



L'ORÉAL

L'ORÉAL

SUSTAINABLE DEVELOPMENT

TANGIBLE COMMITMENTS FOR
RESPONSIBLE GROWTH



To be sustainable, L'Oréal's growth must be exemplary and for the benefit of all: consumers, employees, suppliers, distributors, shareholders and communities. It is built on the founding values of the group – respect, integrity and excellence – rooted in the everyday reality of all its businesses. Committed to accepting the full responsibilities of a leader, L'Oréal is taking tangible and measurable initiatives to contribute to a more respectful and more beautiful world.

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Eight commitments for sustainable growth

For L'Oréal, powerful convictions mean nothing without tangible commitments. The purpose of this section of the Annual Report is to set out again the key principles of the group's sustainable development approach. It provides an overview of L'Oréal's eight strong commitments for sustainable growth, followed by a presentation of the group's initiatives in corporate governance, ethics, philanthropy and protection of the environment.

Other chapters cover different aspects of L'Oréal's achievements in sustainable development. Information on diversity and solidarity is given in the Human Resources section (pages 94 to 97). Progress in sustainable and responsible innovation is described in the section devoted to Research and Development (pages 88 to 91), as well as in the Operations section (pages 92 and 93). And a special "Commitments" box offers an example of a concrete initiative in each operating division (Businesses section, pages 38 to 71).

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 is achieved.

Business Model

As an international group, L'Oréal is committed to achieving value-creating growth for the greatest number of stakeholders participating in its success. Despite the extremely difficult business environment caused by the economic crisis in 2008, the L'Oréal business model, based on innovation, quality and globalisation, demonstrated its resilience.

Safety, Health and Environment

L'Oréal aims for excellence in the realm of environmental performance. The group's policy is to reduce its environmental footprint through eco-efficiency and where possible achieve an absolute reduction in its impact. Between 2003 and 2008, L'Oréal reduced its energy consumption by 17%, direct CO₂ emissions by 23%, water consumption by 25% and waste generation⁽¹⁾ by 26% per finished product.

Research and Development

L'Oréal promotes sustainable innovation by incorporating the principles of sustainable development into its core Research and Development activities. For example, the group supports the development of green chemistry, systematically assesses the impact of raw materials on the environment and on biodiversity, and integrates raw materials from fair trade sources. In 2007, L'Oréal set up a Natural and Organic Centre of Excellence, one of whose key remits is to increase the use of more natural raw materials.

Environmental Policy—Results obtained between 2003 and 2008

Reduction in consumption and waste per finished product



Direct CO₂ emissions
-23%



Energy consumption
-17%



Water consumption
-25%



Waste reduction⁽¹⁾
-26%

(1) Excluding returnable packaging.



Product meeting: developing and sharing skills at L'Oréal in Paris (France).

Employee focus

The group wants to offer its employees the possibility of achieving personal fulfilment within a multicultural and stimulating community, rich in diversity and talents, to which everyone contributes with creativity and enthusiasm.

Relations with suppliers

The group is careful to ensure that working standards and human rights are strictly respected throughout the various stages of the supply chain. Every year, hundreds of audits are carried out by independent experts to verify that all our suppliers do indeed apply the terms of international conventions on employment rights.

A L'Oréal buyer with a supplier, specialised in manufacturing glass perfume bottles (France).



FIND OUT MORE

Each year in June, L'Oréal publishes a Sustainable Development Report, available at www.loreal.com, together with an abridged summary of this report.



Consumer Advice Centre (South Korea).

Relations with consumers

L'Oréal is committed to providing high-quality service and advice to its consumers through a network of 300 specialists in over 50 countries. The group has also committed to sustainable marketing by signing the Charter of the French Advertisers' Association (Union des annonceurs) for responsible advertising.

Corporate philanthropy

L'Oréal is determined to be an exemplary corporate citizen by promoting initiatives in favour of women and science, support for the most vulnerable, and education. Through the L'Oréal Corporate Foundation, the group is committed to two major international partnerships with UNESCO: "For Women in Science", and the preventive training programme "Hairdressers against AIDS". There are also a growing number of local support schemes in countries throughout the world.

