

ANNUAL
REPORT
2013

L'ORÉAL

L'ORÉAL
PROFESSIONNEL
PARIS

KÉRASTASE
PARIS

REDKEN
5TH AVENUE NYC

MATRIX
IMAGINE ALL YOU CAN BE

Because you're worth it.

L'ORÉAL
PARIS

GARNIER

MAYBELLINE
NEW YORK

SOFTSHEEN | CARSON
LABORATORIES ADVANCED RESEARCH
AFRICAN HAIR AND SKIN

essie

LANCÔME
PARIS

GIORGIO ARMANI

YVES SAINT LAURENT

Kiehl's
SINCE 1851

BIOHERM

RALPH LAUREN
FRAGRANCES

clarisonic

shu uemura

UD
URBAN DECAY
beauty with an edge

DIESEL

HR
HELENA RUBINSTEIN

eacharel

VIKTOR & ROLF

YOUR IDEAL SKIN
VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE DERMATOLOGIQUE

SKINCEUTICALS
ADVANCED PROFESSIONAL SKINCARE

ROGER & GALLET
PARIS

innéov
ADVANCED RESEARCH NESTLÉ & L'ORÉAL

THE
BODY
SHOP

OUR MISSION

BEAUTY FOR ALL

For more than a century, L'Oréal has devoted itself solely to one business: beauty. It is a business rich in meaning, as it enables all individuals to express their personalities, gain self-confidence and open up to others.

***Beauty
is a language***

L'Oréal has set itself the mission of offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety. It pursues this goal by meeting the infinite diversity of beauty needs and desires all over the world.

***Beauty
is universal***

Since its creation by a researcher, the group has been pushing back the frontiers of knowledge. Its unique Research arm enables it to continually explore new territories and invent the products of the future, while drawing inspiration from beauty rituals the world over.

***Beauty
is a science***

Providing access to products that enhance well-being, mobilising its innovative strength to preserve the beauty of the planet and supporting local communities. These are exacting challenges, which are a source of inspiration and creativity for L'Oréal.

***Beauty
is a commitment***

By drawing on the diversity of its teams, and the richness and the complementarity of its brand portfolio, L'Oréal has made the universalisation of beauty its project for the years to come.

***L'Oréal,
offering beauty
for all***

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BEAUTY IS UNIVERSAL

L'Oréal is in a good position to seize the opportunities of the new beauty planet now taking shape. The recent acquisitions are opening up prospects of expansion in all territories. Women and men are at the heart of the group's success, and expertise in all its forms is driving each dimension of the universalisation strategy.

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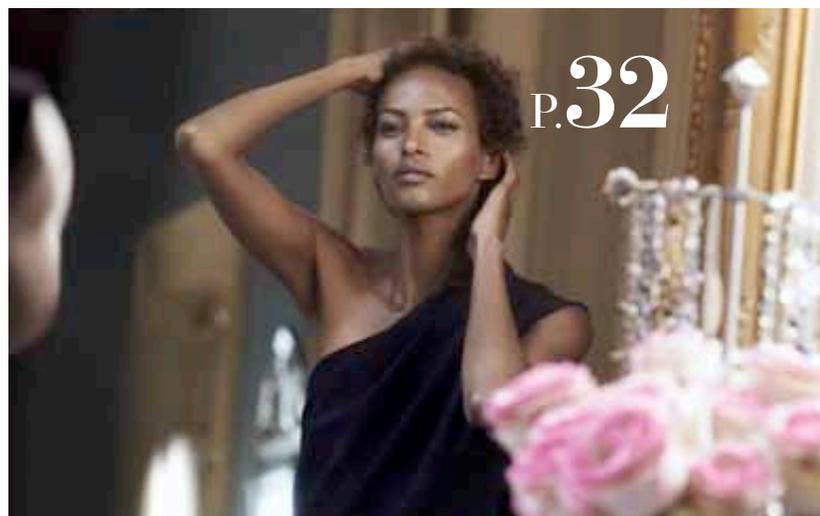
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L'ORÉAL, OFFERING BEAUTY FOR ALL

Each division is developing a specific vision for each distribution channel, to respond to the needs of all lifestyles. The collection of international brands has tremendous growth potential: each one of them captures beauty desires, establishing an ever closer relationship with consumers.

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2013 ANNUAL REPORT
DIGITAL EDITION

Take a look at the multimedia content and exclusive articles in your L'Oréal Finance Mag digital magazine!
magazine.loreal-finance.com/en



BEAUTY IS A SCIENCE

To invent the beauty of tomorrow, L'Oréal is continuing to apply its chosen policy of combining high-level Research with the most advanced science. A focus on two emblematic pathways to innovation.

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BEAUTY IS A COMMITMENT

It is not enough for a company to deliver high performance. L'Oréal's ambition matches its responsibilities as a leader: to make the L'Oréal of the 21st century an exemplary company.

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INTERVIEW

/ A THRILLING STAGE IN BUILDING THE NEW L'ORÉAL

JEAN-PAUL AGON
CHAIRMAN AND CEO OF L'ORÉAL

What conclusions can you draw from 2013?

2013 was another good year for L'Oréal. The group outperformed the market across all divisions and geographic zones, posting significant growth in both results and profitability. 2013 was also another year of progress in adapting the company to a changing world, and driving its efficiency, modernity and performance, so as to continue to build dynamic, sustainable and profitable growth.

What were the reasons behind this good performance?

Above all, our products and our launches. This is essential in our business: cosmetics is a supply-driven market where leadership is built up primarily through the attractiveness and superiority of products.

This strong commitment to innovation is at the heart of L'Oréal and enables us to stay one step ahead. To rise to it, we have once again increased our Research and Innovation budgets, which have risen faster than our sales. We are investing in all areas: in Advanced Research and in formulation; in France and in our five regional hubs, anchored in the planet's major cosmetics markets.

Another reason is the vitality of our brands. They play a key role in these successes. The brands are always reinventing themselves, to stay perfectly attuned to consumers who are constantly changing. Today more than ever, our brand portfolio is the most varied, richest and most powerful in the industry. It is this richness that enables us to meet the whole world's beauty expectations so effectively.

Through globalisation, our brands have strengthened their positions across all geographic zones. Moreover, the group's growth is well-balanced: Western Europe remains very solid, North America recorded another year of growth and market share gains in a less buoyant context, and the New Markets excluding Japan posted double-digit growth.

And in terms of results?

2013 was also a good year for progress in results and in profitability, which reached a record level. These results once again confirm the strength of L'Oréal's business model, which creates value and generates cash flow. They illustrate the group's ability to continue to deliver sustainable and profitable growth. Their solidity, together

“ **WE HAVE OUTPERFORMED THE MARKET ACROSS ALL DIVISIONS AND GEOGRAPHIC ZONES.** ”

with the company's very favourable prospects, have led the Board of Directors to propose to the next Annual General Meeting a further significant increase in dividend of +8.7% to 2.50 euros.

Is governance one of the factors in L'Oréal's success?

There is no doubt about it. The quality of governance is underpinned by highly committed directors endowed with complementary expertise. They ensure that all decisions assist in the implementation of the strategic orientations they have approved. The Board draws on the quality

of the contribution made by its specialised committees, whose remits have been expanded since their creation. In 2014, the Board will propose to the Annual General Meeting the appointment as new Board Director of Mrs Belen Garijo, of Spanish nationality, President and CEO of Merck Serono, the pharmaceutical subsidiary of the German group Merck. Out of a total of fourteen directors, five women will have a seat on the Board, and there will be a substantial proportion of independent directors. In governance matters, L'Oréal wants its behaviour to be exemplary too. ...

/STRATEGIC TRANSACTION BETWEEN L'ORÉAL AND NESTLÉ

IN FEBRUARY 2014 YOU ANNOUNCED A STRATEGIC TRANSACTION UNDER WHICH L'ORÉAL WILL BUY 48.5 MILLION OF ITS OWN SHARES FROM NESTLÉ. WHAT DOES THIS DEAL INVOLVE?

This transaction represents a very positive strategic move for L'Oréal, its employees and its shareholders. The buyback of 48.5 million of our own shares, that is 8% of share capital, will be partially financed through the disposal to Nestlé of our 50% stake in GALDERMA for an enterprise value of 3.1 billion euros, and for the remainder in cash for an amount of 3.4 billion euros. L'Oréal is focusing exclusively on its cosmetics business. L'Oréal will benefit from the very significant and reinforced presence of the founding Bettencourt Meyers family, who will continue to fully support the company as it always did in the past. Furthermore, Nestlé, which has always been a loyal and constructive shareholder, will continue to provide its active support. Lastly, all of L'Oréal's shareholders will benefit from this transaction, with an accretive impact on the company's earnings, resulting from the buyback and subsequent cancellation of L'Oréal shares held by Nestlé.

“ UNIVERSALISATION,
THE STRATEGY WE HAVE CHOSEN,
IS GLOBALISATION THAT RESPECTS
DIFFERENCES. ”

...

You have made several acquisitions. Can you explain the reasoning behind them?

On one hand there are acquisitions that complement our portfolio of brands with a global vocation, like the American make-up brand URBAN DECAY, which is a tremendous addition to our luxury brands. The same applies to DECLÉOR and CARITA, which will take us into a new business, professional skincare, broadening the growth potential of Professional Products. On the other hand, there are acquisitions with a local or regional vocation

that will reinforce our geographic coverage: in Colombia with the make-up brand VOGUE, in Kenya with INTERBEAUTY and in Brazil with EMPORIO BODY STORE. These companies are accelerating our penetration of these markets tremendously. All these acquisitions will make contributions to our organic growth in the future.

Where do you stand regarding the “digital revolution”?

We have continued to transform our marketing models to take advantage of the incredible opportunities provided by

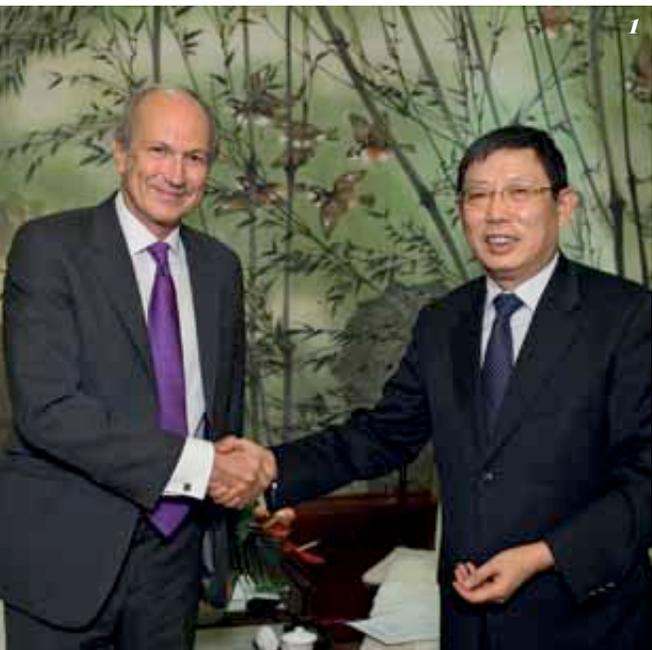
digital media. Our vision of digital and traditional media is now totally integrated. All our brands across all regions have switched to digital. They have worked intensively to offer their consumers the very best not only in information content but also in service quality on the Internet, which is also an additional distribution channel for our brands.

You have continued the group’s transformation process. Is a new L’Oréal now emerging?

Yes definitely. Over the last few years, we have been adapting the group in all areas, to make sure it is keeping pace with the major economic, digital and social changes taking place in the world, and ready to grasp all the opportunities of the 21st century.

1/
Jean-Paul Agon, on a visit to China, with the Mayor of Shanghai, Mr Yang Xiong.

2/
Jean-Paul Agon and Mrs Irina Bokova, Director-General of UNESCO, at the inauguration of the photo retrospective of the “For Women in Science” programme in Paris.



/THE CHALLENGES OF TOMORROW

Adaptability is one of the group's great strengths. A New L'Oréal is emerging, and it is well equipped to continue its mission – beauty for all – by applying its universalisation strategy, and to pursue its quest for one billion new consumers. In 2013, we added several new cornerstones to help build the New L'Oréal: we changed our organisation, continued to rethink our marketing models, and made ambitious new commitments in terms of corporate responsibility.

Why did you decide to further develop the group's organisation?

To make the group more agile, more efficient and better adapted to our universalisation strategy. We have thus grouped together the selective divisions – L'Oréal Luxe, Active Cosmetics, Professional Products and THE BODY SHOP – under the same leadership, so they can share their expertise and their best practices more effectively. At the same time, we have organised the global market into eight major homogeneous strategic regions and localised the management of distant regions. This means we can be even closer and more attentive to our consumers' aspirations. And I am certain this will really boost our universalisation strategy. Universalisation, the strategy we have chosen for the group, is globalisation that respects differences.



L'ORÉAL HAS JUST MADE A NEW SET OF SOCIAL AND ENVIRONMENTAL RESPONSIBILITY COMMITMENTS FOR 2020. WHAT CHANGES CAN WE EXPECT AS A RESULT?

This is a project that is very close to my heart. The new commitments form part of an ambitious programme we call "Sharing Beauty With All". They will help us completely rethink the way that we design and make our products, and how we communicate about them. We are committing ourselves, for example, to ensuring that 100% of our products will have an environmental or social benefit by 2020, in other words, their impact will be improved compared with today. This is a really major change, establishing a new paradigm for our brands. "Sharing Beauty With All" is a global programme which includes commitments not only in sustainable innovation, production and consumption, but also in terms of relations with our employees, our suppliers and the communities around us. We believe not only that respect for strong ethical principles and the ability to serve the public interest will make a real difference in the 21st century, but also that the resulting transformations will have a positive impact on the company in economic terms.

HOW DO YOU SEE L'ORÉAL DEVELOPING OVER THE COMING YEARS?

L'Oréal is going to continue its remarkable adventure as it strives to fulfil its mission: to offer the best in beauty to all women and men worldwide. This is a noble, useful and thrilling mission. The group is underpinned by ambitions and aspirations that are perfectly complementary. The ambition of reinforcing our positions in all regions of the world, by responding to the emergence of middle classes all over the planet who are eager for modern, high-quality beauty products. The aspiration to deserve the trust of our consumers and civil society by being an exemplary company when it comes to ethics and social and environmental responsibility.

/ A COMMITTED BOARD OF DIRECTORS

BALANCED GOVERNANCE

The Board of Directors believes that the unification of the roles of Chairman and CEO is particularly appropriate for L'Oréal's specific characteristics: a stable and loyal shareholding structure, expertise that is solely focused on the beauty profession, the remarkable loyalty of its senior managers, who have a thorough knowledge of the business, and a progressive and steady international growth and solid economic and financial performances. This streamlined mode of governance, with expanded remits for board committees that are free to organise their work in preparing for the Board's deliberations, simplifies decision-making in the beauty profession, where requirements in terms of innovation and adaptation are very exacting.

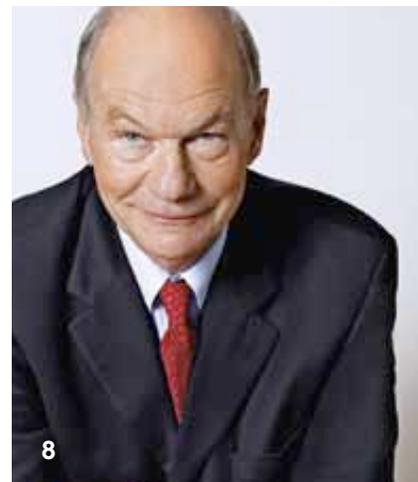
DEDICATED, VIGILANT DIRECTORS

The directors of L'Oréal are regularly kept up to date about all the company's activities and performances by meeting a large number of senior managers and engaging in open and constructive dialogue with them. Highly committed and endowed with complementary financial, industrial and commercial expertise, they ensure that all measures assist in the implementation of the

strategic orientations they have approved. The work, debates and deliberations of the Board, encouraged by the Chairman, are carried out openly and transparently.

ETHICS AT THE HEART OF L'ORÉAL'S GOVERNANCE AND COMMITMENTS

The Board places great importance on the respect of L'Oréal's Ethical Principles – Integrity, Respect, Courage and Transparency – and more generally of the Code of Business Ethics. These commitments are the foundation notably of the group's policies on responsible innovation, environmental stewardship, social and societal responsibility and philanthropy.



FOR FURTHER INFORMATION, please consult the Corporate Governance chapter in the 2013 Registration Document.



1



2



3



4

A diverse Board of Directors⁽¹⁾ striving to offer beauty for all

(1) Board members as of 31/12/2013.

1. JEAN-PAUL AGON
Chairman and CEO since March 18th, 2011
(term of office renewed in 2010).

2. JEAN-PIERRE MEYERS
Vice-Chairman of the Board
(term of office renewed in 2012).

3. PETER BRABECK-LETMATHE
Vice-Chairman of the Board
(term of office renewed in 2013).

4. FRANÇOISE BETTENCOURT MEYERS
(term of office renewed in 2013).

5. PAUL BULCKE
(since April 17th, 2012).

6. CHARLES-HENRI FILIPPI
(term of office renewed in 2011).

7. XAVIER FONTANET
(term of office renewed in 2010).

8. BERNARD KASRIEL
(term of office renewed in 2012).

9. CHRISTIANE KUEHNE
(since April 17th, 2012).

10. MARC LADREIT DE LACHARRIÈRE
(term of office renewed in 2010).

11. JEAN-VICTOR MEYERS
(since 2012).

12. VIRGINIE MORGON
(since April 26th, 2013).

13. ANNETTE ROUX
(term of office renewed in 2011).

14. LOUIS SCHWEITZER
(term of office renewed in 2013).



6



7



9

“

The quality of governance is underpinned by the extremely strong commitment of the board members of your company. The Board provides the General Management with invaluable support for strategic decision-making. The balance of power is ensured by the clear definition of each one's remit. ”

JEAN-PAUL AGON
CHAIRMAN AND CEO OF L'ORÉAL



11



12



13



14



/THE EXECUTIVE COMMITTEE

In 2013, L'Oréal's organisational structures were modified to adapt to a perpetually changing cosmetics market.

The General Management of the Selective Divisions has been created to leverage the expertise of the brands of L'Oréal Luxe, Active Cosmetics, Professional Products and THE BODY SHOP in each of the selective distribution channels.

In order to boost the strategy of universalisation and conquering the next billion consumers, the group is refining and completing the structure of its zones with the creation of new geographic entities: the Americas Zone (including North America and Latin America), the Eastern Europe Zone and the Western Europe Zone.



MEMBERS OF THE EXECUTIVE COMMITTEE OF L'ORÉAL

1. JEAN-PAUL AGON
Chairman and CEO

2. JOCHEN ZAUMSEIL
Executive Vice-President
Western Europe Zone

3. ALEXIS PERAKIS-VALAT
Executive Vice-President Asia-Pacific Zone

4. JÉRÔME TIXIER
Executive Vice-President Human Relations
and Advisor to the Chairman

5. SARA RAVELLA
Executive Vice-President Communication,
Sustainability and Public Affairs

6. MARC MENESGUEN
President Consumer Products Division

7. NICOLAS HIERONIMUS
President Selective Divisions

8. CHRISTIAN MULLIEZ
Executive Vice-President
Administration and Finance

9. LAURENT ATTAL
Executive Vice-President
Research and Innovation

10. ALEXANDRE POPOFF
Executive Vice-President
Eastern Europe Zone

11. BRIGITTE LIBERMAN
President Active Cosmetics Division

12. GEOFF SKINGSLEY
Executive Vice-President
Africa, Middle East Zone

13. FRÉDÉRIC ROZÉ
Executive Vice-President
Americas Zone

14. AN VERHULST-SANTOS
President Professional Products Division

15. JEAN-PHILIPPE BLANPAIN
Executive Vice-President Operations

/L'ORÉAL IN FIGURES

1st

COSMETICS GROUP
WORLDWIDE

22.98

BILLION EUROS OF SALES
IN 2013

130

COUNTRIES

28

INTERNATIONAL BRANDS⁽¹⁾

77,500

EMPLOYEES

624

PATENTS REGISTERED IN 2013

ROBUST SALES GROWTH

2013 was another year of robust growth for L'Oréal, with sales of 22.98 billion euros, an increase of +5.0%⁽²⁾. In a market whose growth was more moderate, L'Oréal strengthened its worldwide positions across all divisions. In geographic terms, growth was well-balanced: Western Europe and North America remained very solid, and the New Markets have been, since 2012, the group's No.1 geographic zone. They accounted for 39.8% of sales: their weight has doubled between 2000 and 2013.

