe	51%	45%
North America	22%	23%
Rest of the World	27%	32%
TOTAL	100%	100%

08 highlights

Roll-out of the new supply chain organisation in four geographic poles (Europe, Asia, Latin America, and North America).

L'Oréal bolsters its industrial presence at the gateway to the Middle East with the acquisition of the company Canan, which has a plant near Istanbul (Turkey).

Centralisation of all group purchasing in four geographic poles.

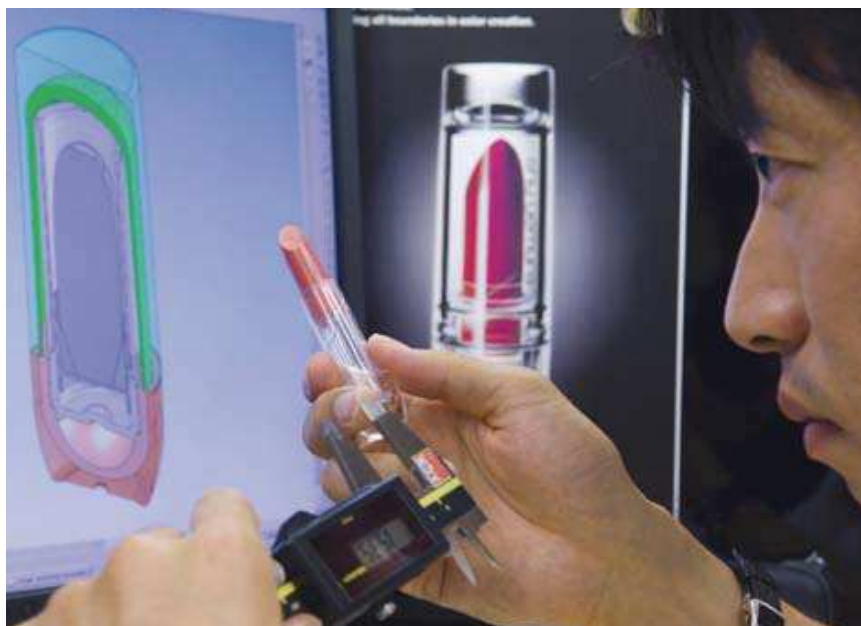
The Libramont (Belgium) site chooses green energy, by installing a biomethanisation facility on the plant site. The facility, which will be started up in 2009, will enable an eightfold reduction in CO₂ emissions at full load.

COMBINING PACKAGING INNOVATION WITH ENVIRONMENTAL PROTECTION

In 2008, the packaging innovation policy led to the filing of 71 patents and the launch of major new products such as *Ôscillation* by LANCÔME, the first powermascara by micro-oscillation. Combining innovation with sustainable development is the goal of L'Oréal's Packaging Research. In accordance with its certification by the FSC (Forest Stewardship Council), the group is committed to using only paper and cardboard packaging made from pulp originating from sustainably managed forests.

MINIMISING IMPACT ON THE PLANET

In 2008, the main environmental performance indicators once again improved significantly, thanks to the strong commitment of the different sites, and the ongoing policy of sustainable building construction (see page 22, Environment section). Safety results also improved, with an enlarged frequency rate⁽¹⁾ reduced by -15.6%, following the worldwide launch of two major training programmes.



Certification of a lipstick mechanism (Tokyo, Japan).

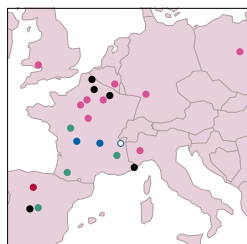
Commitments

Towards new forms of sustainable packaging

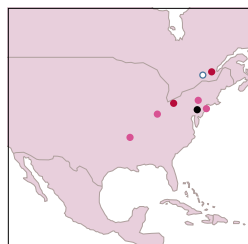
In October 2008, L'Oréal signed a convention with Ecole MINES Paris-Tech, one of France's most prestigious engineering schools, to create a Chair in Bioplastics. The group is committed to funding research into alternative solutions to plastic resins derived from petrochemicals over a period of five years. Bioplastics use renewable natural resources, are biodegradable in most cases, and minimise carbon dioxide emissions into the atmosphere. L'Oréal is thus adopting a sustainable development approach while encouraging advanced research in a field of interest for its industry.

(1) Enlarged frequency rate: number of L'Oréal employees or temporary staff who have had a lost time accident and injured L'Oréal personnel in light duty per million hours worked.

INDUSTRIAL FACTORIES IN THE WORLD



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
● Active Cosmetics: 2 factories

● Luxury Products: 7 factories
○ Dermatology: 2 factories

● Professional Products: 3 factories
● Raw materials: 4 factories