Recognition for Commitment

L'Oréal's sustainability initiatives received widespread recognition in 2008:

- In January, the group was selected by the *Corporate Knights* magazine as one of the 100 most sustainable enterprises in the world.
- 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.
- The world's major rating agencies for corporate social responsibility ranked L'Oréal as a leader in its industry.
- Merrill Lynch named L'Oréal as a *Carbon Leader*, and its performance was acclaimed by the Carbon Disclosure Project.
- The group is listed on most of the Sustainable Development indexes (FTSE4Good, ASPI Eurozone and Ethibel).
- The group was ranked first in its industry by American stakeholders (Ceres Report).
- 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.

An independent, available and vigilant Board of Directors

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. In accordance with the decisions made by the Board of Directors at the end of 2007 to split in two the Management and Remuneration Committee, the Remuneration Committee and the Appointments Committee were set up at the beginning of 2008.

A harmonious allocation of roles

Following the separation of the roles of Chairman and Chief Executive Officer, pursuant to the decision made by the Board of Directors in 2006, the directors of L'Oréal once again noted, at the end of 2008 and at the time of the evaluation of the *modus operandi* of the Board, that this separation of roles gives entire satisfaction, by making an effective contribution to the quality of their exchanges. The Chairman and the Chief Executive Officer each duly fulfil their respective roles, within the framework of the Internal Rules laid down by the Board (see Volume 2 of the Reference Document, page 124).

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: Annette Roux, Charles-Henri Filippi, Xavier Fontanet, Bernard Kasriel, Marc Ladreit de Lacharrière and Louis Schweitzer. Mr Ladreit de Lacharrière has been a director of L'Oréal for over 12 years but his professional experience and his freedom of judgment, combined with his good knowledge of the company, make a big contribution to the Board's discussions and decisions.

Responsible and experienced directors

The L'Oréal Board of Directors reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria set out in the AFEP-MEDEF Code of December 2008, which has been chosen by the company as its reference for best practices in terms of corporate governance.

The quality of a director is also measured on the basis of his experience, his skills, his authority and his good knowledge of the company, which are all assets that make it possible to conduct a long-term strategy. The directors of L'Oréal are present, active and closely involved, which contributes to a continued improvement in the quality of the deliberations and decisions of the Board. They are committed and vigilant and actively participate in the discussions, with complete freedom of judgment and a high level of availability. In a spirit of loyalty, all the directors strictly respect the collegial nature of the decisions made by the Board.

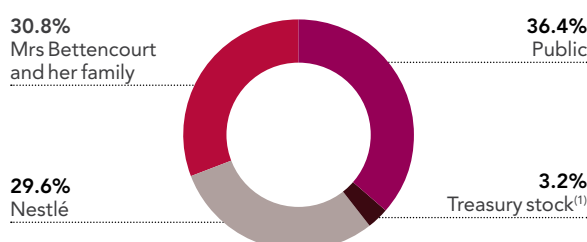
Actively involved Committees

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.

BREAKDOWN OF SHAREHOLDING STRUCTURE AT DECEMBER 31st, 2008



(1) In accordance with the law, treasury stock carries no voting rights.

The Strategy and Implementation Committee met four times in 2008. Besides the activities of the group's divisions and geographic zones, with notably the trends in sales and results, the Committee reviewed the conditions of the acquisition of Yves Saint Laurent Beauté and the share buyback programme. Various aspects of strategy and particularly the positioning of the businesses of L'Oréal were presented and discussed by the Committee, and then during Board meetings in the presence of the senior managers. At the end of the year, the Committee's attention turned to the consequences of the financial crisis which once again enabled the Board to note the robustness of the L'Oréal balance sheet.

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 Committee met four times in 2008, in the presence of the Statutory Auditors. The necessary documents were provided to it prior to the meetings concerned. The Committee considered that the work by the Internal Audit Department and the Internal Control process put in place, which it reviewed on several occasions particularly with regard to the risk aspects, are improving in quality. The Committee also reviewed the company's level of debt and its financing structure, as well as the main counterparty risks.

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. In 2008, the Remuneration Committee met three times.