CONSOLIDATED SALES BY BRANCH⁽³⁾

(€ millions)

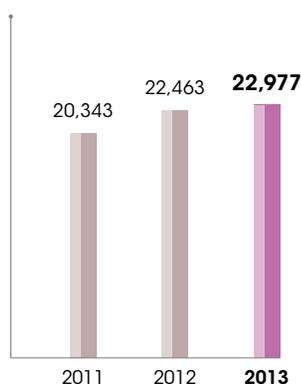
21,315
COSMETICS

836
THE BODY SHOP

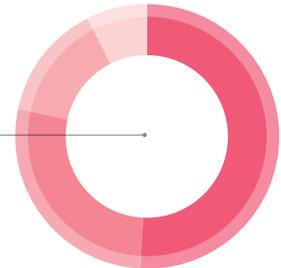
826
DERMATOLOGY⁽⁴⁾

CONSOLIDATED SALES

(€ millions)

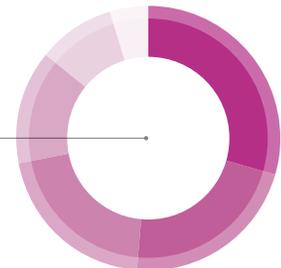


2013 CONSOLIDATED SALES OF THE COSMETICS BRANCH (as %)



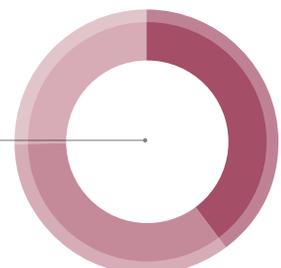
DIVISIONS

51.0% ● Consumer Products
27.5% ● L'Oréal Luxe
14.0% ● Professional Products
7.5% ● Active Cosmetics



BUSINESS SEGMENTS

29.7% ● Skincare
21.7% ● Make-up
20.7% ● Haircare
13.8% ● Hair colourants
9.5% ● Fragrances
4.6% ○ Other⁽⁵⁾



GEOGRAPHIC ZONES

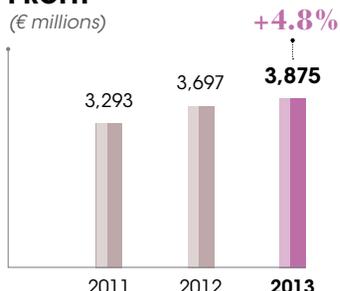
39.8% ● New Markets:
20.6% Asia-Pacific
8.9% Latin America
7.9% Eastern Europe
2.4% Africa, Middle East
35.1% ● Western Europe
25.1% ● North America

(1) International brands with annual sales of more than 50 million euros. (2) Like-for-like. (3) The group's business is composed of the cosmetics and dermatology branches, and The Body Shop. (4) Group share, i.e. 50%. (5) "Other" includes hygiene products and sales made by American distributors with brands outside of the group.

SIGNIFICANT GROWTH IN RESULTS AND PROFITABILITY

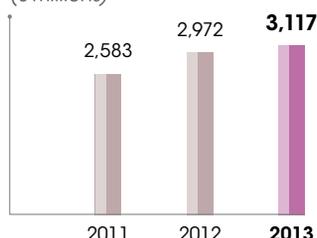
OPERATING PROFIT

(€ millions)



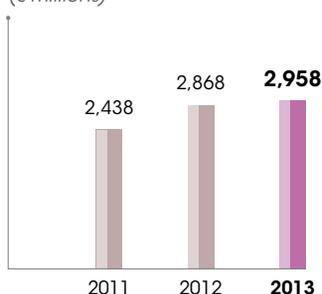
NET PROFIT EXCLUDING NON-RECURRING ITEMS AFTER NON-CONTROLLING INTERESTS⁽¹⁾

(€ millions)



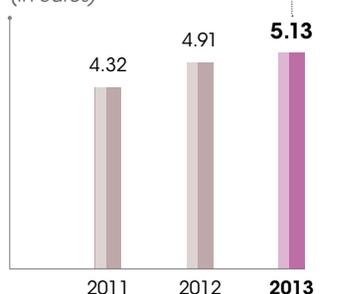
NET PROFIT AFTER NON-CONTROLLING INTERESTS

(€ millions)



NET EARNINGS PER SHARE⁽²⁾

(in euros)



Increasing by +40 basis points, profitability reached a record level in 2013: operating profit came out at 3.875 billion euros, representing 16.9% of sales. These results confirm the relevance of the business model, which creates value and generates cash flow, and the group's ability to continue to deliver sustainable growth.

A SOLID BALANCE SHEET

Net cash surplus of
2,215
million euros

Shareholders' equity represents
72.34%
of total assets

Capital expenditure
4.6%
of sales

The balance sheet is particularly solid. The reinforcement of shareholders' equity is mainly the result of profit allocated to reserves and the increase in value of the Sanofi shares at market value. In 2013, L'Oréal recorded a net cash surplus of 2,215 million euros.

A DYNAMIC POLICY FOR SHAREHOLDERS

(at December 31st, 2013)

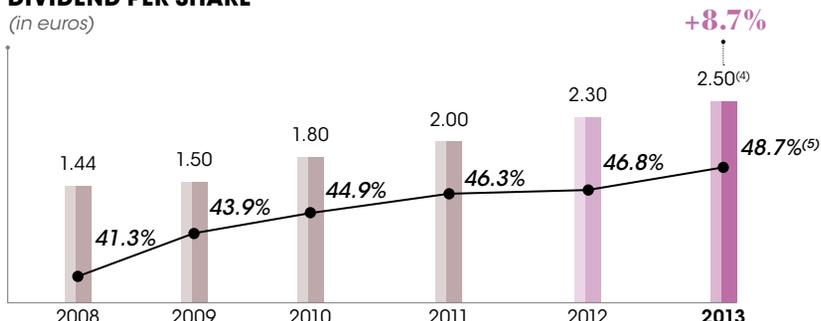
Share price: **€127.70**

Market capitalisation⁽³⁾: **€77.37 bn**

The quality of the balance sheet and the company's favourable prospects led the Board of Directors to propose to the Annual General Meeting a further significant increase in dividend to €2.50⁽⁴⁾ per share, a rise of +8.7%. In 2013, the pay-out ratio amounted to 48.7%⁽⁵⁾. And by holding their shares in registered form, L'Oréal's shareholders receive a 10% loyalty bonus⁽⁶⁾.

DIVIDEND PER SHARE

(in euros)



● Pay-out ratio 2008-2013 as % of profit⁽⁷⁾

(1) Net profit excluding non-recurring items after non-controlling interests does not include impairment of assets, restructuring costs, tax effects or non-controlling interests. (2) Diluted net earnings per share excluding non-recurring items after non-controlling interests. (3) On the number of shares at December 31st, 2013, i.e. 605,901,887 shares. (4) Dividend proposed to the Annual General Meeting of April 17th, 2014. (5) Based on the dividend proposed to the Annual General Meeting of April 17th, 2014. (6) For shareholders who continuously hold their shares in registered form for a minimum of two full calendar years, up to a maximum of 0.5% of the capital for the same shareholder. (7) Pay-out ratio based on diluted net profit excluding non-recurring items, after non-controlling interests, per share.



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/ THE WORLD OF BEAUTY IN 2013

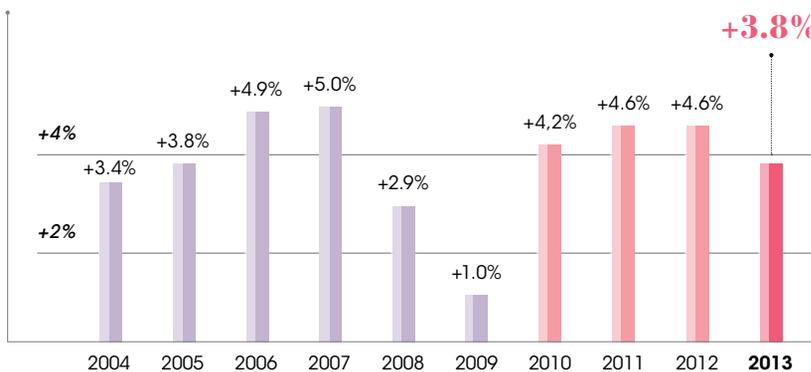
Solid, dynamic and fast-moving, the worldwide cosmetics market is supply-driven, boosted by innovation and with an emphasis on quality and new ideas. A focus on beauty world indicators and trends in 2013.

A RESILIENT COSMETICS MARKET

More moderate than in 2012, world cosmetics market growth was +3.8%⁽¹⁾ in 2013. Once again, it reflects contrasting performances across geographic zones and distribution channels. This market is resilient, even in difficult economic periods. Over the last fifteen years, it has increased on average by +4.1%⁽¹⁾.

WORLDWIDE COSMETICS MARKET GROWTH FROM 2004 TO 2013⁽¹⁾

(annual growth rate as %)



THE TOP 3 GROWTH-CONTRIBUTOR MARKETS IN 2013⁽¹⁾

- 1 / CHINA
- 2 / BRAZIL
- 3 / UNITED STATES

The top trio of countries – two from the New Markets and one mature market – contributed almost half the growth of the worldwide cosmetics market in 2013.

(1) Source: L'Oréal estimates of the worldwide cosmetics market based on net manufacturer prices excluding soap, oral hygiene, razors and blades. Excluding currency effects. (2) Source: "Beauty's Top 100" WWD, August 2013. (3) WWD estimates.

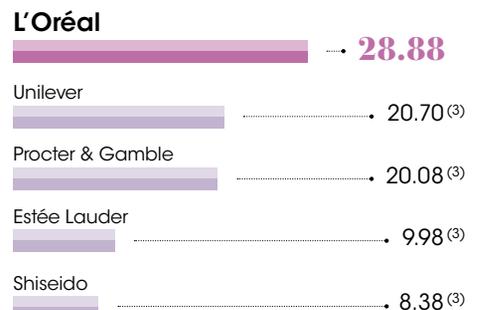
Universalisation according to L'Oréal

Universalisation is globalisation that respects differences in needs, desires and traditions. This unique strategy is the world vision that inspires L'Oréal.



MAIN WORLDWIDE PLAYERS⁽²⁾

(US \$ billions)



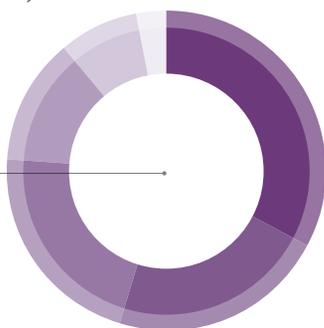


THE POTENTIAL OF THE DERMOCOSMETICS MARKET

Dermocosmetics include products that combine cosmetic and dermatological action to preserve the health and beauty of skin and hair.

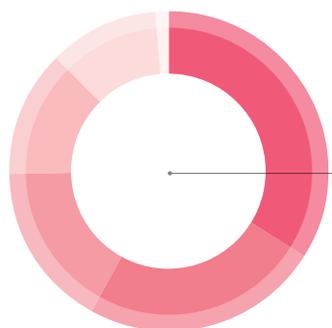
Traditionally strong in Western Europe, dermocosmetics is seeing its development accelerate in North America and the New Markets. This dynamism stems from the strong consumer appeal of products combining efficacy and safety with good value for money. To assist them, professional advice and recommendations play a decisive role in distribution channels that are now diversifying. In addition to the traditional pharmacy and "parapharmacies" channels, there are drugstores, dermacenters in department stores and medi-spas. With growth at +5.0%⁽¹⁾ in 2013, this market has strong potential.

BREAKDOWN OF THE WORLD COSMETICS MARKET IN 2013⁽¹⁾ (as %)



BY GEOGRAPHIC ZONE

- 32.8% ● Asia-Pacific
- 22.1% ● Western Europe
- 21.4% ● North America
- 12.7% ● Latin America
- 8.2% ● Eastern Europe
- 2.8% ○ Africa, Middle East



BY PRODUCT CATEGORY

- Skincare ● 34.1%
- Haircare ● 24.1%
- Make-up ● 16.6%
- Fragrances ● 12.7%
- Hygiene products ● 11.2%
- Oral cosmetics ○ 1.3%

⁽¹⁾ Source: L'Oréal estimates of the worldwide cosmetics market based on net manufacturer prices excluding soap, oral hygiene, razors and blades. Excluding currency effects.



DIGITAL MEDIA, THE GAME CHANGER

Beauty product consumers are constantly looking for tips and recommendations. The Internet is increasingly integrated into the buying process in a multi-channel context: thanks to the rise of digital media and social networks, consumer opinions are just a click away and influence final choices both online and in the store. This is a crucial dimension for the brands, which maintain a more direct and participative relationship with their "consumer-ambassadors", while providing them with richer experiences and services attuned to their vision of beauty.



/ TOMORROW A NEW BEAUTY PLANET

At the dawn of a historic phase in cosmetics consumption, a new beauty planet is emerging, and its prospects are vast, with no lack of growth relays or opportunities.

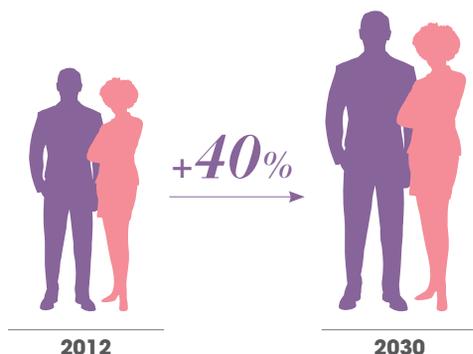
ALMOST UNLIMITED POTENTIAL

Beauty has always been present in the history of humankind, but the cosmetics industry truly emerged about a century ago. Since then, its evolution has been accelerated by a combination of three major dynamic forces: the constantly renewed aspirations of consumers, changes in the social and cultural environment, and leaps in the innovation of cosmetics made possible through science.

The cosmetics market has almost unlimited potential, driven by a dual phenomenon. Firstly, the number of consumers is growing, with the combined improvement in sanitation, living standards and access to water worldwide. Secondly, with the rise of the middle classes, consumer spending is increasing, particularly in the emerging markets. Cosmetics consumption today is five times lower in the New Markets than in the mature countries⁽¹⁾.

The worldwide cosmetics market should double in size in 10 to 15 years

ESTIMATED GROWTH IN THE NUMBER OF COSMETICS CONSUMERS



ESTIMATED PER CAPITA COSMETICS SPENDING ⁽¹⁾



⁽¹⁾ Source: 2013 L'Oréal estimates of the sell-in cosmetics market.

BEAUTY, A SUPPLY-DRIVEN MARKET SERVING NEW CHALLENGES

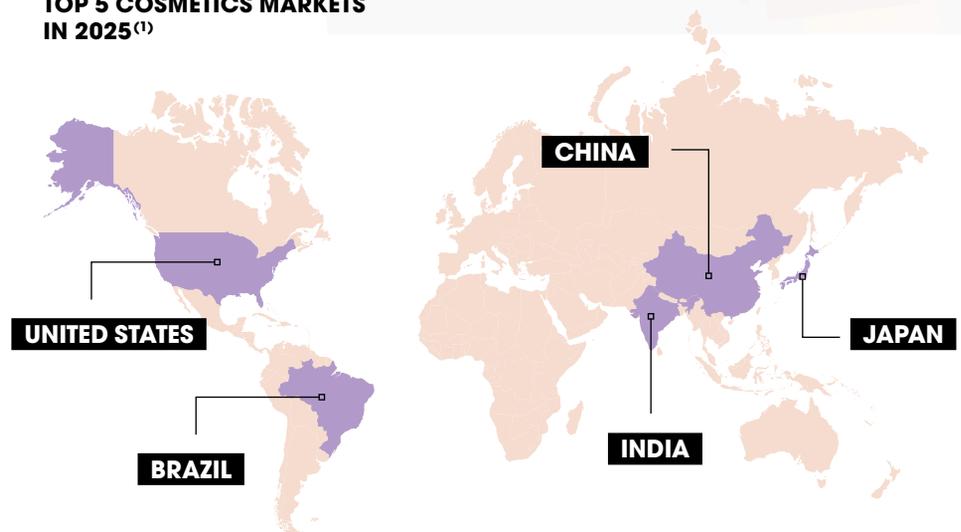
Consumers are aspiring to increasingly high levels of quality, and a world of new challenges is opening up: resolving problems caused by climate, lifestyles, UV rays, pollution and stress, and making advances in the quality and the way products are used. All over the world, unsatisfied beauty needs are providing sources of inspiration and leading to new performances. Cosmetics today are far more effective than yesterday, and the performances of tomorrow's cosmetics will be enhanced even further. The future of the beauty market is promising because there are no limits to innovation, creation or emotion.



A NEW GEOGRAPHY OF COSMETICS

The beauty market is set to double in size in the next ten to fifteen years⁽¹⁾: all the world's regions will grow, some faster than others. And the profiles of consumers and their needs will also change. More than half of consumers will be located in tropical zones, with hot, humid climates; and by 2020, some 60% of the world's population will live in major urban centres affected by pollution.

TOP 5 COSMETICS MARKETS IN 2025⁽¹⁾



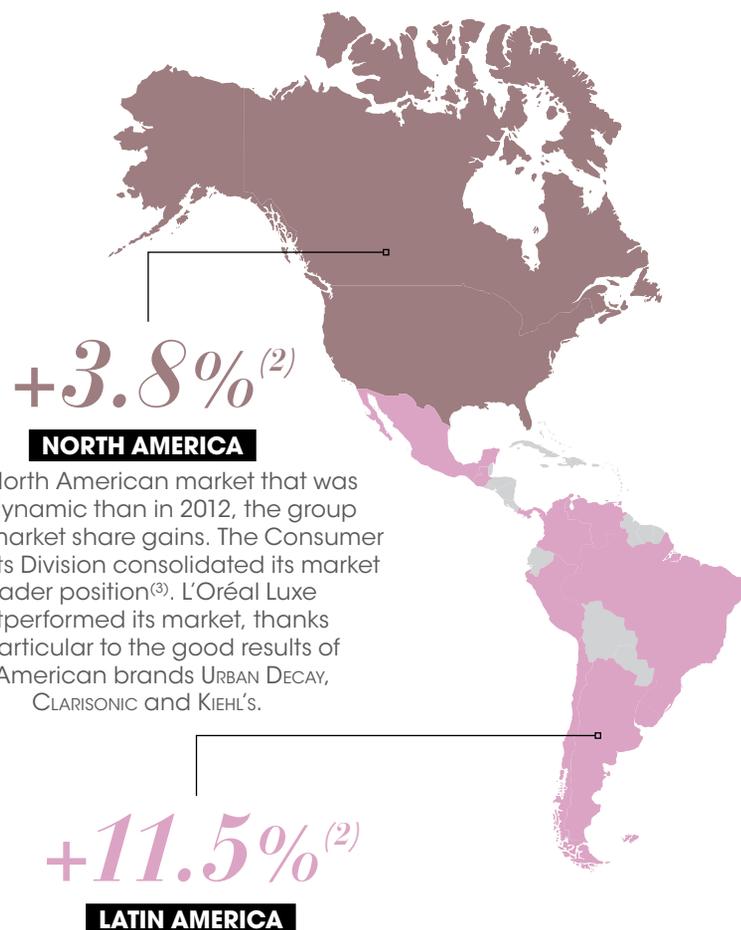
(1) Source: L'Oréal estimates of the worldwide cosmetics market based on net manufacturer prices excluding soap, oral hygiene, razors and blades. Excluding currency effects.

/ WORLDWIDE ADVANCES FOR L'ORÉAL

Thanks to well-balanced growth in geographic terms, L'Oréal seized the potential of all the markets, and in 2013 made further worldwide advances in line with its universalisation strategy.

Once again this year, L'Oréal outperformed the beauty market, and strengthened its No.1 position⁽¹⁾ thanks to a portfolio enriched with complementary brands, the rapid internationalisation of its businesses and a global presence in all distribution channels.

Western Europe remained very solid, North America recorded another year of growth and market share gains, and the New Markets – excluding Japan – posted double-digit growth. The acceleration of L'Oréal's internationalisation is continuing, as the New Markets were, for the second year running, the group's No.1 geographic zone with 39.8% of sales.



