

A resilient cosmetics market

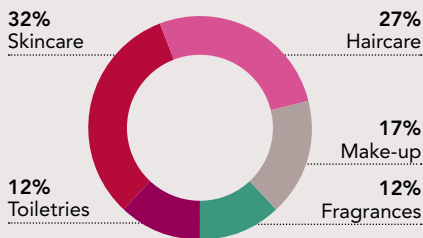
Over the last 15 years, the cosmetics market has grown on average by +4.5% a year excluding currency fluctuations, with annual growth rates ranging from around +3% to +5.5%. It is a market which has demonstrated both its ability to achieve sustainable growth and its capacity for resilience in unfavourable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

€110bn⁽¹⁾

In 2008, the worldwide cosmetics market totalled €110.3 billion⁽¹⁾

Balance between the five main business segments

WEIGHT OF MARKET BY PRODUCT CATEGORY⁽¹⁾



The cosmetics market is divided into five main business segments: skincare, haircare, make-up, fragrances and toiletries.

These segments are complementary and thus able to meet consumers' needs in all their diversity.

In the different categories, a good many of the products are intended for everyday hygiene, comfort and beauty purposes.

Shampoos, cleansing lotions and moisturising creams are products which meet everyday needs: 92% of French people, for example, use a shampoo three times a week on average.

Other products, such as hair colourants, anti-dandruff shampoos, sun protection products and anti-ageing skincare lines are also features of everyday life.

At the meeting point between body and mind, cosmetic products furthermore play a part in the fundamental need for beauty, enabling all individuals to express their personalities to the full, gain self-confidence, open up to others and achieve self-fulfilment.

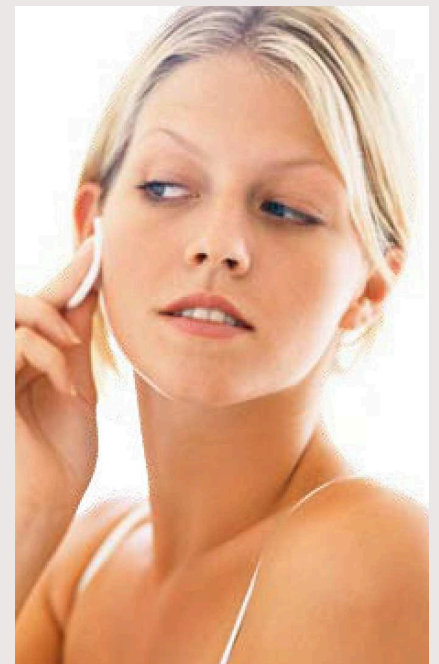
€31⁽³⁾

Average monthly cosmetics spending of a French household

Make-up: when innovation teams up with seduction

+8%⁽²⁾

Growth in mass-market make-up sales (Western Europe, 2008)



As the number three business segment in value terms, make-up is advancing strongly, particularly in Western Europe where the mass-market grew by +7.9%⁽²⁾ in 2008. Around a quarter of European women use at least two make-up products every day. The European market is driven by constant innovations. Foundation make-up is recording the highest growth in the category, particularly thanks to the success of mineral make-up, which originated in North America and is proving extremely successful with Chinese women who prefer fine and aerated texture.

(1) Excluding soap, toothpaste and razors, 2008 provisional estimates. Source: L'Oreal estimates, manufacturer selling prices.

(2) Source: Mass-market retailer panel, Nielsen/IRI Europe 12.

(3) Source: Euromonitor International.

Skincare: number 1 category in the market



Skincare is the number 1 category in the market, and also the fastest-growing.

Four main factors are underpinning this growth:

The ageing of the population in developed countries

In these countries, the ageing of the population is accelerating as the baby boom

generation reaches maturity. Attaching importance to quality and advice, seniors are an extremely demanding customer group, who favour skincare products with high technological added value.

European women over 60 represent alone 34% of the facial skincare market. On average they buy twice as many products as women under 25.

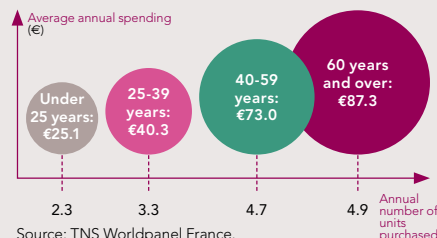
Problems linked to sun exposure

The dangers of sun exposure are taken increasingly seriously, driving demand for photo-protection products. Furthermore, anti-blemish products, used for skin disorders, which are frequent in Asia and Latin America, are also growing.