Further to the deliberations and a proposal of the Committee, the Board adopted in 2008 the principle and the method of calculation of the conditions related to the performance of the Chief Executive Officer for the calculation of the indemnities due to him in the event of the termination of his duties. The corresponding regulated commitment resulting from this was approved at the Annual General Meeting.

REMUNERATION OF CORPORATE OFFICERS

At the end of November 2008, the Remuneration Committee followed by the Board of Directors carefully reviewed the AFEP and MEDEF recommendations of October 2008 concerning the remuneration of corporate officers of listed companies. The Board considered that these recommendations are in line with the company's corporate governance approach.

The Committee proposed to the Board that it adopts the presentation of the remuneration of the Chairman and the Chief Executive Officer in the 2008 Reference Document as recommended. See Management Report chapter, Volume 2, beginning on page 74 of the Reference Document.

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.

The Committee met three times in 2008. The Committee reviewed the Board's organisation and that of its Committees and particularly the organisation of the Audit Committee whose financial expertise has been strengthened. In light of the new obligations in terms of information to be published, amongst others, with regard to the directors, the Committee proposed to the Board that it review on a case-by-case basis the situation of each director with regard to their independence. In the 2008 Reference Document, the independent directors are clearly identified as such, in light of the criteria adopted by the Board.

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.

Ensuring strict confidentiality

The directors, who have permanent insider status, apply strict rules to themselves with regard to the confidential information in their possession. In this respect, they meet the requirements of the law and comply with the preventive measures taken by L'Oréal in relation to its employees, particularly within the scope of Stock Market Code of Ethics and the Internal Control procedures. The improper use and transmission of insider information must be prevented, and investments in the company's shares must be carried out within a secure framework.

Ethics: integrity, respect, excellence

The Director of Ethics, who reports directly to the Chief Executive Officer, is responsible for implementing the L'Oréal ethics programme. This involves promoting and integrating ethical best practices across the group, providing help in ethical decision-making, training employees, and addressing any possible complaints. To ensure continuous progress, the Director of Ethics regularly measures and assesses results, and provides periodic reports to the Chief Executive Officer and the Executive Committee.

L'Oréal Ethics Open Talk

L'Oréal encourages dialogue, and employees are free to openly express their legitimate concerns. The normal path for raising such concerns is via their line management. Employees also have the possibility of contacting the Director of Ethics directly, and namely via the L'Oréal Ethics Open Talk website. This website is currently available in 11 languages and provides a secure mechanism for passing on information.

Annual reporting extended to all “Code of Business Ethics” subjects

Created in 2005, “Country Reporting Ethics” is a reporting tool on ethics set up in each country, enabling a global evaluation in this field. In 2008, this tool was extended to cover all *Code of Business Ethics* subjects including human rights, corruption, fair treatment of suppliers, and advertising and marketing rules.

Evaluating and analysing ethical risks

The Office of the Director of Ethics has developed a tool enabling each country to evaluate and analyse any possible ethical risks, and to devise a corrective action plan where necessary. The tool is already being used by human resources managers and is now being rolled out to country and plant managers.

Recognition of L'Oréal's commitment

Jean-Paul Agon received the *Stanley C. Pace Leadership in Ethics Award* from the Ethics Resource Center in recognition for the company's exemplary leadership in ethical matters. Nominations for this award come from companies, non-governmental organisations, the academic world and the public sector.

Ethics Training

Ethics has been incorporated into 11 training courses for managers, covering a variety of topics including managers as ethics role models, and ethical subjects linked to specific activities such as purchasing and recruitment. An ethics module is now included in the “Discovery” induction programme attended by all managers when they join L'Oréal.

L'Oréal sponsors the first European Master's programme in “Law and Business Ethics”

This degree course, organised by the University of Cergy-Pontoise (France) in association with ESSEC (France), the Institute of Business Ethics (United Kingdom) and the Ethics & Compliance Officers Association (United States), aims to demonstrate how companies must integrate ethics in both their strategic plans and daily business practices.

L'Oréal is also participating in the development of a Chair of “Law and Business Ethics” at the University of Cergy-Pontoise, which aims to help promote responsible corporate behaviour.