In a North American market that was less dynamic than in 2012, the group made market share gains. The Consumer Products Division consolidated its market leader position⁽³⁾. L'Oréal Luxe outperformed its market, thanks in particular to the good results of its American brands URBAN DECAY, CLARISONIC and KIEHL'S.

L'Oréal recorded growth of +11.5%⁽²⁾. The Consumer Products Division was driven by Bi-O deodorants by GARNIER, MAYBELLINE NEW YORK make-up, the success of the BB creams by L'ORÉAL PARIS and haircare with the renewal of Elvive and Fructis. The Active Cosmetics Division very clearly outperformed its market. In Brazil, all the divisions made market share gains.



+1.9%⁽²⁾

WESTERN EUROPE

In a context that remained difficult, particularly in Southern Europe, growth came out at +1.9%⁽²⁾. All the divisions made market share gains, particularly in France, Germany and the United Kingdom. L'Oréal Luxe was driven by LANCÔME and KIEHL'S, and the Consumer Products Division by GARNIER and L'ORÉAL PARIS. The success of LA ROCHE-POSAY and VICHY enabled the Active Cosmetics Division to reinforce its No.1 position⁽⁴⁾.

+8.2%⁽²⁾

EASTERN EUROPE

Sales increased by +8.2%⁽²⁾, significantly outperforming the market trend. The Professional Products Division and L'Oréal Luxe made market share gains. The Consumer Products Division won market share again, thanks to Olia hair colour by GARNIER and Revitalift Laser X3 skincare by L'ORÉAL PARIS. LA ROCHE-POSAY was behind the good performance of Active Cosmetics in Russia.

+8.4%⁽²⁾

ASIA-PACIFIC

L'Oréal recorded sales growth of +8.4%⁽²⁾ and +9.5%⁽²⁾ excluding Japan. Except for South Korea, the markets remained dynamic, despite a slight slowdown in China and India. In facial skincare and haircare, the successes of L'ORÉAL PARIS in China and GARNIER in South-East Asia enabled market share gains in this zone. L'Oréal Luxe performed very well, thanks to the strong growth of LANCÔME and KIEHL'S, along with the roll-out of YVES SAINT LAURENT and CLARISONIC.

+14.3%⁽²⁾

AFRICA, MIDDLE EAST

The increase in sales was notably driven by the new subsidiary in Saudi Arabia, growth in Egypt and Pakistan, and the acquisition of INTERBEAUTY in Kenya. All the divisions recorded double-digit growth in 2013. LANCÔME, GIORGIO ARMANI, KÉRASTASE, GARNIER, MAYBELLINE NEW YORK and VICHY all outperformed the market.

(1) Source: "Beauty's Top 100" WWD, August 2013.

(2) Cosmetics sales growth, like-for-like. (3) Source: IRI United States panel, 2013. (4) Source: IMS Europe 8 panel, 2013.



/ STRATEGIC ACQUISITIONS⁽¹⁾

Thanks to its recent acquisitions with a global or regional vocation, L'Oréal is nourishing its brand portfolio, stepping up its presence in the main distribution channels and covering the whole range of beauty territories.



★ UNITED STATES

URBAN DECAY

MODERN AND IRREVERENT

An American brand that specialises in accessible make-up in the selective segment, URBAN DECAY is strengthening the positions of L'Oréal Luxe in the dynamic distribution channels of "assisted self-service"⁽²⁾ and e-commerce. A brand that fulfils the expectations of young women searching for inspiring ideas and creative colours.



★ COLOMBIA

VOGUE

A LOCAL MAKE-UP LEADER IN THE MASS-MARKET⁽³⁾

VOGUE is an important acquisition for L'Oréal Colombia, consolidating its presence in this highly competitive market. The brand also offers development opportunities outside its country of origin, particularly in Central America, Ecuador and Peru.

“ THE ACQUISITIONS ARE BRINGING GREAT MODERNITY AND STRONG GROWTH DYNAMICS TO OUR BRAND PORTFOLIO. ”

JEAN-PAUL AGON
CHAIRMAN AND CEO OF L'ORÉAL

★ ★ ★ BRAZIL

EMPORIO BODY STORE

A PARTNER FOR THE BODY SHOP

THE BODY SHOP has finalised its acquisition of a majority stake in EMPORIO BODY STORE, which markets cosmetics ranges in Brazil through a franchise network. This growth relay enables THE BODY SHOP to offer its products to Brazilian consumers looking for naturally-inspired sensorial products.



WESTERN EUROPE 🌟🌟

**DECLÉOR AND CARITA
A SPRINGBOARD
FOR PROFESSIONAL
BEAUTY**

L'Oréal has finalised the agreement for the acquisition of DECLÉOR and CARITA⁽⁴⁾, two iconic brands that are distributed in beauty institutes. This acquisition will enable the Professional Products Division to capture a strategic position in the professional beauty market, which is complementary to the hair salon channel.



CHINA 🌟

**MAGIC HOLDINGS
THE CHINESE SKINCARE
MASK RITUAL**

L'Oréal has been given the go-ahead by the MOFCOM⁽⁵⁾ for its proposal to acquire the company Magic Holdings, whose brand MG is one of the Chinese leaders in cosmetic facial masks. As part of the Consumer Products Division, Magic Holdings should help the group to conquer new consumers in the strategic Chinese market.

INDIA 🌟

**CHERYL'S
COSMECEUTICALS
A BEAUTY SALON
PROFESSIONAL**

L'Oréal's first acquisition in India, CHERYL'S COSMECEUTICALS is a trailblazer in professional skincare and beauty salon treatment nationwide.

Its skincare services and products extend the offering of the Professional Products Division.



KENYA 🌟🌟

**INTERBEAUTY
AN ASSET IN EASTERN AFRICA**

The acquisition of INTERBEAUTY, a major player in the Kenyan beauty market, is extending the accessible offering of the Consumer Products Division. Based in Nairobi, its production platform is underpinning the development of the group's activities in Eastern Africa.



HAIRCARE

SKINCARE

MAKE-UP

(1) Acquisitions or acquisition projects since October 2012. (2) A selective channel in the United States that includes for example Ulta and Sephora. (3) Source: Euromonitor 2012. (4) News release of February 20th, 2014. (5) Ministry of Commerce of the People's Republic of China. News release of January 13th, 2014.

REPORT

/ BRAZIL HEADING FOR SUSTAINABLE GROWTH

Brazil is one of the world's most dynamic beauty markets and L'Oréal is ready to grasp all the opportunities it holds. A closer look at an emblematic example of the universalisation strategy in all its dimensions.



6th
LARGEST GROUP
SUBSIDIARY

2
PLANTS

2,700
EMPLOYEES

1
RESEARCH AND
INNOVATION HUB

In 2013, with growth of +13.3%⁽¹⁾ and substantial market share gains, Brazil was one of the top performers on the L'Oréal planet, but that is not all. The country plays a key role for the group because of its size, its ethnic and cultural diversity, and the unique importance of beauty for Brazilians. The fourth largest beauty market worldwide⁽²⁾, Brazil is No.1 in haircare, hair colourants and deodorants, and No.2 in sun protection⁽³⁾. Cosmetics is one of the spending priorities for women of Brazil's booming middle class, who are eager to consume products that enhance their beauty and well-being. The potential is vast.

L'Oréal has set itself ambitious targets for Brazil, identified as a strategic region in its own right. L'Oréal Brazil became the group's sixth largest subsidiary in 2013, and is continuing to apply an attacking strategy that is already paying off.

A BOOST IN THE NEW CATEGORIES

L'Oréal established itself in Brazil in haircare and hair colourants, and these categories represented 60% of sales in 2013. Today, half of the growth in absolute value terms

Brazil is an ideal setting for L'Oréal.



+13.3%

SALES GROWTH
OF L'ORÉAL BRAZIL⁽¹⁾

comes from categories that are relatively new for L'Oréal Brazil: skincare, make-up and deodorants. They form a solid and complementary launchpad for its future development.

The traditional core business of haircare is still growing strongly. Brazil is a country where women's hair is an essential beauty concern and haircare routines are sophisticated. It is also the No.1 market for Elvive by L'ORÉAL PARIS: after the success of Reparação Total 5 shampoo, the brand launched in 2013 the Quera-Liso range, formulated by the Rio laboratories to meet Brazilian women's expectations for hair that is not only straight but also flowing.

...

(1) Like-for-like cosmetics sales. (2) Source: 2013 L'Oréal estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soap, oral hygiene, razors and blades. Excluding currency effects. (3) Source: Euromonitor 2013.



“
**BRAZIL IS AN OUTSTANDING
CATALYST FOR INNOVATIONS.**”



DIDIER TISSERAND
MANAGING DIRECTOR
L'ORÉAL BRAZIL

What makes Brazil unique?

Amongst the eight types of hair L'Oréal has identified worldwide, all are represented in Brazil, because of the scale of the melting pot effect – from the straightest hair to the curliest. And skin colours are just as varied. This great diversity makes Brazil an invaluable monitoring laboratory that, combined with the power of science, is able to inspire L'Oréal's worldwide innovation.

What is the most important advantage of L'Oréal Brazil?

Its great capacity for expansion, thanks to its very comprehensive local presence, from formulation to production, and from consumer insight to marketing expertise. We are accelerating in every field to anticipate the market growth. This year we built a new distribution centre, we are currently increasing our production capacity and in two years' time we will have a new and much larger Research and Innovation centre.

What makes this growth so solid and sustainable?

We have changed a business that was essentially focused on haircare and hair colourants into a multi-category business with strong positions, for example for the Active Cosmetics Division in skincare. We have the ability to innovate locally, but also to create new distribution models to accelerate our market penetration. And lastly, we have fully integrated the CSR dimension into our business model.



*For Brazil,
L'ORÉAL PARIS has
launched Quera-Liso
with micro-keratin.*



Bi-O Clarify by GARNIER, the first anti-perspirant that brightens and unifies the skin.

...

In skincare, the emblematic success of Active Cosmetics has resulted in double-digit growth rates and a No.1 position in dermocosmetics⁽¹⁾. In 2013 Brazil became the division's No.3 market. The keys to its success? Specific formulations based on local evaluation, a strong presence alongside dermatologists with some 200 medical visitors, and assistance for the modernisation of distribution. Driven by the success of its sun products, LA ROCHE-POSAY is today the country's No.1 dermocosmetics brand⁽¹⁾ and Brazil has become the second-largest market for SKINCEUTICALS.

Make-up is also accelerating fast as MAYBELLINE NEW YORK recorded in 2013 another year of double-digit growth.

Finally, deodorants – a strategic category in Brazil – had a very good year with GARNIER Bi-O. Created and formulated by the Rio Research and Innovation hub, Bi-O Clarify deodorant provides an answer to the beauty needs of dark skin, which has a tendency to hyperpigmentate, by combining deodorant action with unifying skin tone.

GOING FURTHER IN DISTRIBUTION

With its strong tradition of direct sales, retail distribution in Brazil has not kept pace with the growth in consumer spending. L'Oréal's ability to create new distribution models and support the modernisation of traditional channels is thus essential in Brazil to provide new growth relays. In make-up, for example, MAYBELLINE NEW YORK is developing



Brazilian women use photoprotection products on a daily basis.

its own mini-store network, alongside the perfumeries and drugstores that distribute the bulk of the brand's products. This is a real growth driver (see box "Kiosks for MAYBELLINE NEW YORK").

Another local initiative is the micro-distribution system introduced by MATRIX in 2010 to supply hair salons in favelas with professional products. In 2013, more than 50 micro-distributors – mainly women in the favelas of Rio and São Paulo – have received support through a micro-credit and training programme. In all, some 3,500 hairdressers have benefited from this initiative.

In the hairdressing business, training is also



Kiosks for MAYBELLINE NEW YORK

Many Brazilian women are used to buying their make-up in direct sales outlets. To offer them a different kind of purchasing experience, MAYBELLINE NEW YORK has created its own kiosks, small outlets with beauty advisors whose mission is to establish a close relationship with customers. 58 kiosks have been opened in large shopping malls, including franchise outlets. They are contributing to the brand's expansion in Brazil.

(1) Source: IMS Brazil panel, dermocosmetics market, market share value 2013.



Absolut Control, 100% Brazilian

Many Brazilian women complain about hair with excessive volume. Because of its anti-volume and anti-frizz properties, the Rio laboratories chose murumuru butter as the key active ingredient of the L'ORÉAL PROFESSIONNEL Absolut Control range, and it has been a real hit in Brazilian hair salons. This ingredient, extracted from the seed of the murumuru, a palm tree that grows in the Amazon, has traditionally been used to care for the hair and skin. Thanks to partnerships with local communities, the butter is produced in accordance with the principles of community fair trade and biodiversity. A winning alliance between Research, marketing and CSR.



The L'ORÉAL PROFESSIONNEL Institute was voted "Brazil's Best Hairdressing School" in 2013.

a major lever for expanding distribution. This is the ambition of Master Results, a new line of accessible products from MATRIX with a very simple five-step education concept. The objective? To professionalise hairdressing tasks and facilitate access to the products thanks to a specially adapted "tool box". And to accelerate the initial training process, L'ORÉAL PROFESSIONNEL has extended its network of hairdressing schools to include six institutes present in the country's four largest cities.

A SOURCE OF INSPIRATION FOR THE WHOLE WORLD

The diversity of its consumers, and their demanding requirements not only in beauty, but also in social and environmental responsibility, make Brazil a unique source of inspiration for the group, especially in the country's key categories: haircare, sun protection and deodorants. Some Brazilian-inspired products have now been globalised, such as Elvive Reparação Total 5, an enormous success launched in 2008 that is now found all over the world. Brazil's other asset is its biodiversity, with highly varied flora and fauna, the source of many active ingredients such as murumuru (see box "Absolut Control, 100% Brazilian") which are responsibly and sustainably sourced.

/ HUMAN CAPITAL AT THE HEART OF L'ORÉAL

Because women and men are at the heart of L'Oréal, the group has a long-term policy of developing its human capital, a crucial vector for universalisation and for building the L'Oréal of tomorrow.



JÉRÔME TIXIER
EXECUTIVE VICE-PRESIDENT
HUMAN RELATIONS
AND ADVISOR TO THE CHAIRMAN

What does human capital represent for L'Oréal?

It is a strategic intangible asset, and a truly long-term competitive advantage, alongside the brands, governance and Research. Ever since the group was founded, its innovation culture has stressed the value of personal development, and individuals take precedence over structures. This vision has never changed. Today more than ever it is based on detecting the potential of individuals, and the art of guiding their development inside the organisation, while passing on to them the essentials of the "L'Oréal culture": the founding values, a unique model of innovation and dialogue between marketing and Research, and an entrepreneurial spirit honed by a continuous training process.

How are the vision and the "L'Oréal culture" passed on?

Our strength is that we know how to develop "flotillas" of managers, experts and employees, all converging towards the same objective, thanks to a shared vision and culture. Our ability to produce senior managers internally is widely recognised, and we do this by combining a highly active mobility policy with talent evaluation, to steer the group for the long term. Sharing the company's strategic vision and culture plays a central part in the support provided for individuals with high potential. Each year, a number of seminars are held to train managers in a common language. For example, the "L'Oréal Insight" programme brings together some 230 employees from all over the world for training at CEDEP, our corporate university, and the "Senior Executive Forum" enables some forty senior managers to swap ideas about strategy with the Executive Committee.

How does Human Relations support the universalisation strategy?

Our main challenge in supporting universalisation is to develop local talents and enable them to take up



Training plays a key role in sharing the vision and the "L'Oréal culture".

MORE THAN
44,900
EMPLOYEES TRAINED
IN 2013

CHAMPIONS OF UNIVERSAL BEAUTY

As a pure player in beauty, L'Oréal offers stimulating career paths through the diversity of its brands, divisions and markets. In this time of universalisation, the group has chosen to draw on both international and local talents to support its growth objectives, while staying as close as possible to its consumers. We meet three of these beauty champions: Jonathan, Michel and Eva.

AUSTRALIA



“Some people thought I was taking a risk by working in sales in a company with a strong marketing culture. I don't agree: I was General Manager of the Consumer Products Division first in Thailand, and then in Australia.

In my view, the most important value for individuals to flourish at L'Oréal is entrepreneurial spirit. Real entrepreneurs are hungry for commitment and responsibilities.

To succeed, you have to be ambitious, find solutions and make the most of your opportunities.”

JONATHAN

UNITED KINGDOM & IRELAND

“I spent fifteen years working for a competitor whose culture was primarily process-based. What I found remarkable when I joined L'Oréal were its humanistic values, which stress the roles of women and men in making a difference and encouraging discussions of ideas.

L'Oréal's values are the same as mine: a culture of excellence and achievements, a passion for the business, and an emphasis on aesthetics and innovation.”

MICHEL



ASIA-PACIFIC



“I joined L'Oréal fourteen years ago, as Manager of Biotherm in Hong Kong. In 2004, I was appointed General Manager of L'Oréal Luxe Hong Kong, and then in 2011, General Manager of Travel Retail in the Asia-Pacific Zone.

It's an honour for me to be the first Asian woman at L'Oréal Asia-Pacific to run a business in travel retail, a fast-growing market.

What is most important for me is planning for the future, having a strategic vision, and sharing it with your teams so as to motivate people and mobilise resources.”

EVA

key posts or worldwide responsibilities. The geographic zones are increasingly mobilised to develop interculturality skills, and to explore ways of disseminating and sharing the corporate culture. Ideas can spring up anywhere and then be rolled out worldwide. For example, the “Leaders for Change” programme, started up in 2012 on the initiative of the Asia-Pacific Zone, in partnership with Singapore University, was adapted and launched in Europe in 2013.

An ambitious social programme

In 2013, L'Oréal announced the worldwide roll-out of its “Share & Care” programme, an ambitious initiative that will enable all group employees, in the countries where L'Oréal operates, to profit from basic guarantees in the fields of benefits, healthcare, parenthood and the quality of life at work. The programme will meet employees' essential needs and encourage their degree of commitment. It bears witness to a conviction, deeply rooted in the group's values, that social and economic performance are not only closely intertwined, but also mutually reinforce each other.

/ AN INDUSTRIAL MODEL SERVING UNIVERSALISATION

With a solid global industrial network of 45 plants including 36 for cosmetics, 5 for dermatology, 3 for raw materials and 1 for instrumental cosmetics, the strategy of Operations⁽¹⁾ is based on an evolving and regionalised industrial policy.



JEAN-PHILIPPE BLANPAIN
EXECUTIVE VICE-PRESIDENT
OPERATIONS

How has L'Oréal's global industrial model been strengthened?

In 2013, Operations continued their roll-out, as reflected in the rise in prominence of the Kaluga plant in Russia which – two years after opening – has the best service level in Europe. Another key development is the strengthening of our presence in Africa, with the opening of the plant at Cairo, Egypt, running since May 2013. Furthermore, with the acquisition of INTERBEAUTY, whose factory is in Nairobi, L'Oréal now has three industrial entities to serve consumers in the Africa, Middle East Zone. In Colombia, the factory

acquired with the Vogue brand is currently being expanded to meet strong local demand. In Asia-Pacific, the Yichang plant in China has had its production capacity increased, and is now the largest make-up production facility in Asia.

How does Operations integrate these new entities?

With the acquisition of several brands in the New Markets, and the opening of new industrial facilities, we are committed to taking on these new employees, while respecting their culture and local specificities. We have developed a support programme for newly recruited

Operations are committed to the environment

In 2013, L'Oréal obtained a 93A rating from the Carbon Disclosure Project (CDP): 93/100 is the score given for transparency of information, and the letter A is the performance rating. The group evaluates all emissions across the whole spectrum of its activities, and has set itself ambitious targets. In 2012 it joined the CDP's Climate Disclosure Leadership Index, which includes the 10% of companies with the highest ratings for quality of information provided. Since 2008, the group has also been a member of the supply chain programme, which encourages suppliers to measure, declare and reduce their carbon emissions.

(1) Operations at L'Oréal cover seven different fields: purchasing, production, quality, environment-health & safety, supply chain, packaging & development, and real estate.