Young adults' skin problems

Problems of this type affect young adults in general across all markets: 60% of young men in Thailand say they are concerned about acne or oily skin. More than 70% of young men in Thailand aged between 15 and 24 years use a cleansing lotion. In Europe, 90% of young women use a cleanser each morning.

FACIAL SKINCARE: AVERAGE SPENDING BY AGE BRACKET

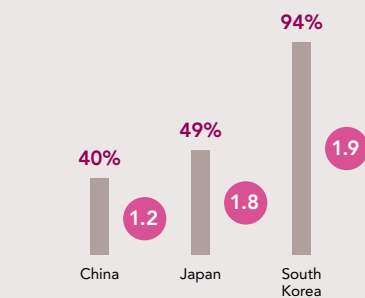


Beauty routine diversification

The globalisation of the cosmetics market is bringing to light specific and sometimes highly elaborate beauty routines which can enrich the global market. Women in South Korea for example attach particular importance to skin purity, and use more than six products on average in the evening and morning. Brazilian women apply around five products to wash, style and embellish their hair.

Of products and men

FACIAL SKINCARE FOR MEN: DIVERSITY IN PURCHASING BEHAVIOUR



■ Men's skincare penetration rate
 ■ Number of products used in skincare routine by men who are facial skincare users
 Source: 2005 Asia Study by L'Oréal, on a group of middle and upper class men aged 15 to 49.

The men's cosmetics market remains one of the most dynamic.

Behind this trend lies a great diversity in purchasing behaviour.

In Europe, men are gradually starting to consume facial skincare products.

Large numbers of young urban Asian men have already been won over. Their consumption should continue to increase over the coming years.



Innovation: continually improving performance

Where beauty is concerned, innovation is essential. Step by step, major technological breakthroughs are pushing back the limits of what is possible, and are in turn inspiring new desires for beauty. In colourants, technologies ensure increasing respect for the hair fibre. They also offer colours of unequalled intensity, with application times reduced to new record levels. Anti-ageing skincare products are increasingly and measurably effective in reducing wrinkles and enhancing facial firmness. In make-up, innovation is teaming up with seduction for lipsticks which combine comfort and shine while remaining impeccable for hours. Mineral foundations are innovating too, offering a perfection which is increasingly natural.

A market of the future

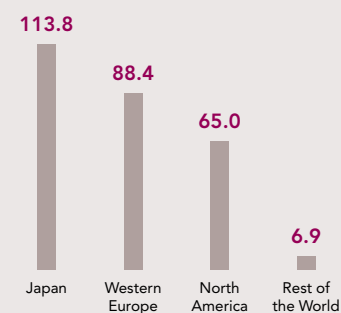
In 2020, the frontiers of the cosmetics market will be very substantially redrawn as a result of the natural increase in population, international migration and rising levels of income in a very large number of countries. The market will be vaster and more global. Its centre of gravity will have shifted towards the south and east of the planet, profoundly changing consumer profiles and leading to an extension and diversification of beauty needs.

The new markets become the world's number 1 consumption zone

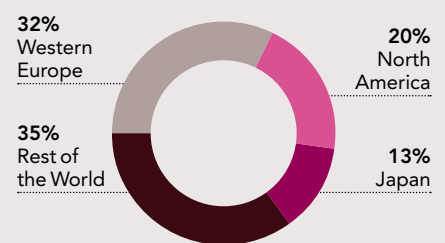
Consumption growth supported by rising income...

Consumption of cosmetics products in the new markets remains on average 13 times lower than in markets in the developed countries. Nevertheless, it is constantly growing, mainly as a result of rising levels of income, particularly in the middle classes.

COSMETICS CONSUMPTION⁽¹⁾
(€ per capita)



BREAKDOWN OF THE WORLDWIDE COSMETICS MARKET BY GEOGRAPHIC ZONE IN 2008⁽¹⁾

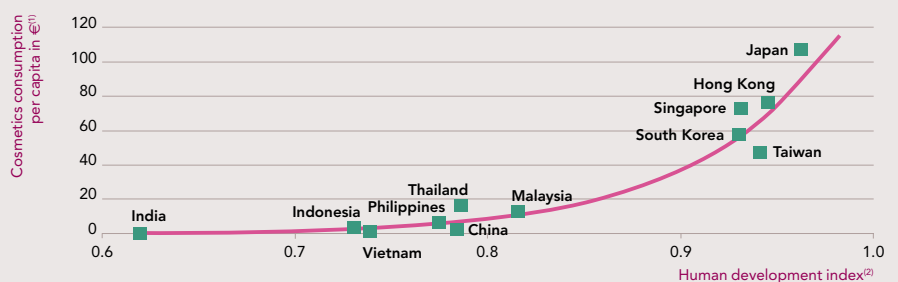


(1) Excluding soap, toothpaste and razors. 2008. Provisional estimates. Source: 2008 L'Oréal estimates, manufacturer selling prices.