New ethics section on loreal.com

To address growing stakeholder interest in L'Oréal's ethics programmes, a new section on ethics has been included in the L'Oréal corporate website at www.loreal.com.

The section contains information on the L'Oréal *Code of Business Ethics*, which can namely be downloaded in any of 43 different languages.

FIND OUT MORE

On the group's institutional site: www.loreal.com, Our Company/Ethics section.

On the Open Talk site: www.lorealetics.com



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The L'Oréal Foundation: education, science, solidarity

In its first year of existence, the L'Oréal Corporate Foundation gave new impetus to the group's major emblematic philanthropic programmes. It has undertaken new projects in its three fields of intervention: encouraging education, promoting science and helping the vulnerable. In 2009, its objective is to roll out exemplary programmes adapted to specific situations across the globe, and to develop philanthropic initiatives firmly anchored in the local environment of its subsidiaries.

Extending the group's major philanthropic programmes

L'ORÉAL-UNESCO "For Women in Science" Awards
2008 marked a further step forward with the signing, on March 6th, 2008, of the "For Women in Science" charter of commitment aimed at promoting science, supporting the cause of women and changing the face of science. Since the programme began, 52 awards, 120 international fellowships and 499 national fellowships have rewarded the efforts of nearly 700 women around the globe. These talented women today form an exceptional community that represents all continents and cultures.

"Hairdressers against AIDS"

Launched in 2005 by L'Oréal in partnership with UNESCO, the international "Hairdressers against AIDS" education and prevention programme is taught in 163 L'Oréal training centres, as well as in hairdressing schools and salons. Three thousand instructors are involved on a daily basis. Today also distributed via the Internet, the programme is in constant expansion. Four new countries joined the programme in 2008, bringing the total to 27 countries to date. The Foundation is eager to strengthen this initiative, to raise awareness of the risks of the disease amongst greater numbers of women, the most influential educators in their families.

Ceremony marking 10 years of the L'ORÉAL-UNESCO "For Women in Science" Awards.



Helping vulnerable people

Self-esteem and self-confidence are at the heart of L'Oréal's business. The Foundation has chosen to develop programmes which help people regain confidence in their appearance and thus resume active involvement in society. The Foundation is committed to the international "Look Good... Feel Better" programme that organises skin-care and make-up workshops to help women with cancer reduce the side effects of treatment and thus restore their self-image.

In another move, the Foundation is working with **Médecins du Monde** to support "Opération Sourire". This programme restores through surgery faces disfigured by war, malnutrition or disease, helping adults and children to overcome their disadvantage and become part of society again. In 2008, over 200 people were able to benefit from operations in Cambodia, Madagascar, Mongolia and Niger. The Foundation will be stepping up its commitment in 2009.

The Foundation gave support to the **Samusocial** for the creation of the "Maison des Femmes", a shelter where particularly vulnerable women can rebuild their lives. In 2008, it placed a social worker at the residents' disposal to help them regain a sense of their identity and enhance their self-image.

The Foundation also offers beauty care and hairdressing workshops with a social dimension at the "Maison de Solenn" to help young anorexic women regain their self-confidence.

A team of Médecins du Monde surgeons on a mission in Cambodia for "Opération Sourire".



Reducing our environmental impact and use of natural resources

When it comes to environmental performance, L'Oréal aims for excellence. More than 20 years ago, the group set the goal of reducing its environmental impact by encouraging eco-efficiency and by limiting the absolute level of its emissions wherever possible. L'Oréal is also committed to providing safe working conditions for all its employees.

Global warming

In 2008, L'Oréal signed the Bali agreement on global warming and conducted a series of studies on all its CO₂ emissions, enabling it to achieve significant reductions: emissions were cut by 3.3 %⁽¹⁾ per finished product, and overall by 6.6%⁽¹⁾ in 2008. Measures were also taken to limit travel by employees, encourage environmentally friendly modes of transport for essential journeys, and optimise logistics.