Packaging at the heart of innovation

The Packaging & Development teams are true partners for the brands in designing their launch plans, so as to anticipate and foster innovation. Their expertise has brought products to the market faster, and contributed to the success of major innovative launches, such as *Préférence Mousse Absolue* by L'ORÉAL PARIS, an aerosol cream hair colourant, and the *LA ROCHE-POSAY Lipikar* tube, with a 40% reduction in plastic, which won the *Point Vert* award from *Éco Emballages*.



teams, which includes in particular immersion periods in mature L'Oréal factories. The newcomers are thus able to discover our values, methods and tools with the help of a coach, and with an integration guide enabling them to become accustomed to their future work environment. This programme started at the end of 2013 at the factories in Colombia and Kenya.



1/
The Yichang plant in China is the largest make-up production facility in Asia.

2/
With the acquisition of INTERBEAUTY, L'Oréal has a new production platform based in Nairobi, Kenya.

3/
The LA ROCHE-POSAY Lipikar tube is made with 40% less plastic.

45

INDUSTRIAL PLANTS
WORLDWIDE



L'ORÉAL, OFFERING BEAUTY FOR ALL

CONSUMER PRODUCTS / 34

L'ORÉAL LUXE / 44

PROFESSIONAL PRODUCTS / 54

ACTIVE COSMETICS / 62

THE BODY SHOP / 70

GALDERMA / 72





CONSUMER
PRODUCTS



L'ORÉAL PARIS
GARNIER
MAYBELLINE NEW YORK
SOFTSHEEN•CARSON
ESSIE

The Consumer Products Division offers the best in cosmetics innovation to the greatest number of people on every continent. Its brands are available in mass-market channels (hypermarkets, supermarkets, drugstores and traditional stores).

The division is the spearhead of the group's quest to win over a further billion consumers.

“ OUR HIGH VALUE-ADDED
INNOVATIONS AT ACCESSIBLE PRICES
ARE THE DRIVING FORCE
OF OUR GROWTH. ”

MARC MENESGUEN
PRESIDENT
CONSUMER PRODUCTS DIVISION



REVIEW & OUTLOOK

/ COSMETIC INNOVATION ACCESSIBLE TO ALL

What were the major growth factors in 2013?

All our major brands made progress, but L'ORÉAL PARIS really drove the division's growth thanks to its two key franchises: Elvive and DermoExpertise. In fact, the brand recorded its best performance in three years at +5.8%⁽¹⁾. In geographic terms, we outperformed the market in every zone. It was a good year for Western Europe, particularly the United Kingdom, Germany, Spain and France, and other highly strategic regions – such as Brazil, Southern Asia and the Africa, Middle East Zone. Overall, our growth rate was +4.9%⁽¹⁾, in a mass-market that slowed slightly compared with 2012.

Is accessible innovation still the division's driving force?

More than ever before. Our growth stems from innovations that have universal reach. 2013 was a big year for haircare: the Elvive saga is continuing with Total Repair Extreme and the global success story of hair oils. In the home-use hair colourant market, GARNIER'S breakthrough Olia technology is a game



MARC MENESGUEN
PRESIDENT
CONSUMER PRODUCTS DIVISION

changer, and is winning over new consumers. Facial skincare remains dynamic with the globalisation of Revitalift Laser X3 and the successful launch of Age Perfect Cell Renew.

These performances reflect the strong comeback of L'ORÉAL PARIS in this category, with both premium and accessible innovations. This year has also confirmed the vast global success of BB creams by GARNIER, which is marking out its territory with smart skincare solutions for everyone.

Is digital media one of the keys to tomorrow's growth?

Our digital resources are being stepped up, and in 2013

accounted for more than 10% of our net media expenditure. The division took many initiatives with the "Switch the Look" application by L'ORÉAL PARIS and "No Make-Up No Fashion" by MAYBELLINE NEW YORK in terms of advice and trendsetting. We also made major progress in e-commerce, particularly in China. What does the future hold? Platforms dedicated to specific categories like make-up, and applications that consolidate an interactive relationship between our brands and their consumers.

+5.8%

GROWTH IN SALES
OF L'ORÉAL PARIS⁽¹⁾

+15.1%

GROWTH IN SALES
OF THE ELVIVE FRANCHISE BY L'ORÉAL PARIS⁽¹⁾

⁽¹⁾ Like-for-like.

/HAIR BEAUTY AT THE HEART OF GROWTH

Haircare was the division's category of the year, after posting very strong performances. The brands intensified their initiatives to win over new consumers.

HAIRCARE EXPERTISE FROM L'ORÉAL PARIS

Elvive, which is emblematic of universalisation, posted an outstanding performance with +15.1%⁽¹⁾. Three key developments contributed to this momentum: the worldwide roll-out of hair oils, the launches of the Total Repair Extreme range, and above all, Advanced Haircare in the United States. Launched in 2012, Extraordinary Oils have conquered Europe and Japan, while recording good results all over the world. The oils accounted for around 40% of the brand's growth in haircare.

Elvive also has outstanding expertise in hair repair. In this technically demanding market, L'ORÉAL PARIS has successfully launched Elvive Total Repair Extreme. Its formula, initially developed for Asia, favours repairing the hair fibre from deep within.

Capturing the latest hair colour trends

It all started on Google. L'ORÉAL PARIS identified the dip-dye look as a powerful trend – the number one hair colour search – and a consumer desire that had not yet been fulfilled. And so the Preference Ombrés range was created: an easy-to-apply hair colour thanks to a special brush that produces the eagerly-sought shading effect.



www.tie-and-dye.com
L'ORÉAL PARIS creates the first-ever platform dedicated to the dip-dye phenomenon: a digital magazine for all fans.



(1) Like-for-like.

Finally, L'ORÉAL PARIS hit the headlines in the United States with Advanced Haircare, an ambitious range with five modules targeting the hair needs of American women. Formulated with arginine, this line is a concentrate of the brand's haircare know-how. And to persuade consumers, L'ORÉAL PARIS offered one million gift samples on its Facebook page!

HOME-USE HAIR COLOURANTS WIN OVER NEW CONSUMERS

Driven by L'ORÉAL PARIS and GARNIER initiatives, the hair colourant market is attracting new customers. L'ORÉAL PARIS focuses on fashion and simplicity: the Preference Ombrés range launched at the end of 2012 has transformed this trend into a new beauty gesture; and Preference Mousse Absolue, the first ready-to-use and reusable hair colour by L'ORÉAL PARIS, meets the expectations of European women combining practicality with luminous shine. But the hair colour growth champion in 2013 was Olia by GARNIER. The technological breakthrough of this ammonia-free formula, in which the oil acts as a vector for the colour, is a spectacular success. Meanwhile, the boom in accessible hair colour is continuing, with the success of GARNIER's Color Naturals and Color Sensations, particularly in Spain and in the Africa, Middle East Zone.



ODS²

AN OIL DELIVERY SYSTEM TECHNOLOGY ADAPTED TO HOME-USE HAIR COLOUR WITH OLIA BY GARNIER, SOLD IN MASS-MARKET OUTLETS.

The Amla legend wins over Africa

SOFTSHEEN•CARSON, No.1 in afro-specific haircare⁽¹⁾, is launching Dark and Lovely Amla Legend, a complete range of six products, from a hair relaxer to haircare products, formulated with amla, a fruit that comes from India. The relaxer kit is a technological first, and is proving successful in South Africa and Kenya.



(1) Source: IRI United States 2013 and Nielsen Trade Desk South Africa 2013 panels.

/ FACIAL SKINCARE INNOVATIONS

In clearly marked brand territories, L'ORÉAL PARIS and GARNIER contribute to the strong dynamism of facial skincare. A focus on the year's innovations and most striking successes.

SCIENTIFIC ADVANCES ACCESSIBLE TO ALL

Science is at the heart of the success of L'ORÉAL PARIS in the anti-ageing segment. Pro-Xylane™, used at a concentration of 3% in Revitalift Laser X3, was developed over a period of fourteen years by L'Oréal Advanced Research. The global roll-out of this high-performance product is continuing in Eastern Europe, Africa, the Middle East, Latin America and Asia. Launched in 2013, Age Perfect Cell Renew skincare, which is built on epidermal renewal, achieved good results.

Two premium and accessible innovations in anti-ageing skincare.



+10.6%

GROWTH IN WOMEN'S FACIAL SKINCARE OF L'ORÉAL PARIS⁽¹⁾

EMERGENCE OF NEW CATEGORIES

Developing a new generation of accessible and smart daily skincare products is the brand territory of GARNIER. BB creams have introduced a new beauty routine all over the world, and they are still growing strongly. In 2013, GARNIER invented 5 sec Perfect Blur, in the new blur category, a skin smoother that fades signs of ageing thanks to its concentrated light reflectors.

⁽¹⁾ Like-for-like.



MEN ARE A GROWTH LEVER IN ASIA

Asia is the most dynamic men's cosmetics market, particularly in the cleansing and skincare segments. So many opportunities have been seized by Men Expert by L'ORÉAL PARIS, whose Asian saga continued in 2013 with successes such as the cleansing foam Volcano Red Foam in China as well as the launch of its first-ever BB cream for men.



A new smart and efficient beauty product: 5 sec Perfect Blur for a younger looking skin.



1/
The Color Elixir lipsticks combine colour with comfort and shine.

2/
Baby Lips, the tinted lip balm line which soothes and repairs lips.



/ COLOUR SHAKES UP MAKE-UP

Colour, fashion and technology were the three keywords for a make-up year that starred MAYBELLINE NEW YORK, L'ORÉAL PARIS and ESSIE.

This year, MAYBELLINE NEW YORK opted for colour and accessibility in its must-have make-up, with playful and trend-setting innovations that led to strong growth in the lip balm and nail varnish segments. The Baby Lips tinted lip balms were inspired by China. To be considered effective by Chinese consumers, a balm must be light and leave the lips glossy, so as to evoke the hydrating power of water. The same formula is now a hit with European women.

ULTRA-FASHIONABLE PRODUCTS

Another innovation that combines fashion and technology is Colorshow: four mini-varnish collections directly inspired by trends at the New York Fashion Week, whose official partner is MAYBELLINE NEW YORK.

In the mascara segment, False Lash Butterfly by L'ORÉAL PARIS was a great launch, and in eyeliners, the brand is reaping the benefits of a tailor-made approach to develop this category, notably with the launch of Super Liner Blackbuster to enhance the art of eye make-up.



The potential of ESSIE

Well-known for its amazing palette of nail varnish colours with catchy names, ESSIE is continuing its internationalisation, and in 2013 topped the 100 million euro sales mark for the first time. The brand's motto: passion for colour.

/ ALL EYES ON THE TURKISH EXAMPLE

The rapid growth of Consumer Products in Turkey is boosted by the boom in make-up. MAYBELLINE NEW YORK and L'ORÉAL PARIS have won over women by meeting their expectations, not only in terms of innovation, but also in terms of know-how.

The eyes are the most important beauty attribute of Turkish women. The look they yearn for is strongly influenced by the traditional use of kohl (sürme in Turkish): full lashes, and intense eyes with a carefully shaped look. For the complexion and the lips, they tend to look for a natural effect. A beauty ideal well grasped by MAYBELLINE NEW YORK and L'ORÉAL PARIS, whose growth rates in these segments are contributing to the acceleration of L'Oréal's expansion in this country.

INNOVATION AND EDUCATION, THE TWO SECRETS OF SUCCESS

To win over new consumers, the brands have used two major levers: an accessible high-quality offering, with technically innovative forms and textures that provide a real plus in quality terms (such as Master Precise eyeliner by MAYBELLINE NEW YORK and Lumi Magique foundation by L'ORÉAL PARIS), and a strong Internet presence to advise and exchange views with women. Young people in Turkey are amongst the most intensive users of digital media worldwide: the online tutorials for precise eyeliner use skills are a big hit.

EYELINERS

Master Precise by MAYBELLINE NEW YORK, a new generation eyeliner that is precise and easy to use. It is already one of the best eyeliners on the Turkish market.



COMPLEXION

Launched at the start of 2013, Lumi Magique foundation by L'ORÉAL PARIS is the answer for Turkish women looking for a natural complexion with no blemishes. This is one of the year's great successes.



/NEW BEAUTY TERRITORIES

A focus on VOGUE and INTERBEAUTY, two acquisitions to drive the expansion of Consumer Products in the New Markets.

VOGUE, THE MAKE-UP LEADER IN THE COLOMBIAN MASS-MARKET⁽¹⁾

Acquired in October 2012, Vogue is a make-up brand that Colombian women know very well, with a sales force that has expert knowledge of the nationwide distribution network. These are two major assets for the development of the division in Colombia, as well as in Central America, Ecuador and Peru, where door-to-door sales and small shops dominate the cosmetics market. Since 2013, Vogue has benefited from the group's Research and marketing know-how to showcase its flagship brands.

+8.4%
GROWTH OF
THE CONSUMER PRODUCTS
IN THE NEW MARKETS⁽²⁾



INTERBEAUTY, A KENYAN SUCCESS STORY

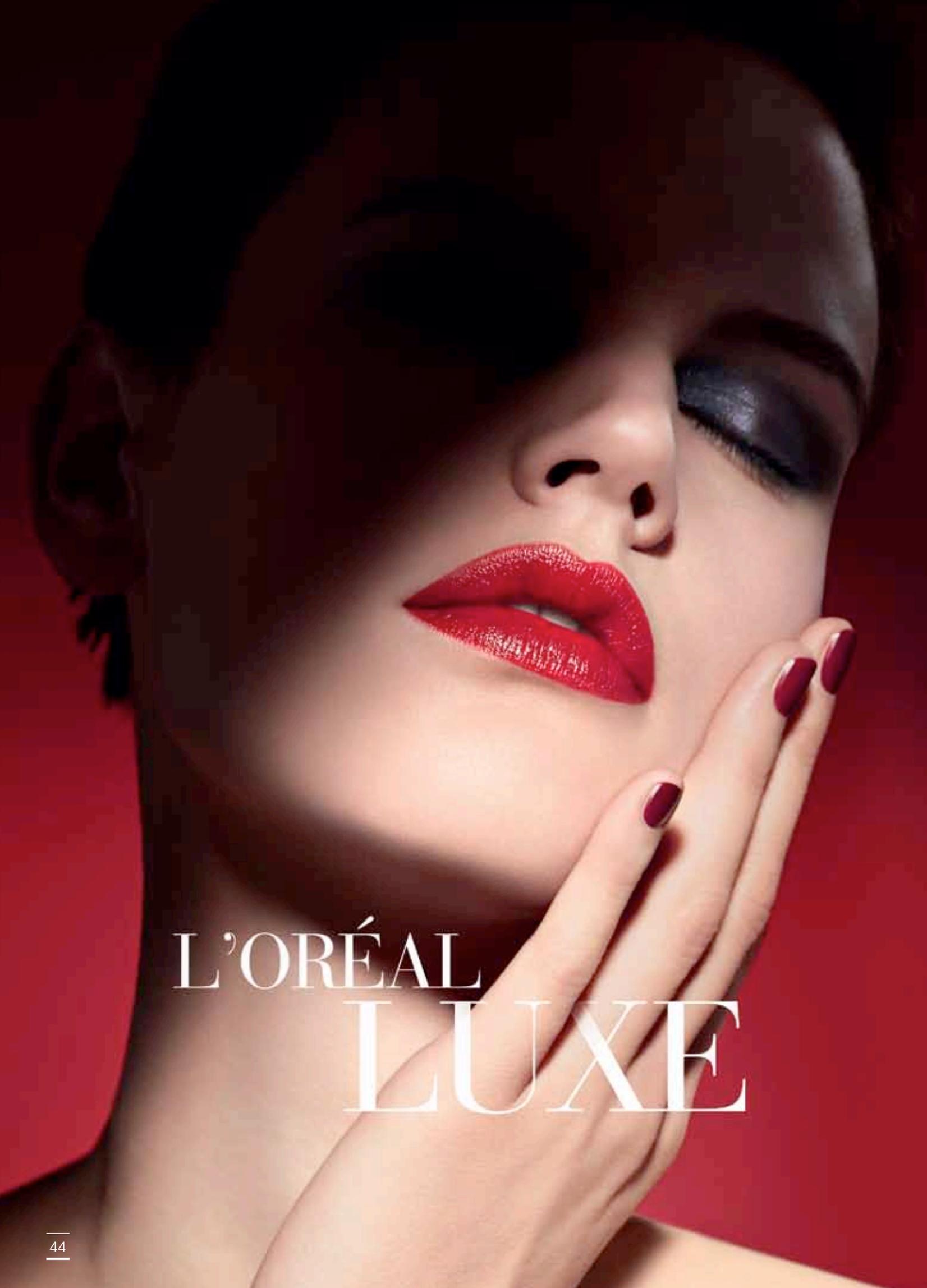
The small shampoo company founded in 1995 in Nairobi has become a major player in the beauty sector in Eastern Africa. Thanks to the popularity of its haircare and skincare brands, with Nice&Lovely taking pride of place, INTERBEAUTY is enabling L'Oréal to learn more about the market and increase its penetration in Kenya, while taking advantage of the company's regional production platform.



The reputation of Nice&Lovely is strong amongst 15-25 year olds in Kenya.

(1) Source: Euromonitor 2012.
(2) Like-for-like.





L'ORÉAL
LUXE

LANCÔME
GIORGIO ARMANI
YVES SAINT LAURENT
KIEHL'S
BIOTHERM
RALPH LAUREN
CLARISONIC
SHU UEMURA
URBAN DECAY
DIESEL
HELENA RUBINSTEIN
CACHAREL
VIKTOR&ROLF
YUE SAI
MAISON MARTIN MARGIELA
GUY LAROCHE
PALOMA PICASSO

L'Oréal Luxe offers both men and women throughout the world an array of prestigious and modern international brands with a unique heritage. The brands of L'Oréal Luxe strive to promote the different specialities of luxury beauty: skincare, make-up and fragrances. They also set out to offer high-quality products through a selective distribution channel, and provide excellent service that respects the diversity of its consumers.

“

WE ARE PASSIONATE ABOUT
THE FUTURE: STRIVING TO TAKE
BEAUTY FORWARD TOWARDS NEW
HORIZONS, FULLY RESPECTING
OUR BRANDS AND OUR DESIGNERS.”

NICOLAS HIERONIMUS
PRESIDENT
SELECTIVE DIVISIONS



REVIEW & OUTLOOK

/ A VISION OF EXCELLENCE

In what sense does L'Oréal Luxe have a winning strategy?

In 2013, the growth dynamics of L'Oréal Luxe reflected the success of its major brands, the internationalisation of CLARISONIC and the successful integration of URBAN DECAY. Skincare, a strategically important category in the selective channel, has been the key to success for LANCÔME, KIEHL'S and CLARISONIC, alongside YVES SAINT LAURENT, which has entered the Chinese market. The division has again scored successes with its women's fragrances thanks to "La vie est belle" by LANCÔME and Si by GIORGIO ARMANI, but also with men's fragrances with the successful Polo Red by RALPH LAUREN. Momentum in make-up has been strong, thanks to URBAN DECAY, a brilliant new addition to the division's portfolio, and original initiatives across the whole range of beauty brands: LANCÔME, YVES SAINT LAURENT, GIORGIO ARMANI and SHU UEMURA.

How would you define the rise in luxury of the division and its capacity to change with the times?

L'Oréal Luxe is relentlessly continuing its quest for



NICOLAS HIERONIMUS
PRESIDENT
SELECTIVE DIVISIONS

excellence: the quality of its formulas, the master craftsmanship of its olfactory compositions, prestige collections, and new ways for the brands to express themselves at the point of sale. Each brand has its own universe, and a unique way of relating to its customers to provide an ideal service. Our strategy for conquering the most dynamic physical distribution, including free-standing stores and travel retail, is backed up by our strong presence in digital media and the acceleration of e-commerce. L'Oréal Luxe is also advancing by taking on board the specific expertise gained through recent acquisitions.

With CLARISONIC, the division has moved into the universe of instrumental cosmetics. URBAN DECAY is already an ideal catalyst to improve our approach to colour at the point of sale.

What are the growth prospects?

Our growth prospects are wide-ranging. For L'Oréal Luxe, 2014 should be the year of colour and of skincare, the flagship category, particularly in Asian markets where we already hold significant positions. Finally, fragrances will enable us to appeal to new growth markets, such as the Middle East, Latin America and travel retail.