... and the gradual improvement of living conditions

Comparative trends in cosmetics consumption per capita in Asian markets and in the human development index (HDI) in these countries suggest that certain factors linked to living conditions, such as life expectancy, access to education, urbanisation or even mobility also contribute to cosmetics market growth.

HDI INDEX AND PER CAPITA COSMETICS MARKET IN ASIA



(1) Excluding soap, toothpaste and razors. 2007. Source: 2007 L'Oréal estimates.
(2) Source: UNDP—Human Development Report (2007).

Brazil and China become the 3rd and 4th largest cosmetics markets in the world



In the space of 10 years, the worldwide cosmetics market Top 10 has been substantially changed by the growth of the emerging markets, and particularly the BRIMC⁽¹⁾ countries. China, eighth in 1998, became the fourth largest market in 2008. Brazil is now in third place. Lastly, Russia is now one of the world's top ten markets.

WORLDWIDE COSMETICS MARKET TOP TEN (2008)

1 UNITED STATES	6 FRANCE
2 JAPAN	7 UNITED KINGDOM
3 BRAZIL	8 RUSSIA
4 CHINA	9 ITALY
5 GERMANY	10 SPAIN

(1) Brazil, Russia, India, Mexico, China.

Source: Euromonitor International.

In 2020...

... 1 billion young seniors

Today, there are large numbers of seniors in the developed countries. But ageing is also affecting the emerging markets: in 20 years' time, the median age of the Chinese population will have reached 40. A new generation of uninhibited and individualistic "young seniors", aged between 45 and 59,

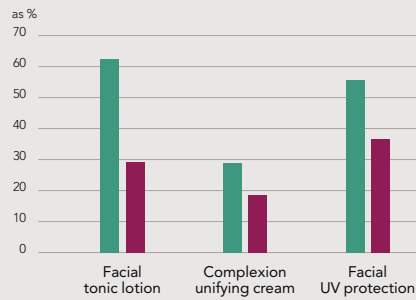


is appearing. Cosmetics are amongst the first consumer products that the new middle classes usually want to buy themselves.

Young Chinese women today use more products on average than older women. These young women, who will be 40 in 2020, will very probably have kept their consumption habits.

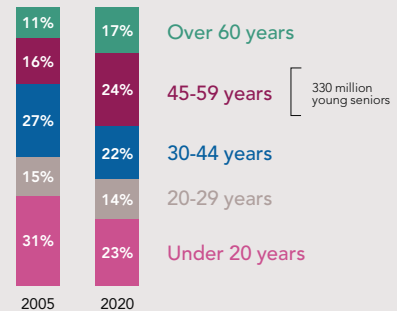


USE OF COSMETICS PRODUCTS BY CHINESE WOMEN



Source: 2008 L'Oréal study of skincare and skin cleansing use by urban women aged 15-50.

AGE PYRAMID TREND IN CHINA (2005-2020)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects.

... 60% of city-dwellers

Accelerated urbanisation, particularly in the emerging countries, is generating growing pollution. An increase in skin problems is foreseeable over future years, particularly in the major urban centres in the south of the planet. Today, 36% of Brazilians and 27% of Indians are already affected by oily skin problems, but only 9% of Europeans.



... about 50% of consumers in hot climates

By 2020, the centre of gravity of the worldwide cosmetics market will very probably have shifted towards the south and east of the planet. Market trends will develop in hot climates which generate specific needs.

In Brazil, the humidity of the tropical climate increases the frequency of shampoos—to as much as twice a day—compared with three times a week in Europe. More than 90% of the population use shampoos. 61% of women use a no-rinse conditioner for hair which is made unruly by the humidity.

The continuous process of perfecting hair-care is one of the keys to success in these markets.

UV radiation is considerably stronger in Asia than in Europe. Solar radiation levels in Singapore are five times higher than in Paris. Once again, devising new solutions for UV protection and controlling pigmentation, and particularly the appearance of blemishes, are major challenges.