The Mexico City (Mexico) distribution centre has cut its electricity consumption per finished product by 30%, a reduction equivalent to 54 tonnes of CO₂ emissions, by installing 1,000sq.m of solar panels, which now enable the recharging of the batteries of all its forklift trucks. By introducing solar panels and a biomass power station for the heating of the building, the Burgos plant (Spain) has also managed to reduce the quantity of CO₂ emitted by 332 tonnes, or 8% of the plant's emissions.



Energy

L'Oréal has introduced a proactive programme designed to boost the efficiency of its energy consumption, limit CO₂ emissions into the atmosphere, and make substantial savings in operating costs. The measures taken include: the use of alternative energy and non-polluting energy sources such as solar heating of water, the installation of high-performance lighting, the purchase of more efficient boilers, and the optimisation of compressor systems. Most of the group's office buildings around the world are now fitted with proximity sensors which switch off lights automatically when an office or conference room is empty. Between 2003 and 2008, these efforts led to energy savings of 17% per finished or handled product, with an overall reduction of 1.7% in energy consumption for 18.4% growth in production.

The Libramont plant (Belgium) has reduced its energy consumption ratio by 9.8% compared with 2007. The sharp reduction was achieved by a number of measures: improving insulation, changing bleed-taps, installing new lighting, recovering 80% of compressor power which is then used to heat the premises, and reducing compressed air consumption in the packaging equipment.



(1) Including both direct CO₂ emissions from on-site fossil fuel use (scope 1) and indirect CO₂ emissions from electricity use (scope 2).

Water

L'Oréal is striving to achieve greater eco-efficiency by evaluating its water consumption. With this goal in mind, industrial plants are implementing a range of measures: sterilising with steam rather than hot water, recycling some wash water from the manufacturing tanks, using rainwater for gardens and green areas, and constantly raising employee awareness. As a result of these efforts, water consumption was reduced by 3.8% per finished manufactured product in 2008.

The Rambouillet plant (France) has reduced water consumption by 10% per finished product. This achievement reflects an approach that was initiated several years ago. In 2006, the plant set up a water consumption mapping system: eight meters enable the monitoring and analysis of the plant's water consumption. Twenty-nine of the 48 projects planned to cut water consumption have already been carried out.



Waste

The programmes introduced by L'Oréal to cut waste cover not only packaging used by the group's suppliers but also packaging which ends up with its retailers and customers. Nearly half the production and distribution sites have achieved the zero landfill target, and aggregate recycling, energy recovery and re-use rates have now reached around 95% worldwide. In 2008, total transportable waste (apart from returnable packaging) was lowered by 0.5% per finished product.

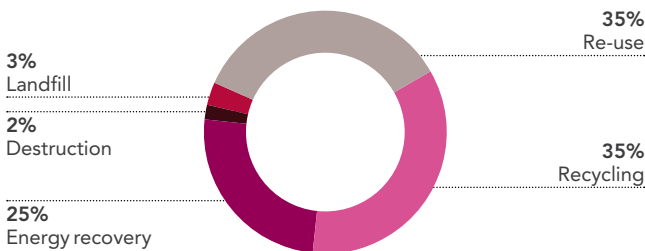
The plant in São Paulo (Brazil) reduced its transportable waste by 19% per finished product compared to 2007. This was achieved by systematically using long-life returnable containers with packaging item suppliers.



Safety, Health and Environment indicators

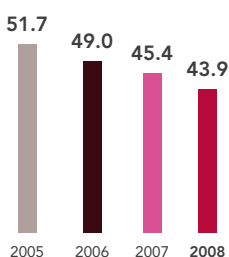
WASTE BY DISPOSAL METHOD IN 2008

(group factories and distribution centres)



TOTAL CO₂ EMISSIONS IN GRAMS PER FINISHED PRODUCT

(group factories and distribution centres)



CHANGE IN ENVIRONMENTAL INDICATORS

(group factories and distribution centres)

	2007	2008	Change
(In thousands of cubic metres)			
Water consumption	3,145	2,915	-7.3%
(In millions of kWh)			
Energy consumption	814.6	785.5	-3.6%
(In %)			
Waste recovery index	95%	95%	-

NUMBER OF ACCIDENTS RESULTING IN SICK LEAVE

per million hours worked for L'Oréal personnel

(group factories and distribution centres)