+6.8%

GROWTH IN SALES
OF L'ORÉAL LUXE⁽¹⁾

+35.9%

GROWTH IN SALES
OF CLARISONIC⁽¹⁾

(1) Like-for-like.

/LANCÔME SUBLIMATES BEAUTY FOR WOMEN

Offering women the best in beauty by combining creativity, innovation and know-how. This is the definition of luxury according to LANCÔME, a brand that never stops moving with the times.

DREAMTONE, THE LANCÔME REVOLUTION

Drawing on a study of skin tones, lack of uniformity and blemishes, LANCÔME has identified three major pigment profiles that highlight the need for tailor-made skincare. The result is DreamTone, a pigment corrector that provides the beautiful skin tone that women seek. Its three exclusive formulas provide a single-product solution that ideally matches all women's expectations.

"MAKE-UP MADE EASY"

To provide a unique make-up experience, LANCÔME adopted a new colour approach in 2013. With its Hypnôse Palette range, an illustration of the "make-up made easy" concept, LANCÔME offers women all its expertise to easily pinpoint the look that is right for each one, from the most natural to the most sophisticated. All the beauties of the world are represented. In the United States, where the brand has traditionally been well-established in make-up, this new concept is already proving highly successful.



Around €1 bn

IN SALES MADE
BY THE GÉNIFIQUE LINE
SINCE ITS LAUNCH⁽¹⁾.

1/
*DreamTone,
a pigment
corrector for
a skin tone of
one's dreams.*

2/
*Advanced
Génifique,
an anti-ageing
serum in line
with the star
product
Génifique.*



“
LANCÔME COMBINES
TRADITION AND
MODERNITY TO MAKE
WOMEN'S LIVES
MORE BEAUTIFUL. ”



FRANÇOISE LEHMANN
GENERAL MANAGER OF LANCÔME INTERNATIONAL

"La vie est belle" makes the World Top 4⁽²⁾

One year after its launch, "La vie est belle", the olfactory expression of happiness according to LANCÔME, is confirming its success by reaching fourth position in the women's fragrance rankings worldwide⁽²⁾. The fragrance that has won the hearts of women is in the process of becoming a great classic in perfumery, boosted by the launch of the Eau de Parfum Légère in 2013.

(1) Net sales. (2) Source: Women's fragrances segment, aggregate NPD France, Italy, Spain, United Kingdom, United States and IRI Germany panels, market share value 2013.



KIEHL'S beauty advisors provide a renowned service in an original setting.

/KIEHL'S IS SHINING BRIGHT IN ASIA

Still expanding rapidly worldwide, the American brand is continuing its conquest of Asia, which accounts for more than a third of its worldwide growth.

In Asia, KIEHL'S is posting very good performances, driven by strong growth in China. Just five years after its launch, KIEHL'S is already one of the top 10 brands sold in China⁽¹⁾, with sales outlets in twenty-nine cities. The brand is also continuing its upward surge in Japan, recording annual sales growth of more than +60%⁽²⁾.

DIGITAL MEDIA, THE SPEARHEAD FOR CONQUERING ASIA

Digital media play a central role for KIEHL'S, both as a distribution channel and a driver for attracting new consumers. In China for example, KIEHL'S has generated a powerful buzz on the Web, enabling the brand to quickly win over younger consumers.

TOP 10

KIEHL'S IS ALREADY ONE OF THE TEN BEST-SELLING BRANDS IN CHINA⁽¹⁾.

(1) Source: Distributor feedback 2013. (2) Like-for-like.



/ FEMININITY ACCORDING TO GIORGIO ARMANI

In 2013, the brand invited us to take a journey to the heart of femininity, with the new fragrance Si and sumptuous make-up initiatives.

Already the world leader in men's fragrances with Acqua Di Giò⁽¹⁾, in 2013 the brand launched a new fragrance, Si, a tribute to modern femininity and the charm of the GIORGIO ARMANI woman. The Italian brand has high hopes for this women's fragrance, which aims to become one of the world's top sellers.

COLOUR AT THE HEART OF BEAUTY

2013 was a landmark in the history of GIORGIO ARMANI beauty. The rapid development of the brand, the extension of its product offering, and the renovation of its make-up outlets have enabled it to feature amongst the major global make-up brands. With Rouge Ecstasy, GIORGIO ARMANI is making headline news: the first CC (Colour & Care) lipstick, which combines powerful colour with comfort and lipcare.



www.armanibeauty.com

A website invitation to explore the world of GIORGIO ARMANI beauty.



THE FRAGRANCE

Chic and voluptuous, the olfactory blend of Si revolves around a blackcurrant nectar, a modern tang of cypress and a note of light wood musk.

THE LAUNCH

Cate Blanchett, the Oscar-winning Australian actress, is the embodiment of GIORGIO ARMANI femininity.



THE BOTTLE

The quintessence of the GIORGIO ARMANI style, the timeless design and sculpted contours of its bottle express the power of controlled femininity.

Si

BEST 2013 FEMININE FRAGRANCE LAUNCH IN EUROPE⁽²⁾.

(1) Source: Euromonitor 2012. (2) Source: Women's fragrances segment, aggregated NPD France, Italy, Spain, United Kingdom, United States and IRI Germany panels, market share value 2013.



/URBAN DECAY, A STRATEGIC MAKE-UP ACQUISITION

L'Oréal Luxe extended its array of brands at the end of 2012 by acquiring URBAN DECAY, the Californian expert make-up brand synonymous with modernity and irreverence.

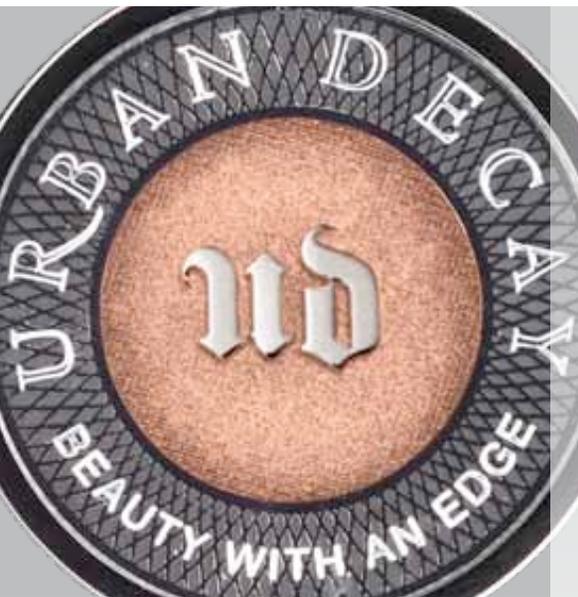
Fitting perfectly into the L'Oréal Luxe portfolio, URBAN DECAY offers cutting-edge products such as the Naked Palette eyeshadows, a winner with young customers who are experts in beauty. The brand is sold in the "assisted self-service" channel, one of the most dynamic in the selective market in the United States. This channel includes stores such as Ulta and Sephora, where URBAN DECAY has been the No.1 make-up brand for more than a year⁽¹⁾. The brand is also performing well in e-commerce.

+42.5%

GROWTH IN SALES
OF URBAN DECAY⁽²⁾

A GLOBAL PRESENCE

Outside the United States, its country of origin, the brand is already operating in thirteen countries in Asia, Latin America and Europe. In the United Kingdom for example, URBAN DECAY is the No.1 beauty brand at Debenhams⁽¹⁾.



Asia seduced by YVES SAINT LAURENT Vernis à Lèvres

Launched in 2012, the YVES SAINT LAURENT Rouge Pur Couture Vernis à Lèvres Glossy Stain is proving a big success with a new generation of beauty addicts. This innovation has won over consumers in Asia-Pacific where the brand's sales growth has reached +33.7%⁽²⁾.



(1) Source: Distributor feedback.
(2) Like-for-like.

ASIA-PACIFIC

First counters opened in Hong Kong and Taiwan.



WESTERN EUROPE

Successful first steps in instrumental cosmetics with, amongst others, more than 400 sales outlets in France and in the United Kingdom.



NORTH AMERICA

In its traditional market, the brand is launching its latest PEDI brush for pedicure applications.

/ AROUND THE WORLD WITH CLARISONIC

In two years, CLARISONIC has become one of the most dynamic brands of L'Oréal Luxe. Present in more than thirty countries, it is continuing its rapid internationalisation.

Available in all the strategic markets, CLARISONIC has established itself in the very competitive skincare category thanks to its unique approach of instrumental cosmetics which offers visible skin transformation.

In the United States, its country of origin, CLARISONIC is one of the top 5 skincare brands in the selective distribution market⁽²⁾. It has been successfully rolled out in many European countries and is performing very well in Asia.

(1) Like-for-like. (2) Source: Women's skincare segment, NPD United States panel, market share value 2013.

clarisonic

2001

FOUNDED IN SEATTLE

2011/2012

ACQUIRED AND INTEGRATED BY L'ORÉAL

2013

+35.9%⁽¹⁾ GROWTH IN SALES



Key issue: to raise the expression of the brand's identity to such a level of excellence that the sales outlet experience matches the consumer's vision of beauty.

/TRAVEL RETAIL, THE SIXTH CONTINENT

The traditional leader in travel retail⁽¹⁾, L'Oréal has high hopes for this particularly dynamic channel that resembles a sixth continent.

A key market for achieving the target of conquering a billion new consumers, travel retail plays a strategic role for the brands and has been posting exponential growth rates over the last few years: it should double in the next ten years⁽²⁾. With 30% of total sales, beauty – that is fragrances and cosmetics – is the first category of this channel⁽³⁾.

Travel retail consumers are global shoppers who buy where they are and not only where they live. To respond to the aspirations of travel customers, whether they are Brazilian, Chinese, Russian or Middle Eastern, L'Oréal has developed a personalised approach by adapting to languages, cultures and beauty rituals. An immense potential that L'Oréal is ready to seize thanks to the richness of its brand portfolio.



No.1

L'ORÉAL LUXE IS THE WORLD LEADER
IN THE TRAVEL RETAIL
BEAUTY MARKET⁽¹⁾



Polo Red by RALPH LAUREN is one of the year's success stories in men's fragrances, notably in travel retail.

(1) Source: Generation data, market share value 2012. (2) Source: Generation forecasts. (3) Source: Generation data, sales in value.



PROFESSIONAL
PRODUCTS



L'ORÉAL PROFESSIONNEL
KÉRASTASE
REDKEN
MATRIX
PUREOLOGY
ESSIE
SHU UEMURA ART OF HAIR
MIZANI

*Thanks to first-class education
and the most advanced innovations
in haircare products and services,
the Professional Products Division
makes sure that with each passing day
more and more people can take advantage
of the highest standards of quality
and expertise from beauty salon
professionals all over the world.*

PROFESSIONAL
PRODUCTS

“WE OFFER INNOVATIONS
AND SERVICES THAT SPRING FROM
CONSUMER DESIRES, AND REQUIRE
THE HAIRDRESSER’S EXPERTISE.”

AN VERHULST-SANTOS
PRESIDENT
PROFESSIONAL PRODUCTS DIVISION



/ OFFERING THE BEST IN PROFESSIONAL BEAUTY

What were the division's growth drivers in 2013?

Luxury haircare, driven primarily by the emblematic KÉRASTASE brand, powered the Professional Products Division in 2013. In hair colour, ODS⁽¹⁾ technology, rolled out across all our brands, is a strong growth driver, with the success of Inoa 2 by L'ORÉAL PROFESSIONNEL, Chromatics by REDKEN and Colorinsider by MATRIX. Once again hair oils proved successful this year, with growth of +47.7%⁽²⁾. This category is now the first contributor to the division's growth, and the Elixir Ultime range remains a flagship franchise of the KÉRASTASE brand.

What great ambitions are driving the division?

"Next Million", the federative project for the division which has set itself the target of conquering another million hairdressers. This is our contribution to the group's objective of winning one billion new consumers, and the best way of accelerating our growth. We are continuing to strive for a better balance in our geographic footprint, with



AN VERHULST-SANTOS
PRESIDENT
PROFESSIONAL PRODUCTS DIVISION

strong dynamics in the New Markets, to raise the profession's profile and attract consumers. Brazil, Russia and India ranked amongst the top 5 countries which contributed to the division's sales growth in 2013. Meanwhile, in the mature markets, the division's strategy is to restore the magic of the salon experience, making it a true moment of pleasure. Finally, our brands must put men and women back at the heart of their strategy, with clearer insight into their needs, to offer products that are inspired by their desires, and make them want to visit hair salons.

What will be the professional beauty segments of tomorrow?

It is in our strategic interest to broaden our professional expertise to include in particular nail care and colour as well as skincare, as they are additional and complementary activities to the hairdressing business. The acquisition in September of CHERYL'S COSMECEUTICALS, a pioneering brand in the professional skincare market in India, and the acquisition of DECLÉOR and CARITA, two aspirational brands widely used in beauty institutes, form an integral part of our vision of tomorrow's professional beauty.

+47.7%

GROWTH IN SALES
OF HAIR OILS⁽²⁾

+5.2%

GROWTH IN SALES
OF MATRIX⁽²⁾

(1) Oil Delivery System. (2) Like-for-like.

/ HAIR LUXURY ACCORDING TO KÉRASTASE

KÉRASTASE, at the forefront of professional products, is moving into new luxury haircare segments. Its ambition? To make hair a woman's most beautiful attribute.

TOP 5 MARKETS⁽¹⁾

CHINA
UNITED STATES
BRAZIL
ARGENTINA
FRANCE

2013 marked the arrival of Couture Styling, the first-ever KÉRASTASE styling range. Inspired by the latest trends, this range of eleven styling products is winning over new consumers for the brand through closer connections to fashion and luxury. Showcased by a world-renowned ambassador, Couture Styling has benefited from high visibility in the media and hair salons.

Launched in Europe and in the United States, this new segment represents additional sales, and is contributing powerfully to the strong performances of KÉRASTASE.

A PIONEERING BRAND SERVING HAIR BEAUTY

KÉRASTASE, a pioneering brand in scalp care, launched Initialiste in 2012, the first hair serum designed as a skincare product, enriched with an active ingredient from plant biotechnologies. To help women in their quest for beautiful hair, the brand has changed its approach and now acts at the source. Thanks to the skincare know-how of the L'Oréal laboratories, KÉRASTASE confirmed in 2013 its professional expertise in this field, with the success of Initialiste in Asia and the launch of the Densifique treatment.



KÉRASTASE launches luxury styling with Couture Styling.

Densifique scalp care promotes hair density thanks to the Stemoxydine molecule.

(1) Markets which contributed the most to growth at KÉRASTASE in 2013.





China powers growth

With a score of +24.9%⁽¹⁾ in 2013, China is the country that contributed the most to KÉRASTASE's growth. Its highly selective strategy of moving upmarket is attuned to Chinese consumers powerfully attracted to luxury haircare products. The brand is also benefiting from the excellence of its "KÉRASTASE Ambassador" hairdressers in diagnostics and service.

(1) Like-for-like.



/ BRANDS ATTENTIVE TO TRENDS

L'ORÉAL PROFESSIONNEL, REDKEN and ESSIE cover the top Fashion Weeks, and exert their influence each year on hairdressing and nail trends. These brands offer professionals innovations and modern services directly inspired by fashion shows, to sublimate the appearance of women who want to be at the heart of fashion.

CATWALK-INSPIRED PRODUCTS

Revealed at the London Fashion Week, Hairchalk is the new colour polish for hair from L'ORÉAL PROFESSIONNEL. This make-up for hair is an innovation that highlights the hairdresser's application expertise and enables women to show off this must-have look. Directly generated by a trend, Hairchalk offers a modern and stand-out service that brings new consumers into hair salons.



www.lorealprofessionnel.com

A website to follow the latest trends, looks and L'ORÉAL PROFESSIONNEL innovations.



/ESSIE, PROFESSIONAL INNOVATIONS

Thanks to its backstage presence at fashion shows, Essie keeps up with the latest trends, with around six new collections a year that enrich its vast palette of more than 180 colours. The brand born in hair salons draws on expertise and know-how garnered alongside beauty professionals, and in 2013 continued to invent exclusive services for them. One example is Essie Gel, a formula that combines colour with a keratin-enriched nail care solution, activated by LED gel system. Launched in the United States last autumn, this innovation will be rolled out in Europe in 2014.

Essie Gel, the first nail care and colour formula with LED gel system.



/FASHION INSPIRES REDKEN

The No.1 professional brand in the United States⁽¹⁾, REDKEN is directly plugged into fashion trends, through its association with celebrated hairstylists such as Guido Palau. In 2013, a new partnership was signed with blogger Chiara Ferragni, an ambassador in the front row of fashion events who puts REDKEN under the fashion spotlight. The brand is taking the opportunity to strengthen its presence in social media that act as real image and reputation vectors. Its expansion is also being underpinned by the launches of the Diamond Oil range and Curvaceous for curly hair, along with the extension of the Chromatics franchise.

(1) Source: KLINE United States 2012 study, Salon Hair Care Global Series and L'Oréal 2013 data.





/MATRIX A CONQUERING BRAND

MATRIX, the accessible professional brand, has set itself the mission to raise the profile of the hairdressing profession in the New Markets, with tailor-made innovation and training programmes.

Colorinsider, the brand's first hair colour to use ODS⁽¹⁾ technology, is the top growth driver of MATRIX. The SoColor range has been launched in India and China, with fragrances and colours that have been adapted for Asia, where it is contributing to the boom in this category.

The performances of MATRIX were also driven by haircare. Launched in 2013, the Biolage Advanced Repair Inside range was specially designed for Brazil. It will be rolled out worldwide, just like the Biolage Advanced Fiberstrong and Keratindose ranges, as well as Biolage ExquisiteOil which is proving successful in all zones.



Training at your fingertips

With the launch of its global mobile-phone e-learning programme Reach All-Teach All, MATRIX is developing an even closer relationship with hairdressers. This application enables them to instantly find the most suitable formulations for each client, along with educational videos and expert advice, to deliver a high-quality professional service.



Reach All-Teach All
An e-learning app already
downloaded more than 40,000 times.

(1) Oil Delivery System.





ACTIVE
COSMETICS

VICHY
LA ROCHE-POSAY
SKINCEUTICALS
ROGER&GALLET
INNÉOV
SANOFLORE

The Active Cosmetics Division's mission is to help everyone improve the quality and health of their skin, whether they are affected by sensitive skin or dermatological conditions, in all healthcare channels worldwide, including pharmacies, drugstores and medi-spas. Thanks to its highly complementary brands and its close links with health professionals, dermatologists, paediatricians and doctors practising aesthetic medicine, the division is world No.1 in dermocosmetics⁽¹⁾.

(1) Source: Panels and L'Oréal 2013 estimates.



VICHY

“
IN THE CONTEXT
OF UNIVERSALISATION,
WE ARE SEIZING
OPPORTUNITIES IN
THE MANY APPROACHES
TO HEALTH AND BEAUTY.”

BRIGITTE LIBERMAN
PRESIDENT
ACTIVE COSMETICS DIVISION

/RESPONDING TO THE QUEST FOR ADVICE, EFFICACY AND SAFETY

How would you describe 2013 for Active Cosmetics?

2013 was a year of acceleration for both the division and the dermocosmetics market (+5.0%⁽¹⁾). At +7.8%⁽²⁾, we are continuing to clearly outperform the market, and we contributed to some 40% of its growth⁽¹⁾. Dynamism is being driven by the vitality of Western Europe, and the acceleration of China, the Gulf states and Saudi Arabia, along with the boom in the Americas Zone, particularly in Brazil with +21.1%⁽²⁾. Our brands are recording strong performances: Vichy's new strategy is proving to be a winner, LA ROCHE-POSAY has again posted double-digit growth and SKINCEUTICALS is now a reference in cosmeceuticals.

What are the trends in the health and beauty market?

Skincare is the flagship category: growth of around +6% per year is expected over the next decade⁽³⁾, with growing demand for products combining innovation and efficacy with safety. This is a universal and persuasive purchasing criterion for 65% of women⁽⁴⁾. To respond to the new challenges of UV protection, pollution and



BRIGITTE LIBERMAN
PRESIDENT
ACTIVE COSMETICS DIVISION

allergies, the positioning of our brands in the health-beauty-safety territory is crucial. Consumers are seeking advice from professionals, in sales outlets as well as on the Internet. Digitalisation is booming, notably e-commerce. Recommendations and skin diagnostics are now available through our mobile apps, intensifying our relationship with consumers and traffic on our websites.

