



Ensuring financial stability and the efficiency of organisations

“The Administration and Finance Division of L’Oréal continued to apply a balanced financial policy in 2008. The policy was supported by initiatives to improve the productivity of both operational structures and systems made available to the operational teams. The administration, management, and finance teams played an active part in the operational performance of the businesses. Their contribution was particularly focused on tightening up internal control, monitoring cash flows and ensuring rigorous control of performance, which is communicated upon extensively to the financial community and individual shareholders. The group actively continued its policy of enhancing the security of financing, while strengthening its already robust balance sheet.”

Christian Mulliez
Executive Vice-President
Administration and Finance

FINANCIAL COMMUNICATIONS

The financial communications team ensures that comprehensive and transparent information is provided to institutional investors and individual shareholders, and to financial analysts and the financial press. In 2008 communications efforts were stepped up both for institutional investors, particularly outside France, and individual shareholders in the major French regions.

INFORMATION SYSTEMS TO DRIVE OPERATIONAL EXCELLENCE

At the end of 2008, the implementation of the group’s Enterprise Resource Planning system covered some 85% of group sales. It was extended in particular in the Americas—United States, Peru and Venezuela—and in Asia—India and the ASEAN countries. Moves to facilitate the convergence of technical platforms continued, particularly in Spain and Northern Europe. The integration of the information systems of the YSL Beauté businesses was also started up rapidly across all the operational zones. Finally, efforts continued to ensure that employees are equipped with effective communication and mobility tools.

MANAGEMENT/CONSOLIDATION

The organisation of the group’s management/consolidation is based on a solid and seamless decision support information system used to anticipate and precisely manage economic performance. The development of information systems continued in 2008 to improve responsiveness in updat-

ing financial data, giving managers greater flexibility in running the company and adapting decisions in view of the economic environment. The management teams are constantly vigilant in their cost control, and make sure that the guidelines set out by the General Management are implemented.



The merging of teams in single sites continued, as in Spain where a new headquarters was opened.

08 highlights

Strategic acquisition of YSL Beauté, Columbia Beauty Supply in the United States, and 50% of Club des Créateurs de Beauté.

L'Oréal receives the Annual Report 1st Prize awarded by "La Vie Financière" in partnership with "Les Echos".

Finalisation in Europe and roll-out in Asia of pooling programmes to strengthen the operational efficiency of support structures – information systems, human resources, finance and purchasing.



L'Oréal Annual General Meeting of shareholders, Paris, April 22nd, 2008, Carrousel du Louvre.

Commitments

Improving management standards and internal control procedures

As part of its ongoing internal control effort, the group has taken an initiative to improve management standards and internal control procedures. The issues covered are those most frequently encountered by the internal audit teams, concerning in particular subsidiaries' procedures for transactions with customers, supplier relations, and the protection and management of inventory and tangible assets.

The initiative is based on "best practices" in the divisions and zones, and on the recommendations made by the internal audit teams. The goal is to set out more formally the instructions necessary for better operational implementation of the key principles stated in the group's reference document, *Les Fondamentaux du Contrôle Interne*.

TAX

The mission of the Tax department is to secure and optimise the group's tax obligations and verify compliance with the laws and regulations of the countries concerned.

INTERNAL AUDIT CARRIES OUT CONTROL

The internal audit team carried out 47 missions in 2008. The audits related to 32 commercial businesses representing some 30% of group sales, and 11 plants or supply chains; the plants audited represented some 14% of total worldwide production in unit terms. In addition, four other missions were carried out on more specific or cross-functional topics. Audit missions result in the drawing up of a report setting out the findings and the associated risks, and making recommendations under an action plan to be implemented by the entity audited.

SOLID BALANCE SHEET AND SECURING DEBT

L'Oréal's balance sheet is solid. Financial debt is reasonable: net financial debt totals €3,700 million, or 31.3% of equity. The net financial debt consists partly of medium-term bank loans, most of which mature in 2011-2012; the rest consists of commercial

paper secured by confirmed credit lines. The group has for many years negotiated agreements with its main banks in order to obtain favourable conditions for the financing of its debt. Furthermore, the group has a financial stake of 9% in Sanofi-Aventis.

LEGAL AND INSURANCE

The legal department provides advice and exerts control within the divisions to ensure the protection of the roll-out of our businesses, in compliance with laws and regulations. Its missions include creating, managing and defending the group's brand assets, ensuring the legal security of the businesses' operations, and devising risk prevention, defence and litigation strategies relating to any legal disputes. In the insurance field, the group continued in 2008 to set up global programmes, particularly in third party liability, material damage and operating loss, and transport insurance.