What will be the distribution channels and medical partnerships of tomorrow?

Pharmacies remain at the heart of our business.

In Western Europe, they represent, with "para-pharmacies", some 25% of skincare sales⁽¹⁾. More recently, we have shown agility by adapting our model to the New Markets' realities. Our presence is being stepped up in drugstores, shopping malls and department stores where we are creating dermacenters which allow us to stage our brands thanks to expert dermo-advisors. In the medical field, dermatologists remain our privileged partners. But we are convinced that our mission is broader-based and includes new professionals: paediatricians, general practitioners, aesthetic surgeons, nutritionists and even oncologists.

+31.3%
INCREASE IN ACTIVE COSMETICS'
DIGITAL MEDIA INVESTMENTS⁽²⁾

(1) Source: 2013 L'Oréal estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soap, oral hygiene, razors and blades. Excluding currency effects. (2) Like-for-like. (3) Source: L'Oréal/McKinsey study 2012. (4) Source: Sensusurvey IFOP, 8 countries, March 2013.

/LA ROCHE-POSAY TRIPLING SALES IN 10 YEARS

Product recommendation, advice and adaptation responding to the needs of sensitive skin are the pillars of the LA ROCHE-POSAY business model. A virtuous circle that is effective in all the brand's markets.

"A better life for sensitive skin". A bold statement, and an aspirational headline. With more than thirty years of research experience, LA ROCHE-POSAY has become a benchmark for the development of high-tolerance products for sensitive skin. If the brand is recommended by some 25,000 dermatologists worldwide⁽¹⁾, this reflects its active part-

nership with them, particularly in research and professional training assistance. Relayed both by medical visitors and pharmacists, the many clinical trials it carries out with dermatologists are a guarantee of the efficacy of the formulas and the credibility of the brand, both in medical circles and with consumers.

“ LA ROCHE-POSAY IS ENGINEERED FOR EXPANSION”



The past decade of strong growth has demonstrated the relevance of our business model. We have built up a long-term relationship with dermatologists based on confidence. It is up to us to accelerate our partnerships with other professionals, such as general practitioners and paediatricians.

ELISABETH ARAUJO

GENERAL MANAGER OF LA ROCHE-POSAY INTERNATIONAL

HEALTHY GROWTH

With sales growth of +12.4%⁽²⁾ in 2013, LA ROCHE-POSAY is posting very good results in both its traditional markets – France and Germany – and in New Markets such as Brazil, China and Russia. The balance in growth is both geographic and product-based, as all categories benefit from the strategy of internationalising major innovations. Cicaplast for example, the expert epidermis repair range, has now been launched in Latin America, after winning over Europe. There have also been worldwide roll-outs for Redermic [R], the anti-ageing skincare with retinol first designed for the Americas, and Anthelios Dry Touch, initially developed for Brazil, both of which are now successful in Europe.



www.info-pso.com



Iso-Urea, the group's first “medical device”⁽³⁾

LA ROCHE-POSAY's new Iso-Urea MD psoriasis balm has obtained the regulatory status of “medical device”⁽³⁾. Its performances enable it to claim an action to restore the skin barrier of psoriasis patients. This unprecedented launch has been backed up by the creation of the platform www.info-pso.com, which features testimonials and advice to bring patients a greater sense of well-being.

LA ROCHE-POSAY LABORATOIRE DERMATOLOGIQUE



1/
*Lipikar,
body skincare
for dry skin,
wins over
Latin America.*



THE NEW TERRITORY OF DAILY CARE

Drawing on its skincare expertise, the brand is adopting a new approach to increase growth potential. Its relationship with consumers is closer and becoming part of a daily routine, and its products are more sensorial and pleasurable to use, while continuing to capitalise on the brand's strong point: tolerance. With the launch of Hydreane BB Cream, La Roche-Posay has introduced the BB category into the pharmacy channel, winning over new consumers thanks to its sensitive skin positioning. Other major innovations: Nutritic Intense, nutri-reconstitutive skincare to relieve sensitive skin that is dry or very dry, and Tolériane Ultra, whose minimalist formula with Neurosensitive calms ultra-sensitive skin.

+12.4%

GROWTH IN SALES
OF LA ROCHE-POSAY⁽²⁾

(1) Source: A 2012 cross-country dermatological study. (2) Like-for-like.
(3) As defined in Article L5211-1 of the French Public Health Code.



/VICHY, YOUR IDEAL SKIN PARTNER

For women aspiring for their own ideal skin, VICHY is an expert partner present at every stage of their lives. This close relationship is reflected not only in product packaging and the way the brand expresses itself in sales outlets, but also in consumer relations, which are more positive and interactive thanks to digital media.

A WINNING POSITIONING

With sales growth multiplied by almost three in 2013⁽¹⁾, VICHY demonstrates the relevance of its repositioning that began in 2012: a premium health and beauty brand. Western Europe is a great driver of this success with the key countries Germany and France, thanks to the anti-ageing and anti-hair loss segments. China achieved its target, where e-commerce is becoming a major distribution channel with some 13% of sales. Brazil (+35.9%⁽¹⁾) and Russia (+8.4%⁽¹⁾) are major growth relays, where VICHY is accelerating quickly by adapting to specific local characteristics.

x3

VICHY'S SALES GROWTH MULTIPLIED
BY ALMOST THREE IN 2013⁽¹⁾.



Idéalia Life Serum explores the new territory of daily excesses that affect the skin quality.

/DYNAMISM IN FRANCE

France is the country of origin of most of the Active Cosmetics brands. The market trend is buoyant with +3.5%⁽²⁾ growth in 2013, and is being outperformed by each of them. The relevance of the dermatologically-based model of LA ROCHE-POSAY, the repositioning of VICHY, the renewal of SANOFLORE and the sensoriality of ROGER&GALLET have strong appeal for French consumers, drawn to brands they have known for many years. Furthermore, the division is spearheading initiatives to boost the pharmacy channel, such as the Master Retail training module. The objective? To modernise sales outlets, in partnership with pharmacists and designers, and so provide a new kind of customer experience.

(1) Like-for-like. (2) Source: IMS Pharmatrend and Paratrend France panels, aggregate 21 dermo-cosmetics markets and 4 nutri-cosmetics markets, market share value 2013.





/SKINCEUTICALS A REFERENCE IN COSMECEUTICALS⁽¹⁾

SKINCEUTICALS is continuing its global expansion driven by its premium, medical and professional positioning in skincare.

Three fundamental principles guide SKINCEUTICALS skincare products: to prevent signs of premature ageing, to protect the skin against the damaging effects of UV rays, and to correct visible signs of ageing. Thanks to its comprehensive approach, the brand has established itself for its products to be used prior to aesthetic procedures and afterwards to prolong their effects. Its products, with highly concentrated active ingredients, are popular with dermatologists and aesthetic surgeons, and distributed through medi-spas, exclusive professional channels and selected pharmacies.

SEEKING ULTRA-EFFECTIVENESS

After the conquest of the United States, its country of origin, in which consumers demand rapidly visible results, the brand is being rolled out in Asia - where demand for premium professional facial skincare is very strong -, in Germany and in Brazil, which in just one year has become the second-largest SKINCEUTICALS market.



SKINCEUTICALS

1994

FOUNDED BY
DERMATOLOGIST
DR SHELDON R. PINNELL

2005

ACQUIRED BY L'ORÉAL

2013

+14.5%⁽²⁾ GROWTH
IN SALES

*C E Ferulic,
triple antioxidant serum
for the prevention
of skin ageing.*



(1) The word "cosmeceuticals" is created from cosmetics and pharmaceuticals. (2) Like-for-like.



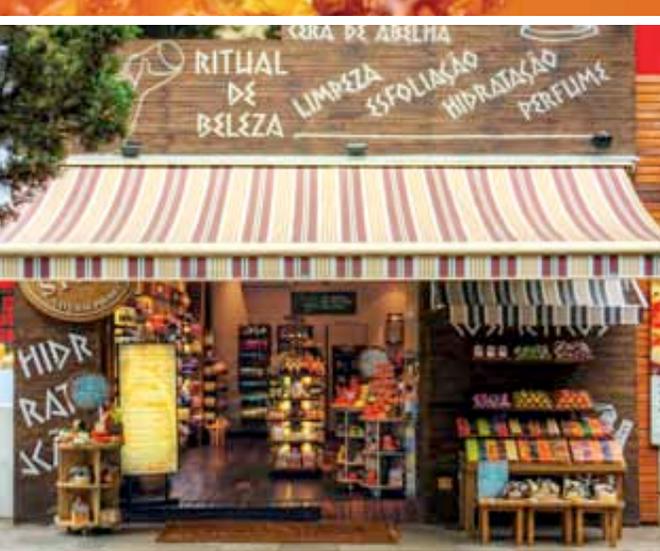
*Honeymania™
range with organic
Ethiopian honey.*

/THE BODY SHOP TAKES THE NEXT STEP

In 2013, THE BODY SHOP celebrated 26 years of commitment to responsible sourcing, fair trade ingredients and support for local communities. The brand is taking the next step with its entry into Brazil and access to a new source of consumers.

BREAKING INTO BRAZIL

This year's major news story: THE BODY SHOP finalised its acquisition of a majority stake in EMPORIO BODY STORE in Brazil, which has a franchisee network of some 130 sales outlets. This network will be rebranded as THE BODY SHOP and progressively retail the global ranges. Both franchisees and consumers appreciate THE BODY SHOP, an international brand with naturally-inspired ingredients, its quality, as well as its focus on



“
REDISCOVER
THE PIONEERING SPIRIT.”



THE BODY SHOP is as relevant today as it has been in the past, with more consumers seeking naturally-inspired yet effective products and companies that offer an ethically-based business model. The expansion into Brazil is a fantastic opportunity for the business to grow in a market

that is attuned to our ethos. Looking forward, we are determined to strengthen the brand's significance and increase the pace of innovation.

JEREMY SCHWARTZ, CHAIRMAN AND CEO OF THE BODY SHOP



International Business of the Year

In 2013, THE BODY SHOP was voted International Responsible Business of the Year by the prestigious UK Business in the Community organisation for its pioneering Community Fair Trade programme, launched in 1987. It supports several hundred thousand people in some twenty countries through the direct sourcing of the finest ingredients from local communities. Its values, nature-centred and based on an ethical approach, are at the heart of the brand.

Products with real appeal

Cocooning was the watchword for the year's two flagship launches. With its refreshing and hydrating botanic ingredients, the Absinthe Purifying hand care range features Community Fair Trade active ingredients. The Honeymania™ Bath & Body Collection comprises seven products all with powerful sensorial appeal. Its star ingredient is Community Fair Trade honey of unrivalled quality, hand-harvested from tropical Ethiopian forests.



Absinthe Purifying hand care range.



www.thebodyshop.com
THE BODY SHOP strengthens its relationship with customers by optimising its digital tools.



2,919
 STORES WORLDWIDE

sustainable development. Brazil offers a platform for additional growth as it is the fourth largest beauty market⁽¹⁾, and one which can also inspire worldwide products.

TOP COUNTRIES

The potential of THE BODY SHOP in the New Markets is symbolised by its success stories in India (+12.7%⁽²⁾), the United Arab Emirates (+12.1%⁽²⁾) and Indonesia (+29.9%⁽²⁾). In Indonesia, a fast-growing market with a strong beauty culture, THE BODY SHOP has more than a hundred stores, and focuses on its core businesses of body and skincare. One of the keys to success is the strong participation of the franchise owner and their focus on service and selling the more premium products in the ranges. The brand has also invested heavily in customer relationship management and winning new consumers, as well as in local activation such as the Jakarta Fashion Week, which has changed perceptions about make-up.

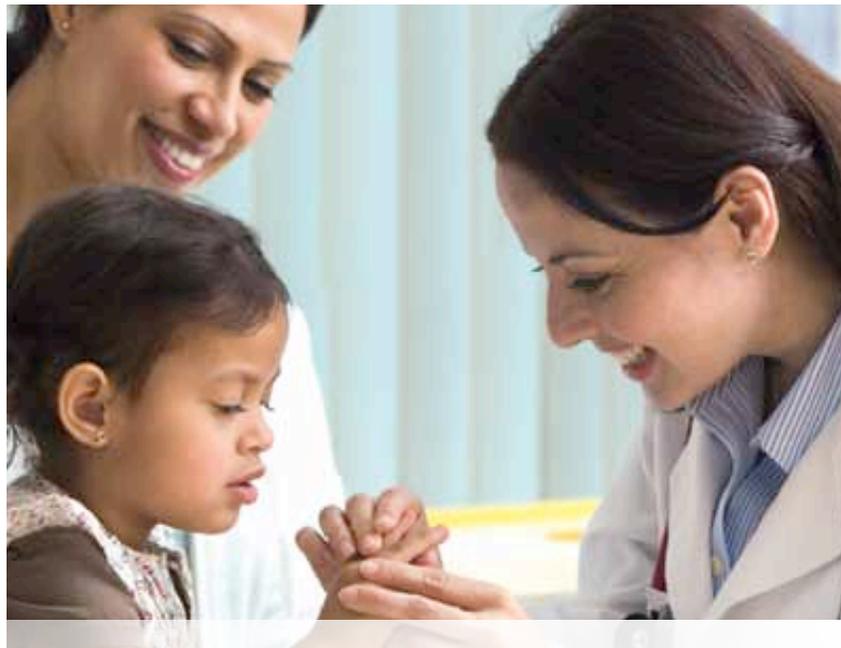
STRENGTHENING E-COMMERCE

A strategic focus for THE BODY SHOP over the last few years has been the expansion of e-commerce into additional markets and the roll-out of smartphone applications. In 2013, there were 23 sites including two new countries – India and Vietnam. Online sales increased by +15.5%⁽²⁾, with notable growth in the Netherlands, Spain and Taiwan.

(1) Source: 2013 L'Oréal estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soap, oral hygiene, razors and blades. Excluding currency effects. (2) Like-for-like.

/ GALDERMA, COMMITTED TO THE FUTURE OF DERMATOLOGY

A major player in its market, GALDERMA is implementing its strategy in three fields of activity, and extending its unique portfolio of medical solutions to meet the dermatological needs of people, throughout their lifetime, while serving healthcare professionals all over the world.



Epiduo® strengthens its position as the No.1 topical prescription treatment for acne⁽¹⁾.



2013 was the year in which GALDERMA accelerated its expansion and reasserted its exclusive commitment to dermatology. This commitment is at the heart of its new identity – the logo stresses dermatology, which is GALDERMA'S DNA –, and of its institutional communication that brings together people and science.

A DIFFERENTIATED STRATEGY WITH THREE SECTORS OF ACTIVITY

To take on board the changing paradigm of the pharmaceutical industry and the growing importance of generics, GALDERMA has devised a differentiated strategy based on three pillars: prescription drugs, self-medication products, and aesthetic and corrective medical solutions. Each of these businesses has specific development models and stakeholder relationships. But they share a common objective: stepping up innovation in the interest of patients and healthcare professionals.

MAJOR ADVANCES FOR PATIENTS AND HEALTHCARE PROFESSIONALS

Mirvaso[®], developed through GALDERMA research, is the first topical treatment for rosacea-associated erythema. Approved by the Food and Drug Administration (FDA), the American regulatory agency, it was launched in the United States in autumn 2013. Mirvaso[®] is a major advance for rosacea patients, and reflects GALDERMA'S commitment to targeting this disease, which affects millions of people throughout the world.

The acquisition of Spirig in December 2012 also bolstered the self-medication product portfolio, which posted solid growth. The research and production centre at Egerkingen in Switzerland became a Centre of Excellence for self-medication in 2013, strengthening the laboratory's expertise and resources in this market.

In aesthetic and corrective dermatology, the complete portfolio of medical solutions – including Azzalure[®] (muscle relaxant) and Restylane[®] (dermal filler) – is backed up by a new brand expression and the roll-out of a new programme of associated services. Its objective? To enable doctors to be even more attentive to their patients, so as to offer personalised treatments.

STAYING CONNECTED TO THE DERMATOLOGY COMMUNITY

In addition to the renewal of its institutional website, GALDERMA is continuing to actively support continuous medical training through its platforms for sharing medical knowledge online, such as www.dermquest.com which brings together more than 60,000 dermatologists worldwide⁽²⁾. GALDERMA also has a mission to inform patients and raise their awareness, for example with the website www.rosaceafacts.com dedicated to rosacea.

5

RESEARCH AND DEVELOPMENT CENTRES
EXCLUSIVELY DEDICATED TO DERMATOLOGY

(1) Source: IMS, class D, 39 countries, MAT November 2013. (2) Source: GALDERMA data. (3) Source: IMS, MAT November 2013.



Australia, an emblematic example

Australia is a fine illustration of the strategy adopted by GALDERMA: all three activities have been extensively rolled out, and are posting solid performances thanks to the successes of its flagship brands. Epiduo[®], which is reimbursed in Australia, has held on to its No.1 position there in topical acne treatments⁽³⁾. The growth in self-medication products is being driven in particular by the launch of Actinica[®] (prevention of non-melanoma skin cancer), supported by the Skin and Cancer Foundation. The aesthetic and corrective solutions meanwhile are continuing to record strong growth, driven by Restylane[®] and by rising sales of Dysport[®] (muscle relaxant).



www.dermquest.com
A personalised continuous
medical training platform
for dermatologists.

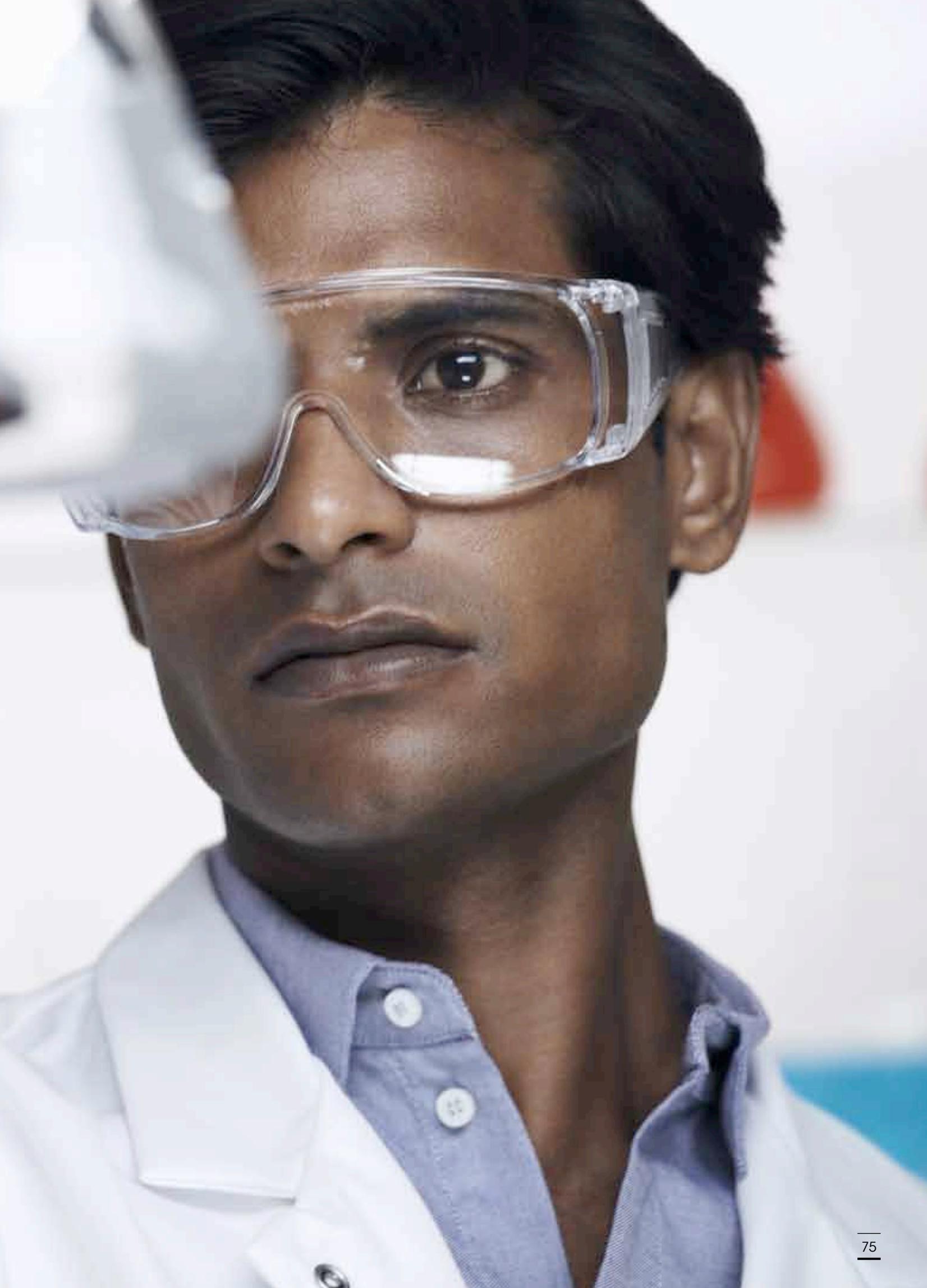


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REVIEW & OUTLOOK

/STAYING OUT IN FRONT

At L'Oréal, what part does science play in innovation?

Growth in the beauty market is driven by innovation that accounts for some 15% of our sales, and innovation stems from science. For this reason, L'Oréal has always invested continuously in Fundamental Research by developing cutting-edge knowledge about hair and skin. We believe that there are no limits to science, and our Research contributes to scientific



LAURENT ATTAL
EXECUTIVE VICE-PRESIDENT
RESEARCH AND INNOVATION

progress in the noblest sense of the word. Our challenge is to transform science into innovative products, while respecting regulatory aspects and all our ethical commitments.

How do you intend to hold on to your lead?

Our ambition is to understand the needs of consumers all over the world, and to be the first to respond to them. That is why we have developed a unique innovation model that goes from Advanced Research to Development. It is based on a creative interaction between marketing and science that makes us stand out from our competitors. For all our

consumers we are able to constantly offer something new and different with high performance, thanks to our ability to synthesise sustainable and exclusive active ingredients, which we improve in new formulation systems, combine and produce at lower costs.

Why is being a pure player in beauty such a strength?

It is an extraordinary advantage, bearing in mind the complexity of this business. The more you work on beauty-related subjects, the more you refine your expertise about ageing, "damaged" hair, photoprotection, etc. Over more than a hundred years, we have built up an incredible wealth of information, and this rich heritage of data underpins our ability to innovate. Today that ability is being massively increased thanks to modelling, robotisation, miniaturisation and new biological tools. This is enabling us to move into the new predictive era and anticipate the performance of our ingredients and products, but also to open up the vast prospects for personalised beauty.

857

MILLION EUROS⁽¹⁾,
REPRESENTING 3.7% OF SALES

MORE THAN

4,000

EMPLOYEES⁽²⁾

624

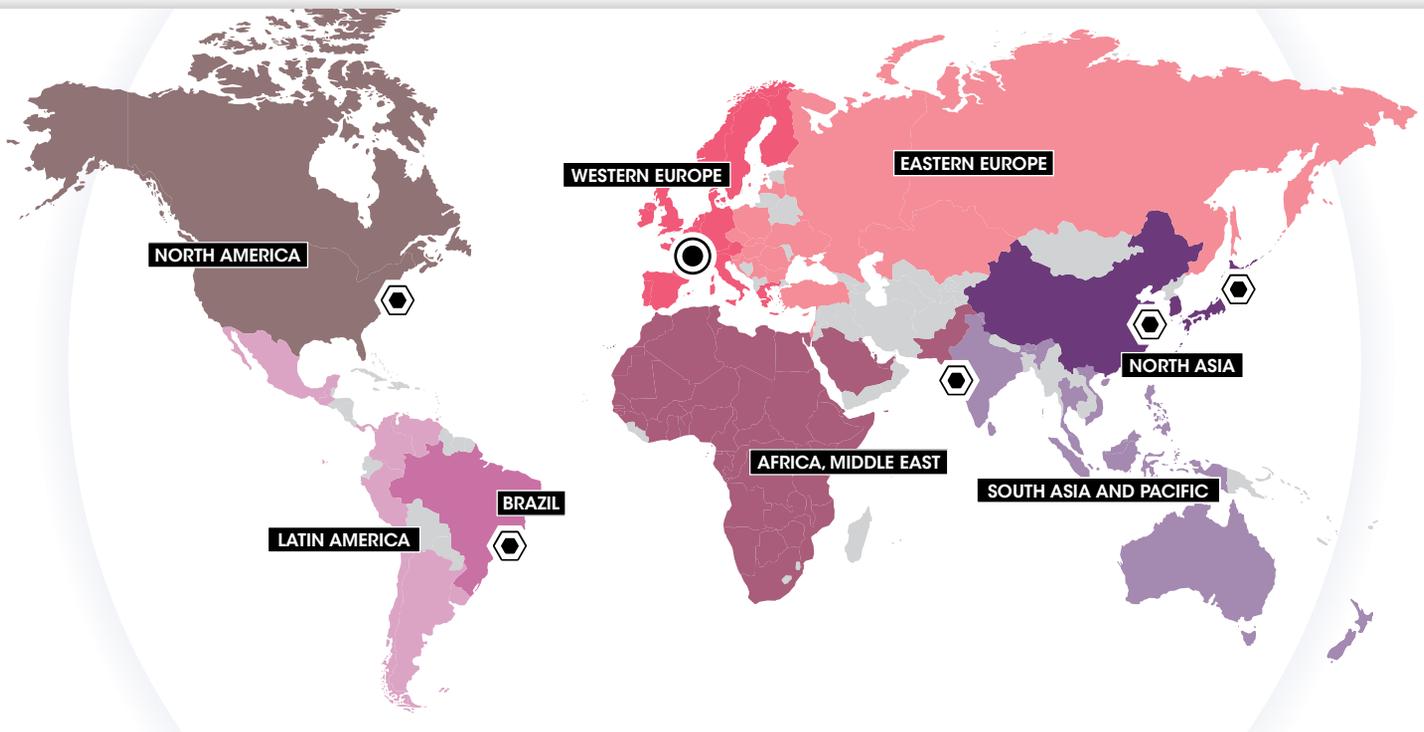
PATENTS REGISTERED

(1) Including 50% of GALDERMA research expenses.

(2) Including 50% of GALDERMA research employees.

The multi-polar organisation of Research

L'Oréal's twenty-three Research and Innovation centres are located all over the world. These worldwide centres and regional hubs network with each other to ensure the closest possible connections with their innovation ecosystem of consumers, universities and suppliers. This paves the way for privileged partnerships to drive major scientific advances.



WORLDWIDE CENTRES

(France)

L'Oréal's 4 business segments:

- Haircare, hair colourants, skincare and make-up.

Their role:

- To define strategy.
- To drive the innovation portfolio.



REGIONAL HUBS

(United States, Japan, China, India, Brazil)

Their role:

- To adapt technologies developed in the worldwide centres to meet the expectations of their consumers.
- To invent specific technologies and products.



STRATEGIC REGIONS

Their role:

- To bring consumers together on the basis of their beauty aspirations, skin and hair types, beauty routines and cultural and climatic criteria.

Creation of a Scientific Committee

In May 2013, L'Oréal announced the creation of a Scientific Committee of nine eminent scientists from different disciplines and countries. They have a dual remit: to bring to light original ideas in L'Oréal Research's fields of interests, and to explore emerging scientific and technological trends so as for the group to stay out in front. The reflections of this Committee, chaired by Jacques Leclaire, Worldwide Scientific Director of L'Oréal, will be a major source of inspiration.



From left to right: Elaine Fuchs, Jun Wang, Dominique Langevin, Thomas Bieber, Samir Mitragotri, Bonnie Bassler, Vanderlan da Silva Bolzani, Nina Jablonski, René Wjffels, Jacques Leclaire.

/ FROM SCIENCE TO BEAUTY

One of the key advantages of Research and Innovation is its ability to develop exclusive active ingredients with very long life cycles, while transforming them into innovative products that are successful worldwide. One example is Pro-Xylane™, used in Revitalift Laser X3.

Protected for decades by a dynamic patent registration policy, the active ingredients owned by the group constitute a unique capital, and play an essential role in the innovation strategy. Even today, the ten main active ingredients of the last 35 years feature in formulas accounting for half of L'Oréal's sales.

AN ONGOING INNOVATION PROCESS

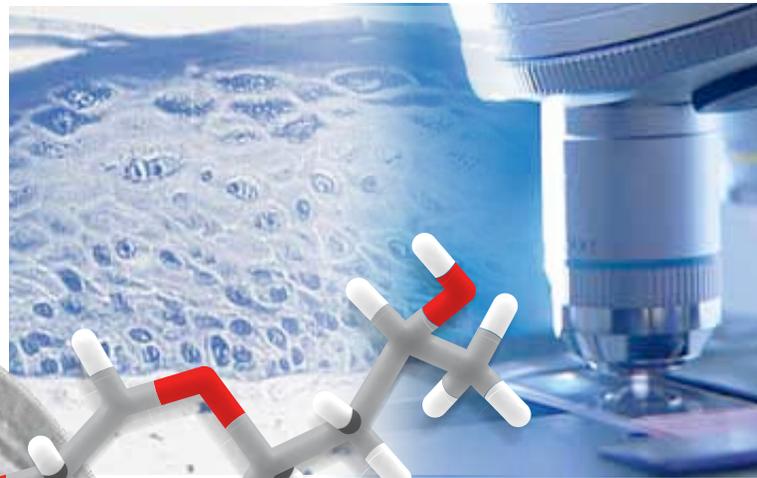
The role of Research is not only to develop these ingredients, but also to prove their efficacy and to include them in a never-ending innovation process. The most important molecules give rise to veritable technology platforms set up to exploit all their potential.

The worldwide success of Revitalift Laser X3 by L'ORÉAL PARIS with Pro-Xylane™ at 3% is a fine example of the close link established between science, performance and innovation.

1995

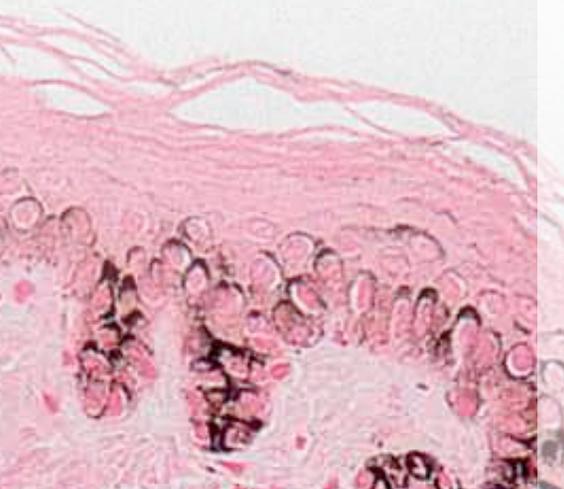
Crucial skin ageing discovery: researchers discover a link between loss of density and lower levels of certain macromolecules (GAGs) in the dermis, which act as "water sponges". Their structure will inspire chemists.

FROM THE PRO-XYLANE™



1999

Laboratory development of Pro-Xylane™. Chosen for its efficacy amongst several molecules thought up and synthesised by the chemists, Pro-Xylane™ is designed in accordance with the principles of green chemistry from a renewable raw material, a natural sugar extracted from beech wood.



2013

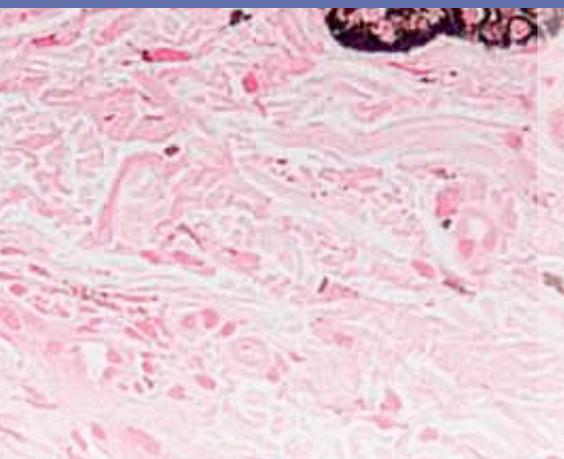
Revitalift Laser X3 is a worldwide success and enables the L'ORÉAL PARIS brand to post strong market share increases. Meanwhile, the Pro-Xylane™ saga continues.

New properties are brought to light, and researchers strive to enhance availability in the skin by adjusting formulation and associations.

2011

An increasingly accessible molecule. The challenge is to ensure that this very expensive molecule can be accessible to a mass-market brand. By optimising the synthesis of Pro-Xylane™, the laboratories manage to reduce its cost by three quarters.

MOLECULE TO THE WORLDWIDE SUCCESS OF REVITALIFT LASER X3



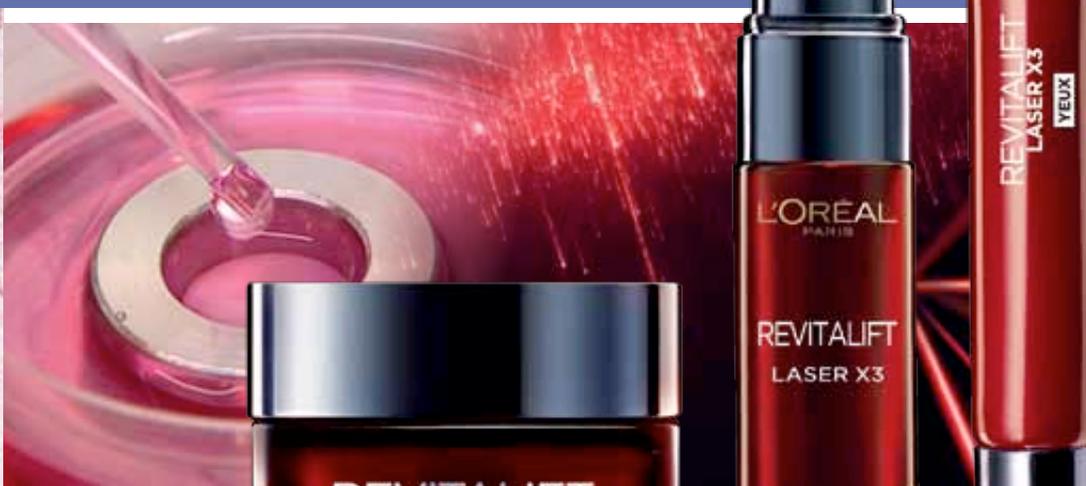
PROVEN ANTI-AGEING EFFICACY

2000–2006

First proofs of efficacy. Its performance at 3% on skin elasticity and tone is demonstrated both *in vitro* and *in vivo*.

2009–2012

New proofs of efficacy: Advanced Research continues to enrich the cluster of proofs of the anti-ageing performance of Pro-Xylane™. Its mechanism of action on GAGs is demonstrated, and an *in vivo* clinical trial concludes that there is a visible reduction in lines and pores, along with evenness of complexion.



2012

In a clinical trial, the laboratories compare over two months the efficacy of a rejuvenation laser session with a skincare product containing Pro-Xylane™ at 3%, associated with two other active ingredients. Revitalift Laser X3, launched by L'ORÉAL PARIS, claims a triple action on lines, skin quality and facial contours.

BEAUTY IS
A SCIENCE



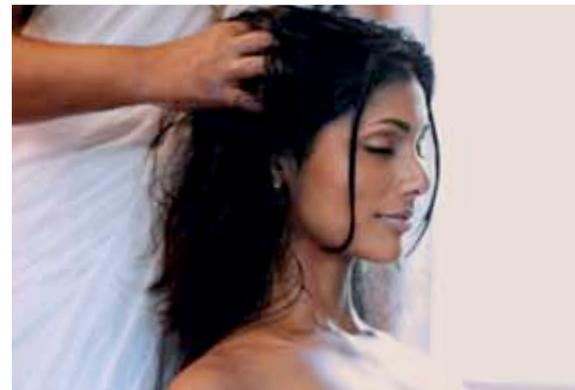
/UNIVERSALISATION INSPIRES INNOVATION

Deciphering consumer needs and making them a source of inspiration for science is the mission of the Innovation and Consumer Insight Department. Its objective: to accelerate innovation all over the world.

At L'Oréal, big ideas come from the encounter between the consumer and science. To optimise this interaction and respond more effectively to the diversity of beauty expectations, Research and Innovation has mapped out the world, dividing it into groups of consumers, based on skin and hair types, climate and also beauty routines and aspirations. Each group of consumers is associated with a L'Oréal Research and Innovation hub (see map "The multi-polar organisation of Research", page 77).

DETECTING WHAT IS NOT EXPRESSED

For each of these groups, the task of the local Consumer Insight team is to study consumers' attitudes and expectations towards beauty products. This even means interpreting the contradictory desires that can exist in one person, for example for hair that holds its shape, while still having natural movement and softness to the touch. Systematically applied in all markets, this method is used to guide product development by focusing on local beauty routines.



IN INDIA

2013

Adaptation to local routines required the development of a new technology and a different fragrance.

Elvive Total Repair 5 enabled L'ORÉAL PARIS to seize the opportunities of this vast market.



IN BRAZIL

2008

Reparação Total 5 technology, based on Ceramide R, provides an answer to the five problems of “damaged” hair: split ends, roughness to the touch, dryness, brittleness and loss of shine. The success was immediate, and very quickly spread to the whole of Latin America.



ELVIVE
TOTAL REPAIR 5

“
LOCAL RELEVANCE FOR
A GLOBAL SUCCESS.”



Elvive Total Repair 5 is today the group's most important haircare product. This innovation was inspired by Brazil to meet the needs of one of the most demanding consumers on the planet when it comes to “damaged” hair. Since then, it has travelled all over the world.

And by continuously improving the formula, the other innovation hubs – China, India and the United States – have contributed to its global success.

JACQUES CHALLES, CHIEF INNOVATION OFFICER

IN WESTERN EUROPE

2009

The formula is adapted to European expectations and the range to their beauty routines.

They do not have the same beauty routines as Brazilian women, who use styling creams. Immediately after its launch, Elvive Total Repair 5 won over consumers.

IN CHINA

2010

Another type of hair, and a different beauty routine: in China, women do not use conditioner because they are afraid of weighing down their naturally straight hair. The Shanghai laboratories' achievement? Reformulating the shampoos to enable them to meet hair repair needs on their own.

IN NORTH AMERICA

2012

Women like conditioners, and they like to feel by touch that they really work. This has led the laboratories to develop a new “on surface” technology that creates a repairing formula with a sensorial texture.





BEAUTY IS A COMMITMENT

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THE FOUNDATION’S PROGRAMMES / 88



REVIEW & OUTLOOK

/ A DECISIVE STAGE IN OUR COMMITMENT

How would you describe 2013?

For L'Oréal, 2013 was a major year in terms of corporate responsibility. The cornerstone of this effort was the launch of our "Sharing Beauty With All" programme, with our new commitments for 2020. This is a tangible expression of our



SARA RAVELLA
EXECUTIVE VICE-PRESIDENT
COMMUNICATION,
SUSTAINABILITY AND PUBLIC AFFAIRS

with high potential at a crucial moment in their careers, while ensuring that they gain recognition from their peers, is decisive. This global mobilisation is our response to the fact that there are still not enough women rising to posts of responsibility in the world of science. Since the start of the programme, "For Women in Science" awards have acclaimed the work of 77 exceptional scientists worldwide, creating successful role models for the younger generations.

What links are there between the "beauty for all" mission and CSR?

We at L'Oréal are convinced that beauty has a genuine social utility. Through philanthropy, the L'Oréal Foundation rolls out projects that forge links between beauty and social integration. But as the market leader, we have a responsibility to go further, ensure that all our stakeholders share in our success, and thus make the world a more beautiful place.

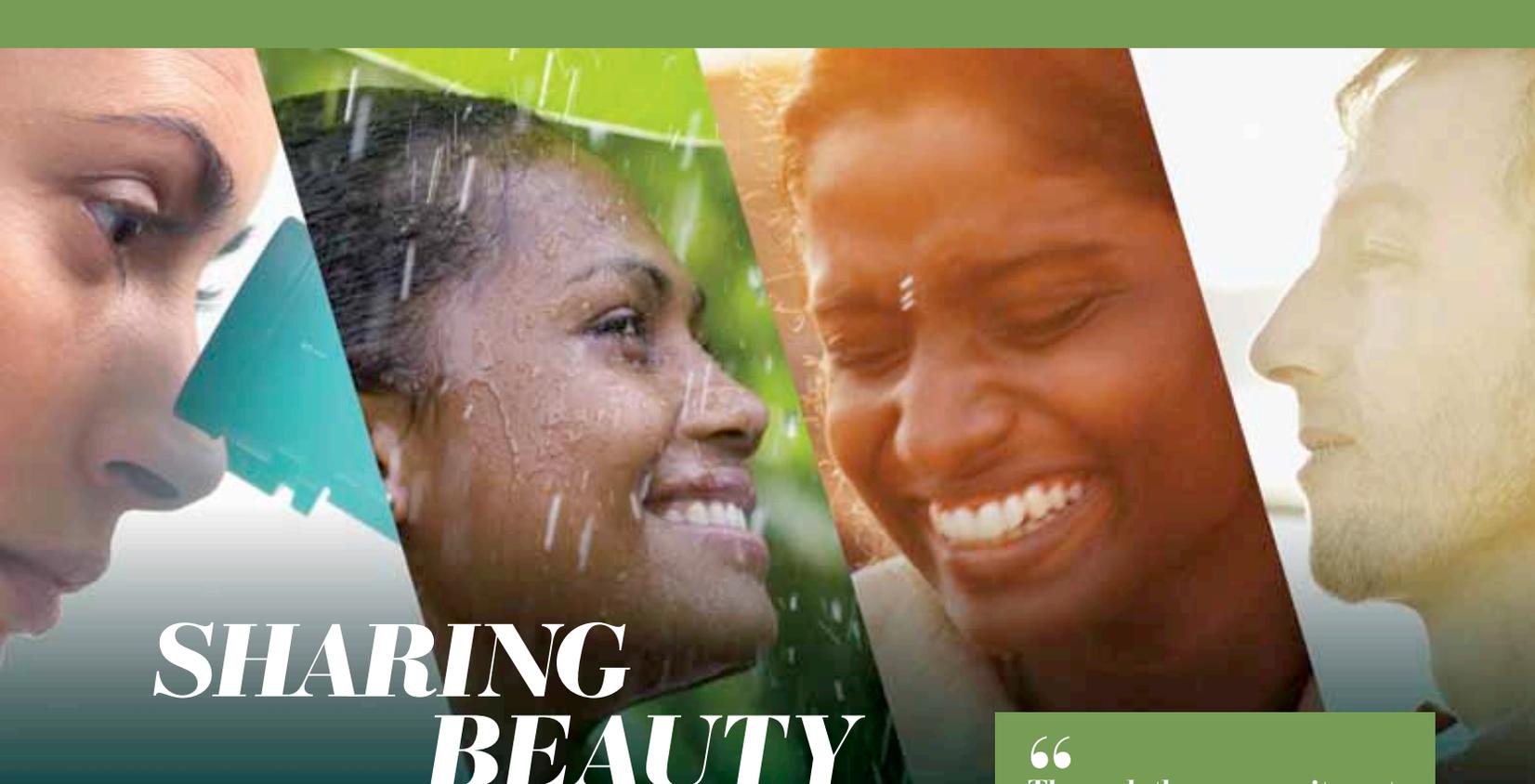
ACCLAIMED LEADERSHIP IN 2013

- L'Oréal has been granted the Ethibel PIONEER and EXCELLENCE labels for outstanding CSR performance in its sector.
- L'Oréal was included in the Euronext Vigeo World 120, Europe 120 and France 20 indexes of the most advanced companies in terms of sustainable development.
- L'Oréal was recognised for the fourth time by the Ethisphere Institute as one of the "World's Most Ethical Companies" and was included in the United Nations Global Compact 100 index.

strong ambition: to make even more progress in our environmental and social initiatives. Within the company, we have also been inspired by strong unifying projects, like Citizen Day, when some 20,000 group employees volunteered to spend one day helping associations. A great show of solidarity!

"For Women in Science" celebrated its 15th anniversary in 2013. Where does this programme stand today?

We are very proud of this programme in partnership with UNESCO. Providing support to women scientists



SHARING BEAUTY WITH ALL

We want to bring beauty to all people.

Beauty expresses itself in many ways.

We believe in the beauty of protecting the environment and biodiversity, the beauty of supporting communities and providing security for employees, the beauty of delivering desirable and sustainable products for women and men who trust in us.

How did the “Sharing Beauty With All” programme come about?

“Sharing Beauty With All” falls within L’Oréal’s long social, societal and environmental history. The commitments that we announced in October 2013 are the result of two years of consultation, concerted discussion and co-construction with various stakeholders throughout the world. We have met with more than 250 external organisations, including NGOs, associations and experts, in particular through forums in the United States, South Africa, India, Brazil, France, China and Northern Europe.



ALEXANDRA PALT
DIRECTOR CORPORATE
SOCIAL RESPONSIBILITY
AND SUSTAINABILITY

“

Through these commitments, we are clearly placing our non-financial challenges at the same level as our financial targets, and so expressing our vision of the global performance of our company. This transition towards a new development model is fully in line with our strategy of universalisation. It is not just a company project.

It is in fact a project for a better society, in which the company takes up a new stance in relation to its consumers, to citizens, and to countries.

A new era is opening up ahead of us. It is another thrilling phase in the great L’Oréal adventure. ”

JEAN-PAUL AGON
CHAIRMAN AND CEO OF L’ORÉAL



Take a look at the multimedia article dedicated to the Commitments 2020, in your L’Oréal Finance Mag digital magazine.

INNOVATING SUSTAINABLY

This is L'Oréal's first duty: to offer its consumers not only the best products in terms of efficacy, quality and safety, but also the most responsible products, that is products designed to be ecologically and socially responsible. By 2020, L'Oréal is committed to ensuring that 100% of its new products provide an environmental or social benefit, in a way that is quantifiable, measurable and verifiable.

COMMITMENT

By 2020, 100% of our products will have an environmental or social benefit.

Initiative: L'Oréal laboratories work to formulate shampoos that can be rinsed off with only one litre of water, instead of the seven litres required today. In all, it could achieve a reduction of three quarters in the quantity of water used, and a two-thirds cut in CO₂ emissions over the whole life cycle of the shampoo.



PRODUCING SUSTAINABLY

The challenge is to keep on reducing the group's impact, when in fact it will be producing more.

COMMITMENT

By 2020, we will reduce our environmental footprint by 60% whilst bringing beauty to one billion additional consumers.



-60%⁽¹⁾
TARGET 2020

WE WILL REDUCE CO₂ EMISSIONS AT OUR PLANTS AND DISTRIBUTION CENTRES BY 60% IN ABSOLUTE TERMS



0%
TARGET 2020

WE WILL SEND ZERO WASTE TO LANDFILL



-60%⁽¹⁾
TARGET 2020

WE WILL REDUCE OUR WATER CONSUMPTION BY 60% PER FINISHED PRODUCT UNIT



-20%⁽²⁾
TARGET 2020

WE WILL REDUCE CO₂ EMISSIONS FROM TRANSPORTATION OF PRODUCTS BY 20% PER FINISHED PRODUCT UNIT PER KM



-60%⁽¹⁾
TARGET 2020

WE WILL REDUCE WASTE BY 60% PER FINISHED PRODUCT UNIT

CONSUMING SUSTAINABLY

In 2020, L'Oréal will communicate the environmental and social profile of its products in every country, so that consumers are able to judge for themselves and thus make enlightened consumption choices. The environmental and social performance of a product has to become a factor that is just as crucial as its quality, efficacy and safety.

65%⁽³⁾
of consumers say:

“I HAVE A RESPONSIBILITY TO PURCHASE PRODUCTS THAT ARE GOOD FOR THE ENVIRONMENT AND SOCIETY.”

COMMITMENT

By 2020, we will empower every L'Oréal consumer to make sustainable consumption choices.

(1) Period 2005-2020. (2) Period 2011-2020.

(3) Source: Regeneration Roadmap Survey, 2012.

SHARING BEAUTY WITH ALL

SHARING OUR GROWTH...

... with our employees

L'Oréal has a long history of social advances, particularly in its historic subsidiaries, and has devised a worldwide programme called "Share & Care", which will give all its employees access to a level of healthcare and social protection coverage amongst the best practices in the countries in which the group operates.

COMMITMENT

By 2020, L'Oréal employees will have access to healthcare, social protection and training, wherever they are in the world.

Initiative: For L'Oréal, it is fundamentally important that each woman, wherever she lives in the world, should have the possibility of taking maternity leave that is sufficiently long and fully paid.



Supplier of high-quality glass and plastic packaging in Belgium.

... with our suppliers

L'Oréal looks on its suppliers as true partners in shared growth. In 2020, 100% of its strategic suppliers will take part in its sustainable development programme. All will be selected and evaluated on the basis of their societal and environmental performances.

COMMITMENT

By 2020, 100% of our strategic suppliers will be participating in our supplier sustainability programme.

More than
5,200
social audits⁽¹⁾

... and with communities around us

L'Oréal wants to share its prosperity through the involvement of economically vulnerable people. That means, in practice, providing long-term access to work and to an income for more than 100,000 people from communities in social or financial difficulty.

COMMITMENT

By 2020, we will enable more than 100,000 people from socially and financially underprivileged communities to access work.

Initiative: In Brazil, THE BODY SHOP supports community fair trade by buying nuts from local producers.



(1) Social audits carried out around the world since 2006.

BEAUTY IS A
COMMITMENT



/ 15 YEARS OF COMMITMENT, 15 YEARS OF EXCELLENCE

MORE THAN
1,700
FELLOWSHIPS AWARDED
WORLDWIDE

In 2013 the L'Oréal-UNESCO programme "For Women in Science" celebrated its 15th anniversary. Set up in 1998, this programme turns the spotlight on outstanding women whose research is contributing to scientific advancement. Through their work, they are making advances in a variety of fields, such as climate change, finding new sources of energy, the human body and protecting biodiversity. To date, there have been more than 77 laureates – two of whom are Nobel Prize winners – and more than 1,700 fellowships have been awarded all over the world. The efforts of L'Oréal and UNESCO express their strongly held conviction that scientific excellence has no gender.

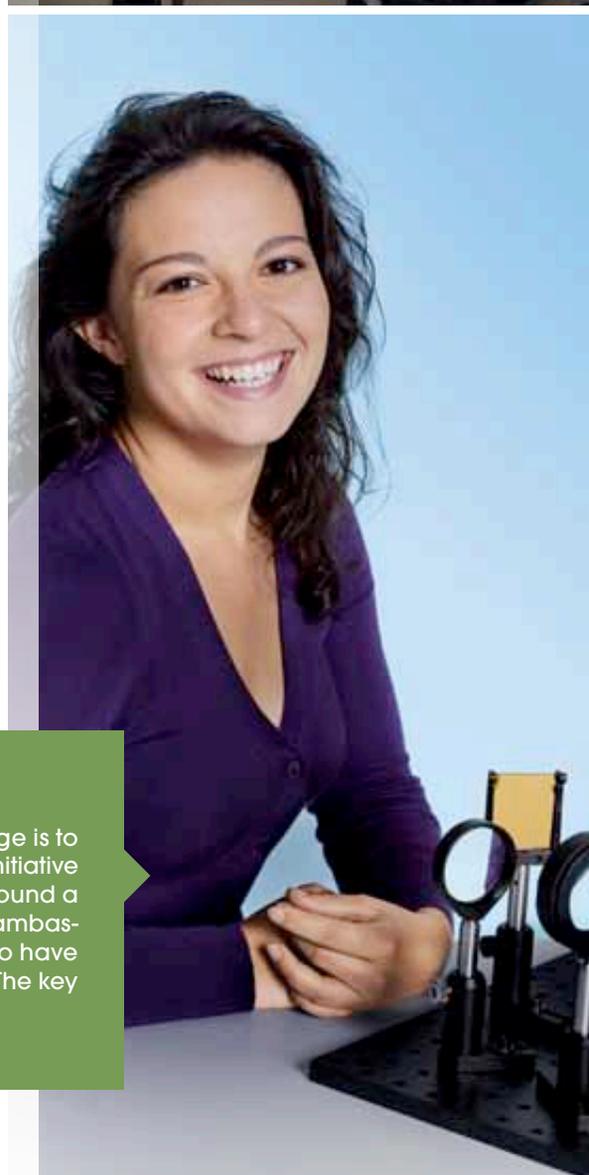
100TH FRENCH FELLOWSHIP

The 2013 edition celebrated the 100th French fellowship since the creation of the programme. On this occasion, Myriam Paire, a former fellow and *École Polytechnique* graduate, was appointed as a sponsor, to provide support for the girls awarded fellowships, and to build a community of scientists in a long-term perspective.

A pilot initiative in France

In France, only 27% of researchers are women⁽¹⁾. Because the next challenge is to encourage girls to aim for a scientific career, L'Oréal has developed a novel initiative in France: speed meetings between "For Women in Science" fellows and around a hundred girls at secondary schools in the Paris region. Each fellow acts as an ambassador, describing her own experience, and demonstrating that women also have their place in science, where there are many exciting career opportunities. The key aim is to motivate young students to join tomorrow's generation of scientists.

(1) Source: The UNESCO statistics bulletin, December 2012.



/ WORLDWIDE ROLL-OUT OF “*BEAUTY FOR A BETTER LIFE*”

For the L'Oréal Foundation, taking care of one's appearance or learning about beauty professions are ways of taking positive action to benefit socially vulnerable people. This is the mission of the international “Beauty for a Better Life” programme: to provide, free of charge, quality training in the beauty professions. This programme is adapted to suit local realities in the seventeen countries covered, by providing both theoretical and practical training for a limited number of students in specially designed hairdressing, beauty or make-up salons. The programme was featured at the Women's Forum held in Burma, where Nobel Peace Prize winner Daw Aung San Suu Kyi was the guest of honour.

1/
*Launch of the
“Beauty for
a Better Life”
programme
in China.*



INSPIRING INITIATIVES IN ASIA

By teaming up with NGOs and associations involved in the field, the L'Oréal Foundation is rolling out its “Beauty for a Better Life” programme to fight exclusion and economic vulnerability. A focus on two tangible initiatives bringing together beauty and solidarity.



In China, in the Sichuan region, the “Beauty for a Better Life” programme is aimed at young people with economic difficulties and victims of the earthquake of May 2013. L'Oréal has joined forces with the China Youth

Development Foundation, which specialises in supporting young people in precarious situations in China. The objective is to train one hundred people in the first half of 2014, and to develop training nationwide.



In Cambodia, “Beauty for a Better Life” was rolled out for the first time in 2013 in the disadvantaged suburbs of Phnom Penh. The French association *Toutes à l'École* is providing free education there for some 1,000 girls, to enable them to start studying and

learn a profession. In partnership with L'Oréal, the first hairdressing class began in September 2013, to provide some twenty young women with professional opportunities in a country that is rebuilding itself.

REVIEW & OUTLOOK

/ EXPERTISE TO DRIVE GROWTH



CHRISTIAN MULLIEZ
EXECUTIVE VICE-PRESIDENT
ADMINISTRATION AND FINANCE

The Administration and Finance teams improve the efficiency of organisations and systems and contribute to the group's long-term development.

How did Administration and Finance support L'Oréal's performances in 2013?

The administration, controlling and finance teams participate in the management of L'Oréal's business interests, and this led, in 2013, to another year of growth in results and profitability. We also ensured the group's good financial health by carefully monitoring cash flow and continuing to safeguard financing. Furthermore, the management control, internal audit and legal teams worked together to provide all the entities with standards and best

practices, and to assist subsidiaries all over the world in conducting their activities efficiently. Finally, the strategic prospective team worked on the monitoring of the market and major macroeconomic trends, so as to identify the development prospects of the cosmetics market.

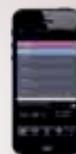
What are the main drivers of L'Oréal's relationship of trust with its stakeholders?

The relationship of trust that binds L'Oréal to all its stakeholders is crucial for the group's sustainable growth and goes hand in hand with

Information and dialogue

By sharing information about the L'Oréal adventure, its strategy and its prospects at a series of dedicated events, the financial communication teams maintain a close relationship of trust with the financial community: individual shareholders, investors, financial analysts and SRI⁽¹⁾ experts. 2013 was a year of renewal for the group's financial communication tools. The www.loreal-finance.com website, the multimedia magazine, the mobile applications and the letters to shareholders have been redesigned to ensure greater accessibility.

(1) Socially Responsible Investment.



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THE APPLICATION,
SCAN THE
QR CODE.



constant vigilance. It is based on professionalism and an ethical approach in our dealings with suppliers, customers and bankers, and on the fairness and transparency of our financial communication to investors, shareholders, market authorities and rating agencies.

How did L'Oréal enrich its brand portfolio in 2013?

The group has made several strategic acquisitions, the result of interaction between the legal, economic affairs and acquisitions departments, and the divisions, carried out on the basis of strict financial, operational and prudential criteria. These operations have complemented the divisions' brand portfolio and strengthened L'Oréal's presence in the New Markets. The highlights in 2013: the acquisitions of DECLÉOR and CARITA in Western Europe, CHERYL'S COSMECEUTICALS in India and INTERBEAUTY in Kenya, the acquisition of a majority stake in EMPORIO BODY STORE in Brazil and the acquisition project of Magic Holdings in China (see section "Strategic acquisitions", pages 22 and 23).



At the *Grands Prix de la Transparence* awards, L'Oréal won the *Large Caps Grand Prix* for its financial communication, and the *Grand Prix* for its Registration Document.



Sustained investments in connectivity and modernity

The Information Systems department works alongside the operational teams to develop technical infrastructures and tools to ensure operational excellence. In 2013, a worldwide programme to optimise employees' work environments was launched. Its objective? To facilitate interaction and collaboration via instant remote communication services, a collaborative internal network and improvements in the connectivity and mobility of all equipment. In the field of digital marketing, two programmes with worldwide scope have been rolled out: the renewal of technologies for the brand websites in the United States, and the launch of an important relationship marketing initiative in Europe.



TO FIND OUT MORE

Consult the whole range of 2013 group publications

THE ANNUAL REPORT

L'Oréal in 2013, with its divisions, brands and countries, driven by its mission – beauty for all – and by its strategy – the universalisation of beauty.

Beauty is universal / L'Oréal, offering beauty for all / Beauty is a science / Beauty is a commitment



THE REGISTRATION DOCUMENT

This document includes the 2013 financial statements, the Annual Financial Report, the Management Report of the Board of Directors including a section on Social and Environmental Responsibility.

Presentation of the group / Corporate governance / Key figures and comments on the financial year / Consolidated financial statements / Parent company financial statements / Corporate social, environmental and societal responsibility / Stock market information and share capital / Annual General Meeting / Appendix



THE SUSTAINABLE DEVELOPMENT REPORT

Presentation and concrete examples of the group's sustainable development strategy.

Innovating sustainably / Producing sustainably / Living sustainably / Developing sustainably



These documents can be downloaded at www.loreal.com and at www.loreal-finance.com, and are available on request from the Image and Corporate Communication and the Financial Communications Departments.



2013 ANNUAL REPORT DIGITAL EDITION

Take a look at the multimedia content and exclusive articles in your L'Oréal Finance Mag digital magazine.



KEY INFORMATION FROM L'ORÉAL FINANCE AT YOUR FINGERTIPS!

Access the main financial information about L'Oréal by downloading the application designed for shareholders and investors. Free and easy to use, it is available on tablet and smartphone.



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ENVIRONMENTAL CALCULATOR⁽¹⁾

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By using Cocoon Gloss rather than a non-recycled paper, the environmental impact was reduced by:

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92

COVER PAGES

brand
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3,577 kg of landfill

481 kg of CO₂ or the equivalent of:

4,805 km of travel in an average European car

99,200 litres of water

9,141 kWh of energy

5,813 kg of wood

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Competitive positions and market share held by the group's divisions and brands mentioned in this report are based on studies, panels and polls obtained from specialised organisations and companies, or, in the absence of comprehensive studies, are the result of estimates made by L'Oréal on the basis of available statistical data.

⁽¹⁾ Carbon footprint data evaluated by The Edinburgh Centre for Carbon Management in partnership with The CarbonNeutral Company. Calculations are based on a comparison between the recycled paper used versus a virgin fibre paper according to the latest European BREF data (virgin fibre paper) available. Results are obtained according to technical information and subject to modification.

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